Micro-finance: Organisations and institutions
Chapter 7

Self-help groups and Grameen Bank groups: What are the differences?

Malcolm Harper

Introduction

Most micro-finance organisations (MFOs) use a group system to distribute their services to their clients. There are some exceptions, including the village unit system of Bank Rakyat Indonesia (BRI), the world's biggest and most profitable provider of micro-financial services, but groups generally predominate.1

Many otherwise well-informed observers, and even some senior bankers in India and elsewhere, appear to believe that the group system pioneered in 1976 by the Grameen Bank in Bangladesh is the predominant or even the only such system. One purpose of this chapter is to show that this is not the case.

Group systems for micro-financial services evolved in particular in Bangladesh (the Grameen Bank method) and in Latin America (solidarity groups and village banking), as well as in India (self-help Groups or SHGs). While there are thus many variants, there are broadly two very different ways of using groups for financial intermediation. For convenience I term these two systems the Grameen system and the SHG system, using the terms that are familiar within the South Asian context.

Both systems have their advantages and disadvantages, and practitioners need to be aware of the options that are
available. In this chapter, I describe and explain each system, and compare their sustainability, their outreach and impact on the poor, including their empowerment impact, and their feasibility within their respective environments. My arguments are briefly summarised in Table 7.1 in the conclusion to this chapter.

**Table 7.1: Summary of the pros and cons of the SHG and Grameen systems**

<table>
<thead>
<tr>
<th>Plusses for clients</th>
<th>Self-help groups</th>
<th>Grameen groups</th>
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<tbody>
<tr>
<td>• Flexible</td>
<td>• No need for bank at all</td>
<td>• No need for literacy</td>
</tr>
<tr>
<td>• Highly empowering</td>
<td>• Members can save and borrow as needed</td>
<td>• Protected from internal and external exploiters</td>
</tr>
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<td></td>
<td>• Free to choose suppliers</td>
<td>• Poorer people are included</td>
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<td></td>
<td>• No enforced loan ladder</td>
<td>• Belong to and are supported by the bank</td>
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<td></td>
<td>• Can evolve from existing groups, ROSCAs, chit-funds, etc.</td>
<td>• Bank can offer a range of additional tailor-made services</td>
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<td></td>
<td>• Can access the full range of bank services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Can evolve into federations, and cooperatives</td>
<td></td>
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<tr>
<td>Minuses for clients</td>
<td>• Need management skills and time</td>
<td>• Must meet frequently</td>
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<td></td>
<td>• Depend on good accounts</td>
<td>• Little freedom or flexibility</td>
</tr>
<tr>
<td></td>
<td>• Can be captured internally or externally</td>
<td>• Group composition not wholly under members' control</td>
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<td></td>
<td>• Cash may not be secure</td>
<td>• Pressure to borrow</td>
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<tr>
<td>Plusses for banks</td>
<td>• Lower transaction costs</td>
<td>• Can resist subsidised 'schemes'</td>
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<tr>
<td></td>
<td>• Can fit into any branch</td>
<td>• Tighter control</td>
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<tr>
<td></td>
<td>• Graduation easier</td>
<td>• Standardised MIS</td>
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<td></td>
<td>• Can build on existing groups</td>
<td>• Standardised procedures</td>
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<tr>
<td></td>
<td>• Savings mobilisation easier</td>
<td>• Easier to forecast need for funds</td>
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<tr>
<td></td>
<td>• Groups can absorb odium of expelling members</td>
<td>• Can use lower-grade staff</td>
</tr>
<tr>
<td>Minuses for banks</td>
<td>• Hard to monitor</td>
<td>• Higher transaction costs</td>
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<tr>
<td></td>
<td>• May be tempted by other banks or by politicians</td>
<td>• Need continuous guidance and presence</td>
</tr>
<tr>
<td></td>
<td>• Slow to develop</td>
<td>• Need dedicated system</td>
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Both systems are dominated by female clients, but they differ in many other fundamental respects, which have important implications for their clients and for the organisations which use them. The systems are also implemented in many different ways, depending on local circumstances. The fundamental characteristics of each system, and the critical differences between them, are briefly described next. More detailed accounts of each system can be obtained from a number of sources, including Fugelsang and Chandler (1986), M. Harper (1998), Holcombe (1998) and Wahid (1995).

