Part One

Micro-finance
and development
Chapter 3

Micro-finance and social and economic security

Introduction

This book is titled 'Beyond micro-credit'. We are often blinded by the overwhelming policy support, in India and internationally, for 'directed credit' or micro-credit to poor people which simplistically assumes that, with an infusion of capital, poor households will be able to break out of the vicious cycle of poverty.

In reality, poor people need access to so many more financial services than just micro-credit, including a range of micro-savings and insurance products. Indeed, the first step for poor people on the path out of the poverty cycle is social and economic security. Appropriate savings and insurance, as well as loans for emergency expenditures or basic assets such as housing and education, can contribute significantly to such security, not least among poorer and more vulnerable households.

These services can protect poor people from the impact of unforeseen crises and emergencies in their households or micro-businesses, from falling yet further into debt, and enable poor households to plan and manage their limited resources more effectively to meet their basic needs (Johnson and Rogaly, 1997). Once poor households enjoy greater security, they may be able to access promotional micro-finance products that help them develop their livelihoods (see Chapter 4).

Rutherford (2000) has further demonstrated that, especially for the protective needs of poor households, there may be little difference between savings, loans and insurance:
... try to avoid sterile arguments about whether the poor need 'savings' or 'loans'.... It is much more helpful to think creatively about ways of collecting small sums (be they savings or repayments or insurance premiums) and then of ways of turning them into large sums (be they loans, or withdrawals from savings, or insurance pay-outs). The poor do not have a 'natural' preference for savings over loans, or vice versa—they have a need to turn small pay-ins into large take-outs. They will use the version of the three basic swaps [savings, loans or insurance] which happens to be on offer, and if all three are on offer they will take whichever is most convenient for them at that moment for that particular need (ibid.: 110).

Rutherford (2000: 4) rightly argues that poor households need relatively large sums of money for life-cycle needs (such as marriages, festivals and old age), emergencies (such as illness, the death of a bread-winner and floods) and investment opportunities (as much in assets and household goods, for example, as in investments in micro-businesses).

Poor households therefore need access to a basket of financial services. When looking at financial markets for poor people, we discover not only the lack of credit, but also that other financial services are unavailable.

This chapter focuses on the financial services offered by a range of micro-finance organisations (MFOs) to address the needs of poor households for social and economic security. A look at the basket of services offered by several MFOs featured in this chapter demonstrates that it is indeed desirable to offer a range of financial services that not only take care of the investment needs of poor households, but also address their needs for security.

We look in particular at savings, which are essentially a model of self-insurance, and explicit insurance products, as well as loans, and how these different products can be integrated into a comprehensive range of services to meet the needs of poor households. We feature most extensively the work of the Self-employed Women's Association (SEWA) Bank (see Box 3.1), the oldest MFO in India founded back in 1974, as well as look at emerging innovations in product design by more recent MFOs.
**Box 3.1: SEWA Bank and the SEWA movement**

SEWA Bank (Shri Mahila SEWA Sahakari Bank in full) was established in 1974 by 4,000 members of the Self-employed Women's Association (SEWA), a trade union that first started organising self-employed women in the slums of Ahmedabad in the state of Gujarat, but now has over 200,000 members in Ahmedabad, rural Gujarat and elsewhere in India. SEWA members are categorised into the following three groups:

1. Hawkers and vendors, for example, vegetable and fruit vendors, small shopkeepers, vendors of flowers, fish, household goods and clothes;
2. Home-based workers, like weavers, carpenters and other artisans, *bidi* rollers, garment workers and women who process agricultural produce;

Given that 93 per cent of the workforce in India is in the informal or unorganised sector, a union for such workers, especially women, was deemed essential to fight for their economic rights. However, economic rights are not sufficient in themselves. Women members also needed access to services, from health-care through financial services to business development. SEWA Bank is therefore part of a family of SEWA organisations: the union; the bank; a range of cooperatives (over 80) mostly organised around economic trades, but some providing health- and child-care; producer groups (some 200); rural savings and credit groups (1,600); federations of these cooperatives and groups; a housing trust and an academy for research and capacity-building.

The SEWA movement is committed to addressing a wide range of needs of its women members, known within SEWA as the '10 Points': enhancing their income, employment and their ownership of assets, improving housing, health-care and the intake of nutritious food, providing child-care, organising women and building leadership and greater self-reliance (both individual and collective).

The SEWA movement therefore undertakes a wide range of activities for its members, which can be classified broadly...
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Box 3.1 Contd

into organising (into the union, cooperatives and savings and credit groups), capacity-building (including leadership-building, training and skill-development), a range of economic activities (including not only financial services, but also business, housing, child- and health-care) and policy interventions (campaigning, communication, legal aid and research).

It is obvious that within such a context SEWA Bank is not just a provider of micro-credit. Its mission is to assist poor self-employed women in their overall struggle to live a life of dignity, while providing at least a minimum level of social and economic security. It was set up because commercial banks were not helpful in dealing with illiterate, poor women unfamiliar with banking procedures, while the women found those procedures complex and inflexible, with significant collateral requirements and inconvenient hours of business.

SEWA Bank is in fact a cooperative bank owned by 30,000 women holding over Rs 1.1 crore (11 million) in shares, who elect a board of 15 directors each representing members in a different trade. SEWA Bank has always focused more on savings products than micro-loans, and had close to 120,000 depositors at the end of 2001.

A recent survey (Chen and Snodgrass, 1999) suggested that SEWA Bank clients are likely to cluster around the poverty line, with most of them either just below or just above it.

Savings at SEWA Bank

Savings as an instrument of security

The SEWA movement believes that self-employed women in the informal sector are often trapped in a vicious cycle of poverty: their low incomes mean they have no capital to invest in assets that could enhance their incomes.

SEWA Bank was not set up to provide micro-loans to break this cycle, although such loans do play an important part of its strategy to address poverty (see further below). Within such a large movement, it would have in fact been easy for SEWA Bank to access deposits from other organisations within the movement and direct these as loans to its members.
Instead, the Bank assumed that poor women have a basic instinct for saving that needs to be cultivated and above all facilitated through good products. The Bank has therefore focused on building women's capital by providing convenient products for their savings to the extent that a recent study found that the 'bank puts more emphasis on savings accounts which involve 10 times as many members as the loan programme' (Chen and Snodgrass, 1999: 1).

SEWA Bank believes that savings can contribute in many ways to enhancing its members' security. Savings build members' capital for consumption, emergencies and investment and protect them against borrowing from moneylenders. They give access to loans (by providing collateral) as well as to insurance from the Bank. They also secure women's money, protecting it from their husbands when necessary, reducing wasteful consumption and instilling financial discipline. Through all these means savings not only give women a sense of security and hope, but can also provide them with greater self-esteem, giving them greater voice within their families and greater recognition and status both within and beyond their households.

The need to offer savings products also stems from the nature of income-flows in the areas where SEWA Bank first worked. It is in an urban setting, with members earning a regular daily or weekly flow of income through working as hawkers or labourers. These income-flows are small and not always regular, being dotted by days or weeks when women are unable to undertake or find work. The primary need of members is therefore to find mechanisms to smoothen their cash-flows by depositing part of their income in a safe place to be accessed in times of need.

However, such processes are not peculiar to urban areas alone. Women in rural areas also need access to such products because of the seasonality of their incomes. In partnership with other organisations within the SEWA movement, SEWA Bank supports 1,600 savings and credit groups (commonly known in India as self-help groups or SHGs) with 38,000 members in rural Gujarat. Each group deposits its members' savings in one common account at the Bank.

Ultimately, MFOs have to address the mismatch between income-flows and expenditure requirements, thereby providing
a safety net at times of no or low income. Here are some comments from women involved in rural SHGs linked to SEWA Bank (Murthy, 1999: 44-45):

I like to save with SEWA. I am a widow with responsibility for two children. I have to provide for their food and education, but when I think of their future, I save Rs 10 a month.

Earlier we used to save Rs 10 a month, but now we save Rs 20 because it will be useful to us in our old age. Even if our sons don't keep us in the future, our own money will be useful to us. We keep aside Rs 2 when we go to buy vegetables; that is how we save.

If we have savings of our own, then we do not have to beg before anybody in case we are in need.

Now we feel there is money in our name and that brings self-respect.

If we save Rs 10 a month, it can be useful to us some day. We get interest on the money and the savings are in our name. We don't have to ask for money from men.

I like to save Rs 10 every month because by the end of the year it becomes Rs 120. We do not even realise it, but a small capital gets built in our name.

If we save for two years and then withdraw it, we get interest. Otherwise at home we are likely to use it up.

If we save, we can also get a loan.

Self-help groups in India and elsewhere are of course based on savings (see Chapters 5, 7 and 8). However, the difference between the SHG model and SEWA Bank's urban operations is in the attributes of the products offered. While self-help groups tend to have regimented and fixed savings on a weekly basis, thereby making savings very similar to regular repayment of loans, the SEWA model provides a range of flexible products for collecting voluntary savings to meet the needs of individual members. Accounts include daily deposits, savings accounts, recurring and fixed deposits.

SEWA Bank has sought to ensure that the range of these products provides sufficient flexibility, for both depositing and withdrawing savings, and adequate returns. Systems, such
as identification cards with photographs, have been intro-
duced to suit the many illiterate clients. The formal regu-
lated bank structure, as well as mutual ownership, provide
assurances to members on the security of their savings,
further enhanced by transparent systems such as regular
passbook entries.

To further encourage savings, SEWA Bank has long had
extension counters in Ahmedabad, including mobile ones
open on a regular day each week, for members to deposit their
savings (as well as repay any loans). Recently SEWA Bank
has gone a step further. It is now providing extension services
for those members who cannot make it to the Bank’s extension
counters. It has set up teams of what it calls ‘hand-holders’
who collect small amounts of savings and loan repayments
on a daily and voluntary basis but also counsel members on
how to deal with their finances. In this way the service for
small and regular savings has reached members’ homes.

SEWA Bank is not the only MFO in India to provide sav-
ings products. Even MFOs like SHARE modelled on the
Grameen system (see Chapter 7) have not been satisfied with
the compulsory weekly savings collected in a group fund to
be lent out for smoothing consumption. SHARE also collects
voluntary deposits through a cooperative they have set up in
the state of Andhra Pradesh. These voluntary savings pro-
vide the flexibility of withdrawing cash, at weekly intervals in
the case of SHARE, at times of need, including for making
rather inflexible loan repayments.

However, evidence from a wide range of MFOs, including
SHG and Grameen-type programmes, suggests that SEWA’s
approach encourages greater savings among poor women (see
Chapter 10). This is seen even when comparing SEWA Bank’s
urban operations with its rural SHGs. Thus one survey
(Awano, 1996) found that urban members were saving 4.1 per
cent of their income, and rural members 1.9 per cent.

**The advantages of savings to SEWA Bank**

SEWA Bank not only addresses the needs of its members
through savings products. They also have significant advan-
tages for the Bank itself. In the first place, they provide a
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cheap and reliable source of funds that have meant that the Bank's financial operations have been sustainable since its inception. At the end of 2001, SEWA Bank had over Rs 30 crore (300 million) in 120,000 deposit accounts.

Indeed, along with other providers who focus on mobilising savings (like the savings and credit cooperatives promoted by the Cooperative Development Foundation as described in Chapter 5), SEWA Bank has discovered that deposits raise far more capital than it can easily lend back to members without significant complementary inputs to enhance their members' micro-businesses and hence their ability to absorb credit.

SEWA Bank's credit-deposit ratio currently stands at 31 per cent: in other words, of the Rs 30 crore it has available through deposits, only Rs 10 crore (100 million) are lent out to members. (Because of adequate investment opportunities, SEWA Bank still earns sufficient income on its loan and investment portfolio to cover its costs, generating a modest surplus.)

There may be organisational constraints here. For example, a loan applicant needs a recommendation from a SEWA leader or from one of the directors of the Bank. Those who borrow also tend to be less poor and thus able to utilise more credit, especially for investment.

Nevertheless, this experience seems to confirm Rutherford's argument cited above that for poor people savings and loans are essentially alternative mechanisms for of enabling them to make relatively large expenditures. When a financial-service provider gives its poor clients a choice of products, the clients are likely to choose those most suitable for their particular needs, which appear more often than not to be flexible savings rather than credit.

Savings products also bring SEWA Bank other advantages. They can reduce transaction costs on assessing potential borrowers, because savings provide a good indicator of members' ability to set aside part of their income for repayments. Each potential borrower has to save regularly for some time before they are eligible for loans. The savings then also reduce the risk on loans by acting as collateral.

In addition, savings in the form of shares underpin members' ownership of the bank. As 'hot money' from members
and depositors, savings also provide the Bank strong incentives to ensure the security of those deposits. These incentives are reinforced by statutory regulation of deposit-takers.

To benefit from savings in these ways the Bank has of course to earn and maintain the trust of women and provide them a reliable service, although trust is helped by a structure of mutual ownership and being part of the wider SEWA movement. The Bank also has to manage a large number of accounts across a wide range of products, making demands on management, staff and information systems.

**Insurance at SEWA Bank**

Savings are one mode of self-insurance that members of SEWA Bank resort to. But savings may not be sufficient to address the complex needs of poor women to meet contingencies. Poor households are very vulnerable to events that are unplanned and beyond their control. A fire, theft, drought, cyclone or earthquake may destroy their home and other assets that are the means for their livelihoods. Poor households are also vulnerable to loss of earning power due to contingencies within the family—illness, death and, of course, pregnancy in the case of women.

These events bring very real and often high costs to poor households. Research on over 300 urban and rural members of the SEWA movement (Noponen and Kantor, 1996) looked at the incidence and cost of economic stress events, including positive ones such as the birth of a child, the marriage of a family member or a religious ceremony. It is important to recognise that for poor households each event, whether negative or positive, has economic consequences, and is not, for example, simply a social event with little consequence for the household's livelihood.

Table 3.1 sets out the results. Illness was the event that most disrupted the household economy. Of the households surveyed, 87 per cent were affected by illnesses, with 1.2 incidents of illness in the household every month. The average monthly cost of such illness to a household was Rs 857, almost half of all costs caused by economic stress events.
### Table 3.1: Incidence and cost of economic stress events

<table>
<thead>
<tr>
<th>Stress event</th>
<th>Percentage of households affected at least once</th>
<th>Incidence rate per month per household</th>
<th>Total average Rs cost per month weighted by frequency of occurrence</th>
<th>Percentage of total costs weighted by frequency of occurrence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illnesses</td>
<td>87</td>
<td>1.2</td>
<td>857</td>
<td>48</td>
</tr>
<tr>
<td>Rituals</td>
<td>75</td>
<td>0.6</td>
<td>301</td>
<td>17</td>
</tr>
<tr>
<td>Marriages</td>
<td>29</td>
<td>0.4</td>
<td>234</td>
<td>13</td>
</tr>
<tr>
<td>Other stresses</td>
<td>61</td>
<td>0.4</td>
<td>144</td>
<td>8</td>
</tr>
<tr>
<td>Repairs</td>
<td>49</td>
<td>0.2</td>
<td>87</td>
<td>5</td>
</tr>
<tr>
<td>Addictions</td>
<td>68</td>
<td>0.8</td>
<td>75</td>
<td>4</td>
</tr>
<tr>
<td>Deaths(^1)</td>
<td>47</td>
<td>0.3</td>
<td>45</td>
<td>3</td>
</tr>
<tr>
<td>Births(^2)</td>
<td>75</td>
<td>0.2</td>
<td>35</td>
<td>2</td>
</tr>
<tr>
<td>Calamities</td>
<td>9</td>
<td>0.04</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Noponen and Kantor (1996).

**Notes:**

1. The permanent loss of income from the death of a major bread-winner for the household is not included among the costs.

2. The loss of female income because the woman giving birth cannot work, or the on-going expenses of an additional household member, are not included among the costs.

The research revealed that 20 per cent of the monthly costs imposed on households by such economic stress events were covered by savings, and that having a savings account with SEWA Bank in fact reduced the number of stress events a woman experienced. However, almost half the costs were covered by borrowing from a moneylender. This fact suggests that savings are unlikely to be sufficient to cover all the contingencies a poor household faces and that SEWA Bank needed to enhance its provision of emergency loans and insurance services.

At the time of this research, SEWA Bank's insurance services, started in 1992, were still in their early days, provided against premiums paid annually by members. Because of its orientation and focus on savings, and the outreach it has achieved through savings, SEWA Bank has increasingly linked its insurance services to savings. The Bank therefore provides insurance on an annual basis against a fixed deposit, as set out in Box 3.2.
SEWA Bank currently has four schemes providing insurance services to over 25,000 women who have invested in fixed deposits that earn interest to cover the annual insurance premiums needed.

Scheme 1, which is currently being withdrawn, still has deposits of Rs 22,750 held by 91 women. The scheme provides cover for the woman’s life (both accident and natural death). Each member deposited Rs 250 as a fixed deposit, which is withdrawable in any given year.

Scheme 2 has deposits of Rs 653,150, held by 200 men. The scheme is for husbands of members and covers death due to accidental and natural causes. The deposit required for this policy is Rs 200, shortly to be increased to Rs 650.

Scheme 3 has deposits totalling Rs 13,280.350, held by 21,319 women. This scheme provides comprehensive insurance coverage, including natural and accidental death (up to age 58); loss of property or equipment due to fire, theft, cyclone, earthquake and so on (up to age 70); health insurance and maternity benefits. The deposit required for this was initially Rs 500, and is being increased to Rs 1,000.

Scheme 4 has deposits of Rs 3,345,700, held by 3,639 women. This scheme is the same as the third, except that both the woman and her husband are covered for the same risks listed under Scheme 3. The deposit needed was initially Rs 700, but has been raised to Rs 1,150, and is to be increased further to Rs 1,650.

While SEWA Bank provides a single product to its members under each different scheme, some of the sub-components of the insurance coverage are provided by mainstream insurance companies (all within the public sector). Life insurance, for example, is provided through the Life Insurance Corporation of India. In these cases, SEWA Bank purchases coverage for its members in bulk, keeps records of policy-holders and helps them in settling claims.²

Other coverage, particularly for a broad range of diseases, including gynaecological disorders and occupational health, and maternity benefits, all of which are hardly covered by existing insurance companies, is provided by SEWA Bank out of its own funds. Maternity benefits are paid on receipt of a birth certificate, making the process very simple.
Thus SEWA Bank has been able to address specific needs of its women members, and has played a pioneering role in developing coverage for women-specific ailments and occupational health.

Box 3.2 shows that SEWA Bank provides insurance coverage for over 25,000 women, or about one in five of its depositors. In the survey conducted by Chen and Snodgrass (1999), only one respondent from the control group of those who were not SEWA Bank clients had a personal insurance policy.

According to an early survey (Srinivas, 1997), most of SEWA Bank's clients with insurance were urban rather than rural; the majority were also illiterate, which suggests that illiterate women are not deterred by procedural issues. Health coverage was and continues to be limited to cases of hospitalisation only, which limits its effectiveness for self-employed women who can often not afford to be hospitalised. The health insurance covered about 40 per cent of costs incurred. Srinivas suggests, 'Yet without SEWA Bank's scheme, they would be approximately Rs 935 poorer in addition to the expenses they incur in their treatment. It is plausible, however, that increased small amounts are being spent on treatment (but less than the Rs 1,000 ceiling) precisely because of SEWA Bank's coverage. This indicates increased health-seeking behaviour and must only be encouraged.' The limit on health claims of Rs 1,000 a year represents something like 10 per cent of family income on the poverty line, therefore representing 'a significant saving' for the household.

In SEWA Bank's view, insurance services not only help women to sustain financial shocks and reduce their losses, they also enable them to continue the process of building their capital and assets, and inculcate habits of planning. They also help the Bank in providing some protection against defaults caused by accidents or emergencies, and insurance coverage is now compulsory for all the Bank's borrowers.
Insurance services have not come without their difficulties, with hassles in processing claims, mainstream companies providing coverage that is inappropriate or inadequate for poor self-employed women, claims being rejected by them, the need to back some insurance cover through SEWA Bank’s own assets, the lack of understanding among women themselves and their high vulnerability to economic shocks.

Loans from SEWA Bank

At the end of 2001, SEWA Bank had Rs 10 crore (100 million) in outstanding loans to some 33,000 women. Of this, half was outstanding for working capital (33 per cent) and personal loans (17 per cent). This reflects the need for flexible credit by many women to sustain their micro-businesses and their household expenditure through periods of fluctuating incomes or lumpy expenditures.3

The other half of loans outstanding was not however for investment in equipment, which accounted for only 10 per cent of the loan amount outstanding. Even within the context of a large movement like SEWA, the challenge of using micro-credit effectively to promote livelihoods and micro-businesses, rather than just sustaining them at a minimal level of operations, remains (we address this challenge in Chapter 4).

So what of the remaining 40 per cent of outstandings? These were in fact for housing loans, used for such activities as repairing a wall or door, providing monsoon-proofing, adding a room, constructing or buying a new house. They also include loans for water or electricity connections, or building a toilet. As one example of an active borrower for housing, Dayavatiben has taken five loans from SEWA Bank, two (totalling Rs 9,000) for purchasing sheet metal and bricks to improve or expand her house, Rs 4,000 for fitting lights, and two larger loans totalling Rs 35,000 for renovation and repair.

Providing a roof over one’s head is as much about security as insurance. For SEWA Bank, housing loans, like savings, also enable women to build their portfolio of assets which can provide both security and income.
Improving housing may provide better security and healthy living conditions for the household, potentially reducing the number of economic stress events, including illnesses that they face. In this sense housing loans seek to prevent some of the stress events which insurance seeks to cover.

At the same time, given that many self-employed women work from home, investment in housing is as much about investment in their businesses. For poor people to work from home, they need space to work. As SEWA says, 'their home is their workplace, their workshop, their storehouse'. In other words, seeing investment in housing as investment in business applies to many urban and rural workers, to vendors, cultivators, artisans or rag-pickers alike. In order for the economic activity to be successful, the work environment has to be conducive. For example, if a women makes pickles or papads, rolls bidis, or stores cloth, that obviously cannot be done effectively in a leaky hut! Thus, investment in housing safeguards their economic activities.

The Bank's housing portfolio is complemented by the activities of SEWA's Housing Trust and other organisations in supporting community-based partnerships to develop housing and other infrastructure in the urban slums of Ahmedabad. SEWA also has specialised lines of finance from KiW (Germany) and the Housing Development Finance Corporation (HDFC) and is working closely with organisations like the Housing and Urban Development Corporation (HUDCO) to address the shelter needs of poor women.

Integrating savings, loans and insurance

SEWA Bank provides savings, loans and insurance. These are not simply treated as different financial products, but linked in SEWA Bank's development paradigm.

Savings are the first step to break out of the vicious cycle of poverty enabling women to better manage their money and start investing in assets. Once poor women are able to accumulate savings they get used to financial assets and larger
sums of money, but starting with their own money, they learn to use it responsibly. Savings can therefore be regarded as building assets and preparing the clients to take on loans as well. So as a strategy, savings can be seen as a first step in preparing poor women for greater credit absorption, which they can then deploy in activities that enhance their future assets and incomes. Insurance, as well as emergency loans, on the other hand, cover women against loss of assets and hence income, enabling them to continue to move upwards.