The Grameen system

Potential clients are asked by the MFO to organise themselves into 'groups' of five members which are in turn organised into 'centres' of around five to seven such groups. The members make regular savings with the MFO, according to a fixed compulsory schedule, and they also take regular loans. They each have individual savings and loan accounts with the MFO, and the main function of the groups and centres is to facilitate the financial intermediation process, through performing tasks such as:

- May form own federations
- MIS more complex
- Need NGOs or highly committed staff to develop groups
- Hard to evolve and change

Suitable conditions
- Existing bank network in rural and poor areas
- Diffused communities, castes, wealth levels
- Tradition of informal financial services
- Wide variety of scale and nature of investment opportunities
- Some local leadership
- NGOs and/or committed bank staff


- Very poor, homogeneous communities
- Highly marginalised people with little opportunity and/or initiative
- Few traditional informal financial mechanisms
- Lack of financial intermediaries
- Resource poor, little hope of graduation
- Large numbers of small business opportunities
- Few NGOs
• holding regular and usually weekly meetings which are supervised by an MFO worker, where savings and repayments are collected and handed over to the MFO worker who maintains the records;
• organising contributions to one or a number of group savings funds, which can be used by the group for a number of purposes, usually only with the agreement of the MFO which maintains the group fund accounts;
• guaranteeing loans to their individual members, by accepting joint and several liability, by raising group emergency funds and by accepting that no member of a group will be able to take a new loan if any members are in arrears; and
• arising from the above, appraising fellow members' loan applications, and ensuring their fellow members maintain their regular savings contributions and loan repayments.

The SHG system

The members form a group of up to 20 members. The group formation process may be facilitated by a non-governmental organisation (NGO) or by the MFO or bank itself, or it may evolve from a traditional rotating savings and credit group (ROSCA) or other locally initiated grouping. The process of formal 'linkage' to an MFO or bank usually goes through the following stages, which may be spread over many years or which may take place within a few months:

• The SHG members decide to make regular savings contributions. These may be kept by their elected head, in cash, or in kind, or they may be banked.
• The members start to borrow individually from the SHG, for purposes, on terms and at interest rates decided by the group itself.
• The SHG opens a savings account, in the group's name, with the MFO or bank, for funds that are not needed by members, or in order to qualify for a loan from the bank.
• The MFO or bank makes a loan to the SHG, in the name of the group, which is then used by the group to supplement its own funds for on-lending to its members.
The SHG need never go through all these stages; it may satisfy its members' needs quite effectively if it only goes to the second or even to the first stage, saving money and possibly not even withdrawing it (Harper, M., 2000: 39-42).

The SHG carries out all the same functions as those required by the Grameen system, but they do this on their own behalf, since the SHG is effectively a micro-bank, carrying out all the familiar intermediation tasks of savings mobilisation and lending.

The members have their accounts with the SHG, not with the MFO or bank, and the MFO or bank does not have any direct dealings with the members. The MFO or bank may assist the SHG in record-keeping; they may also demand to know who the members are and impose certain conditions on the uses of the loan which they make to the SHG. However, the SHG is an autonomous financial organisation in its own right (see Chapter 5).

Where, by whom and why are the two systems used?

The Grameen system

The Grameen system dominates the market in Bangladesh, where it has been widely imitated by a range of large and small MFOs. The system was pioneered by Professor Yunus in 1976, and has grown very rapidly since (Yunus, 1998).

In addition to the originator, the Grameen Bank, with 3 million members, two other major users of the system, BRAC and Proshika, each have over a million clients. In 1998 there were some 30 other MFOs with over 10,000 members, and many hundreds of smaller organisations using the system (Credit and Development Forum, 1998). It has been estimated that some 10 million people in Bangladesh receive financial services through this system.

The system has also been widely replicated by MFOs elsewhere, including a small number in India and in more than 20 other countries in Asia, Africa and Latin America, as well
as in disadvantaged rural and urban areas in North America and Europe. The Grameen Trust supports ‘replicators’ with funding and technical assistance; at the end of 1999, these replicators had 420,000 clients, including about 42,000 in India (Grameen Trust, 2000).