SEWA Bank has summarised its perspective schematically in Figure 3.1. Initially a poor woman has negative equity, in other words, debt (point 1). By accumulating savings she can move upwards out of negative equity (2). However, because of her vulnerability she is quite likely to fall back into debt (3), and needs insurance and emergency loans, as well as her accumulated savings, to guard against such a scenario. Further savings, and increasingly, loans for business investment, can then enable the woman to build positive equity as she moves from point 2 towards point 5. On the way, the woman continues to be vulnerable to shocks and emergencies, which could push her back to point 4, requiring an on-going need for her accumulated savings, insurance and emergency

*Figure 3.1: Moving out of the vicious cycle of poverty*
loans. In this way, poor women can gradually move out of the vicious cycle of poverty.

The whole paradigm is built around assets as much as income, as SEWA Bank believes it is assets that provide women not only a source of income but also security against economic shocks and dignity both inside and outside of the household. Throughout this process, financial advice and guidance are available to the Bank's clients, both in the Bank itself, as well as at women's doorsteps through the 'handholders', to show them ways of increasing their assets and incomes as well as enhancing their abilities to manage their limited resources effectively.

In the initial stages, savings are thus vital. Through savings women can reach point 2 where they have got rid of costly debt taken from informal sources. However, this may be a long process given their circumstances. A faster alternative is to start with cheaper loans that can replace existing costly debt, which enables indebted women to enhance their income by reducing the interest costs on their debt. SEWA Bank does indeed provide such loans, as do other MFOs in India, popularly called 'Mahajan Mukti' (salvation from the moneylender) loans. This model enables women to save more by providing them a lower-cost loan.

Few other MFOs anywhere in the world, however, provide such a diverse portfolio of financial products, and with such flexibility, to meet the needs of their clients. In her study of micro-finance in Latin America, Ana Marr (1999: 1) concluded that 'to be effective, [MFOs] must provide a wider range of services and more flexible contracts. Greater responsiveness to poor people's needs has the potential to increase impact and achieve sustainability'.

SEWA Bank seems to demonstrate these suggestions in practice, although, as evidence cited in Chapter 10 suggests, the impact has been more on reducing vulnerability and enhancing security, and less on lifting clients out of poverty. This is in line with SEWA Bank's emphasis on savings and insurance, but suggests fewer women are moving to the higher levels indicated in Figure 3.1.

The innovation pioneered by SEWA Bank has clearly arisen for two reasons. First is the developmental context in which
SEWA Bank operates. It is rooted in a democratic movement, and especially a trade union, which fights for the rights of poor self-employed women. Through this context it deeply understands its members' situation and hence needs. It has not emerged through the intervention of a professional MFO or non-governmental organisation (NGO). In 1974, two years before the Grameen Bank was first piloted, there were in any case few examples of MFOs to draw on.

Such a diverse range of flexible products has been made possible, second, because SEWA Bank is a full-fledged bank. If existing banks were not going to serve their needs effectively, then the founders of SEWA Bank were determined to set up their own bank. Only a proper bank could provide for most of their financial needs, and only a bank would give women as owners a real sense of dignity, a feature which lies at the heart of the SEWA movement.

Another interesting case of integrated services is SafeSave in Bangladesh, where financial products are built on Rutherford's analysis that savings, loans and insurance for poor households serve the same purpose of converting 'small pay-ins into large take-outs', and it is only the relationships between the pay-ins and the take-outs that are structured in different ways (Rutherford, 2000). The flexibility both SEWA Bank and SafeSave provide to their clients raises the challenge of discipline, which is reinforced in other systems through regular meetings and above all regular amounts of savings or loan repayments. In the case of SafeSave, collectors visit clients every day at their home or workplace to compensate, although savers can deposit any amount that day, including nothing. SEWA Bank has also recently introduced regular (weekly) collections at women's homes. However, SEWA Bank provides fewer such regular routines, and this is perhaps one reason that SEWA Bank may not have grown as much as other large or old MFOs.

Other insurance schemes

Insurance services can provide security to an MFO as much as to its clients. An MFO has to be sustainable and its
sustainability depends largely on the sustainability of the client group it is catering to. This 'self-interested' strategy on the part of the MFO indirectly addresses the well-being of its clients also.

For instance, Grameen-style groups promoted by SHARE (see Chapter 7) and the savings and credit cooperatives promoted by the Cooperative Development Foundation (CDF; see Chapter 5) have funds set aside to meet contingencies. SHARE charges Re 1 from each member every week to maintain the contingency fund. In CDF cooperatives, members make 'interest-free' deposits under their Death Relief Assurance Scheme. These deposits are in turn invested in other securities, and the income earned on these is set aside for contingencies. Both funds are used to write-off outstanding loans if an existing member dies. This provides some immediate relief to the family of the deceased. In addition, both funds grant a certain amount towards funeral expenses. The CDF cooperatives also return the original deposit amount to the family of the deceased member.

In both cases, the primary motivation of having such a death-relief fund is to safeguard the loan portfolio from contingencies, while CDF has been able to extend this 'self-interested' policy to provide some additional benefits to the family of the deceased member. By safeguarding themselves, both organisations are also, to some extent, safeguarding the interests of their members.

What is important in this model is that there is no element of subsidy taken from any other source. Both the schemes are managed by the groups, and operate on the funds provided by poor members themselves. Both organisations have simply designed an effective framework for managing such contingencies.

Such an approach is different from that of SEWA Bank which, for developmental reasons, provides not only a much fuller range of insurance services but also covers some of the contingent liabilities through the Bank's assets which are not separated into a special fund. In this way, the more comprehensive insurance services come with greater risk to the MFO, which SEWA Bank is better able to bear than the SHARE groups or CDF cooperatives because it is an integrated bank
with significant assets. However, it is not backed by the kind of assets most insurance companies seek.

Inspired by SEWA Bank, Friends of Women’s World Banking (FWWB), India is spreading integrated social-security services among some of its partners. Four have already instituted life insurance and livestock insurance (provided at reduced rates by United India Insurance Company), covering 10,000 people. Two others are in the process of enrolling their members (FWWB, 2001).

BASIX, an MFO based in the city of Hyderabad, is also seeking to develop a more comprehensive range of insurance services. As an innovative organisation dealing with complex forms of financing for diverse rural needs, BASIX is exposed to greater risks than most other MFOs (see Chapter 4 for details).

BASIX has therefore identified three types of security needed by its client groups. The first is life insurance in the case of an unfortunate death. Second, the client has to be productive and able to work. This requires insurance in the case of accident to provide a lump sum to generate an alternative income-stream. So BASIX works in collaboration with insurance companies and encourages its clients to take life and accident cover. Since existing insurance companies provide appropriate products for these purposes, BASIX facilitates the process by acting as an agent or intermediary.

However, while there are scores of mainstream insurance products that cover various types of economic activities, there are few that efficiently provide security for the economic activities of poor rural producers. Conventional insurance products cover certain types of activities like livestock-rearing, but activities like farming do not have adequate risk cover.

BASIX has identified two types of risks (yield-risk and price-risk) that can both greatly affect the economic activities of its client groups. BASIX is therefore working to develop a product to cover yield-risks and is lobbying for micro-future markets that can cover price-risks. By experimenting or advocating these two products, BASIX is of course safeguarding its own interests as well as extending security cover to its clients.

A final example is the Mulkanoor cooperative in rural Andhra Pradesh, which is both an agricultural and a banking
cooperative. Unlike most other cooperatives and indeed MFOs, this offers integrated banking services to its members. So it has traditionally laid equal emphasis on savings as well as credit. However, security cover was not available, except access to the voluntary and compulsory savings of members on termination of membership, either voluntarily or due to death. Recently, therefore, the cooperative started offering social-security cover to all its members and is bearing the cost of the premia on its own account. This is seen as a welfare measure by the cooperative after it had attained a certain financial strength and maturity. While safeguarding its own credit programme might have been one of the triggers, the product was introduced decades after the cooperative was set up. Here we see a mature organisation looking at ensuring its sustainability by enhancing its own salience in the lives of its members (Shah, 1995) through alternative routes, of which social security cover is just one.

In addition to SEWA Bank, these cases show that insurance services are an important part of micro-finance, at the very least to protect an MFO's loan portfolio against default on the death of a borrower. However, insurance services go well beyond this in terms of development impact. SEWA Bank provides an excellent case of fairly comprehensive coverage to meet the diverse needs of its clients, which is now being copied by others. BASIX and the Mulkanoor cooperative are two other MFOs that are going down the same route, in part to protect their loan portfolio (BASIX), in part to sustain themselves by enhancing member loyalty (Mulkanoor), in part to meet the needs of their clients or members (both).

**Lending for housing**

Housing finance is a popular product for mainstream financial intermediaries. The motivation for offering housing loans is, however, significantly different between mainstream banks and MFOs. In the former case, housing finance is seen as one of the safest and least risky products. A major part of the
clientele comprises people who have a regular source of income and are able to pay monthly instalments without much difficulty. Housing finance can also enhance the income-stream of borrowers—either through increased rents if the new dwelling is let out, or through savings on rent, if the dwelling is self-occupied. The house also serves as loan collateral for the bank and gives the borrower several tax incentives.

None of the above attributes work for poor people, particularly not in rural areas. In most cases housing loans provided by MFOs are used to improve an existing dwelling and there is little enhanced income-stream from this activity. Poor people who do not pay tax cannot benefit from tax incentives either. Loan terms are usually shorter in the case of housing loans by MFOs, usually not exceeding three years, compared to a maximum of 20 years offered by mainstream banks. Why then do MFOs often encourage their clients to seek shelter-related loans?

The primary reason is what we discovered in the case of SEWA Bank. Housing loans enable clients to build their portfolio of assets that can provide both security as well as income if improvements to the house also improve a client’s business premises. Another reason is that housing loans provide strong visual evidence of impact. Graduating a client from a thatched hut to a tiled-roof house to a concrete house provides a very powerful visual image of the impact created. This effect is not so visible in any other lending activity. Achieving such visual impact is important not only for the client’s self-confidence and to attract further clients to the MFO, but also of course for funders of the MFO.

In most MFOs replicating the Grameen model, like SHARE, housing loans are possible only from the third or fourth cycle of lending. So if a client has been with the organisation for about three years, it is assumed that s/he has garnered enough financial power to invest in housing, which creates additional outflows without significantly enhancing cash-inflows.

However, while SEWA Bank and SHARE have large exposures to housing, many other Indian MFOs do not, suggesting that housing investment is being given far less emphasis than savings and insurance.
Other forms of security

Educating children can provide some of the greatest security for a family in the future. Many clients of SEWA Bank save to provide for their children's education. Likewise, FWWB (2001) is extending loans to its partners for on-lending for education through SHGs. Two partners, ASMITA, an urban NGO in Secunderabad in the state of Andhra Pradesh, and Development Organisation for Women (DOW), a rural NGO in the state of Tamil Nadu, have introduced such loans. So far, 1,375 children (of whom 1,158 were girls) have benefited from loans used primarily for paying term or tuition fees, and the purchase of books, uniforms, shoes and other related expenses. The programme is focused on educating girl children in particular in an attempt to shift attitudes on girls' education.

There are also other needs that can be addressed. An interesting example is that of Sanghamithra, an MFO promoted by the NGO MYRADA in the state of Karnataka. While talking to members, Sanghamithra found that one of the important needs for which members wanted money was to carry out an annual pilgrimage to Tirupati in Andhra Pradesh. Sanghamithra was quick to respond positively to this need by developing a special loan product for it. Their argument was that since money is in any case fungible and members would in any case spend the money for an annual pilgrimage, what was the harm in designing a product for that? Another way of looking at this is that it is taking care of not only the physical but also mental well-being of members. Perhaps, a peaceful mind is happier working on an enterprise and repaying loans!

Conclusion

In this chapter we have taken the first step beyond micro-credit to explore a range of micro-financial services for poor people, including savings and insurance, with credit for emergencies and housing as much as for micro-enterprise. Such a range of services is important to meet the diverse
financial needs of poor people and provide them greater so-
cial and economic security in the face of the many shocks
that poor households face. Only once they enjoy such secu-
rity will they be able to access micro-finance products that
help them to develop rather than protect their livelihoods (as
we explore in Chapter 4).

SEWA Bank, which has most successfully developed this
range of micro-financial products, has integrated them into
a coherent development framework to lift poor people out of
poverty; first enabling them to get out of debt and build their
savings until gradually they build their assets both at home
and in their business, all the while protecting them from the
loss of assets and from falling back into debt through insur-
ance, savings and emergency loans. SEWA Bank has had
greater impact on its members in the earlier rather than later
stages of this framework, suggesting the need for more in-
tensive work on supporting the development of micro-
enterprise which would enable greater asset creation.

While other MFOs are also developing insurance products,
insurance coverage for poor people in India is often unreli-
able (see Chapter 8) and still minuscule in scale, and is even
more limited in terms of their long-term security in old age.
The main lesson to draw from the review in this chapter is
that the full range of micro-financial services needs to be-
come much more widely available to the many poor house-
holds in India that need it. While MFOs are the pioneers here,
such an agenda will clearly require the intensive engage-
ment of the mainstream financial sector (see Chapter 11).

At the same time, MFOs are beginning to explore financial
products for a range of other needs, including housing, edu-
cation and even cultural needs. In the Indian context, where
livelihood opportunities are significantly enhanced through
educational achievements and skills, developing financial
products to support education and vocational training may
be particularly appropriate. While many MFOs and NGOs
undertake capacity-building and technical assistance to
support the purposes for which clients have borrowed, there
are very few financial products we know of that enable cli-
ents themselves to acquire education and skills. Filling this
gap could provide important additional security for poor
households.
Notes

1. Chen and Snodgrass (1999: 29) found comparable results. 'Over the two years prior to the survey, nearly three-fourths of the total sample households (71%) experienced at least one economic shock and more than one-fifth (21%) suffered two or three shocks.... The most common type of shock experienced, reported by two-thirds of each sample group, was "serious illness". The next most common shock—reported by 15–20% of the respondents—was "marriage costs".' Sixty-three per cent of households experiencing shocks borrowed from non-SEWA sources to cover some of the costs; 23 per cent of households used personal savings. Households may of course have used more than one strategy to cope with the shock.

2. Chapter 8 reveals the extent of malpractice among insurance agents serving poor clients. The importance of SEWA Bank providing intermediation between some of the insurance companies and clients—making payments, keeping records, helping with claims—should not be underestimated.

3. Actual loan use (rather than the loan purpose) may be even more skewed towards such lending. For example, a survey of loans taken by members of rural SHGs supported by SEWA Bank (Murthy, 1999) revealed the following breakdown of the number of loans across the three different samples used in the survey: consumption (24–33 per cent); treatment for illness (20–26 per cent); marriage and rituals (15–18 per cent); trade (12–15 per cent); house repair (5–12 per cent); livestock (2–5 per cent); and other (1–3 per cent).

4. All the SHGs promoted by MYRADA are called sanghas (association in Kannada, the language in Karnataka). Sanghamithra ('friend of the associations') was formed as a company limited by guarantee engaging in financial services to support the SHGs promoted by MYRADA.
Chapter 4

Micro-finance and livelihoods: The challenge of BASIX

Introduction

In the previous chapter we reviewed the role of micro-finance in providing a wide range of financial services, including savings and insurance, and not just credit, to meet the needs of poor people. Such services are particularly important for protecting poor households against the often severe consequences of fluctuating incomes, lumpy or emergency expenditures, ill-health, disability or death, and the costs of extortionate credit.

We provided examples, such as the Self-employed Women's Association (SEWA) Bank and the savings and credit cooperatives promoted by the Cooperative Development Foundation (CDF), that suggested poor people often value savings more than credit. Indeed, at the level of household consumption and enterprise, savings and credit both perform the same function, enabling smooth income-flows or lumpy expenditure, either by saving in advance or paying back in arrears (see the introduction to Chapter 3).

Like many micro-finance organisations (MFOs) providing appropriate savings products, SEWA Bank and the CDF cooperatives have found it much easier to accumulate deposits than give loans. At the core of this dilemma is the inability of MFOs to enhance the ability of borrowers to absorb credit beyond the needs of household consumption and minimal working capital for their micro-businesses.

Protective financial services may be critical for poverty alleviation, but do little for helping people out of poverty. For this, promotional financial services are required, primarily
for enhancing livelihoods among poor people. As this chapter sets out, this is a far greater challenge than the delivery of micro-credit.

We explore this challenge primarily by reviewing the case of BASIX, India’s second largest MFO in terms of outreach, which has been at the forefront of innovation and development in integrating micro-credit and livelihood promotion.

Livelihood promotion and the challenge for microfinance

BASIX has defined a livelihood as ways of keeping oneself meaningfully occupied, by using one’s endowments (human and material), to generate adequate resources to meet the requirements of the household in a sustainable manner.

In a manual on livelihood promotion, published in 2001 by BASIX and the New Economics Foundation (NEF) (Datta et al., 2001), the authors argue that livelihood promotion goes well beyond enhancing incomes. The goals of livelihood promotion may also incorporate creating assets or wealth, increasing food security, reducing risk, reducing variances in income, reducing rural to urban migration, organising producers to have greater control over their livelihoods, enhancing the money that circulates within the local economy. From this perspective, it becomes obvious that micro-finance can only be one input, however necessary, for promoting livelihoods.

Within the context of micro-finance, the resulting debate has usually been framed in terms of minimalist credit provision versus integrated services, the latter including both credit and business support services.

This debate is important, for both poorer and wealthier borrowers of MFOs. First, there is evidence that micro-credit can also harm poor people. Vijay Mahajan (1997: 9), the founder and Managing Director of the BASIX group, summarised the findings set out in Hulme and Mosley (1996) as follows:

... the increase in income of micro-credit borrowers is directly proportional to their starting level of income—
the poorer they were to start with, the less the impact of the loan. One could live with this finding in an imperfect world, but what is really troubling is that a vast majority of those whose starting income was below the poverty-line actually end up with less income after getting a micro-loan, as compared to a control group which did not get the loan. This should stop converts from offering micro-credit as the solution for poverty eradication, since it seems to do more harm than good to the poorest.

Can services in addition to credit prevent the poorest from being harmed by the provision of credit?

Second, poor borrowers from MFOs often do not graduate to higher and higher loans, and consequently to productive small enterprises. While credit may initially be the ruling constraint for micro-enterprises, for them to grow beyond a certain size, other constraints come into play, for example, of markets and managerial capacity. Micro-enterprises are therefore unlikely to grow significantly without inputs that can address these additional constraints. This is why MFOs using stepped lending methodologies (providing ever larger loans if earlier loans have been repaid on time) have often experienced that apparently good borrowers suddenly fail. The availability of credit has taken the entrepreneurs beyond their capacity to manage their businesses effectively.

However, even the debate on minimalist (credit) versus integrated services does not go far enough. Back in 1990, Tom Dichter and Vijay Mahajan argued that any approach to livelihood promotion should be contingent on the requirements of the situation, based on a systematic analysis. Micro-credit is necessary but not a sufficient condition for micro-enterprise promotion. The success of micro-enterprise depends on a whole range of resources (e.g., natural, human, social and financial) and opportunities (e.g., markets and the policy and institutional environment). Other inputs are therefore required, not just business support and training, but also the identification of livelihood opportunities, establishing market linkages for inputs and outputs, adapting technologies, organising producers, sub-sectoral analysis and policy reform.
The challenge for micro-finance practitioners is therefore that micro-credit must be coupled not only with business support to individual enterprises among their borrowers, but integrated within sectorally based technical support which can develop a large number of productive and sustainable livelihoods.

Similar insights emerged from the development of tools for sub-sectoral analysis (USAID, 1987) which clearly demonstrate that livelihood outcomes are often determined as part of larger systems (sub-sectors), and that a focus on the livelihoods of individual households may fall far short of having a significant and sustained impact on poor people.

In a recent review of BASIX, Dichter (2001: 5) writes:

... the desired outcome of development is aggregate and sustainable positive change in productivity and income that leads either directly or indirectly to economic possibility for growing numbers of poor and low-income people. This is where livelihood promotion should lead. Livelihood promotion is not ... just about generating income for the poor, but about generating additionality, long-term economic possibility and eventually mobility out of poverty. Lending Rs 1000 for consumption purposes does not fit this bill, even though it may be helpful to a poor woman and her household. Nor even does lending Rs 1000 so that a road-side seller can sell two dozen mangoes instead of one dozen, especially when he or she sits alongside 20 other mango-sellers in the same market. [There is no] convincing evidence [that] such loans ... are 'developmental'. Rather they suffice to alleviate poverty in the short run without necessarily reducing it. Thus I make a distinction between poverty alleviation and development. They are not the same.

The micro-finance industry has become fixated with micro-enterprise, as though it can shift many poor people out of poverty. The reality is that many micro-enterprises are not productive, but simply subsistence enterprises. Providing working capital may enable one micro-enterprise to expand, but often at the expense of another equally deserving enterprise.
Moreover, proponents of micro-credit often assume that poor people would all like to be self-employed. As Mahajan (1997: 8) argues, 'It is true that a certain proportion of poor people do like to take up micro-scale farming, processing, manufacturing or trading activities, but usually they do so to supplement their income from wage-employment. A majority of poor people, particularly the poorest (such as landless labourers in India) want steady wage-employment, on- or off-farm.'

Productive small enterprises, that can fill the missing middle between micro- and larger enterprises, that can provide wage-employment to poor people while often not being managed by them, need to come back into focus for livelihood development, as they were in the 1980s before the micro-finance industry emerged.

Such insights therefore provide a fundamental challenge to micro-credit practitioners. To be 'developmental', in the sense suggested by Dichter, they must not only go beyond the minimalist role of providing credit only, but also beyond the more integrated approach that provides business support services to their borrowers. Micro-credit must be used instrumentally as part of a strategy to effect a sustained change in the economic well-being of poor people.

Fortunately, the Indian economy provides many opportunities for this. Infrastructure development, whether revitalising old infrastructure that has fallen into disuse or was never properly used, or introducing new infrastructure like telephone booths (PCOs), provides significant opportunities for small and micro-enterprise, as does the improving climate for enterprise generally. The challenge is whether MFOs can harness such macro-changes to sub-sectors that have the potential to generate substantial livelihoods for poor people.

Developing livelihoods is thus far more challenging than providing financial services. As Dichter (2001: 8, 22–23) argues,

For the magic of micro-finance, with its promise to be self-financing while building economic capacity from the grassroots up, is far more seductive than the complex and more conceptually abstract realm of sub-sector analysis, rural infrastructure revitalisation, and technical
support to enterprises.... As difficult as micro-finance is, it is not really rocket science and certainly not much an art. If the half dozen or so professional quality micro-finance manuals produced in the last 10 years were all to be followed carefully, many more good micro-finance organisations would now exist. The techniques of micro-finance can be learned, and imitated. In contrast the kind of work BASIX has pioneered in the enterprise development sphere and its continuing experimentation to find the best way of integrating financial services and sector-based enterprise development represents more of an art.

When BASIX was designed and set up in 1996, it called itself a 'new generation financial institution', largely to distinguish itself from the dominant practice within India of highly subsidised and directed credit (see Table 4.1).