Low or no-cost foreign donations represent the largest source of on-lending funds for the large MFOs that use the Grameen system in Bangladesh, while members’ savings and the accumulated surplus from operations each contribute some 20 per cent of the necessary funds. The interest rates vary, and it is difficult to estimate the actual rates because there are a number of fees, forced savings requirements and other charges. The methods of calculation also differ from one MFO to another. Broadly speaking, the cost to the final borrowers amounts to at least 2 per cent per month, and often substantially more.

The Grameen system requires a dedicated special purpose organisation. The success of the weekly or occasionally fortnightly or monthly meeting routine depends on tight discipline and adherence to a regular schedule. It is difficult for a commercial bank which also has other financial products, to integrate such a Grameen system into its own operations.

One of the few banks which have done this is the Islami Bank of Bangladesh. By 1998, 45 of its more than 100 branches had financed over 12,000 people through groups and centres, more or less following the Grameen system (Alamgir, 1999: 72–75). One important difference, however, is that this is an Islamic Bank; most of its credit is disbursed in kind, and the Bank is far more intimately involved in its clients’ use of their finance than Western-style banks. Although loans under the group system amounted to only about a quarter of 1 per cent of its total portfolio in 1998, the Islami Bank intended massively to expand this approach.

**The SHG system**

The SHG system is mainly found in India. There are also some important users in Indonesia, other parts of South-East Asia, Africa and elsewhere.
The SHG system in India was initiated by NGOs, and is used for financial intermediation by MFOs and by commercial banks. By April 2001 some 285,000 SHGs had taken loans from 41 Indian commercial banks, 166 regional rural banks and 111 cooperative banks. The average loan per group was about Rs 18,000, and the average loan per member was Rs 1,100, or just under US$25. During the year 2000-2001, 171,000 SHGs took loans, of which 149,000 were first time borrowers (National Bank for Agriculture and Rural Development or NABARD, personal communication).

The average membership is around 17 people per SHG, so these figures mean that at least 4.5 million people in India have access to formal savings facilities and loans through their SHG membership. While the vast majority of these members are saving regularly, not all of them will have taken a loan.

The formation of SHGs for savings and credit, and their linkage to commercial banks, was initiated in India by MYRADA in the mid-1980s (Fernandez, 1998). Around the same time the management of NABARD had had some exposure to similar experiences in Thailand and Indonesia, and they responded favourably to MYRADA’s suggestion that this could be a useful way to bring formal financial services to the rural poor.

Since that time, the linkage of SHGs to banks has been vigorously promoted by NABARD and other organisations. Non-governmental organisations often play an important role in the linkage process, and have promoted some 80 per cent of SHGs linked to banks (Sa-Dhan, 2001: 15). However, NGOs usually do not play a financial role. They promote and train the groups, and assist them through the qualifying process of saving and internal lending. The groups are introduced to a bank to open a savings account, and later to take a loan. The NGO may remain heavily involved, assisting the members to manage their affairs, and possibly promoting higher-level clusters and federations of SHGs, or it may withdraw and work with other groups (see Chapters 5, 8 and 9 for detailed examples).

Other NGOs also act as financial intermediaries by borrowing from NABARD or elsewhere and on-lending to SHGs, either because they aim to become MFOs, or because this is
the only way some groups can access finance, because many bankers still refuse to lend to SHGs directly, or even to open savings accounts for them. The financial margin on this business is, however, insufficient to cover more than a small part of the transaction costs incurred by these NGOs.

Over a third of the linked SHGs borrowed from MFOs rather than from banks in 1998, but this proportion dropped to a quarter in 1999 and is rapidly decreasing further as banks become more aware of the business opportunity represented by SHGs (NABARD, 1998 and 1999a).

In addition to paying the cost of training bankers as well as staff of NGOs, NABARD also encourages the banks to lend to SHGs by refinancing the loans they make to SHGs at a subsidised rate (currently 6.5 per cent). This subsidised finance was used to refinance 83 per cent of the loans made to SHGs in the year 2000–2001 (NABARD, personal communication).

Loans to SHGs are excluded from the maximum interest ceiling of 12 per cent that still applies to other loans under Rs 20,000 (Reserve Bank of India, 2000), but the banks have generally not taken advantage of this freedom, and most still lend to SHGs at about 12 per cent. They feel the resulting 5.5 per cent spread is enough to cover their transaction costs so long as the task of promoting, training and developing SHGs is carried out by an NGO, at no cost to the bank.