<table>
<thead>
<tr>
<th>Attribute</th>
<th>New generation behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image of rural small</td>
<td>Not see them as beneficiaries, but as entry-level customers.</td>
</tr>
<tr>
<td>borrowers</td>
<td></td>
</tr>
<tr>
<td>Independence</td>
<td>No political interference, such as loan waivers, nor government ownership and bureaucratic control.</td>
</tr>
<tr>
<td>Interest rates</td>
<td>For deposits: high enough to attract savings;</td>
</tr>
<tr>
<td></td>
<td>For loans: high enough to cover all costs.</td>
</tr>
<tr>
<td>Incentives</td>
<td>For staff: to ensure good customer service but prudent lending;</td>
</tr>
<tr>
<td></td>
<td>For customers: to ensure deposits come in and loans are repaid on time.</td>
</tr>
<tr>
<td>Intermediation</td>
<td>Between local savers and borrowers; and</td>
</tr>
<tr>
<td></td>
<td>Between local demand/surpluses and non-local financial markets.</td>
</tr>
<tr>
<td>Increased capacity</td>
<td>Larger scale of operations;</td>
</tr>
<tr>
<td></td>
<td>Better systems for MIS and internal supervision;</td>
</tr>
<tr>
<td></td>
<td>and greater ability to comply with regulation.</td>
</tr>
<tr>
<td>Integration</td>
<td>With social intermediation (e.g., by self-help groups) and technical assistance (e.g., by non-governmental organisations and government bodies in micro-enterprise promotion).</td>
</tr>
</tbody>
</table>
Within the current international context, the challenge of being a 'new generation financial institution' is to see whether a micro-finance organisation can go beyond the well analysed (if not practised) ground of minimalist versus integrated services, beyond seeking to combine outreach and sustainability, however necessary, to engage in genuine livelihood promotion.

By the mid-1990s many institutions in development came to believe that credit alone (aka 'minimalist credit') was a powerful mechanism of poverty alleviation and, it was assumed, of development. In many places and amongst many organisations lending money to the poor became a goal in itself. Urgency about outreach to the poor grew. At the same time sustainability of the lending operation became accepted as a necessary goal (though rigorous tests of sustainability were slow in being accepted).

By the late 1990s, especially within the micro-finance sector, we heard hardly any lively debate on large questions about development. Instead what debate there was in micro-finance focused almost exclusively on technique and scale, with purpose and impact having been taken largely for granted.

Inevitably a 'numbers game' began to be played. Who could reach more people, and more of the poorest people? Who could scale up fastest? Who could balance low transaction costs, high outreach, and high loan recovery the best? (Dichter, 2001: 10).

Can MFOs instead put livelihood development, not just poverty alleviation, at the heart of their mission? We now look at the experience of BASIX to see both what it has achieved and the many challenges it has faced in pioneering such objectives.

Introduction to BASIX:
Mission and financials

BASIX was set up in 1996 as a group of companies which now comprises the holding company, a non-banking financial
Beyond micro-credit

company, a not-for profit company and a Local Area Bank. BASIX targets rural areas with the following mission:

to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. BASIX will strive to yield a competitive rate of return to its investors so as to be able to access mainstream capital and human resources on a continuous basis.

BASIX has therefore made livelihood promotion its ultimate goal, not the delivery of credit. For this it needs to integrate financial and non-financial services to enterprises, and not just provide credit to the poorest of the poor. BASIX recognises that to generate large-scale rural employment, poor rural people will require wage-employment in small enterprises, in addition to self-employment through subsistence and micro-enterprises. To achieve such impact, the organisation must not only operate on sound business principles, and achieve financial viability, but must eventually become a mainstream player.

BASIX now has financial operations in 2,200 villages in 18 districts across four states in India, and works in a further five states, with over 200 staff, including Field Executives and Customer Service Agents, based out of 11 units (branches). From June 1996 to September 2001, BASIX disbursed more than Rs 60 crore (600 million) in 58,000 loans. Loans outstanding on 30 September 2001 stood at Rs 20 crore among 21,000 active borrowers, with an on-time repayment rate of 91 per cent. BASIX' ratio of performing loan assets was 95 per cent of its outstanding, which is among the highest in the rural financial sector in India, and compares well with 60 to 80 per cent among cooperative and Regional Rural Banks (RRBs). This performance is in spite of the fact that the main region in which BASIX is working has faced severe drought conditions in two of BASIX' first five years of operations.

BASIX has been highly successful in attracting loans and equity from a wide range of development and banking sources, both national and international. As on 30 June 2001, BASIX
had secured Rs 26.3 crore (263 million) of loans from international sources and Rs 12 crore (120 million) from national sources (including the first loan to an MFO in India from a private commercial bank). Interest rates on these loans range from 6 to 13.5 per cent. BASIX has also raised Rs 11.9 crore (119 million) in equity, including from the International Finance Corporation of the World Bank, as well as international and national financial institutions. The equity deals in India were all firsts of their kind. Securing these loans and equity has been challenging, often involving new ways of doing things for donors and investors alike, and no other MFO in India has anything like this mix of investors.

BASIX seeks to achieve high financial performance, and therefore compares itself with averages of the fully sustainable micro-finance organisations across the world, as reported in the *Microbanking Bulletin* (see Table 4.2). These indicate that BASIX has maintained its operating costs at a much lower level than the average, while the return on its assets is 1.0 per cent compared to the average of 1.3 per cent. This has primarily happened as BASIX charges a much lower interest (21–24 per cent per annum, which along with loan processing fees and other income yields 26.4 per cent compared to 43.1 per cent for other fully sustainable MFOs).

| Table 4.2: Comparing financial indicators for BASIX and fully sustainable micro-finance organisations reported in the Microbanking Bulletin (as on 31 March 2000) |
|---|---|
| **BASIX** | **Fully sustainable MFOs** |
| Income to average loan outstanding | 26.4% | 43.1% |
| Operating cost to average loan outstanding | 15.8% | 21.9% |
| Interest cost of funds to average loan outstanding | 7.7% | 6.3% |
| Loan losses to average loan outstanding | 1.5% | 1.9% |
| Return on assets | 1.0% | 1.3% |

To manage its financial performance, BASIX has developed a sophisticated Financial Accounting and Management Information System (FAMIS), enabling it to track its portfolio in detail: by borrower, by Customer Service Agent, by Field Executive, by unit (branch), and of course for the company.
BASIX has also developed sophisticated systems for human resource development, including elaborate selection processes, regular self-assessment and appraisals through line-managers, remuneration that rewards staff against performance targets, significant training both on-the-job and in special programmes, and involvement in developing the annual strategic plans which are made for each unit.

Within its first five years of operations, BASIX thus created and mastered a well-oiled financial machine, and, as described further below, pioneered a number of operational innovations that mark significant contributions to the field (Dichter, 2001: 8). This record is all the more remarkable in light of BASIX’ ambitious objectives of livelihood promotion and its constant innovation in pursuit of these objectives. What then has BASIX achieved in terms of livelihoods?

Promoting livelihoods through BASIX

BASIX has ambitious objectives of both promoting livelihoods and becoming a sustainable and indeed mainstream organisation. To achieve these ambitions, the first five years of its operations focused on developing a sound and credible financial record, and innovating and developing a range of mechanisms for supporting livelihoods, in the spirit of seeing what worked in practice. While the first has been achieved and continues to improve, the innovation and development of livelihood support mechanisms continues with great experimentation and diversity, and cannot yet be judged to have achieved a steady state. So what is the record?

BASIX clientele

Let us first look at BASIX’ clientele. In its focus on poor rural producers, BASIX has been careful to distinguish between survival activity and enterprise; between poverty-lending and enterprise-lending; between loans used for consumption and loans used for working capital; between micro-financial services
and development (Dichter, 2001: 22). BASIX, therefore, addresses a wide range of rural clientele, distinguished both by the scale of their enterprises and by the sector in which these enterprises operate.

In terms of scale, BASIX reaches out to three categories, with different products designed for each group, as follows:

**Figure 4.1: The pyramid of rural producers and BASIX clientele**

- Small enterprises and commercial farmers
- Micro-enterprises and small farmers
- Subsistence workers and marginal farmers

Thus BASIX lends to a broad range of clientele, ranging from entrepreneurs (using direct loans with collateral) to landless poor women (via self-help groups [SHGs] and loans below Rs 50,000 with no collateral). Joint liability groups of five borrowers who mutually guarantee each other's loans are the mechanism to serve the group in the middle. The pyramid broadly reflects the numbers of rural producers in each of these categories, as well as in BASIX' loan portfolio.

Examples of each category of borrower, and the different sectors they operate in, are illustrated in Table 4.3. The table makes clear that while BASIX operates in rural areas, it by no means restricts itself to agricultural lending. Allied activities, such as livestock rearing, and non-farm activities, including services as well as manufacturing, are equally important for the development of a balanced rural economy which generates significant livelihoods for poor rural producers.
Table 4.3: BASIX clientele by type and sector

<table>
<thead>
<tr>
<th>Subsistence workers</th>
<th>Micro-enterprises</th>
<th>Small and agro-enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal farmers and small farmers in semi-arid areas</td>
<td>Small farmers producing cash crops or a marketable surplus of food crops</td>
<td>Plantation farmers: e.g., orchards, floriculture and aqua-culture</td>
</tr>
<tr>
<td>Backyard poultry rearers; landless livestock rearers</td>
<td>Small poultry/ dairy farmers, selling part of their produce to the market</td>
<td>Commercial poultry and dairy farmers; fish-pond owners</td>
</tr>
<tr>
<td>Cottage units and artisan 'own account enterprises'; e.g., handloom weavers</td>
<td>Micro-enterprises typically employing two to five workers; e.g., wooden furniture making unit, auto-repair shop</td>
<td>Small enterprises, typically with 6-10 workers; e.g., stone-slab polishing unit</td>
</tr>
</tbody>
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BASIX' ambition to reach out to this great diversity of clientele follows directly from its focus on livelihood promotion rather than credit delivery. To service this range of clientele, BASIX cannot rely on one or two products only. Instead, BASIX has developed a wide range of loan products, for farm and non-farm activities, as well as for general purposes (for example, in lending to SHGs) and housing. This product development continues. For example, BASIX is currently developing products for catering to the needs of large numbers of micro-entrepreneurs who sell in small rural towns or in weekly markets (haat or shandy) that operate in rural areas.

A key distinction among BASIX' loan products is between (i) direct loans and (ii) indirect loans. Direct loans are extended directly to rural producers by BASIX. Indirect loans are extended through intermediaries, who in turn on-lend to the ultimate users of the loan, often her/his customers. These intermediaries include not only the typical SHGs and other community-based financial organisations, but also market agents such as agricultural commission agents, input dealers, wholesale merchants, agro-processing firms, seed-production organisers, even in some cases moneylenders.
Using these agents helps BASIX to extend credit to a much larger number of rural producers, whom it would find difficult and far too costly to reach directly.

Almost all direct loans extended by BASIX are small loans below Rs 20,000, all without collateral. A small number, less than 5 per cent of the loans, are between Rs 20,000 to 50,000 and here BASIX does take some collateral. Eighty per cent of BASIX loans are originated and serviced by Customer Service Agents (CSAs), who receive incentive-based wages and follow a regular weekly route to service their customers. It is these CSAs that enable BASIX to reach out to borrowers dispersed over wide areas and in locations often not well connected.

Through these means BASIX has disbursed more than Rs 60 crore (600 million) in 58,000 loans since June 1996. Over half of BASIX' customers were below the official poverty line, which is austerely defined. In September 2001 the total loans outstanding stood at Rs 20 crore (200 million), of which 28 per cent were outstanding to women borrowers. In terms of purpose, about 40 per cent of the lending was to the non-farm sector, 20 per cent to dairy and other livestock and 30 per cent to agriculture. About 10 per cent of the lending was to women's SHGs and classified as 'general purpose' loans.

BASIX has developed estimates of employment generated by different types of loans, assuming 250 person-days of employment are equivalent to a full-time livelihood. According to these estimates, BASIX has supported over 40,000 livelihoods.

The latest Customer Satisfaction Audit revealed that:

- customers rate BASIX highest in terms of providing access to credit as BASIX lends for purposes not covered by others;
- customers cite BASIX' advantages as 'approachability, friendliness of procedures and timeliness of loans';
- two-thirds of customers reported the loan was adequate and cited flexibility in disbursement and recovery; and
- indirect loans reach poorer customers.

The areas of concern raised by the audit were:

- customers with access to formal sources find BASIX' interest rates high;
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- transaction costs in certain categories are higher than alternate sources;
- the level of awareness of BASIX is low among indirect borrowers;
- some intermediaries are charging more than the rate of interest agreed with BASIX for on-lending.

Technical assistance and support services

The not-for-profit company within the BASIX group, which is called Indian Grameen Services (IGS), has been responsible for developing technical assistance and support services for BASIX' borrowers. BASIX has freely and widely interpreted technical assistance and support services. It has responded opportunistically during its first five years which has led to a broad range of activities.

BASIX estimates that about a third of its customers do not need technical assistance as they are quite adept at what they are doing. Indeed, some of them are used by BASIX as 'trainer borrowers' who provide practical advice to other borrowers engaged in a similar activity through BASIX' Inter-Borrower Expertise Exchange Programme.

About 50 per cent of BASIX borrowers who need assistance have received some form of technical assistance or support services, although such services are not a precondition nor even a supportive criterion for credit appraisal.

For BASIX to provide such services directly to each of its borrowers would have been hugely costly and made BASIX' operations unsustainable without huge grants. To avoid such costs BASIX initially made use of other market agents, including the trade intermediaries it used for on-lending.

Such intermediaries provide a range of other services to their customers, not least critical market linkages. For example, by extending loans through smaller commission agents who are constrained by their lack of working capital, small farmers are able to access more agricultural inputs. Likewise, seed-production organisers, who are also used as lending intermediaries, provide technical advice to their customers on improved cultivation practices.
BASIX has also linked up with other input-suppliers and purchasers of outputs who do not act as lending intermediaries. For example, BASIX has made agreements with seed, fertiliser and agro-chemical dealers to supply BASIX' clients as loans in kind. The economic interests of these parties are strong enough for them to provide specific inputs that can complement or replace the need for non-financial support from BASIX.

This method provides a cost-efficient way of delivering technical and market-linkage support to BASIX clients, including from entrepreneurs and companies specialising in specific activities where BASIX has no competitive advantage.

However, BASIX has also invested heavily in other technical assistance and support services, often delivered in partnership with relevant companies, research institutes and non-governmental organisations (NGOs). Such support includes building SHGs, introducing new agricultural practices, reviving defunct rural infrastructure, enabling borrowers to learn from each other, and reducing the risk they face through insurance and other measures. Box 4.1 provides a summary of these services.

**Box 4.1: Summary of technical assistance and support services provided by BASIX from June 1996 to June 2001**

**Quality Improvement Programme for existing self-help groups (SHGs)**
A significant proportion of BASIX credit extended to women is through SHGs and their federations. In collaboration with local NGOs, IGS has provided training to over 500 SHGs in accounting, loan appraisal, managing funds, setting interest rates and repayment schedules, and in linking up with livelihood opportunities.

**Micro-finance Agents for forming new SHGs**
This programme is innovative in using local individuals to form SHGs and paying them by results. Over 300 groups have been formed by this programme, of which 150 have graduated beyond the start-up phase and 110 have received loans from BASIX' non-banking financial company. Indian Grameen Services has also provided training to NGOs promoting SHGs.

(Contd)
Dryland Agriculture Productivity Enhancement Programme
This has focused on increasing yields through better seeds and practices for various crops such as sunflower, cotton, chilli and groundnut (each in collaboration with specialised commercial companies, public universities and research institutes and NGOs). Cost-saving pest control measures have been diffused to farmers in collaboration with a range of NGOs, as have lift, borewell and micro-drip irrigation facilities, along with new practices for irrigated agriculture. New crops such as paprika, watermelon and tree crops have been introduced by commercial companies, and over 1,000 improved variety buffaloes and cows have been purchased by farmers, and veterinary care for these has been provided by cooperatives or NGOs.

Rural Infrastructure Revival Programme
Three milk chilling plants of the Andhra Pradesh Dairy Development Cooperative Federation (APDDCF) have been revived or made more viable by enhanced procurement of milk, itself made possible by intensive credit from BASIX in the villages along procurement routes. As a result, in the first case, daily procurement of milk, which had gone down to 270 litres a day in 1997, touched 10,000 litres a day in 2000. Bulk coolers have been installed in a number of locations.

A study of defunct lift-irrigation schemes, each with a command area of over 1,200 acres, has been undertaken for six schemes through a partner NGO. In the first case, an investment of Rs 100,000 enabled farmers to revitalise an irrigation system worth more than Rs 25 million. Other studies have looked at rural electric-power distribution and the revival of traditional tanks.

Inter-borrower Expertise Exchange Programme
Indian Grameen Services recognised that some of the successful local entrepreneurs could be the best counsellors for other entrepreneurs. Thus it initiated a programme to disseminate knowledge about efficient practices by arranging meetings for exchanging expertise among borrowers. It has identified over 90 expert borrowers in 23 activities, who provide training to others. Over 200 borrowers have been given such training in dairy, bakery, woodwork, repairs, better kirana (general and grocery) shop management, etc., as well as on SHGs and savings and credit cooperatives.

Market Linkage Programme
Under this programme, market studies are carried out for selected commodities produced by a large number of poor
people—groundnut, pulses, vegetables and milk. Promising market segments are identified and pilot market-links established for these, for example, selling groundnut for confectionery rather than crushing into oil; vegetables to higher-income urban markets after sorting, grading and packing; and chilled liquid milk to local rural and small towns rather than pasteurised milk to distant markets already saturated with competition.

**Risk Mitigation Programme**

*Crop insurance* was facilitated by IGS based on mutual insurance and peer monitoring for two years in collaboration with an NGO working with dryland farmers. BASIX also offered *debt relief* upon the death of a borrower, and now *life cover* has been arranged through insurance companies. *Cattle insurance* has also been arranged through insurance companies. *Physical risk mitigation* has been achieved through improving irrigation systems, including the introduction of low-cost micro-drip irrigation systems in collaboration with a specialised NGO.

**Institutional development for other MFOs**

Indian Grameen Services has also been active in strategic planning, management support and capacity-building for other MFOs, including for an NGO promoting community-based MFOs, covering 10,100 borrowers with more than Rs 40 million of funds, as well as for other NGOs and 21 cooperatives. The total outreach of MFOs under this programme exceeds 100,000 borrowers.

The following two examples illustrate some of these support services which relate directly to livelihood promotion.

Indian Grameen Services (IGS) sought to demonstrate the usefulness of drip-irrigation technology in dryland agriculture. In Mahabubnagar district in the state of Andhra Pradesh it installed drip-irrigation systems for 35 farmers in the first year, in collaboration with an NGO called International Development Enterprises (which provided the low-cost drip-irrigation technology), UNDP’s South Asia Poverty Alleviation Programme (which organised women from dryland farming households in the area) and Soubhagya Seeds Pvt Ltd (who took up distribution of the equipment on commercial terms). Farmers using drip-irrigation have reported a significant increase in production of chillies. Within a year of this
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demonstration, installation of drip-irrigation systems was taking place of its own accord, delivered by a range of commercial parties.

The collaboration of BASIX and the Andhra Pradesh Dairy Development Cooperative Federation (APDDCF) in Mahabubnagar district in Andhra Pradesh led to an increase of average milk collection by the cooperatives in the area. Daily procurement, which had gone down to 270 litres a day in 1997, touched 10,000 litres a day in 2000. Providing integrated extension services and credit through BASIX helped in this achievement. Following this experience, IGS helped to link dairy farmers with other APDDCF chilling plants in Kamareddy, Kurnool and Adilabad. Impressed with this turnaround, the top management of APDDCF has requested BASIX to extend similar services for their chilling plants at many other places.

In such cases, the innovation BASIX has undertaken to develop intermediaries, channels for on-lending and partners providing complementary services can have development multiplier effects in key sectors such as agriculture and dairy beyond the impact on individual clients of credit and complementary non-financial services. And some of these multiplier effects could be substantial, not only in terms of aggregate productivity, but in terms of creating new demand for financial services at a high enough volume to support BASIX’ own financial development (Dichter, 2001: 15).

BASIX has also invested in medium-term consultancy on technology solutions. This work has led to developing and piloting several smart-card products. If the tests are successful, these technologies, especially the Shabri and Sudama cards, have enormous potential, not only to further reduce transaction costs, but to spread access to poor people hitherto unreached by micro-financial services (ibid.: 15).

**Exploring new livelihood opportunities**

Indian Grameen Services is also responsible for exploring new livelihood opportunities. Since the inception of BASIX, IGS has explored livelihood opportunities in new areas, designed and developed financial products for these areas, and created delivery channels for BASIX’ services.
In most cases, BASIX used micro-credit as its entry point, supplemented with technical assistance and support services. However, in the states of Madhya Pradesh and Jharkhand, where economic development is very low, technical assistance and support services are preceding micro-credit in order to build capacity among rural producers.

In the states of Bihar, Maharashtra and Rajasthan, IGS initiated exploratory studies to understand the livelihood opportunities in these areas. This work included sub-sector studies of dairy, fishery, salt production and pulses.

In Dharwad district in the state of Karnataka, IGS has initiated a programme, Livelihood Initiatives in Northern Karnataka (LINK), as a part of its exploration of livelihood support opportunities. And in the state of Madhya Pradesh, it has been involved in the Madhya Pradesh Livelihood Enhancement Action Platform, with active participation of the government of Madhya Pradesh, which provides a platform for various stakeholders who can influence livelihoods in the state to come together and initiate joint action.

BASIX has also undertaken studies on a range of relevant topics, including defunct lift-irrigation schemes and traditional tanks, the distribution of rural electricity, financial products for servicing rural producers in watersheds that have been treated, estimating demand for credit for rural housing in Andhra Pradesh, and analysing livelihood opportunities for rehabilitating child labourers in parts of eastern Maharashtra.

Summary of the record

BASIX estimates that through its operations it has supported over 40,000 livelihoods in rural districts of India. BASIX has also been able to integrate a wide range of non-financial services within its lending operations, to the extent that one out of three borrowers have received some form of technical assistance or support services, which amounts to about half of the borrowers who need such services. The reason why BASIX has not yet reached the other half arises from the rapid expansion of its micro-credit operations, as it is only in the second or third year that borrowers develop enough confidence in BASIX to seek non-financial help as well.
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By innovating significantly to develop cost-effective means of delivering such non-financial services, BASIX has also been able to deliver such support without an undue drain on its financial bottom-line. As on 30 June 2001 the main company within the BASIX group responsible for technical assistance and support services (IGS) had received grants that totalled about 12 to 13 per cent of the loans and equity BASIX had raised for its financial operations.

To what extent has BASIX been able to go beyond the integration of financial and non-financial services to its borrowers, to achieve the developmental impacts explored at the beginning of this chapter?

First, BASIX has been able to build on the extensive intellectual capital and experience of livelihood promotion which the promoters brought to the organisation, further deepening and enhancing these through numerous practical innovations in its operations and extensive research, from the functioning of cooperatives to detailed sub-sectoral analysis. As Dichter (2001: 11) comments, ‘there are few if any major innovations or developments in micro-finance or enterprise development of which the founders are unaware’.

BASIX has also researched and engaged in its operations an extensive range of other market operators, so that its understanding of markets, and the impact of its operations, extends well beyond its own provision of financial services. Both these factors provide the necessary underpinning for significant livelihood interventions in the future.

This achievement should not be underestimated. It reflects the deep commitment of the promoters to engage in livelihood promotion in professional and systematic ways, and not just to operate financial services. Such commitment in practice (rather than just assuming financial services will have a developmental impact on poor people) is unusual among MFOs.

Second, BASIX has promoted specific activities whose impact on livelihoods goes well beyond its credit and non-financial support to individual borrowers. For example, micro-drip irrigation, now operating on a purely commercial basis in Mahabubnagar district in Andhra Pradesh, can reduce risk and enhance incomes to farmers, whether they are BASIX
clients or not. Likewise, regular milk collections by chilling plants, and access to veterinary care, can enhance incomes to all poor producers supplying the plants. The latter case is particularly interesting as it is reviving existing but underperforming rural infrastructure or organisations, so that the costs for enhancing livelihoods are radically reduced in comparison to creating new facilities.

Such activities can have important multiplier effects, as Dichter (2001: 24) commented in his review of BASIX:

To revive [moribund rural] infrastructure, bring it back to life, infuse it with workable business planning and good management can have powerful multiplier effects.... Using Rs 10,000 loans for cows and buffalos as the lever, linkages are strengthened with animal-husbandry extension, milk quality improves, the local milk-chilling plant adds value locally through job-creation, and other old plants in the region begin wanting the same thing. Moreover as the multiplier effects keep expanding, new demands for services and infrastructure may ensue, which could lead to new product development, new markets, and so on. And by breathing new viable economic life into an old moribund area of activity it also creates confidence, which in itself has real multiplier effects on individuals' lives.

At the same time, the proliferation of livelihood activities that BASIX has engaged in indicates that this part of its operations is still in an experimental and innovative phase. This is not surprising, granted that many years of livelihood promotion activities in India have still failed to produce clear guidelines on what works and what doesn't (see Datta et al., 2001).

It also raises the challenge for BASIX to become more strategic about its non-financial activities. It is not at all clear that its disparate support activities, however innovative each may be, make up a coherent livelihood promotion strategy. BASIX first needs to focus on those interventions that can produce significant livelihood gains and drop those that prove to be less effective. Second, it needs to ensure that different interventions can work together coherently for maximum impact.
For example, BASIX has not yet been able to fully use its deep understanding of sub-sectors which are significant for rural livelihoods to systematically intervene in these sub-sectors. Dichter (2001: 23) has recommended giving BASIX' sub-sector work more emphasis and rigour, providing 'innovative research and development on commodity sub-sectors that have potential to create new economies in rural areas.... The justification of such work is that it is one way to turn the threat of globalisation into opportunity. For over the long run, if India's farmers do not begin preparing for a larger market they will not be able to sustain themselves.'

The case of BASIX in fact demonstrates many challenges facing an MFO that focuses on livelihood promotion, challenges which should not be taken lightly. These challenges can be categorised into two key groups: (i) the complexity of livelihood promotion, and (ii) organisational challenges that the MFO will face.

First set of challenges: The complexity of livelihood promotion

As set out at the beginning of this chapter, livelihood promotion is complex, opening up multiple potential goals and interventions, and demanding an understanding of individual households and enterprises as well as the economic systems or sub-sectors in which they operate. Intervening in livelihood promotion is far more challenging than developing the efficient delivery of financial services.

The micro-finance industry has in fact moved away from livelihood promotion, even though the industry's roots go back to the enterprise development days of the 1980s. Instead, it has pursued financial sustainability through extending outreach and reducing costs, in particular shifting transaction costs to borrowers.

Using micro-credit to promote livelihoods may not be feasible with such a strategy. The necessary non-financial services that have to be added, and the investment in understanding the complexity of livelihood systems, incur significant costs.
Livelihood interventions may also require direct engagement with market actors, from households to exporters. They cannot therefore simply rely on loans and the financial record of borrowers as proxies of developmental impact as many MFOs have sought to do.

Nevertheless, BASIX has taken on the challenge, clearly stated in its mission, of both promoting livelihoods through the provision of integrated services and achieving financial sustainability to enable it to access mainstream capital and human resources. The record suggests that BASIX is some way down the road to achieving these ambitious goals.

BASIX is not alone in India in seeking to combine micro-credit and livelihood promotion. For example, SEWA Bank is part of the SEWA family of organisations, which has focused particularly on a rights-based approach to livelihood promotion. The trade union of women slum dwellers working in the informal sector has organised over 200,000 of them and fought for their economic rights. These activities have been complemented by the provision of financial services, including savings, loans and insurance, provided through SEWA Bank.

The Cooperative Development Foundation has promoted savings and credit cooperatives, which have accumulated significant savings but have faced difficulty in lending these out (see further discussion in Chapter 5). The Foundation is now embarking on an ambitious programme of promoting dairy cooperatives, including a new processing plant in its area of operations, which will enable individuals to absorb credit for a tried and tested activity.

PRADAN, which has promoted SHGs in eastern India in particular (see further Chapters 5 and 9), has often linked these groups with water-user associations they have organised to manage lift-irrigation schemes to enhance agricultural development.

Nevertheless, BASIX has invested more than any other Indian MFO in systematically using micro-credit, integrated with technical assistance and support services, as an instrument for promoting livelihoods. BASIX has also sought to support some of the most challenging sectors, rural rather than urban, both agriculture and the non-farm sector, small
as well as micro-enterprises. Each of these has presented particular challenges.

As Dichter (2001: 14–15) suggests,

It is worth noting that while there are others doing rural lending in India, on the worldwide scene, more micro-credit is aimed at urban or peri-urban populations than at rural ones. This is because rural lending is, again generally, inherently more costly, and agricultural lending more risky. But rural poverty is by far a greater problem for the developing world, and BASIX understands this. It takes on crop loans, agri-long term, and agri-allied loans, even though on-time repayment is bound to be lower in the first two categories. Likewise by tackling non-farm enterprise lending, some of which is aimed at genuine small enterprises rather than mere survival activities, it also incurs additional risk to its on time repayment. Still, it appears that BASIX methodology and careful monitoring have been generally successful in managing and balancing such risk.

Small enterprise lending has been particularly challenging, as other MFOs have also discovered. The on-time repayment rate of small-enterprise borrowers (both those who had taken on large loans to start with and those who had graduated to larger loans through stepped lending) fell sharply in 2000. For the present, BASIX has consequently stopped extending loans of over Rs 50,000 while it develops appropriate methodologies to lend to small enterprises without incurring such risk. This is a significant set-back for an organisation committed to lending to small enterprises to generate employment for poor people.

Lending to the non-farm sector has also proved challenging. BASIX emerged out of a long-term study led by Vijay Mahajan on the rural non-farm sector in India (see Fisher and Mahajan, 1997) which demonstrated that the real potential for rural livelihood promotion in India lay in the non-farm sector, not agriculture. BASIX was therefore set up in
1996 to lend to rural producers in all sectors, but in particular, to develop lending methodologies for the non-farm sector.

In the early years, BASIX' lending was, however, dominated by lending to agriculture, with a significant proportion going for crop loans. There was an immediate need for such loans at the time BASIX was set up, legally it was able to give only short-term loans because it initially developed its lending portfolio through its not-for-profit company IGS, and crop loans were well understood, if not practised, within the rural financial sector.

With continuous attention, given that market-demand for agricultural credit is effectively unlimited for a small financial organisation, BASIX has gradually been able to reduce the proportion of its portfolio allocated to crop loans and enhance its lending to long-term agricultural investment (e.g., irrigation), allied activities (e.g., dairying) and agro-processing, manufacturing (e.g., stone-polishing units) and services (e.g., repairs).

Lending for animal husbandry and other allied activities now accounts for around 20 per cent of BASIX' portfolio, and lending to the non-farm sector (processing, manufacturing and services), for around 40 per cent. However, at present, the latter is heavily concentrated on kirana shops (general and grocery stores), which represent as much as 9 per cent of all accounts. While lending to trading is so common among micro-credit portfolios around the world, BASIX has taken it one step further, focusing on proper shops, not just market stalls, which meet not only the basic needs of village populations but often operate as the main source of credit in villages. In this way, BASIX views kirana shops as a further channel for extending consumption credit to poorer rural households.

This record should be compared with other MFOs, for example, in South-East Asia. BAAC in Thailand lends largely for agriculture, while trading dominates the portfolio of rural lending by Bank Rakyat Indonesia (BRI). In the latter case, BRI achieved its impeccable rural micro-credit record in part by hiving off its poor performing agriculture and small enterprise loans from its micro-credit portfolio.
Second set of challenges: Organisational challenges

The first set of challenges focused on the external environment of rural livelihoods in India. The second set of challenges emerges from the first in terms of the challenges that face the organisation seeking to engage systematically in that environment.

At its simplest, BASIX has had to provide a wide range of both financial products and non-financial services and has developed a group structure to do this. Some of the inspiration for this came from the example of the group structure developed by Shorebank in the United States, again to address a wide range of products and services within a particular area (South Shore in Chicago).

Initially, the only financial vehicle open to BASIX was the non-banking finance company, and it set up two of these for micro-lending and small enterprise lending respectively. Over time, it became clear that this division of its financial services into two financial companies was not helpful, and BASIX conducted all its lending through one of the companies, while the ownership of the other company was transferred to a group of community SHG trusts in Tamil Nadu. In 2001, BASIX was finally, after years of negotiation with the regulators, able to set up a Local Area Bank (LAB) and has consolidated under the bank its financial operations in those three districts covered by the LAB.

The not-for-profit company, IGS, was established from the start to deliver on technical assistance, support services and research and development. At the very beginning, IGS even developed BASIX' lending portfolio before it was handed over to the main non-banking finance company which required a more secure portfolio than could have been achieved in the first years of experimental operations.

Behind this structure lay BASIX' unique vision of itself. As Dichter (2001: 11) comments, BASIX 'decidedly did not want to be an NGO, nor did it want to be a purely commercial bank. Yet it wanted aspects of both, because it felt that integrating
Micro-finance and livelihoods: The challenge of BASIX

Livelihood promotion and financial services in a financially viable way required a more imaginative structure, one which could initially access both hot and cold monies, and then eventually use profits from the finance part to help support the non-finance part.

Structure is in fact a reflection of identity, and it is at the level of identity that BASIX has faced more significant challenges as an organisation. By seeking to cut across the standard boundaries—between NGO and bank, development and commercial operations, micro-credit and livelihood promotion—BASIX has had to evolve an identity that is credible to a wide range of different constituencies, including the micro-finance industry, the anti-poverty community as well as the business and finance sector.

Dichter (2001), in his review of the first five years of BASIX, has set out clearly how BASIX had to proceed with a sense of sequence and priorities in its wide range of activities to achieve such credibility, concentrating first on lending, including developing new channels for reaching out to poor people, but all the while experimenting with its livelihood activities and wrestling with the ups and downs of regulatory constraints.

The ultimate proof that BASIX has been able to keep its focus while juggling so many different activities at the same time is its financial performance. It has operated profitably. And this has meant a careful balancing of the parts in an unusually diverse portfolio.

Financial services are the backbone of BASIX and should remain so. But there should be a shift in the way they are viewed. For they should become more pointedly instrumental. Lending has the huge value of being profit-making, adding clout and credibility, and eventually supporting part of the other work. That ... was part of the original vision of integration, and the rationale behind the holding company structure (ibid.: 14, 23).

In pursuit of its complex mission and of credibility among different constituencies, BASIX has had to be both strategic and opportunistic, to take risks, to experiment and innovate constantly, and to adapt flexibly to what worked and what did
not, as well as to changes within its environment. For example, as BASIX has proved the viability of particular products and markets, or promoted effective SHGs, other providers have moved in, often offering cheaper but lower quality services.

BASIX has made use of creative inspiration and opportunism, and has rarely fully standardised its products, instead allowing flexibility within a broad framework of uniform operations. For example, in an area with few SHGs, BASIX has started lending to traditional rotating savings and credit associations (ROSCAs).

While the outcomes have been broadly positive, we have already seen that BASIX has developed a range of disparate livelihood interventions that cannot yet be said to add up to a coherent strategy. Nor have the organisational processes that have arisen as a result been easy. For example, too much flexibility has sometimes led to significant innovation but widely differing standards of performance among different units, while shifts to more standardisation have upset those jealous of their freedom to innovate. BASIX has shifted back and forth on how much freedom and how much standardisation to give units.

Likewise, BASIX' operations have been through many changes, which have demanded a high degree of tolerance of change among both junior and senior staff. For example, the shift in the balance of BASIX' portfolio from agricultural to non-farm lending required a significant shift in mindset among staff in the field units. Such changes have not suited everyone within BASIX, leading to turnover and reorganisation of staff, not untypical for any innovative new organisation.

BASIX has also faced the constant challenge of translating its complex mission of livelihood promotion for the rural poor into something that can inform and motivate staff throughout the organisation, as well as the CSAs, who are not staff but paid on a commission basis. For them credit delivery has always been at the heart of their work, and BASIX' complex mission around supporting livelihoods has not always been fully understood. They are far more likely to judge a loan application on the basis of the ability and reliability of the borrower to repay than on the potential of the business to achieve livelihood outcomes. This can be serious,
as it is precisely the Field Executives and CSAs who need, for example, to spot opportunities for micro-entrepreneurs to graduate to small enterprise and achieve the genuine developmental outcomes that BASIX seeks (see Chapter 12).

This is the challenge that lies at the heart of BASIX and indeed of this book, seeking to combine financial services with developmental outcomes. BASIX has discovered that it is all too easy for staff to become excited about financial parameters rather than the more complex issue of livelihoods, and for financial targets, for example of disbursements and repayments, to crowd out developmental tasks.

Financial targets are of course essential for the smooth running of its financial operations, and are reinforced by statutory requirements and auditors. However, developing incentives around developmental outcomes is far harder than using financial measures, and the same legal and even financial pressures do not exist for the non-financial part of BASIX' operations. Staff can thus become superb financial operators but lose sight of the wider purpose of the financial services. Within everyone's busy schedules, it has proved difficult to build regular time and incentives to reflect on BASIX' mission, not just its immediate operations.

Such tensions can never be resolved, but must be constantly managed as the organisation shifts back and forth between a focus on consolidating or expanding financial operations and pushing for real developmental outcomes.

Conclusion

BASIX has done more than most MFOs to integrate technical assistance and support services with its micro-credit operations. The challenge BASIX now faces is whether this is good enough. Does it need to go further, by building on its experimentation and innovation in livelihood promotion to go beyond the old debate of minimalist credit versus integrated services? Can it become a genuine developmental organisation promoting real livelihoods, by using micro-credit instrumentally as part of a wider strategy to effect a sustained change
in the economic well-being of poor people? Only then can it really claim to be a 'new generation financial institution'.

The same challenge faces the micro-finance industry generally. Will it remain satisfied with merely providing credit, perhaps also financial intermediation for those who so desperately need it, perhaps adding some business-support services as well? Or will it rise to the challenge of using micro-credit instrumentally to develop livelihoods that can lift people out of poverty, not just alleviate it?

For this the industry will need to be informed by a strategy of getting the most long-term development bang for the buck and use not just the direct provision of financial services and technical assistance but also indirect interventions, artfully undertaken, that can have more powerful multiplier effects on the economic systems in which poor households and enterprises operate (Dichter, 2001). As BASIX is increasingly discovering, such a strategy cannot be achieved by one micro-finance or other organisation alone. It must involve extensive collaboration with a wide range of actors that influence those economic systems.

Clearly the micro-finance industry has much to learn from the pioneering work of BASIX, which shows both the potential and the challenges of such a strategy.

Notes

1. We have worked with BASIX for many years, but do not believe in reinventing the whole wheel when it comes to analysis and writing. In this chapter we have drawn heavily on Tom Dichter's organisational review of the first five years of BASIX' operations (Dichter, 2001), as well as on the case-study of BASIX' livelihood initiatives by the head of Indian Grameen Services (Datta and Thakur, 2001) and an article by the Managing Director of BASIX as a whole, Vijay Mahajan (1997). We are grateful to all these colleagues for their insights and inspiration over the years.

2. A non-banking financial company (NBFC) is initially not able to take deposits, until it has reached a certain scale and quality of operations. A Local Area Bank is a new type of bank in India, which can operate in three contiguous districts only. Formally, the BASIX group comprises: the holding company, Bhartiya Samruddhi Investments and Consulting Services Ltd (BASICS Ltd); the financial arm of the
group comprising the NBFC, Bhartiya Samruddhi Finance Ltd (Samruddhi) and the bank, Krishna Bhima Samruddhi Local Area Bank Ltd (LAB); and the not-for-profit company, Indian Grameen Services (IGS) which provides technical assistance and support services to BASIX' clients.

3. Financial operations are in the states of Andhra Pradesh, where BASIX is headquartered (in Hyderabad), Karnataka, Maharashtra and Orissa. BASIX also operates in Assam, Jharkhand, Madhya Pradesh, Rajasthan and Tamil Nadu in assisting other MFOs.

4. BASIX has secured Rs 26.3 crore (263 million) of loans from the Ford Foundation (USA), the Swiss Agency for Development and Cooperation (SDC), Shorebank Corporation (USA), Cordaid (The Netherlands) and DID (Canada), and Rs 12 crore (120 million) from Global Trust Bank Ltd, SIDBI, ICICI Bank and HDFC in India. BASIX has raised Rs 11.9 crore (119 million) in equity from IFC, the World Bank affiliate, Shorebank Corporation (USA), Hivos-Triodos Fund (The Netherlands), ICICI Bank and HDFC.

5. See further Chapters 3 and 6 of this book, the case study of SEWA Union in Datta et al. (2001) and Rose (1992).
Chapter 5

Micro-finance and people's organisations

Introduction

The need to promote groups and other social mechanisms for the effective delivery of micro-financial services has long been recognised. Whether Grameen-style groups, solidarity groups, self-help groups (SHGs), village banks or savings and credit cooperatives, all rely to a greater or lesser extent on trust or social capital that exist among members of the group. This social capital enables the micro-finance organisation (MFO) to reduce its transaction costs by giving the group the tasks of selecting and monitoring borrowers, exerting peer pressure when necessary, even guaranteeing each other's loans.

Such benefits to the micro-finance provider, which significantly reduce its costs, often do not come without some initial investment in promoting groups. This task is sometimes referred to as 'social intermediation':

For individuals whose social and economic disadvantages place them 'beyond the frontier' of formal finance ..., successful financial intermediation is often accompanied by social intermediation. Social intermediation prepares marginalised groups or individuals to enter into solid business relationships with [MFOs].

Evidence has shown that it is easier to establish sustainable financial intermediation systems with the poor in societies that encourage cooperative efforts through local clubs, temple associations, or work groups—in other words, societies with high levels of social capital.
Perhaps more than any other economic transaction, financial intermediation depends on social capital, because it depends on trust between the borrower and the lender. Where neither traditional systems nor modern institutions provide a basis for trust, financial intermediation systems are difficult to establish.

Social intermediation can thus be understood as the process of building the human and social capital required for sustainable financial intermediation with the poor (Ledgerwood, 1999: 76-77).

As this quotation makes clear, social intermediation is regarded as an instrument to enable effective delivery of micro-financial services. Micro-finance is the end, social intermediation the means.

Many practitioners in India might agree with this approach; many others would not. For the latter, enabling poor people to organise is the end, micro-financial services, the means. For example, both MYRADA and PRADAN, two major non-governmental organisations (NGOs) in India, have long emphasised the need to promote organisations that poor people own, control and manage. Both discovered that to do this effectively, poor people need to organise around concrete activities in which they have a direct stake. For example, PRADAN has promoted many water-user associations of poor farmers to manage minor lift-irrigation schemes. Both discovered that micro-finance provides just such a concrete activity, and became engaged in the promotion of many small savings and credit groups, or self-help groups as they are known in India.

Is this reversal of ends and means, making micro-finance the instrument rather than the end, merely a game of semantics? Based on our assessment of practice, and the evidence cited in this chapter, the answer is no. While the process of organising on the one hand and the service delivered on the other are to some extent inseparable, the hierarchy of means and ends is important, and may lead to very different outcomes.

'Social intermediation', as commonly understood, is a means to enable the delivery of a technical solution. Organising poor people around concrete activities, micro-finance and
Beyond micro-credit

others, has much wider goals in mind, of building assets and ownership, of developing opportunities, capacities and skills, of empowering marginalised people.

Al Fernandez, the Executive Director of MYRADA, is quite clear in the title of his book (2001) describing MYRADA’s experience of promoting SHGs: *Putting institutions first—even in micro-finance.*

In this chapter we illustrate the practice of building organisations around micro-financial services. We look at SHGs promoted by leading NGOs such as MYRADA, PRADAN and the DHAN Foundation and the savings and credit cooperatives promoted by the Cooperative Development Foundation (CDF).

This does not mean that organising poor people comes without its own challenges, and it may not be an appropriate strategy in all contexts. In analysing the context in Bangladesh, Harry Blair (2000: 115) writes,

... rural credit programmes ... were long notorious for being subverted by the local rich, who had the collateral needed to secure loans and the political clout required to default successfully on their loans.... However, the micro-credit initiatives stemming most notably from the model pioneered by the Grameen Bank in Bangladesh have been eminently successful in steering resources to the poorest strata. The critical element in these programmes ... is that successful micro-credit programmes are invariably administered by outside agencies, not by local governments. Situating the loan-allocating process elsewhere precludes takeover by local elites.

In the strategies we review in this chapter, allocating loans is indeed done at the local level, although not by local governments. Promoting small organisations of poor people like SHGs may therefore make such groups vulnerable to political and bureaucratic capture, and we also look at strategies to protect such groups from such interference.

There has also been much debate within micro-finance around the implication that organising poor people into groups necessarily excludes non-members. Are these non-members the right ones to exclude, or are they the most vulnerable
people who cannot take on the responsibilities and burdens that a group imposes? Are relatively poorer members in a group discriminated against in terms of access to loans, for example? The focus in this chapter on democratic organisations may present some alternative perspectives on this dilemma.

Given that the majority of micro-finance clients, in India and elsewhere, are often women, gender issues and impacts have also received significant attention. We review some of the evidence within the Indian context.

**Self-help groups as people's organisations**

**The self-help group model**

In Chapter 7, Malcolm Harper discusses the differences between two predominant group-based models used by MFOs in India. One is the model pioneered by the Grameen Bank of Bangladesh, in which implementation is largely driven from the top, with systems laid out well in advance and with little scope for variation. Likewise, most micro-finance models in India that target individual clients give little scope for these clients to participate in the overall design and management of the MFOs.

This contrasts with the second group-based model, of autonomous savings and credit groups, often known in India as SHGs, that have emerged in significant numbers. There are already hundreds of thousands of such groups across India. To what extent do such SHGs contribute not just to the delivery of micro-financial services, but also to wider goals of empowerment and organisation-building?

The SHG model, which was pioneered in the 1970s, has much more scope for members to participate in decision-making processes. Under the SHG model, the group of up to 20 members, usually women, is formed with the help of an external catalysing agent (typically an NGO) but the cycle of micro-finance starts with mutual savings and credit. It is only after a few cycles of mutual savings and credit have been successfully completed that an external financial
agency may come into the picture by providing additional capital for on-lending to members of the group.