The on-time repayment rates on SHG loans are usually well over 95 per cent. This is so much higher than the normal performance of loans granted under government schemes to poorer people that the banks are generally satisfied with this form of intermediation, even if the spread is less than that which they usually obtain. The SHG members are free to charge themselves whatever rates of interest they choose; the annual rates can range from 12 to 60 per cent a year (Harper, M. et al., 1998: 76).

There is also a large and increasing number of MFOs in India, most of which use the SHG method. The portfolio of the approximately 35 larger MFOs which use the SHG system, and are doing business with the recently established SIDBI Foundation for Micro-credit (SFMC), amounts to almost Rs 850 million or US$13 million. These MFOs were said in early 2001 to be serving about 200,000 eventual clients, of
Self-help groups and Grameen Bank groups

whom 94 per cent were women (SFMC, personal communication). It is anticipated by SFMC that by 2009 their partner MFOs will be serving 1.3 million clients.

NABARD forecast in early 2001 that by 2008 about one million SHGs would be taking loans from banks, with a total membership of around 17 million people. This estimate was based on a forecast of 50,000 SHGs taking loans in 2001–2002, rising to a rate of 110,000 new groups a year taking loans from 2005 onwards.

In the event, 149,000 new SHGs took loans in the financial year ending in March 2001, so that these forecasts may be well below what is actually achieved. In terms of membership, using the same average of 17 members per group, this amounts to an addition in just one year of 2.5 million clients, almost equivalent to the total current membership of the Grameen Bank. This has been achieved by effective collaboration between the banks, NGOs, MFOs and NABARD, with the necessary recognition and authority from the Reserve Bank of India (RBI).

There are as yet no giant organisations comparable to the MFOs in Bangladesh, nor perhaps will there ever be; the SHG system reflects the scale, and the organisational diversity, of the Indian financial system.

A small number of Indian MFOs use the Grameen system. The total number of people in India served by the 18 MFOs using the Grameen system at the end of 1999 was approximately 50,000 (Grameen Trust, 2000: 72–78). SHARE in the state of Andhra Pradesh, the largest user of the Grameen system in India, projects that it will be reaching over 1.7 million women by early 2006.

If the figures for the growth of SHGs are even remotely realistic, and actual performance suggests that they may be under-estimated, micro-finance in India has finally reached take-off. Estimates of the numbers of people below the poverty line vary quite widely, but the figure of 40 per cent of the population is quite commonly used. This amounts to 400 million people, or some 80 million households. It is unusual at the present time for more than one member of a household to be an SHG member. If the NABARD and SFMC forecasts are fulfilled, and if the present growth in the numbers of poor
people does not accelerate, over a quarter of poorer Indian households will, by 2009, have access to formal financial services. The vast majority, even if SHARE’s forecasts are achieved, will be using the SHG system.

Why Grameen in Bangladesh and SHGs in India?

The rural poor in India are not so different from their counterparts in Bangladesh. Indeed, the differences between northern and southern India are certainly more pronounced than those between poor rural communities in the Indian states of West Bengal, Uttar Pradesh, Bihar or Orissa and their neighbours in Bangladesh. It seems prima facie to be odd, therefore, that two such different systems have evolved, and that there are, as yet at any rate, so few examples of the SHG system in Bangladesh or of the Grameen system in India.

There are a number of possible explanations. None of them is probably sufficient on its own, but they may together account for the present situation. I start with political and social factors.

Bangladesh has less experience of democracy than India; its people are used to military governments, and may for that or other reasons be more disciplined and less individualist. The Grameen system is often criticised for being over-disciplined, or even militarist, with its tradition of saluting, of meetings with imposed seating systems and the necessity for strict adherence to pre-set schedules, by staff and members alike. It may, for that reason, be more acceptable in Bangladesh.

In India, on the other hand, many NGOs see credit as an entry point for wider goals, and there is strong emphasis on democratic organisation and decentralisation (see Chapter 5). Fernandez (2001: 6–7), for instance, mentions credit only as the third aspect of MYRADA’s involvement in SHG promotion; the identification and strengthening of traditional social and institutional capital are given greater emphasis.