Although started by NGOs on an informal basis, indeed, partly learning from indigenous savings and credit systems, the SHG system is becoming increasingly mainstreamed, with organisations like the government and the National Bank for Agriculture and Rural Development (NABARD) developing specific programmes and targets for promoting SHGs and linking them to banks. Almost 300,000 SHGs have already taken loans from banks, and NABARD expects one million SHGs to be doing so by 2008.

Ownership and roles of self-help groups

It is important to recognise that SHGs are not merely efficient channels for delivering micro-financial services at lower transaction costs to an MFO, although many banks and MFOs may treat them in this way.

At best SHGs are autonomous organisations capitalised through members' savings, an innovation that was in strong contrast with earlier poverty-oriented credit-delivery systems offered by the state. As soon as groups are capitalised through members' own savings, it is essential that issues of ownership and governance be addressed.

Take, for example, the case of the 682 SHGs promoted by MYRADA in their Dharmapuri project in the state of Tamil Nadu (Fernandez, 2001: 10). Of their total funds, 53 per cent had come from members' savings, and 41 per cent from interest earned on loans. In the case of a bank or an MFO, this interest, amounting to almost Rs 2,000 a member, would have gone to the bank or MFO, not to capitalise a group owned by its members. As Malcolm Harper asks provocatively in Chapter 7, is this yet another way by which relatively elite bank employees sequester the hard-earned incomes of the poor?

As owners, members of SHGs also shoulder many more responsibilities. They are the decision-makers who collectively decide on savings, interest rates, the allocation of loans, distributing surpluses and other policies and systems. They are usually guided by the NGO promoter with wider experience
of SHGs, but members are allowed to take their own decisions (although some banks and NGOs seek to impose their own policies on SHGs). In a sense, poor people are now taking the responsibility of managing their individual savings and borrowings through groups in which they are active participants and decision-makers.

This model has its roots in the strong democratic traditions within India. As Fernandez (2001: 7, 21) argues,

MYRADA believes that people's institutions, namely institutions whose functions and systems they have taken the lead in developing, and over which they have control in day-to-day operations, are the basis of a thriving democracy. Further such institutions have the potential to play a critical role in empowering the poor in a sustainable manner.

To achieve this broader objective, MYRADA assumed that it was necessary to invest in building institutions whose structure is appropriate to the functions and resource to be managed, and based on traditional and cultural norms and relationships [which MYRADA refers to as affinity¹]. The structure of these appropriate institutions and their governance systems developed by the members would in turn foster the attitudes and skills required for sustained management, the ability to mobilise resources, to build linkages, and to become change agents—together these features form the basis of empowerment.

For PRADAN, SHGs are also far more than channels to deliver financial services. Narendranath (2001: 2, 4) of PRADAN describes their diverse potential roles as follows:

[SHGs help] women to gain increased access to and control over the economic resources of their families. As a group matures, it involves itself in wider social issues in the village. The social significance of SHG membership is no less than the financial benefits that flow from it.

The SHG has a bigger role besides financial mediation. It is an institution based on the concept of 'peer
learning’ as against learning that is externally controlled. This is a powerful process that enables growth and progress in a community. Members learn from each other in a group and SHGs learn from other SHGs, which then leads to collective progress.

The cohesion that SHGs foster enables them to address issues such as health and education.... SHGs are ... an effective inter-face for the poor to deal constructively with the external world, village society, the panchayat [elected village council], the banks and the government.

The SHG is also a forum for solidarity and empowerment of women, providing them the space and voice to negotiate and participate as equals both within the family and in society in general....

Therefore an SHG plays three roles simultaneously. It provides mutual help and internal financial mediation. It facilitates external financial mediation, and it empowers women to make demands on the external world.

The DHAN Foundation in Tamil Nadu has similar broad objectives (Narender, 1999). Its Kalanjiam Community Banking Programme promotes SHGs for women, which are organised into cluster associations and federations.

Within the first 10 years of the programme’s operations, over 36,000 members of SHGs had saved over Rs 3.6 crore (36 million), which contributed about a third of total funds lent to members, particularly for consumption purposes. Loans for income-generation, as well as for housing, are often made from loans taken by the group from banks or from the cluster associations and federations (see further).

The DHAN Foundation’s philosophy is based on an exclusive focus on poor people, seeking to have a positive impact on their poverty by (i) developing appropriate organisations and services owned, controlled and managed by members, and (ii) going beyond micro-finance to empower women and develop their livelihoods.

As Narender (ibid.: 2, 11) argues, ‘providing financial services should be seen as an instrument to address the overall development of the poor. People need to be organised and their internal capacity ... built to prepare them to address
the issues of their own development.... Providing financial services is a very effective and powerful entry programme to organise the community and bring out their inner potential. The ultimate focus is to make people set the agenda for their own development.'

Evidence of empowerment

To what extent are these merely the lofty ideals of unrealistic NGOs? To what extent are these ideals used as an excuse for poor financial performance? There are clearly many cases of SHGs that function poorly or in a very limited way, and MFOs like BASIX (see Chapter 4) have had to provide significant capacity-building inputs to SHGs promoted by NGOs before they can lend the groups money.

In part, as Mathew Titus analyses in depth in Chapter 8, this arises from the enormous constraints imposed by the socio-economic environment, for example of illiteracy and low computational skills, and by significant imperfections in financial markets for poor people, including market distortions brought about by many corrupt or inefficient service-providers.

In part it may also already be the result of significant donor and policy interest. In pursuit of funding, NGOs without the necessary skills are taking up micro-financial services while banks, in pursuit of targets, are treating SHGs as delivery channels and even promoting some themselves.

However, there are also cases where autonomous SHGs have enabled poor people to take greater control of their own lives and of their groups to manage their own financial services, probably in a more effective manner than Grameen replicators. Within SHGs members control their own savings and funds, and this can have a larger pay-off when it comes to taking on other roles.

In Chapter 9, Ajit Kanitkar provides many illustrations of this, and analyses the empowerment reflected in the behaviour and performance of women leaders of SHGs promoted by PRADAN. Here we look at the results of studies of SHGs promoted by MYRADA (Fernandez, 2001: Chapter 12). The studies found evidence of empowerment along a range of
Indicators. Note that most of these indicators apply to women, as 85 per cent of SHGs promoted by MYRADA are women’s groups, and a further 5 per cent are mixed groups of women and men.

- Dividing members among the upper, middle and lower poor, the studies found that members from each of these strata were as likely to take on the role of office-bearers (signatories) within their SHGs, suggesting that groups are providing opportunities for leadership even among their poorest members.

- Approximately 200 members of the SHGs had been elected to their village panchayat (council). These successful candidates indicated that they had developed the confidence to stand through managing their groups and having the support of their group members.

- In terms of impact on village life, half the SHGs in their third and fifth years of operations had been approached by other groups in the village to help solve social problems. Note that this is unusual for poor, marginalised and generally lower-caste women in a village, who are not usually accepted as agents of change.

- By the fifth year, 90 per cent of these groups were also in charge of maintaining at least two infrastructural assets in their village, and half the groups had members who had been elected to at least two public bodies.

- About 1,400 groups promoted by MYRADA have received a line of credit from a bank, which is more than two-thirds of groups that MYRADA considers eligible for such direct finance. Again, this indicator needs to be seen in a context where individual poor women would have at most received a government-mandated loan from a bank, and very rarely a commercial loan. Their ability to engage with banks comes from the confidence and skills (including basic skills like signing their name and use of the appropriate language) developed within the SHG, as well as from the support of the NGO.

- Individual members had sometimes left their SHG to borrow directly from the bank, or to engage in ‘chit-funds’, where interest rates are higher, but loan amounts larger than most SHGs are willing to extend.
• Many members, through frequent exposure to visitors, had gained the confidence to speak to such visitors, including government officials. They had acquired greater awareness of their rights in the welfare system, and of the procedures and requirements of negotiating the bureaucratic maze.

In these examples it is not the credit that is empowering, but the management of credit. Fernandez (2001: 16) argues:

Models where credit provision is the fulcrum are not empowering. ... the management of credit does have the potential to be an empowering tool. This shifts the focus from credit provision to credit management and makes the model of credit management a critical factor. ... for credit management to be an effective instrument of empowerment, it must first be a friendly instrument for institution building of the [SHGs]. It is only if it succeeds in fostering an institution which possesses all the features required for effective and sustained governance, that it will empower the members.

MYRADA has found that those groups that were promoted as autonomous groups, selecting their own membership and determining their own policies and procedures, have been better at sustaining their operations once MYRADA withdrew its support, in comparison to other groups that MYRADA had formed earlier, largely to implement activities determined by donors.

We should not, however, be blinded to the potential negative impacts of belonging to SHGs, even though there has been less research on this in India than in the case of Grameen Bank groups in Bangladesh. For example, there is evidence of such impacts on women members, such as the additional burdens (e.g., time commitments, managing finances and enhanced businesses, changes or conflicts within the household) that participation in SHGs may bring. Chapter 8 provides concrete examples of this, such as women who did not have the time or skills to adequately monitor the financial transactions of their SHGs and consequently put their savings at risk. The dividing line between micro-credit and micro-debt is also fine, and SHGs can push poor people into debts they cannot repay.
There has been no investigation we know of to see what the effect of specially formed groups on other community organising activities is. As Miller and Andrews (1998: 15) ask, 'to what extent do they displace traditional groupings which may have been more inclusive and also focused on a broader range of community issues?' To the extent that members of SHGs become more engaged in other traditional groupings, such as the *gram sabha* (the traditional meeting of all villagers), as we illustrate below, organising a range of groups can be mutually reinforcing, but this need not be the case, especially with the severe time constraints women in particular face.

Small autonomous organisations can also be highly vulnerable to capture, whether internal or external, or to gradual or sudden demise. Analysis of the performance of a wide range of MFOs, including SHG programmes, suggests that SHGs do not encourage members to save as much as they could (Chapter 10). Chapters 8 and 9 illustrate how the performance of SHGs can vary significantly, even when promoted by the same organisation. Members can become highly dependent on individual leaders and be largely unaware of their own responsibilities; leaders can capture a large share of the benefits; and SHGs can close down with the potential loss of savings and the severe disempowerment of their members. Ownership brings freedom and benefits, but also greater responsibilities, and above all, risks.

MYRADA provides some of the most intensive capacity-building inputs of any promoter of SHGs within India, and while MYRADA's experience may point to the empowerment that can result, the quality of the promotional strategies and inputs is clearly critical.

**Promotional strategies**

To build effective people's organisations, therefore, requires effective strategies and high quality inputs on the part of the promotional agency. All three NGOs we focus on here (MYRADA, PRADAN and the DHAN Foundation) have developed a deep understanding of organisations and how to build them.

For example, based on its own experience, PRADAN has conceptualised the development of SHGs in five clearly defined stages (pre-formation, formation, stabilisation, growth and
expansion), each with its own tasks, activities and milestones (see Table 9.1 in Chapter 9). PRADAN emphasises three key group values for SHGs to function effectively: equality (including democracy, participation, equal opportunities, sharing responsibilities, peer lending and influencing, confrontation), trust (norms, financial discipline, mutual help, risk-taking) and autonomy (independence, self-help and exercising choices) (Narendranath, 2001).

In promoting SHGs, MYRADA focuses on six features: vision or mission, organisational management systems, financial management systems, organisational accountability norms, linkages, and a culture of monitoring and learning. Capacity-building is a critical element of MYRADA's strategy, and involves a full range of inputs.4

Such inputs do not come cheaply, but are essential for building genuine people's organisations, with their additional benefits (rather than just creating delivery channels for micro-financial services), and for avoiding the potential failure of small and fragile local organisations.

Analysis of promoting SHGs, from urban slums in Delhi to tribal communities in some of the most resource-poor areas in eastern India (see Chapters 8 and 9), reveals the significant costs of promotion, which can, moreover, vary significantly according to the particular socio-economic conditions in which they operate. Chapter 8 analyses in detail some of the costs that may be involved. Likewise, the DHAN Foundation in south India argues that the costs of promoting SHGs and building their capacity need to be subsidised for at least one to two years before the SHGs become financially sustainable.

Most agencies promoting SHGs also seek to link them to banks or MFOs to access further capital, once the groups have stabilised their operations and their internal governance systems. It is important to note that the pioneers did not want to take on the role of providing credit themselves, i.e., becoming an MFO, a role unsuitable for an NGO, and for the development of the SHGs they were promoting. Fernandez (2001: 116) argues that it is the organisational demand to break even that forces MFOs to seek to limit their functions and those of SHGs to credit delivery and recovery. There is no time or resource for capacity-building that could empower women to play a wider role in society.
It is true that the roots of the SHG model stem from the growing frustration that mainstream financial intermediaries, including Regional Rural Banks (RRBs), deliberately set up to lend to the rural poor, were not delivering financial services effectively. However, NGOs have helped poor people manage their own groups and negotiate for lines of credit from mainstream financial intermediaries, which have a huge branch infrastructure and obligations to service poor people. Indeed, as MYRADA sees it, they were not seeking to mainstream the SHGs to suit the rules of banks, but persuade mainstream organisations to accept and engage with these alternative structures owned and managed by poor people.

**Federating SHGs**

Particularly if the promoting agency is to withdraw, the sustainability of SHGs, and their ability to avoid political or bureaucratic capture, can be enhanced by the support of federal structures formed by the primary groups. The three NGOs we feature here have different strategies towards such structures.5

In the case of PRADAN, different project locations may or may not promote secondary-level organisations of SHGs (see Chapter 9). If they do so, it is mainly to strengthen the process of peer-learning across groups, build solidarity and facilitate linkages. The secondary-level organisations do not play any financial role (Narendranath, 2001).

In the case of SHGs promoted by MYRADA, there are now over 100 federations enabling MYRADA in some cases to withdraw, leaving the primary groups to be guided by these federations while the primary groups themselves continue to access finance directly from the banks. The federations perform a wide range of functions, such as collecting information, providing training, helping to resolve conflicts and lobbying government. As with PRADAN, however, none of them have taken on managing finances or on-lending to groups (Fernandez, 2001: 46).

The DHAN Foundation, on the other hand, is building an elaborate structure of cluster associations and tertiary-level federations, each with distinct roles (see Table 5.1). Creating
Table 5.1: SHGs, their clusters & federations, promoted by the DHAN Foundation (adapted from Narender [1999])

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Membership</th>
<th>Function</th>
<th>Why</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings and credit group</strong></td>
<td>15–20 poor women</td>
<td>Managing savings and credit transactions; Meeting smaller credit needs through own savings; Leveraging money from other organisations.</td>
<td>To enable members to manage savings and credit independently at a hamlet level; Primary unit for handling transactions directly with members.</td>
</tr>
<tr>
<td><strong>Cluster association</strong></td>
<td>10–15 primary groups from a homogenous socio-economic context</td>
<td>Promoting and strengthening groups in neighbouring villages within the vicinity of 5–10 km; Long-term sustainability for the primary groups through mutual support and cooperation.</td>
<td>To provide promotional support on a continuous basis at the local level for long-term continuity and growth of primary groups in a particular geographical area.</td>
</tr>
<tr>
<td>(a) Promotional across 3–5 villages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Financial wing of cluster association</td>
<td></td>
<td>Creating greater access to credit for primary groups; Leveraging funds and on-lending them to primary groups; Strengthening the financial systems and managerial capability of primary groups.</td>
<td>To increase the ability of primary groups to meet higher-order credit needs and fill the gaps in credit demand at the local level (3–5 villages); To channel funds to primary groups mobilised directly and through federation.</td>
</tr>
<tr>
<td><strong>Federation</strong></td>
<td>100–200 primary groups</td>
<td>Building solidarity for groups at block level (administrative division of districts); Relating with block-level development administration; Promotional activities for development of primary groups; Greater access to credit for primary groups; Leveraging loan funds from apex financial institutions.</td>
<td>To provide block-level integration of community banking efforts; To promote continuity for the programme by women; To fill credit gaps not met by cluster associations; To manage the collaboration with apex organisations focused on specific activities (housing, business).</td>
</tr>
<tr>
<td>(a) Promotional at block level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Financial at block level</td>
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</tr>
</tbody>
</table>
people's organisations at different levels of a federated structure is seen as critical to address issues of powerlessness and isolation at the root of poverty. In addition to acting as local financial intermediaries for the primary groups, these organisations allow women to gain collective strength and power, and to influence both local banks and the government system (Narender, 1999).

While there may be different attitudes towards federal structures of SHGs, they often play a key role in building people's organisations, providing support services, sustaining their operations after the promoting agency has withdrawn (and in some cases accessing additional lines of credit), and protecting them from external interference while building collective visibility and influence as well.

Part Two of this book looks in greater detail at SHGs, comparing them with Grameen-type groups (Chapter 7), looking at a concrete case of the challenges of promoting effective SHGs in urban slums (Chapter 8), and at leadership and social entrepreneurship within SHGs (Chapter 9).

**Micro-finance cooperatives:**
**The CDF model**

A huge number of SHGs, which are not formally registered, are emerging throughout India. However, the SHG model is not the only form of democratic local organisation available for micro-financial services. Formally registered cooperatives are an interesting alternative.

The history of cooperatives is also instructive for other people's organisations, not least SHGs. They were also promoted as democratic local organisations. However, once the government began treating them merely as efficient delivery channels for distributing government subsidies they became ineffectual and in most cases moribund (Shah, 1995). If SHGs are treated, by the government, banks or MFOs, merely as efficient channels for delivering micro-financial services, will their fate be any different?
For exploring the role of cooperatives in micro-finance, we take the example of the Cooperative Development Foundation in the state of Andhra Pradesh, that has worked with the mainstream cooperative structure throughout its existence (see Chapter 6). The Foundation's strategy has focused on empowering local organisations owned by members through strong democratic governance. It believes that only vibrant local economies can bring long-term sustainable development to local communities, and that local organisations, designed, managed and controlled by those expecting to benefit from them, are required for a sustainable impact on a local economy. Small groups are less likely to achieve this than cooperatives that capture a significant share of the local market in their line of business. Genuine cooperatives are also by definition managed and controlled by their members (CDF, 1999a).

The inspiration for CDF came from the farmers' cooperative in Mulkanoor in rural Andhra Pradesh that had thrived and grown to become a local organisation with real salience in the lives of its members and its local economy (Shah, 1995). The cooperative is a multi-purpose cooperative providing a range of services to its members, including input supplies, processing and marketing, as well as financial services and retailing. It has a membership of around 6,000 (with more than half being small and marginal farmers) and has a total turnover of Rs 32 crore (320 million) in trading and Rs 9 crore (90 million) outstanding in loans to members, a phenomenal average per member by Indian standards. Most of these loans are financed by member-savings accumulated over its 45-year history.

Initially, CDF sought to replicate the Mulkanoor example. The new cooperatives however performed poorly, primarily because of the hostile legal and policy environment (which we address in Chapter 6), but also because of the wide range of services they sought to offer. '... multi-purpose cooperatives ... were found to succeed only under extraordinary circumstances; cooperatives needed to work around single commodities' (CDF, 2000: 6).

Therefore, CDF focused on promoting cooperatives that focused on agricultural (paddy) processing and marketing only. These performed better, but faced the same legal obstacles. They also required significant promotional resources
to get them up and running, not least in capital to invest in processing facilities.

The third activity around which CDF organised cooperatives was savings and credit. In fact, CDF calls them thrift cooperatives, distinguishing between thrift and savings [CDF, 1999b: 1]:

Thrift is a fixed amount, saved regularly throughout the working life of an individual and becomes available to support him/her financially to maintain the same standard of living in ... old age. The interest on thrift in a thrift cooperative gets compounded each year and the amount becomes substantial over a period of time. Savings [on the other hand] are those which are saved from the amount left over after expenditure or saved for a limited period with a specific purpose.

In other words, the cooperatives are seen more as an insurance mechanism than as a deposit-taking organisation, although they do take deposits and give loans (up to three times of a member’s thrift excluding savings beyond their thrift). To emphasise the parallels as well as the differences across the different types of local organisations reviewed in this chapter, we will nevertheless call them savings and credit cooperatives.

The Foundation discovered that savings and credit cooperatives could emerge and grow much more quickly, in part because the capital needed came from savings. Within a decade these cooperatives in two backward districts of Andhra Pradesh had grown to 350 in number, with over 100,000 members and with Rs 12.5 crore (125 million) in savings. This figure is comparable to any large MFO with operations spread across a much larger area in India. What is more interesting is that not a single rupee of capital has come from external funding for these cooperatives.

The majority of these savings and credit cooperatives are for women only (although there are also ones for men), enabling CDF to promote cooperatives for rural women, not only men who dominate the farmers’ cooperatives. CDF continues to promote savings and credit cooperatives vigorously.
The historical progression thus described is important because it demonstrates very clearly the instrumental use to which micro-finance can be put. The promoting agency was primarily interested in promoting effective democratic local organisations, in CDF’s case, cooperatives.

CDF ... does not believe that it is in the business of providing credit or credit access to rural women. It thinks it is in the business of building rural women’s financial institutions. Its energies have not gone into identifying women’s credit needs—they have gone into, are going into, ensuring that women define their thrift coop, take responsibility for its operations and management, decide how they wish to interact with it and how they wish to control it (CDF, 1994: 3).

Organising cooperatives around micro-financial services was discovered to be particularly effective by CDF. Because of their primary focus on effective local organisations, rather than just delivering micro-financial services, CDF places great emphasis on the effective running of the cooperatives. It has produced a long list of what characterises a good cooperative, which it has used to assess cooperatives for prizes for the best cooperative in an area. The list includes performance on legal registration; adherence to cooperative principles; growth and participation of membership; management; range of financial services; profitability; office infrastructure and environment; maintenance of accounts; internal controls and systems; education and training for members, staff and committee members; and relations with other cooperatives and associations.

Member control and service are at the heart of effective cooperatives (CDF, 1994). The activity around which a cooperative is organised is not the primary determinant of its performance. Democratic governance and control by members is more important.

The Foundation’s argument has been that local organisations like cooperatives have so often failed because they have not been given a chance to govern themselves without external interference. Wherever government or other external
agencies have not interfered in the governance of cooperatives, they have almost always performed well. Mulkanoor was the shining example, which had survived many a political onslaught by its sheer resilience and non-compromising attitude on democratic governance. The members had tremendous financial stakes and a sense of ownership of their organisation which were the most important factors in its success.

Historically, however, while cooperatives in India had long been a key vehicle available for organising rural producers, they had largely been funded by the state, leading to frequent interference in their governance. The Foundation argued that there was no point in promoting cooperatives if they did not honour the principles of cooperation that included democratic governance in keeping with their mutual status. Unless poor rural people were given the opportunity to manage themselves, they would be ever dependent on the patronage of an external agency. The actions CDF has taken to address these issues are described in Chapter 6.

This approach has also meant that CDF does not seek to link the savings and credit cooperatives with banks or other mainstream organisations (CDF, 1993; see also note 6). Because these cooperatives are much larger than SHGs, the pooled savings of all members are usually sufficient to meet their immediate credit needs, and most do not lend out all the capital available to them from their savings. In CDF's view, what is needed is effective management and control of these resources. Of course, if the local organisation is strong, it can always negotiate with mainstream organisations for its residual capital needs. This strategy therefore reinforces the autonomy of the cooperatives.