It is not surprising therefore that bank workers in the Grameen system visit every group, every week. Experiments with less frequent meetings have generally not been successful. In contrast, as illustrated in Chapter 9, the NGO field-worker or banker may visit an SHG even more frequently
during the initial group promotion stage, but the aim is to help the group keep their own records and run their own meetings. Once this has been achieved, there is no further need for weekly or even monthly visits.

Clearly, the Grameen system is better suited for more densely populated areas. There are parts of India which are as densely populated as Bangladesh, while some parts of the Sundarbans in Bangladesh are fairly thinly populated. The population density in India is about 300 per square kilometre, whereas there are about 850 people per square kilometre in Bangladesh. It is unlikely that the Grameen system could have spread all over India as it has in Bangladesh.

Bangladeshi village communities are generally more socially and economically homogeneous, and less divided by caste, than their Hindu equivalents in India. It may therefore be easier in Bangladesh to persuade people to join together in groups and centres which follow a standardised system. The freer and more flexible SHG system may be more appropriate for the Indian situation.

However, neither of the two main exponents of the Grameen system in India, SHARE in Andhra Pradesh and neighbouring states, and the much newer Cashpor in eastern Uttar Pradesh, has reported any particular difficulty in introducing the Grameen system in India. Generalisations are therefore dangerous, since India is more diverse than some continents, and the differences between or within states in India are often greater than between other neighbouring countries.

Institutional factors are also likely to have strongly influenced differing practice in Bangladesh and India. For example, in Bangladesh the Grameen Bank itself is in part protected from undue regulatory interference by being formally constituted by an act of parliament whose influence extends to others using the same system. In India, self-help groups do not have more than 20 members to avoid the need to register themselves as legal bodies, which might bring with it a whole range of regulatory constraints.

In addition, the Indian banks have over 70,000 branches in rural areas, and there is a long if expensive and not particularly successful history of government-sponsored poverty alleviation programmes which have been delivered through
the banking system (see Chapter 2). The Indian banks are also compelled to direct a substantial proportion of their credit to the so-called 'priority sectors' and 'weaker sections'. The SHG linkage system is ideal for banks: any branch can do business with one or a number of SHGs, without making significant changes to its operating procedures.

The SHG itself must of course be developed, but there is an increasing range of possible ways in which this can be done. If no NGO is active in the area of a given branch, the banks' staff themselves may perform this role. The Prathama Regional Rural Bank (RRB) in Moradabad in the state of Uttar Pradesh has mobilised local farmers' clubs to form over 1,100 SHGs (Prathama Bank, 2000). Government agencies are active in some states, and financial intermediaries such as BASIX (see Box 4.1 in Chapter 4) and the Jamuna Gramina Bank are experimenting with low-cost methods of promoting and training groups. As the scale of the SHG movement grows, groups, or their federations (as described in Chapter 5), are themselves spreading the message, and many people observe, learn from and copy their neighbours, without any external intervention.

It would have been difficult, if not impossible, to introduce the SHG system in Bangladesh, where bank-branch coverage is much less and banking management is in general less eager and under less compulsion to identify with new ways of reaching poor people. By the same token, it can be argued, it is unnecessary to introduce the Grameen system in India, since the banking network already exists. What is needed is a system for reaching poor people that demands the minimum of institutional change, and the SHG system is just that for India.

Funding sources have also played a key role. While early experiments with micro-finance in both countries began in the late 1970s without any donor assistance, micro-finance has been largely a donor-driven phenomenon, everywhere. The Grameen system was and indeed still is lavishly supported by donors in Bangladesh. It is an ideal channel for donor assistance, since it is relatively standardised and transferable, it is dominated by a few large MFOs, it depends mainly on subsidised funds and is more or less totally independent of existing local banks.
Development aid to India was US$1.90 per head of the population in 1985, and was at the same level in 1997. The equivalent figures for Bangladesh were US$11.40 and US$9.00 (World Bank, World Development Reports, 1987 and 1999). This difference may in itself account in part for the predominance of the Grameen system in Bangladesh.

Likewise, the two major apex financing bodies in each country have played an important part in determining which system predominates. NABARD in India is vigorously and successfully marketing the SHG-linkage system, through subsidised refinance, extensive training for bankers and for NGOs, and through exhortation. During the financial year 2000-2001, for example, NABARD organised 3,200 training courses on SHG linkage, with 166,000 participants (NABARD, personal communication). This single-product approach inevitably imposes some uniformity, and there has been some question whether MFOs which use the Grameen system are eligible for NABARD refinance at all.

In Bangladesh, the reverse may be true. The Palli Karma Sahayak Foundation (PKSF), the wholesale fund that provides almost 20 per cent of the on-lending finance to the country's MFOs (Credit and Development Forum, 1998: iv), has set criteria for its partner organisations that raise questions whether organisations that do not follow some variant of what I have called the Grameen system are eligible (Alamgir, 1999: 90). Institutional inflexibility may in both countries have played some part in determining which systems are used.

'Sustainability'

One of the main reasons for the popularity of micro-finance as a poverty alleviation tool is the belief that MFOs can eventually become 'sustainable'. This term has many meanings, ranging from the continuing ability to find and retain donors to the ability to cover all costs (including the cost of finance, the reduction in fund value caused by inflation and even a return on the investors' equity).

Donors appear willing to continue to extend large sums of money to cover the costs, and the funding needs, of
micro-finance, even when this actually inhibits the development of unsubsidised MFOs serving poor people. Nevertheless, financial services for poor people must eventually cease to depend on subsidy. Only then will it be possible for all the people who need such services to receive them, and to continue to do so as long as is required. It is therefore important to compare the sustainability of the two systems.

The recent M-CRIL Report (M-CRIL, 2001) contains information for 10 MFOs that use the Grameen system, three of which operate in India, and for 31 using the SHG system, all of which are Indian (for the detailed results, see Chapter 10). Much of the data is unfortunately not comparable, because the Grameen users are on average much older, and much larger. The differences in their scale and maturity conceal many of those that might arise from distinctions between the two systems.

The figures do show, however, the critical difference between the charges levied under each system. The average yield on the Grameen portfolio is 23.7 per cent, whereas the comparable figure for the MFO working through SHGs is only 8.9 per cent (M-CRIL, 2001: Annex Table 3).

Much of this difference arises because the younger MFOs promoting SHGs have large sums of un-lent funds on deposit, and because they are wholesaling funds to the SHGs that perform the retail function. Indeed, when SHG members use financial services for lumpy consumption, or even for micro-enterprise expenditure within a household budget, savings and loans may essentially perform the same role. Members may set aside either small amounts as savings to build up a lump sum or small repayments to repay a lump-sum loan they have taken (see the introduction to Chapter 3). A system that encourages savings first, as in the SHG system, is likely to accumulate far greater un-lent funds than a system that focuses on credit, accompanied by compulsory but inflexible savings products.

Nevertheless, the difference in yields shows that the Grameen system has to take a much larger proportion of the money out of the hands of its clients, to cover its higher staff costs. As suggested in Chapter 5, the SHG system leaves more money with the communities, but, like any retailer, they have to perform many more of the transaction functions in return.
In the *Microbanking Bulletin*’s issue on efficiency, Farrington (1999: 19) and Christen (1999: 41) concluded that efficiency does not depend on the methodology employed. Christen, however, suggests the ‘efficiency drivers’ are the average wage paid to staff, the average balance per loan and the number of clients per staff member. These variables are themselves to an extent dependent on the methodology.

The Grameen method tends to be able to use lower paid staff, since the system is rigidly structured and uniform within and even among MFOs. The SHG system is more flexible; the financial intermediary usually has less frequent contact with the groups, once they have reached the stage of taking loans, but assessing and guiding an autonomous micro-bank requires a higher level of skill than is needed in the Grameen system. It needs fewer, more highly paid staff.

The Grameen system requires more staff per client, because the MFO providing loans is acting as the retailer. In the SHG system, the SHG is the retailer, and thus loan balances from the bank or MFO to SHGs are much higher than those to Grameen group members. The amounts and balances of the loans an SHG makes to its individual members, and of any savings it mobilises from them, need not and usually cannot be recorded by the bank or MFO.

On the whole, therefore, the SHG system appears more likely to be associated with the two drivers of high average loan balances and high numbers of clients per staff member, while the Grameen system requires less qualified and thus lower paid staff.