To ensure additional support and resources when necessary, CDF has also promoted associations of the primary cooperatives. These associations draw from the leaders of the primary cooperatives for their own governance and manage the function of balancing inter-group surpluses and deficits of capital, as well as designing control systems, offering internal audit services, taking up welfare activities such as life-insurance schemes, and enabling mutual learning. They do not, however, attract external funding, as CDF had
discovered earlier that access to easy money tended to make associations irresponsible. 6

Through the associations, governance, already built on the solid foundation of the primary cooperatives, is taken to greater heights to spread the benefits that can accrue from collaboration among several local-level organisations. Moreover, unlike a large micro-finance organisation, a failure of governance usually affects only the one organisation, thereby localising the problem rather than affecting the entire organisational system.

Some issues in people's organisations

Ownership and governance

Ownership and governance are often at the heart of such strategies to organise people, whether in SHGs or cooperatives. Micro-finance builds assets and may generate income-streams and profits, in addition to providing services. Who owns these assets, who gets these profits? These are critical questions in any development context where the unequal distribution of wealth, and hence of power that comes with wealth, often lies at the root of the need for development in the first place. We have already seen, in the case of SHGs promoted by MYRADA, that over time as much as 40 per cent of their capital can come from interest earned on loans.

It is striking, however, that many key texts on micro-financial services ignore some of the key aspects of ownership and governance. Let us take a typical example. In a World Bank handbook, the author (Ledgerwood, 1999) describes the many forms of cooperative financial organisations, explicitly referring to their key characteristic, that the members are the owners of the organisation (ibid.: 101–3). The section on governance and ownership, however (ibid.: 110–13), includes no reference to ownership by members of the organisation. Statements like 'it is important that members of the Board be independent from the [MFO]' are nonsense when referring to a democratically owned organisation where
members elect their representatives on the board from amongst their membership.

Once again, commentators have turned any form of organisation into a mere efficient instrument to deliver financial services, disregarding issues of ownership and control, including who benefits from the assets and profits that such an organisation generates.

This does not mean that effective democratic ownership and governance come easily. As we have already suggested, ownership also brings greater responsibilities and risks. One comment on a democratically owned MFO was: ‘While on the one hand, member control can be regarded as one of the factors behind [its] success, excessive emphasis on this aspect has had an adverse impact on its growth and expansion of operations.... As the directors have little exposure to strategic issues [related to financial services], less attention is paid to matters of governance of the [organisation] and other strategic concerns.’

However, ownership and governance cannot be ignored, and following the example of NGOs like CDF and MYRADA, the capacity of people to exercise effective governance of their own organisations has to be built over time.

**Membership**

There has been much debate internationally whether poorer people are excluded from self-managing groups. As Malcolm Harper argues in Chapter 7, they may be excluded by other members, or exclude themselves because they do not have the ability to take part in the financial operations of the group. Poorer members within a group may also be discriminated against in terms of access to services.

MYRADA provides evidence on the issue of discrimination among members within a group. MYRADA explicitly targets poor people for membership of SHGs. Nevertheless, they distinguish, through participatory exercises, among the lower, middle and upper poor members of SHGs. Studies found that the poorest members are not marginalised in terms of the number of loans they take. The record is mixed in terms of
the total loan amount taken over three years; in some cases the poorest members took the same or even more than wealthier members, in others less. On the whole, however, the average size of individual loans was lower for the poorest members (Fernandez, 2001: Chapter 11).

The wide variations in these measures across different SHGs suggest that there is little discrimination against the poorest members in accessing loans. However, the poorest members do seem to have less ability to absorb credit, or less confidence in taking on the risks that come with it. The lack of discrimination is also confirmed by the evidence, cited above, that poorer members are equally likely to take on the role of office-bearers within the groups.

These results are encouraging. However, they may follow from the intensive capacity-building inputs that MYRADA provides, with their strong focus on autonomous democratic governance. Groups that do not receive such support may perform very differently in terms of access to services and leadership roles among members of a group.

In Chapter 9, Ajit Kanitkar observes that SHG leaders are likely to take a larger share than other members of the benefits from financial services, not least as an appropriate reward for the burdens and risks of leadership. However, if there is little discrimination by wealth on who becomes a leader, then this would not provide evidence of discrimination against the poorest members of the group. Kanitkar’s evidence does not provide a firm conclusion either way, but does stress the need for effective leadership within SHGs.

Mathew Titus’ analysis of SHGs in urban slums in Delhi, however (Chapter 8), provides concrete examples of deliberate exclusion of members, in this case on the legitimate grounds of their earlier repayment record, as well as a case of one family taking control of most SHGs in an area and using them to direct resources primarily to members of the family. In this case, discrimination is obvious, but happened without the promoting NGO at first noticing.

The Cooperative Development Foundation takes a very different line, which provides interesting insights into the inclusion or exclusion of potential members of a group. It has never subscribed to an exclusive focus on the poor or poorest.
It has focused on promoting democratic local organisations that are generally inclusive of members from different castes and classes. The Foundation further believes that, within such organisations, it is the democratic right of members to determine who is a member and who not. The promoting agency does not have the right to overrule this, a process that would only undermine local governance and enhance dependency.

The Cooperative Development Foundation is of course concerned about its impact on poor people, and has thus carefully studied whether its inclusive strategy discriminates against poorer members of the local community. The results are interesting (CDF, 1999a).

Over 75 per cent of members of the women's savings and credit cooperatives were from backward castes or Scheduled Castes or Scheduled Tribes, with the first being the dominant group (61 per cent), reflecting the overall caste profile of the villages. Upper caste women made up 13 per cent of members (with a further 12 per cent not classified).

The profile of leaders reflected a similar pattern, with Scheduled Castes and Tribes having a slightly higher proportion of leaders than of members. The proportion of borrowers was also closely aligned with membership, although those belonging to Scheduled Castes and Tribes took smaller loans than upper caste members. Moreover, eight out of 10 borrowers who missed one or other repayment were members from among the backward castes, Scheduled Castes and Tribes.

It would appear, on the whole, ... that the practice of open and voluntary membership in [women's savings and credit coops] has resulted in women choosing to work together across castes, in a spirit of mutual trust and mutual give and take, possibly putting their common economic agenda above caste considerations (ibid.: 9).

To understand the class and wealth profile, CDF reviewed landholdings of the households from which women members came. Fifty-five per cent of members were from landless households, and a further 15 per cent from households with less than one acre of land. Thirteen per cent of members had more than three acres.
While the landless and those with less than one acre of land made up 70 per cent of the membership, they provided 67 per cent of the leadership, made up 67 per cent of borrowers and took 64 per cent of the total loan amount. There was even less variation when looking at all the poorer members of the cooperatives (from households with less than three acres of land).

This suggests that there is little discrimination within women cooperatives that have members from all caste and wealth backgrounds, and that all members are accessing their rights to opportunities from their cooperatives. The backward castes, in any case most numerous among the poor, make up 60 per cent of the membership, and 70 per cent of members are from landless or highly marginal farming households. Nevertheless, they have the same access to loans, although they tend to take smaller loans and miss repayments more often, while the landless are only slightly under-represented in terms of leadership.

These results are likely to reflect the greater economic hardship that poorer households face. This applies first to their ability to absorb credit. As the cooperatives were not lending out all their capital, loan sizes were determined more by the level of individual savings (borrowers cannot borrow more than three times their thrift) and by their own assessment of their ability to absorb credit. The landless also have less time to spare for non-earning activities, which is essential for taking on leadership roles. The cooperatives are in fact thinking of compensating leaders for the loss of wages for days spent in committee meetings to enable more landless members to take part.

The profile of men’s cooperatives was similar, although the upper castes were slightly more represented in the membership (18 per cent) and provided a significantly higher proportion of the leaders (33 per cent). The number of borrowers reflected the membership profile much more closely, although Scheduled Caste and Tribe members took smaller loans than members from upper castes.

In terms of land ownership, male cooperatives had fewer landless members (45 per cent) but more marginal farmers with up to three acres of land (41 per cent). Again, wealthier
farmers with more than three acres provided a significantly higher proportion of leaders (44 per cent compared to 18 per cent of members). However, there seemed little distinction in terms of the number of loans, although again the landless took smaller loans than other members.

This suggests that in the men's cooperatives all members have access to the services of the cooperative, with poorer members being less able to absorb credit, while the leadership of the cooperatives is more dominated by wealthier members.

The case of CDF's cooperatives provides an interesting counterpoint to the more usual exclusive focus on poorer people, and suggests that there are opportunities for diverse groups to work together for their common and individual benefit. This may have a greater impact on the local economy as a whole, rather than just on members of individual groups, because the larger more inclusive groups are likely to capture a larger share of market demand and supply and hence have wider economic influence. For all of this to happen, however, effective democratic structures and governance are essential, and developing these is neither easy nor cheap.

**Gender relations**

As in Bangladesh, it is striking that micro-finance in India is growing most extensively and most rapidly among women members or clients. Even among those NGOs that are promoting both women's and men's groups, in each case the majority of groups are of women. The growth of micro-finance could have the potential therefore to create many opportunities for women's empowerment. To what extent is this actually the case in India?

Unfortunately, there has been less detailed research on the impact of micro-finance on gender relations in India than in Bangladesh, and much more analysis in the Indian context is required, especially as the provision of micro-financial services is growing rapidly to reach out to millions of women.

Some of the research in Bangladesh has focused on the impact on gender relations within the household, noting that women borrowers often do not retain control over the investment of the loan they have taken, but may use it to negotiate
higher status within the household or less involvement in manual labour (Goetz and Sen Gupta, 1996). Rogaly et al. (1999: 82) summarise such evidence from Bangladesh by suggesting that ‘micro-credit has not led to a transformation in gender relations, but has become an additional resource, around which negotiation occurs’.

A study of 64 women SHGs promoted by MYRADA showed that in three types of household decisions (on the purpose of loans taken by women members, on the adoption of household infrastructure, and on household purchases) the number of decisions made exclusively by the husband fell significantly over a five-year period. Indeed, more decisions were now taken exclusively by the wife, although many continued to be taken jointly (Fernandez, 2001: 97).

Another study found examples of women who had rarely been out alone going to banks, attending meetings and participating in the gram sabha (traditional meetings of all villagers). Some women members of SHGs were taking on activities new for women, such as driving auto-rickshaws and cars, becoming bus conductors or masons (most of these had also received training through MYRADA). Many husbands, although not all, had come to accept women going out of the home to attend meetings and other SHG-related work. On the other hand, some of the poorest members found the additional work required to participate in an SHG cumbersome (Fernandez, 2001: 98–100).

Chapter 9, which looks at leadership among SHGs promoted by PRADAN, provides concrete examples of women taking an active part in local governance bodies. It also illustrates the importance of having time to engage in SHG activities and provides cases of heightened tension between women and men caused by the SHG activities.

Such evidence falls within the first two of the three approaches to women's empowerment and micro-finance that Linda Mayoux (1998) sets out. Some initiatives adopt the first, the financial systems approach, that seeks to empower women through the expansion of their individual choice and capacities for self-reliance. They tend to focus on women rather than gender or class relations.
MYRADA falls more within the second community development approach, facilitating a wide range of other services within rural communities, in addition to savings and credit. In such cases, women are targeted because they are generally poorer than men and also more likely to spend income on the welfare of their families. The programmes seek to empower women in terms of community development and self-sufficiency, and tend to focus on households and communities rather than women alone or gender or class relations.

SEWA in Ahmedabad (see Box 3.1 in Chapter 3) and Working Women’s Forum in Chennai (Madras) fall within the third approach, of feminist empowerment. As Mayoux argues, while both promoted micro-financial services early on, these are seen as only part of a strategy for wider social and political empowerment that is in turn seen as essential to sustained increases in incomes.

Both engage in unionising women working in the informal sector to fight for their rights, mobilising them for specific campaigns (see Chapter 6) and organising them into cooperatives. Advocacy focuses not only on the immediate rights of women, for example their economic rights to hawk wares or to access social benefits mandated by the state for bidi workers. It also incorporates a broader strategy to get wider recognition of the contribution that women in the informal sector make to the economy and, with that recognition, greater rights and benefits for all such women. In this sense, SEWA and Working Women’s Forum are movements that are deliberately seeking to change gender relations within wider society.

Such categorisations are not clear cut, and probably a majority of MFOs working with women in South Asia see themselves operating to some degree within all three approaches (see, for example, Versluysen [1999: 225] on the Grameen Bank). Mayoux rightly cautions that all three approaches can support women’s empowerment, but that they may not. As we have already suggested, there is evidence of potential negative impacts on women, for example the exclusion of the poorest or the additional burdens that participation in savings and credit groups may bring. Enhanced businesses and incomes may be marginal, especially when many women are competing with each other in the same line of business.
Even when women control the business and income-streams, this may lead to little change in gender relations, for example around girl children.

Thus we cannot determine \textit{a priori} which approach is better. What is clear is that a narrow focus on the efficient delivery of micro-financial services only, focusing on their transaction costs, repayment rates and financial sustainability, is likely to leave less room for attention to women's empowerment and whether it is actually taking place. This is particularly the case if women's groups are seen merely as a vehicle to reduce costs for the MFO.

It is also apparent that programmes that give women greater ownership and decision-making powers may add to the responsibilities and potential burdens on members, but are also more likely to meet their needs, as perceived by women members themselves, than programmes delivered by a centralised MFO. This would suggest that the many anecdotes of individual and group empowerment seen around well-managed SHGs and savings and credit cooperatives point to changing realities on the ground.

The obvious response from those focusing more narrowly on the delivery of micro-financial services is that they introduced efficient systems in reaction to low performing microfinance programmes which reached few women and had little impact. However, efficient financial systems and organising women into democratic local organisations should not be seen as incompatible alternatives.

The Cooperative Development Foundation argues strongly that unless women (or male) members are enabled to manage efficient and effective cooperatives, little empowerment will take place. Most effective groups need to focus on pragmatic tools that bring immediate benefits to their members, and micro-financial services have proved to be a good tool for this. However, like MYRADA, CDF argues that it is not the financial services themselves, but the ownership and management of the savings and credit organisations, that are most empowering. To be so, ownership and management have to be effective, and CDF has introduced detailed systems, from governance structures to computer software, to enable women to manage their cooperatives well. Moreover, as the
evidence from MYRADA suggests, the initial increased investment in capacity-building to ensure well-functioning local organisations may ensure longer-term organisational sustainability.

Most of the NGOs reviewed in this chapter are promoting federal structures to further strengthen the primary groups, both in terms of their efficiency and in terms of their collective visibility and power.

It is thus apparent that the primary focus on promoting people's organisations around micro-financial services, as well as other activities, is a key element of a strategy to empower poor people, especially women.

Within the Indian context, the development of microfinance moreover forms part of formal democratic processes. Even the mere visibility of groups representing and potentially mobilising large numbers of voters is important.

One of the areas most worthy of more detailed analysis is the opportunity for the leaders that are emerging from self-help and other groups to use their enhanced confidence, understanding and skills to enter mainstream democratic processes. In India, through constitutional mandate, a third of all seats on the tiered structure of panchayats (elected local councils) have been reserved for women. While there are plenty of examples of local elites manipulating these processes (the classic example is the village head getting his wife elected to the gram panchayat or village council), there are also a growing number of cases of women leaders from savings and credit groups being elected to the gram panchayats.

As Malcolm Harper calculates in Chapter 7, some 200 (about 2.5 per cent) of the total of 77,495 members of SHGs sponsored by MYRADA were elected to their gram panchayats in 2000. In 1999, 30 members, almost exactly the same percentage, of the 12,000 members of ASA's Grameen-type groups in the state of Tamil Nadu were similarly elected.

Likewise, in the last elections for the state assembly in Andhra Pradesh, the state that has by far the largest number of SHGs, it was not an uncommon sight to see political parties including the ruling Telugu Desam Party wooing SHG leaders with candidatures to fight the elections, a trend that is much more prevalent in the panchayat elections. This not
only acknowledges the importance that the movement has had in day-to-day governance, but also in the popularity of SHGs, which have been seen to deliver effective services on the ground.

While the danger of political capture is obvious, as has happened so significantly to cooperatives in the past, the context of Indian democracy may also make the instrumental use of micro-finance to empower women easier, by providing formal and constitutional democratic channels through which women emerging from the thousands of savings and credit groups across the country can exercise greater influence and power.

Conclusion

Within the micro-finance industry 'social intermediation' is often seen as a necessary tool to ensure efficient delivery of micro-financial services. Indian practice featured within this chapter turns this argument on its head. Micro-financial services are an effective tool, among others, for organising and empowering poor people, especially women.

This is not surprising within the context of the very strong democratic traditions of India, which, moreover, provide formal democratic channels through which emerging women leaders can exercise greater influence and power. However, the lessons may apply equally to micro-finance practice elsewhere, whether in a democratic context or not.

It is often the unequal distribution of assets and wealth, and hence of power, that lies at the heart of the need for development interventions. For micro-financial services used in a developmental context, issues of ownership and control of resources cannot therefore be avoided. For example, who owns the financial assets, who receives the profits?

These questions are particularly important at a time when micro-financial services are becoming ever more mainstreamed and MFOs are taking on the characteristics of formal financial intermediaries. The mainstream financial sector is often a primary mechanism for maintaining the unequal
distribution of wealth. For example, once most MFOs have learnt
to provide effective savings products, will they do any better
than the mainstream financial sector in collecting deposits
that are then lent, usually elsewhere, to the already wealthy?

Local democratic management, control and governance are
often the keys to empowerment at the local level, not least
among women. It is not so much micro-financial services
themselves that are empowering, but the effective manage-
ment of them that enables poor women and men to learn
skills and build capacities that they can use in other con-
texts beyond their savings and credit group, whether in the
household, their community or in interacting with bankers
and government officials.

The experience of the cooperative movement in India has
shown that if local groups are treated merely as delivery chan-
nels controlled by a central organisation they do not build
local capacity and often become moribund over time.

The experience of cooperatives also suggests that they need
effective internal governance, which can only be achieved
through appropriate investment in capacity building, to avoid
being captured, whether internally by vested interests or ex-
ternally by political and bureaucratic interests. Small SHGs
are in many ways highly vulnerable, and cooperatives regis-
tered under the new 'mutually-aided' legal framework (see
Chapter 6) may prove more resilient, as well as have access
to larger resources accumulated through members' savings
alone. Alternatively, SHGs are being federated into associa-
tions and federations, to provide support services, greater
protection from external parties, and greater visibility and
influence.

Building democratic people's organisations is not easy and
requires significant resources, which are analysed in greater
depth in Chapter 8. Achievements we have pointed to in this
chapter have depended on intensive and high-quality pro-
motional inputs by each of the NGOs involved. Organisations
that have not been willing to invest these resources have not
achieved the same results. Promoting democratic people's
organisations is therefore not a quick fix. However, those that
are well governed and managed are likely to be more empow-
ering for their members, and more sustainable.
Notes

1. MYRADA has changed the way it refers to its groups, from 'self-help groups' to 'affinity groups', because of the wide use of the term 'self-help group' even by those who see them merely as delivery channels rather than as genuine people's organisations.

2. For a special bulletin of the NGO SEARCH on micro-credit and empowerment, see SEARCH (1999).

3. It is important to note that closing an SHG is not necessarily a bad outcome. As democratic organisations, they have the right to wind up their operations, if they feel that the SHG is no longer effective in meeting their needs as they change over time. This is an issue on which Rutherford (2000) encourages micro-finance practitioners to learn from informal financial-service groups that are often not designed to be permanent. Nevertheless, amongst almost all NGOs promoting SHGs, there is the presumption that organisational sustainability is an important goal.

4. Some 23 in fact! They are: structural analysis of society; analysis of local credit sources; the concept of SHGs; how to conduct a meeting; communication; affinity; vision-building; group goals; planning, resource mobilisation, implementation, monitoring and evaluation (PRIME); rules and regulations; members' responsibilities; book-keeping and auditing; leadership; conflict resolution; collective decision-making; common fund management; self-assessment; group graduation; linkages with other institutions; building credit linkages; federations; 'credit plus'; and analysing gender relations (Fernandez, 2001: Chapter 5; MYRADA, 2000).

5. The NGO Sharan has yet a different strategy for federating SHGs in the slums of Delhi (see Chapter 8).

6. '... CDF had learnt that for federations to be effective and member-sensitive, and to act from positions of responsibility and not power, they should not have access to easy money. Cooperatives, whether at primary or secondary levels, if dependent on high levels of member-participation, behaved responsibly, and elected persons of competence and integrity to their managements. Where, however, they were not dependent on member-participation for survival, and had access to soft funding of any form, they and their members tended to be irresponsible, and the need to be in control of the funds became of greater concern than the servicing of members' (CDF, 2000: 31).

7. 'When discussing credit as a tool for empowerment and social change, the first example that comes to mind is the Grameen Bank. It has taught landless unskilled women to fend for themselves, and is using its social constitution of Sixteen Decisions and group discipline to encourage its members to abandon the practice of dowry, control their fertility, and send their daughters to school. Grameen also
challenges the social and religious foundations of women's oppression and inferior status. But it has no monopoly on empowerment. BRAC, for one, has taken women's empowerment quite a bit further by helping village women defend their basic rights and offering legal advice' (Versluysen, 1999: 225).
Chapter 6

Micro-finance and system-wide change

Introduction

Eradicating poverty is surely a transcendent challenge for humanity, on par with the challenges of achieving peace and sustainability. The micro-finance and other organisations we have featured in this book are clearly motivated at a deep personal and organisational level to play their part in addressing this transcendent challenge, and all recognise that the delivery of micro-financial services can only play a very small role.

To play even such a small role effectively, micro-finance organisations (MFOs) need to provide not only a range of financial services (savings, credit and insurance) to enhance social and economic security (Chapter 3), but also be linked to wider strategies to promote livelihoods (Chapter 4) or democratic people's organisations (Chapter 5). As a hard-headed review of poverty and micro-finance in Great Britain concluded, 'To maximise impact ... the cutting edge of micro-financial services ... must be integrated within wider strategies for social change and economic improvement' (Rogaly et al., 1999: 144).

It would be possible therefore to limit this review of micro-finance in India to only the most immediate developmental impacts. However, this would not do justice to the vision and motivation of many practitioners. Above all, it would not help us in understanding practical strategies and mechanisms that MFOs can adopt to make a difference well beyond the provision of financial services.

The reason that most micro-finance practitioners, and most development practitioners generally, shy away from such wider strategies is their 'awesome complexity and scale' (see
Lynton, 1998: Chapter 10). It is much easier to focus on the effective delivery of technical services (in this case, financial). However, while such a limited focus may help some poor people to cope better with their poverty (assuming any potential negative impacts are avoided), it will do little to contribute to development, let alone any transcendent challenge of eradicating poverty.

As we have already suggested, to achieve developmental impacts micro-finance practitioners must at the very least seek to integrate financial services with other measures to address the broader needs that poor people have, in terms of enhancing their security, their livelihoods or their power through individual empowerment and collective endeavour. To have any influence beyond this, MFOs must use micro-financial services, and themselves as organisations, as tools or instruments to effect wider system-level or institutional change.

We use the term ‘institutions’ here advisedly. ‘... the term “institution” has a much wider meaning than its common definition as a formal organisation of some significance. For example, Douglass North (1990: 3) describes institutions “as the rules of the game in a society or, more formally, ... the humanly devised constraints that shape human interaction”. ... North (1981: 201–2) explains [that] “institutions are a set of rules, compliance procedures, and moral and ethical behavioural norms ...”’ (Fisher and Mahajan, 1997: 86).

To achieve wider system-level or institutional change, MFOs do not have to become ever larger as though organisational scale alone could effect system-wide change. There is a strong possibility that work on a large scale will come with multiplying and interlinking well-functioning small (often local?) groupings, not by expanding into ever larger units. Masterful craftsmanship is involved in designing and managing the necessary connections. If this picture of going to large scale is even approximately correct, then quality work is not the alternative to quantity but its very means (Lynton, 1998: 286).²

We have looked at quality work in previous chapters, and will continue to do so in this one. To what extent can such
work be multiplied and interlinked to have larger system-wide or institutional impacts?

First we look at BASIX, which has been a highly innovative organisation and a pioneer within the micro-finance sector in India (for more details, see Chapter 4). To push forward such innovation BASIX has had to establish a range of linkages, including with regulators, investors, promotional institutions, partners (who can act as intermediaries for or provide support to clients), small community-based organisations, such as self-help groups (SHGs), and so on.

Second, we look at the Self-employed Women’s Association (SEWA) which has sought to use micro-financial services as well as other tools to empower women and change gender relations (for more details, see Chapters 3 and 5). SEWA has gone the route of organising poor women in the informal sector for collective action, and mobilised a range of campaigns, again with significant linkages to partner organisations as well as the organisations they seek to change.

Third, we feature the work of the Cooperative Development Foundation (CDF) in changing the legal environment for cooperatives, first in the state of Andhra Pradesh, and increasingly across the country (for more details of CDF’s work with savings and credit cooperatives, see Chapter 5).

As we have seen in previous chapters, it is the instrumental use of micro-financial services, rather than treating them as an end in themselves, that leads to wider impacts, whether on livelihoods, empowerment, people’s organisations or institutional change. In this chapter we analyse how wider impacts on institutions or large systems may be achieved in practice.

BASIX and the micro-finance sector

BASIX as an innovative pioneer

An organisation or enterprise has to engage with its environment, seeking to keep it at bay, or influencing and changing it in order that it can prosper. This challenge is growing as the environment most organisations face becomes more turbulent (Emery and Trist, 1965).
A development organisation also has to engage with its environment to prosper. In addition, it is often motivated by longing to create wider change beyond its own operations. In seeking to do so, it may become truly innovative: 'Innovative institutions aim to make a difference beyond themselves. What difference precisely and how, and how much it mattered in the light of history many forces will influence, as also the deliberate moves that took it there' (Lynton, 1998: 229).

BASIX has certainly been an innovative pioneer within the Indian micro-finance sector, and has deeply influenced that sector. Four areas stand out in particular.

First, as we saw in Chapter 4, BASIX has led innovation on leveraging micro-finance provision with a range of non-financial activities to promote rural livelihoods, including attempts to support small enterprises that can generate wage employment for poor people. BASIX has done this not just by attracting funding for business-support services, but also by working with existing market agents (e.g., input suppliers and dairy cooperatives), who respond to market incentives to support BASIX’ borrowers, and whom BASIX can influence to provide higher-quality services. Through such mechanisms BASIX has, for example, helped in introducing new crops like paprika and technologies like micro-drip irrigation, revived existing under-performing infrastructure (e.g., lift-irrigation schemes) or organisations (e.g., dairy cooperatives), even created competition within moneylending markets.

Second, BASIX has been a pioneer in attracting mainstream finance to an MFO. This started with a soft loan from the Ford Foundation, a first for India, and led to the first loan to an Indian MFO from a private commercial bank, as well as debt and equity investments from around the world, including from the International Finance Corporation (IFC) of the World Bank (see Chapter 4, note 4).

Each step on what has been a long five-year journey has involved intensive negotiation, not only with Indian regulators to open up regulatory provisions to enable such investments, but also with the investors, for example to drop restrictions that would undermine BASIX’ mission and to understand its unusual structure, not least as a development enterprise promoted with substantial sweat equity but less traditional financial capital.
In this area, as in its livelihood interventions, BASIX has been a pioneer not only in India but also internationally. As Dichter (2001: 12) comments: 'No other [MFO] on the scene has had anything like this mix of investors, this combination of loans and equity, nor has any such organisation made this kind of progress so early in its growth.'

Third, BASIX was the first MFO to set up a Local Area Bank, a new banking structure for banks seeking to operate in no more than three contiguous districts in India. Fourth, BASIX has developed highly sophisticated systems, including financial and management information systems, customer service agents, pay structures and staff development processes, and customer satisfaction audits, which are way ahead in the field of micro-finance in India and for the most part internationally also.

A pioneer opens up new terrain for others to follow. The first question to ask is how BASIX as one organisation could incorporate so much pioneering innovation.

An important factor here was the experience and intellectual capital that the promoters brought to BASIX (Dichter, 2001). This applies equally to the leaders of SEWA and CDF, who were deeply experienced and knowledgeable on union or cooperative activity respectively. However, to illustrate this feature, we elaborate on the promoters of BASIX. All had been through prestigious academic institutes. More important was the experience they brought.

The Managing Director had worked in the private sector: set up the non-governmental organisation (NGO) PRADAN committed to promoting rural livelihoods (see Chapters 5 and 9); was the national coordinator of a long-term and in-depth study on the rural non-farm sector in India (Fisher and Mahajan, 1997); and was a consultant and adviser on rural non-farm employment and rural finance to the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), the World Bank, the Swiss Agency for Development and Cooperation and the Ford Foundation.

Another founder is a partner in corporate finance at PriceWaterhouseCoopers, with previous experience at the Industrial Credit and Investment Corporation of India (ICICI) and the Nehru Foundation for Development. The third founder
Beyond micro-credit

had worked at the Ford Foundation for six years before becoming Programme Director and Executive Director (1987–92) at PRADAN.

Their depth of experience and understanding from the development and private sectors, across the disciplines of development, economics, finance, engineering and management, was complemented by a strong board and management team, again comprising members from the development and private sectors, as well as academic institutes. A deliberate policy to remunerate staff well, and the buzz of an innovative new organisation, were important factors in attracting high-quality staff.

More specifically, BASIX was designed after deliberate and intensive review of best practice in micro-finance in India and internationally. This involved, for example, an in-depth study of financial services for poor people provided through the banking system (Mahajan and Ramola, 1996); support, both technical and in strategic planning, for SEWA Bank; study visits to Bangladesh, Indonesia, Thailand and the United States; and review of practice elsewhere through research, international conferences and meetings with leading micro-finance practitioners. This work continued even after BASIX was established, for example in case-studies of MFOs in India produced for the International Fund for Agricultural Development (IFAD) (BASIX, 1999a). As Dichter (2001: 11) points out, ‘There are few if any major innovations or developments in micro-finance or enterprise development of which the founders are unaware’.

However, in promoting a development enterprise, rather than a private business, even such experience and understanding is not sufficient. Equally important are the personal commitment and motivations of the social or development entrepreneurs involved. Alongside the ambition to take on the huge challenges of a pioneer, and to emerge from the development sector to become accepted as a legitimate and mainstream player in the Indian financial sector (Dichter, 2001), comes the deep commitment to the cause of development in India, shared by the founders, board members and many of the staff.
It is this ambition and commitment, combined with the deep understanding of the scale of the developmental challenges India faces, that continually drive BASIX never to rest, always to go one step further, to innovate and experiment, in pursuit of having a real development impact. This is not a fixed or static process. Each person interprets the mission in somewhat different ways, and the focus and emphasis of BASIX' work is constantly shifting as different energies and views are mediated through organisational processes.

A pioneer may open up new terrain for others to follow. However, that in itself does not ensure that others know about the innovation, can follow and learn from the pioneer and make their own contributions to developing the new terrain.

As inspiring as BASIX may be, inspiration alone is clearly not sufficient. It would of course be foolish to underestimate the power of such inspiration, as the case of the Grameen Bank shows. Like SEWA Bank, it demonstrated, against all conventional banking wisdom at the time it was established, that poor people are bankable (Rogaly et al., 1999: 126).

However, the huge number of pilot projects scattered all over India shows so clearly that innovation will not simply multiply or replicate of its own accord, even if successful. To ensure influence beyond the organisation itself requires deliberate strategies to exercise such influence.

For example, the Grameen Bank has been active in supporting the replication of its specific model of micro-finance through the Grameen Trust established for this purpose. As we have seen above, BASIX has adopted deliberate mechanisms to build its innovation, for example, the intensive review of best practice elsewhere, work with other Indian MFOs, remuneration policies to attract high-quality staff and so on.

What deliberate strategies has BASIX adopted to ensure that its innovations achieve wider influence beyond its own operations? A key factor of any such strategy must be to establish effective linkages that allow the organisation to exercise influence. It is also important to distinguish among different linkages for different purposes.

'Enabling' linkages provide the institution with legitimate authority to start and to operate, and to give it access to the
funds and other support it needs. 'Functional' linkages provide for substantive exchanges with the environment. 'Normative' linkages deal with the establishment of standards in the institution and with its attempts to influence norms in the environment. 'Diffuse' linkages are for building widespread understanding and support for the institution. ... a fifth type of ("collegial") linkage provides at the institutional level what colleagueship does at the individual level, through exchanging experimental information and developing common strategies and common resources (Lynton and Pareek, 1992: 156; Lynton, 1998: 220).

In the case of BASIX, it has established strong enabling linkages, for example with a wide range of investors, as suggested above, and with the Reserve Bank of India, to enable BASIX to be the first MFO to establish a Local Area Bank. BASIX has established strong functional linkages as well, particularly with other market agents and other MFOs to support BASIX' borrowers and spread innovation in the field.

Normative linkages have been very prominent in the case of BASIX as it has sought to influence the regulatory and policy environment (see Box 6.1). Even before setting up BASIX, the promoters were seeking to use normative linkages to change the norms of rural banking practice, as captured in Table 6.1 (compare Table 4.1 in Chapter 4). A particularly important breakthrough that BASIX influenced came with the Task Force on a Supportive Policy and Regulatory Framework for Micro-finance (NABARD, 1999b), which created a much more positive policy environment for micro-financial services in India.

Of equal importance was probably the normative effect of one of BASIX' enabling linkages with Global Trust Bank (GTB), the first private commercial bank to make a loan to an MFO in India for on-lending to SHGs. Its significance lay in getting NABARD to refinance GTB's loan as priority-sector lending, setting an important precedent that lending to MFOs for on-lending to SHGs could be regarded by banks as meeting their priority-sector obligations.
Box 6.1: Policy work by BASIX

- The Managing Director (MD) had been a member of a working group on rural credit through non-governmental organisations (NGOs) and self-help groups (SHGs) in 1995 that boosted national efforts to link banks and SHGs.
- The idea of a Local Area Bank (LAB) was in part inspired by reports from study visits by BASIX' promoters, to Indonesia in particular, which were presented to the Deputy Governor of the Reserve Bank of India (RBI). This led to similar visits to South-East Asia by RBI staff, who developed the policy on LABs.
- BASIX' promoters had since 1995 been advocating important regulatory changes, in particular, the deregulation of interest rates, while working on the Indian Rural Finance Reform Project of the World Bank (which eventually did not materialise).
- BASIX assisted SIDBI in setting up the Foundation for Micro-credit through a study on the demand profile and cost-structure of well-established MFOs and reviewing the Foundation's business plan.
- BASIX was active in helping to establish Sa-Dhan, the Indian Association of Community Development Finance Institutions (see Box 6.2). Through Sa-Dhan, BASIX was also active in promoting the idea of the Task Force on a Supportive Policy and Regulatory Framework for Microfinance, which was chaired by NABARD and reported to the Reserve Bank of India (NABARD, 1999b).
- BASIX carried out the feasibility study for the Andhra Pradesh Mahila Abhivruddhi Society or APMAS (BASIX, 1999c), which was established in 2001.
- The MD has worked on strategies to promote the rural micro-enterprise sector in the states of Andhra Pradesh, Rajasthan and Sikkim, and was a member of the Andhra Pradesh State-level Employment Generation Mission and the Rajiv Gandhi Mission on Livelihoods Security in the state of Madhya Pradesh (MP) which led to BASIX establishing an initiative called the MP Livelihoods Enhancement Action Platform. Most recently, the MD has become a member of the working group on poverty alleviation programmes for the Planning Commission and of the working group reviewing legislation and regulation of Regional Rural Banks.
Table 6.1: BASIX’ characterisation of existing and new generation financial intermediaries

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Existing financial intermediaries</th>
<th>New generation MFOs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-concept</strong></td>
<td>Credit delivery system, in which funds come from external sources.</td>
<td>Financial intermediary, linking micro-savers with borrowers.</td>
</tr>
<tr>
<td><strong>Ownership and control</strong></td>
<td>Mostly government owned. Even cooperatives, which are nominally member-owned, are often government controlled in practice.</td>
<td>Ownership will be with shareholders, largely micro-individuals and organisations.</td>
</tr>
<tr>
<td><strong>Motivation</strong></td>
<td>Saving the poor people from clutches of money-lenders using micro-savers as a source of funds; means of political patronage.</td>
<td>Making a reasonable profit, by providing competitive services to micro-customers.</td>
</tr>
<tr>
<td><strong>Products and services</strong></td>
<td>Few products that suit poor people’s special needs: illiteracy, seasonality, mixed credit needs, livelihood diversity.</td>
<td>Savings and loan products will be designed to suit specific demand segments and customer attributes.</td>
</tr>
<tr>
<td><strong>Main source of loanable funds</strong></td>
<td>World Bank, RBI, NABARD, etc.; funds at low interest rates; also government funds, e.g., RMK.</td>
<td>Deposits, raised by giving real positive interest rates; also bulk borrowings.</td>
</tr>
<tr>
<td><strong>Interest rate on loans</strong></td>
<td>Lower than sustainable levels: cannot cover capital, operating and bad debt costs.</td>
<td>Interest rate must cover all three costs and also service the equity.</td>
</tr>
<tr>
<td><strong>Repayment rates</strong></td>
<td>On-time repayment rates are routinely 50 per cent or less.</td>
<td>On-time repayment rates of less than 95 per cent will lead to uneconomic operations.</td>
</tr>
<tr>
<td><strong>Method of lending</strong></td>
<td>Security-based lending; insistence on collateral; largely one-time basis.</td>
<td>Lending based on borrower’s prior savings and credit history. Repeat loans are a key feature.</td>
</tr>
<tr>
<td><strong>Attitude towards the poor</strong></td>
<td>Seen as social obligation and intrinsically unworthy of credit.</td>
<td>The poor seen as entry-level customers. If they prosper, the MFO prospers in leaps and bounds.</td>
</tr>
<tr>
<td><strong>Operating methods</strong></td>
<td>High cost, poor service, due to manual operations, over-staffing, bureaucratic functioning and poor industrial relations.</td>
<td>Lower level of cost, high level of service due to use of information technology, performance linked wages, and professional orientation.</td>
</tr>
</tbody>
</table>
The promoters brought many diffuse linkages into BASIX, for example, within the wider development and academic sectors focusing on livelihood promotion. BASIX continues to build widespread understanding through these channels, for example, in collaborating on a resource book on livelihood promotion (in which BASIX also features as a case-study) (Datta et al., 2001).

Finally, BASIX has had strong collegiate linkages, both at an individual level (many colleagues are on the board or act as advisors and mentors to BASIX), and at an organisational level, where BASIX has worked with many other MFOs and played a leading role in establishing the Indian trade association for MFOs (see further).

Linkages need to be built and sustained (Lynton, 1998: 221). In the case of BASIX many of these linkages were brought into the organisation by the promoters. However, BASIX has also adopted deliberate strategies to develop such linkages. Here are some examples.

BASIX has formalised some of these linkages within the organisation, by inviting key individuals from both the development and private sectors to become members of the board, and using others as evaluators, advisers and mentors.

BASIX has allowed exposure to its work, to some extent through articles, studies and publications, but much more so through visits. BASIX brings together management staff from across the organisation to review its operations on a quarterly basis. This event is also used as the opportunity for visits by outsiders, who often go into the field prior to the event, and then attend some of the review sessions. This can of course also serve as a two-way process, enabling BASIX managers to gain insights from external parties, some of whom bring significant experience and insight.

BASIX has given direct support to other MFOs in India. For example, BASIX has provided technical assistance and management support to a network of village banks set up by the NGO ASSEFA. It has provided strategic planning and training support to the NGO PRADAN, and advice to a range of development and financial entities. It has also developed strategies to promote and build capacity among the many grassroots organisations like SHGs or mutually-aided cooperative
societies (MACS). This work has led, for example, to further support for a capacity-building organisation for such groups in the state of Andhra Pradesh (called the Andhra Pradesh Mahila Abhivruddhi Society or APMAS).

Perhaps most important in the early years of its organisational life, BASIX has become deeply involved in policy processes around rural employment and finance. This has been in part around specific issues of policy that had a direct influence on BASIX' operations, such as foreign investment and the development of the Local Area Bank (LAB). As Box 6.1 shows, BASIX has also seized opportunities to influence policy more broadly. It has thereby contributed to the on-going development of a supportive policy-framework and environment for micro-finance in India well beyond itself, while also benefiting significantly from this improved environment.

The innovation of BASIX has therefore come from a range of factors such as the depth of experience and intellectual capital among BASIX' promoters and senior staff and their ambition and commitment to development, the entrepreneurship of the Managing Director and BASIX' ability to hire high-powered staff attracted to the buzz and the good remuneration. Influence has been achieved through the deliberate cultivation of a wide range of different linkages, and mechanisms to build and sustain these.

This has not come without its costs for the organisation. For example, constant innovation has led to constant change, and subjected the organisation to risk. It had to suspend lending over Rs 50,000 to small enterprises when that part of its portfolio performed badly. Some linkages have come with risks, for example, collaborating with commission agents, who have a very negative image within development circles in India.

The numerous innovations and linkages have also led to difficulties in maintaining focus, all of which have put pressure on the organisation and its staff. Some linkages, for example, some of the policy work, have at times distracted from business operations, not least for the Managing Director, and provided additional policy work when BASIX was already wrestling with policy and regulatory constraints that had a more direct impact on its operations.
Linkages, for example, with other MFOs and development practitioners, have led to a range of engagements that may all have significant potential, but together may not necessarily reflect a strategic vision or the most effective portfolio of linkages for BASIX itself. Linkages therefore need to be built and used strategically, just as any other organisational mechanisms.

The review of BASIX's first five years (Dichter, 2001) suggested that BASIX had in fact, for strategic reasons, tried to be all things to all people, developing a huge set of linkages, but that it must now hone its identity (ibid.: 22):

BASIX ... think[s] rigorously about important distinctions like that between survival activity and enterprise; between poverty-lending and enterprise lending; between loans used for consumption and loans used for working capital, and ... between micro-financial services and development.

It is this understanding coupled with its integration of financial services and sectorally-based technical support which make it a new generation rural financial institution. And to the extent it can act on these aspects in more pointed ways and thus gain more experience, it will be far better positioned to influence not just regulatory policy for [MFOs], but development thinking.

The trade association Sa-Dhan

Many other individuals and organisations have been involved in influencing policy. Indeed, micro-finance practitioners have long been advocating relevant policy changes, at least since the 1980s. The openness to new measures that came about through the introduction of economic liberalisation in the early 1990s provided the environment for such advocacy to reach a critical mass and for the process of policy change around micro-finance to accelerate in the late 1990s.

For example, leading NGOs promoting SHGs (see Chapter 5) have been involved in influencing NABARD as it developed its 'linkage' programme through which banks lend to SHGs.
In particular, MYRADA, PRADAN, the DHAN Foundation and others have all been involved in training bankers about poor women clients and how to lend to their SHGs. For example, over nine years, MYRADA provided such training to over 4,000 bankers (Fernandez, 2001: 45).

However, such system-wide impacts are beyond the capacity of single organisations to meet. Moreover, each of the organisations seeking to bring about change may often be motivated to bring about change that benefits itself. It is hardly surprising that individual organisations see the sector as a whole through their own experience and often assume that the changes they seek for themselves must also benefit the sector as a whole. While this may sometimes be the case, it is unlikely to be the case all the time.\(^3\)

Complex societies in fast-changing environments give rise to sets or systems of problems (meta-problems) rather than discrete problems. These are beyond the capacity of single organisations to meet. Inter-organisational collaboration is required by groups of organisations at what is called the ‘domain’ level (Trist, 1983: 314–15).

This means relationships that will maximise cooperation and which recognise that no one organisation can take over the role of ‘the other’ and become paramount (Emery and Trist, 1965: 153).

The broader vision and motivation of development organisations like MFOs to have an influence beyond their own operations may make such cooperation easier. At its simplest, such cooperation leads to the formation of an association, as has happened among MFOs in India that have promoted Sa-Dhan, the Association of Community Development Finance Institutions based in New Delhi (see Box 6.2).

An association is necessary to ensure that the interests of all are met, instead of the most powerful skewing the environment in their favour. Sa-Dhan has indeed been careful to build collegiate relationships amongst its members, setting up a range of working groups on policy, standards and capacity-building, and ensuring that it addresses the concerns of all its members, not just the larger MFOs that were initially involved in promoting the association.
Box 6.2: Sa-Dhan, the association of Indian MFOs

Sa-Dhan was established in 1998 by 10 leading micro-finance organisations (MFOs) in India, including SEWA Bank, BASIX, Friends of Women’s World Banking (FWWB), Sanghamithra (set up by MYRADA), Rashtriya Gramin Vikas Nidhi (RGVN), Professional Assistance for Development Action (PRADAN), Society for Helping, Awakening Rural Pool through Education (SHARE) and the Development of Human Action (DHAN) Foundation.

Sa-Dhan is not model or ideologically specific in its approach. It is an apex membership body that brings together diverse views, models and concerns in the Indian micro-finance sector from a wide spectrum of stakeholders, including community-based development finance organisations. The association now has 49 members based in 15 states in India.

Sa-Dhan aims to establish an environment to accelerate the development of micro-finance in India. It seeks to encourage savings, credit and insurance services that are responsive to the needs of the lower and lowest income segments of society; to effect policy changes at the micro and macro-levels; to offer technical assistance and support to strengthen existing and promote new livelihoods; and finally to integrate micro-financial services with social development efforts to ensure that economic gains go hand in hand with improving the quality of life of poor households.

To take this agenda forward, the members have chosen to focus attention on three thematic areas: policy, standards and capacity-building. Sub-groups have formed on each of these thematic areas, and each sub-group meets formally three times a year, in addition to their participation at different programmes of the association. Following these meetings, the sub-group leaders, together with or through the Sa-Dhan secretariat, develop and implement programmes in collaboration with members.

To enhance participatory processes, Sa-Dhan enables policy-makers, academicians and field-level practitioners to brainstorm and work together on common platforms. The association works to create opportunities for policy-makers to observe and comprehend realities within the sector, and to enable greater accountability and transparency in the operations of the players in the sector. Towards this end, Sa-Dhan

(Contd)
develops operational standards and self-assessment, evaluates existing practices, and evolves consensus on minimum standards to ensure the sustainable growth of the sector.

Sa-Dhan also organises events and programmes designed to bring people together to share their experience and adopt good practices from each other. It provides a common platform for leading practitioners to engage in dialogue and debate, developing learning materials containing insights from the field and supporting academics to transfer their knowledge and training skills to improve such materials available to practitioners.

Associations may seek to provide training and other inputs for their members. However, creating generally accepted standards, norms and values, in other words ‘institutions’ that influence a wide range of actors, in this case across the micro-finance sector, is key to their wider influence. As Emery and Trist (1965: 152–53) argue,

[In turbulent environments,] individual organisations, however large, cannot expect to adapt successfully simply through their own direct actions.... Nevertheless, there are some indications of a solution.... This is the emergence of values that have overriding significance for all members of the field.

**SEWA and self-employed women**

The Self-employed Women’s Association has also been trying to change social values, not just within the financial sector but primarily around women working in the unorganised or informal sector of the economy.

SEWA Bank is an important organisation within the broader SEWA family, which also includes the union; a range of cooperatives (over 80) mostly organised around economic trades, but some providing health- and child-care; producer groups (some 200); rural SHGs (1,600); federations of these cooperatives and groups; a housing trust and an academy for research and capacity-building (see Box 3.1 in Chapter 3).
It is important to note that SEWA Bank is therefore only part of a broader family of organisations. The union was established first, but soon discovered that to organise self-employed women effectively, members also needed access to practical services, among which financial services were particularly important. In essence, women members needed to take control of their lives, from their own finances to their collective endeavours.

As seen in Chapter 5, the micro-financial services provided by SEWA Bank therefore form part of a strategy for wider social and political empowerment of women that is in turn seen as essential to sustained increases in their incomes.

Like BASIX, SEWA has created a range of linkages to effect change beyond its own family of organisations. However, in an attempt to build a broader picture, we focus on other parts of its strategy here. Rolf Lynton (1998: 295) has argued that three components of a strategy to effect wider change are critical:

- the work is envisaged on a large enough scale to affect a transcendent challenge and commitments to action match it ...;
- the work is located where the challenge is actually encountered and the options are faced, and those situations will 'speak' as they develop. Fresh understandings will emerge; and
- connections have been built to the larger arenas of action so that local action will matter to the whole large system.

First, SEWA has focused on a large challenge: over 300 million people in India work in the unorganised sector of the economy, and more than nine out of 10 women workers. However, their contribution to the economy is often not recognised and their economic rights are largely non-existent. SEWA is therefore challenging both deep-seated gender relations and hard economic realities, a challenge indeed.

SEWA has also envisaged this challenge on a large enough scale right up to the international level, campaigning at the International Labour Organisation (ILO) for the rights of home-based workers across the world and collaborating with an international group, including economists, on how to
recognise and measure the contribution of the unorganised sector to the economy.

Second, SEWA has located its work where the challenge is actually encountered, in the slums of Ahmedabad and surrounding rural areas. SEWA demonstrates more than any other organisation featured in this book a holistic view of its members' needs, rooted in a deep understanding of their lives that a membership organisation and constant work alongside members in their daily lives bring. SEWA's mission therefore incorporates a holistic view of its members' lives, from employment, income and assets, through food, nutrition and health, to leadership and self-reliance (see Box 3.1).

SEWA's approach will continue to challenge organisations promoted and controlled by professionals on how well they actually understand the needs of the people they seek to help. As we saw in the last chapter, power is critical here, and allowing women to own, control and manage their own democratic organisations is an obvious way to reverse power relations between poor people and development professionals.

It was this understanding that led the union to establish SEWA Bank within two years, to provide what had become clear were essential services without which women could not take control of their economic livelihoods, as well as to enable them to own and manage a formal organisation, no less than their own bank.

Third, SEWA has built connections to larger arenas of action. These involve not only collaborative relationships but also non-violent (and deeply Gandhian) confrontation in an activist mode. In a democratic context visible numbers often count, so mobilising women has been a key component of both collaboration and confrontation.

While organising women and supporting them in building their own workers' organisations, the need for mass mobilisation through campaigns became evident. This mass mobilisation strengthens the SEWA movement and at the same time highlights their own pressing issues.

All mobilisation is done as part of a campaign around a clearly identified issue. The issue is identified by the women and local leaders as one which affects large numbers of people, which affects them deeply or is felt as
unjust or intolerable, and is continually called to our attention. Mobilisation involves continuous meetings at the village or *mohalla* [neighbourhood] level.... It means follow-up of the strategy by local people supported by SEWA (SEWA, 1997: 9).

These quotations make clear how carefully SEWA seeks to build campaigns around local action where women encounter the challenges at the heart of these campaigns in their daily lives. Box 6.3 provides some examples of campaigns that SEWA has engaged in, in each case building linkages to enhance their impact.

**Box 6.3: SEWA campaigns (SEWA, 1997)**

The Home-based Workers Campaign, started by SEWA in the 1970s, reached its peak at the International Labour Organisation (ILO) in 1996, when the ILO voted for a convention to address the needs and priorities of home-based workers, according them full rights as workers. SEWA collaborated with unions in many countries and federations of unions like HOMENET. Extensive dialogue was also held with policymakers in the Indian Ministry of Labour and the equivalent department in the state of Gujarat.

The Water Campaign in northern Gujarat was launched after local women leaders organised *gram sabhas* (traditional meetings of all villagers) in 290 villages. The campaign involves not only mobilising women, but also engaging with the village *panchayats* (elected councils) and government schemes.

The Food Security Campaign was launched after the same *gram sabha* meetings, focusing on ration shops and alternatives to these, and has engaged significantly with the authorities for civil supplies.

The Vendors Campaign fights for the legal rights of vendors, ranging from work with municipal authorities in Ahmedabad through surveys in other Indian cities to an international declaration made by vendors from 11 mega-cities around the world.

The Clean Ahmedabad Campaign has involved organising women locally, working with residents' associations, corporate
companies and municipal authorities, as well as organising paper-pickers who are members of SEWA and who depend for their livelihoods on recycling dry waste.

The Campaign for Recognition of Unorganised-Sector Workers led to the formation of the National Centre for Labour (NCL) in 1995, a labour federation of unorganised-sector workers, the first ever in the history of the labour movement. SEWA is the largest founder-member of the organisation, along with unions of construction workers, fisher-people, contract and domestic workers, forest and agricultural workers. The National Centre for Labour attended the Indian Labour Conference that brings together labour, employers and government to decide labour policies in the country.

Other campaigns include the Campaign for Minimum Wages pursued through NCL, the Campaign for Forest Workers, campaigning, in particular, for nursery-raising to be handed to local women, the Campaign for Land for Salt-workers, the Campaign for Recognition of Dais (traditional birth attendants) and the Campaign for Child-care as a Basic Service.

SEWA's advocacy has therefore focused not only on the immediate rights of women, for example their economic rights to hawk wares or to access social benefits mandated by the state for bidi workers. It also incorporates a broader strategy to get wider recognition of the contribution that women in the informal sector make to the economy and, with that recognition, greater rights and benefits for all such women, including SEWA's own members.

Where do micro-financial services come in all of this? Surely this is all about SEWA, not SEWA Bank? The achievement of SEWA has been to integrate the bank into the wider movement in a holistic way. It is not even so much that SEWA has used micro-financial services instrumentally in the way the Cooperative Development Foundation has done to change cooperative law (see the next section). Instead, SEWA started with a holistic perspective grounded in the overall needs of its members, and different organisations within the family were set up to meet particular needs.

Within this family SEWA Bank has of course had a very strong identity, accompanied by strong linkages of its own. SEWA Bank has played a leading role with other MFOs in
promoting the association Sa-Dhan. More strikingly, SEWA Bank inspired the formation of Women's World Banking (WWB) located in New York to look at financial services affecting women worldwide (Rose, 1992). There is an affiliate of WWB in India, the Friends of Women’s World Banking, which has been actively helping women to form and develop SHGs.

CDF and the cooperative sector

Wider economic impacts at the local level

The savings and credit cooperatives promoted by CDF were featured in Chapter 5. One way that CDF seeks to have an impact beyond individual cooperatives and its members is by saturating its area of operations in two districts with such cooperatives in order to have a sustained impact on the local economies as a whole.

CDF feels that more work opportunities and choice of work will be available only if local purchasing power is increased, or if outside markets are explored.

... successful cooperatives share profit amongst members, and since members, by and large, tend to come from contiguous areas, such an action has, over a few years, significant economic impact on the area, increasing local wealth, increasing local demand for services since many families are benefited, increasing employment opportunities to meet the new demands, and improving quality of life.

Significant profits in the hands of one or two individuals operating in rural areas as rice-millers, cotton-ginners, moneylenders, more often than not, result in their being unable, even if they so desired, to reinvest or utilise such amounts locally. On the other hand, profit in the hands of cooperatives engaged in any of these or other businesses results in that amount getting utilised locally and/or being reinvested in the business. Rural capitalisation and growth of rural employment opportunities are closely linked to processes by which large sections of people can increase their incomes....
The momentum generated by the activities of successful cooperatives [thus] leads to greater and more varied employment for men and women in the area. Income and employment opportunities come from the small service and trade enterprises which emerge in response to the growing needs of a rural community enjoying increased purchasing power. These economic opportunities are backed by secure access to both savings and credit facilities for rural entrepreneurs and others. Non-agricultural work opportunities leave their impact on agricultural wages (CDF, 1993: 6, 1996).

The DHAN Foundation, featured in Chapter 5, also seeks to saturate areas, such as administrative blocks, in this case with SHGs, to reduce the costs of operating the programme, to ensure a visible presence for the SHGs and their federations, to provide competition with both the formal and informal sector, and to prove that such operations can be a business proposition (Narender, 1999).

BASIX has discovered in practice that through its own operations it can influence the behaviour of other finance providers, including moneylenders who have sometimes lowered their interest rates and banks that have entered the micro-finance market once BASIX had demonstrated its viability (see Chapter 4).

All three illustrate strategies to have local impacts that go beyond the sum of their discrete interventions. More research on such strategies is urgently needed.

Reforming cooperative law

However, it is in reforming cooperative law in India that CDF has sought to bring about system-wide change. Initially, CDF used to work with cooperatives like the one in Mulkanoor (see Chapter 5), which had been established with state patronage. The Foundation tried very hard to free these cooperatives from state sponsorship and control, including engaging in activism and litigation. However, such strategies proved difficult since the state had significant financial stakes in many of the cooperatives (for a detailed description of the work done by CDF in this stage see Korten [1990]).
Therefore, CDF almost stopped its work with existing cooperatives and focused on a highly organised advocacy programme to get a new law for cooperatives enacted in the state of Andhra Pradesh (CDF, 2000). These efforts continued for more than 10 years, involving cooperatives, politicians, bureaucrats, bankers, lawyers, courts, academics, activists, the media, and even a model cooperative bill drafted for the national Planning Commission, all to little avail.

It was only around 1993 that CDF started turning its attention to a parallel law for cooperatives that did not seek or have government share capital. As a parallel law, rather than changing the existing law, it would not immediately challenge the vested interests of politicians and bureaucrats in existing cooperatives. This resulted at last in a historic change when, in May 1995, after intensive work by CDF with assembly members from the government and opposition, the state assembly in Andhra Pradesh unanimously adopted the Mutually-aided Cooperative Societies Act. The new act removed all state controls from cooperatives that did not seek state patronage and were registered under the new act.

The Foundation quickly followed up with the Chief Minister, using the most prestigious national figures in the cooperative movement, such as Shri L.C. Jain and Dr Kurien, to ensure that the law was notified and cooperatives, especially many savings and credit cooperatives, were registered under the new act. It also organised a series of workshops and press conferences across the state to educate officials from the department of cooperation, cooperators, NGOs, activists and potential cooperators on the new act, and worked with the department of cooperation to draft a range of publications on registration, by-laws, and so on. A new High Court judgement also confirmed the clear distinction between cooperatives under the old and new acts.

Ever since the new act was passed, there has been a large impetus for micro-finance as well as other cooperative activities in the state which have been enabled by a regulatory framework ideally suited to carry out activities for mutual benefit. Andhra Pradesh now has by far the largest number of mutually-aided savings and credit cooperatives, as well as almost 60 per cent of all SHGs in the country that are linked
to commercial banks. The Cooperative Development Foundation is also helping other NGOs promoting micro-finance outside its own area of operations through exposure visits and training programmes, including sensitising them on the primacy of democratic governance in grassroots organisations. There are also other cooperatives emerging under the new act, or transferring from their old status to become mutually-aided cooperatives.

Building on its success in Andhra Pradesh, CDF has pursued its advocacy work to ensure that other states in India adopt similar liberal cooperative acts. For this it drafted a bill with commentary (the Self-reliant Cooperatives Bill) for states wanting to review their cooperative law (CDF, 2000). It also identified and built on the extensive cooperative networks throughout the country, providing expert information, conducting workshops, consulting with a wide range of stakeholders from cooperators to government officials, reviewing draft laws. The following report, on the state of Kerala, is not untypical:

Senior cooperators, senior political leaders, academicians, professionals, trade union leaders and representatives of various voluntary organisations unanimously desired that a liberal parallel cooperative law should be enacted in the state. They participated in a series of workshops on the need for the enactment of a liberal parallel cooperative law in the state organised by Cooperative Initiative Panel, Anand. CDF and the South Indian Federation of Fishermen Societies ... (CDF, 2001).

Similar work, including in at least four cases the introduction of new liberal acts, has been taking place in numerous states across the country. In its newsletter for May 2000, CDF commented, 'during the month, CDF visited Himachal Pradesh, Punjab, Chandigarh (Union Territory), Haryana, Delhi (UT), Rajasthan, Gujarat, Madhya Pradesh, Bihar, West Bengal, Orissa, Tamil Nadu and Pondicherry (UT)! Other states in which CDF has done similar work are Chhattisgarh, Goa, Jammu and Kashmir, Jharkhand, Karnataka, Maharashtra and Uttar Pradesh.

'Change is now also occurring at the national level, with work on the legal framework for multi-state cooperatives, and
a potential amendment to the Companies Act. The latter would enable cooperatives, whether registered under the multi-state act or any state act, to convert themselves into producer companies, which would retain the essential characteristics of a cooperative, but take them out of the purview of the Registrars of Cooperatives and enable them to tap capital markets for finance. The Prime Minister himself urged chief ministers and all political parties to help depoliticise, debureaucratise, democratise and professionalise cooperatives (CDF, 2001).

In all these activities, democratic governance has been at the heart of CDF's approach. It is effective cooperatives that are autonomous and make their own decisions that can lead to the democratic transformation of communities and, as suggested above, have an impact on the local economy as a whole, not just individual members of the cooperatives. The cooperatives to which CDF can point to demonstrate this in practice are mostly the savings and credit cooperatives in Andhra Pradesh.

The Cooperative Development Foundation also learnt from its many years of advocacy, concluding:

It took CDF about two and a half years of concerted effort to get good court judgements, favouring cooperatives. It took it over a decade to get a good cooperative law in place. It will probably take it all of another decade to get enough states and the union to have good cooperative laws. CDF has learnt to work on several fronts at once to get the reforms that it seeks. It has also learnt that it is not important that it gets noticed, that its inputs get acknowledged.... What is important is to get the reform, and for that people formally responsible for the reform have to be convinced of what they are doing, and it is they who have to be in the forefront leading the cause. From fiery and self-righteous campaigns, CDF has moved to more strategic, and less visible planning and action. As CDF has refused to learn the skills of manipulation, where a government is not ready for change, [CDF] maintains a low level of pressure, waiting for better times, but moves on to another which wants change ... (CDF, 2000: 28).
The cooperative work done by CDF has also drawn it into other issues of governance. It campaigned against a union government proposal to introduce a statutory code of conduct for activists, and has engaged in work on legal aspects of societies, under which many NGOs, including CDF, are registered. The President of CDF is also actively involved in an organisation called the Foundation for Democratic Reforms that works in the arena of electoral politics and the overall democratic fabric of the country.

Learning from CDF

The Cooperative Development Foundation demonstrates the need to learn from experience, including failures, as it sought to replicate the superb example of the Mulkanoor cooperative. On realising, through its practical experience on the ground, that its endeavours could never work without a change in the legal environment, most of the organisation's attention was directed at bringing about just such a change, until finally the breakthrough came in 1995 with a new law in the state of Andhra Pradesh.

The Foundation did not, however, rest on its laurels at this point, but sought to deliver support to other states to adopt the same legal changes. Just as importantly, it returned with renewed vigour to its practical work on the ground, where many of the savings and credit cooperatives were registering under the new act. It has sought in particular to enhance the quality of these cooperatives, not just for the sake of their members but also to demonstrate in practice that cooperatives under the new law could perform better. The extensive linkages formed by CDF within the cooperative sector and its deliberate advocacy provide the channels through which such demonstration is communicated. In this way CDF is using the savings and credit cooperatives instrumentally to strengthen the case for system-wide change across the huge cooperative sector within India.

In these ways CDF, like SEWA, is following the strategy for system-wide change that Lynton (1998: 295) advocates. First, 'the work is envisaged on a large enough scale ... and commitments to action match it'. In CDF's case, it took up the
challenge of transforming the huge cooperative sector in India.
and developed a vision and strategies to match, working out-
wards by example from the one state in which it was based
and therefore was most able to bring about positive change.

Second, 'the work is located where the challenge is actu-
ally encountered and the options are faced'. More by accident
than design, CDF was based in a southern state of India
where the political subversion of cooperatives into populist
tools for political patronage was particularly rife (CDF, 2000:
Chapter 2). At the same time it drew its inspiration from a
highly successful cooperative in this environment, but it took
actual practice on the ground to discover determinants of
that success that could be replicated, and those which were
simply unique. It was this experience that also led CDF to
change its focus to the legal environment. More than most
NGOs, CDF is above all reflective about its practice, learning
from experience.

Third, 'connections have been built to the larger arenas of
action so that local action will matter to the whole large sys-
tem'. Here CDF has identified and established a wide range
of relevant connections, including through membership of
its board, with the grandees of the cooperative movement to
whom politicians are more likely to listen, with sympathetic
politicians and bureaucrats in the relevant state assemblies
and government departments, with activists, lawyers and
academics, and not least with a wide range of local coopera-
tive leaders who were determined to ensure their cooperative
worked and could provide evidence of 'the people's will'. It
thus built systematically on the extensive cooperative networks
throughout the country, providing vital, but often less vis-
ible, support to state-level campaigns for cooperative reform.

Above all, CDF established linkages between practice and
policy, between sub-systems on the ground and the wider
system. The understanding of what policy changes were
needed was based on deep understanding of the realities on
the ground. Likewise, when positive policy changes were in-
troduced, CDF focused on the quality of cooperative practice
on the ground to demonstrate that cooperatives under the new
law could perform better. That is why micro-financial services,
around which cooperatives could be organised effectively,
became so important as an instrument to influence policy.
The costs and the time-scale of such strategies should not be underestimated. The Cooperative Development Foundation abandoned years of work on reforming existing cooperative law to focus on advocating parallel laws, years of work with existing cooperatives to focus primarily on promoting new cooperatives. It took CDF over 20 years to achieve its first major breakthrough, which has opened up huge opportunities as well as demands to which the organisation is now responding, recognising that it will be many more years before it has achieved many of its goals. Persistence, in addition to learning and adapting, is clearly a necessary quality.

Conclusions

As development enterprises, MFOs face many challenges, including in engaging with their environment. First, an MFO must engage systematically with its environment through appropriate linkages in order to create an enabling environment for it to prosper. All the MFOs featured in this book do this to a lesser or greater extent, although few do so systematically.

Second, as a development enterprise an MFO must decide to what extent it reaches out beyond its own operations to effect change in its environment, not just from a 'self-centred' perspective of helping itself, but also from the perspective of contributing to a wider vision of social change of which its organisational goals are part.

This chapter has reviewed three cases of how MFOs, or organisations promoting micro-financial services, have systematically sought to effect change in their environment that has gone well beyond their own operations.

BASIX has been an innovative pioneer within the microfinance sector in India, and built a wide range of linkages to enable it to introduce innovations that have pushed at the sector's boundaries, to open up and change the regulatory environment, and to play a major role in shaping the very identity of the sector, including through the new association, Sa-Dhan.

SEWA has integrated micro-finance within a holistic understanding of the needs of poor self-employed women. It has
developed services, including micro-financial services, to meet their needs, and, building on these experiences on the ground, has mobilised and inspired a range of campaigns, from the local to the global, to fight for their economic and social rights. In SEWA's view, addressing all their needs is important, from access to savings and insurance to dignity, self-reliance and collective power.

The Cooperative Development Foundation has always had as its primary mission the promotion and support of cooperatives as democratic local organisations that can have a major impact on their local economies and thereby benefit almost everyone in the community. It has been influential in changing the legal environment for cooperatives in India, which had been highly restrictive and oppressive, enabling autonomous democratic cooperatives to emerge. As part of this strategy, CDF has used savings and credit cooperatives instrumentally to demonstrate in practice that mutually-aided cooperatives can perform better than the old cooperatives dependent on state patronage.

These cases demonstrate that MFOs and other organisations can use micro-financial services instrumentally as part of a strategy to bring about system-wide or institutional change that reaches well beyond their own operations. They also provide examples of how to do so, rooting their work where challenges are encountered in practice and systematically building linkages and connections to ensure that local action influences the whole system. Above all, they have not shied away from confronting the complexity and scale of system-wide or institutional change. Rather than falling into despair or cynicism, they have found practical ways in which they can play a constructive role in addressing transcendent challenges.

Such work does not come without cost. Their struggles have often been long, with many setbacks, and can easily become overwhelming. Seeking system-wide or institutional change can distract from the immediate needs of an organisation's operations. Indeed, achieving such change may undermine the organisation itself, for example, when mainstream financial intermediaries enter the market on the back of hard-won and costly innovations by MFOs, whom they then undercut.
Building cooperative relationships among such a diverse set of stakeholders, including those opposing the changes the organisation seeks, is also more challenging than building networks with like-minded organisations in an inward-looking sector. The wider the strategy, the more challenging it is to organise the stakeholders into cooperative relationships.

Yet it is in taking on such challenges that the innovative organisation—the development or social enterprise that most MFOs would like to be—marks itself out most clearly as different from ordinary organisations or enterprises. At the heart of a developmental organisation is the desire to bring about real and significant change, and the cases featured in this chapter demonstrate that, with careful and systematic practice and learning, this is indeed possible.

Notes

1. One 'that faces humanity within a thinkable timespan' (Robert Heilbronner, quoted in Lynton [1998: 284, 304]). Heilbronner was thinking in particular of 'making our economic peace with the demands of the environment'. The challenge of poverty has perhaps been with us much longer.

2. In this chapter we use the analytical framework of social change developed by Rolf Lynton, whose long and deep reflection and practice in organisational and institutional change (see Lynton, 1998), not least within the Indian context, has provided so much inspiration to so many of his colleagues.

3. One interesting example is the challenge that MFOs that are incorporated as non-banking financial companies (NBFCs) face. Many of them can no longer use this legal entity to take deposits, following scandals in which corrupt NBFCs swindled poor people of their savings. One of the policy changes that micro-finance practitioners are seeking is to be able to take deposits more easily again through their NBFCs. However, unless they can find a concrete mechanism to distinguish and isolate themselves from unethical providers, which is above all clearly identifiable by poor savers, such a change may not be for the good of poor savers as a whole.