Ideally, we should compare the costs of two financial service providers serving the same numbers of clients, one of which works with SHGs and the other with the Grameen system. This is not easy. For example, under the system of linking SHGs to banks, loans are mainly extended by bankers for whom such loans are only one of a number of products, and it is difficult to separate out the costs of this product.

More importantly, the promotion of the groups themselves has, at least until recently, usually been undertaken by an NGO whose costs are not borne by the bank. Many of the bankers who have themselves developed SHGs have done this on their own initiative outside office hours, so that the
costs are not recorded. In the Grameen system, however, the bank itself carries out the whole operation.

The financial performance of the MFOs that use the Grameen system is well documented. The Grameen Bank itself made a profit of just over 100 million taka in 1998, before taxes and after providing some 750 million taka against bad debts (Grameen Bank, 1999). This contrasted with a figure of only 14 million taka the previous year, and it represents a low return on the total capital employed of over 19,000 million taka. Over half this capital was provided from concessional sources, the majority at interest rates as low as 2 per cent.

SHARE in India is a much younger organisation, and it does not aim to reach 'financial self-sufficiency', which is micro-finance language for real profitability, until 2006, long after it has become a very substantial organisation. I can only conclude that the Grameen system has not, as yet, proved itself to be the basis of a genuinely profitable business, which can raise capital and loan funds on a commercial basis.

The Rudrapur branch of the Oriental Bank of Commerce (OBC), near Dehra Dun in India, is unusual if not unique in that its only customers are SHGs; it therefore makes it possible to assess the profitability of this type of customer. The SHGs have been promoted and developed by staff of the branch; no NGO has been involved so the branch's costs cover all aspects of the operation.

In March 2000, this branch had outstanding loans of about Rs 1 crore (10 million), over 80 per cent of which was funded by customers' deposits. The branch would have made a loss of just over Rs 5 lakh (500,000) without any subsidy, but the Bank was able to claim subsidised NABARD refinance against the loans. This subsidy meant that the branch approximately broke even. The members of the SHGs agreed that their groups would have been willing and able to pay well over the 12 per cent interest rate required by NABARD, had this been necessary. On this basis the branch would have broken even without subsidy.

It is more usual for SHGs to make up only a small proportion of a branch's business, and for the group promotion task to be undertaken by an NGO. The cost of initially developing
and assessing an SHG has been variously estimated to range between about US$30 (Rs 1,350) and US$355 (Rs 16,000) (Harper, M. et al., 1998: 73; Fernandez, 2001: 35–36). Experiments with dedicated SHG development agents undertaken by BASIX (see Box 4.1) and others seem likely to significantly reduce the cost towards the lower end of the range. One Indian banker (Harper, M. et al., 1998: 64) stated that it was actually easier and thus less expensive to appraise an SHG loan application than an ordinary loan of a similar size.

It is also possible to compare the operation costs of the two systems, by reference to the Rudrapur branch of OBC and SHARE. The costs and overheads of the Rudrapur branch amounted to Rs 7 per Rs 100 lent, while the equivalent figure for SHARE in September 2000 was Rs 10. While this is obviously an over-simplified comparison, it seems to confirm the general impression that it costs less to do business through an SHG than through the Grameen system.

However, these cost calculations and comparisons take no account of the context in which micro-financial services are being developed, of the capacities of clients targeted or the level of development of the respective organisations, which can all contribute significantly to overall costs, as Mathew Titus analyses in depth in Chapter 8.

Likewise, the SHG system requires less long-term investment in organisations. Any existing bank branch can service an established SHG and its members. This in fact further complicates comparison as the full costs in the SHG system are likely to be higher upfront, during the promotion stage, but lower later on when SHGs have stabilised.

'Sustainability' is of course not only a matter of cost, but also of the price that is charged. SHARE and Cashpor, two of the main users of the Grameen system in India, charge their clients an effective annual rate of about 50 per cent a year, while most MFOs in Bangladesh charge well over 20 per cent. These figures are not directly comparable with the rate of 12 per cent that is charged to SHGs by most banks in India, since the SHG is a retailer.

The members of SHGs themselves pay their groups a wide range of different rates of interest. As Chapter 5 makes clear, although the individual member has to bear the cost, she is
also a part owner of the SHG; she therefore benefits from the surplus it generates, whereas all the charges paid to MFOs using the Grameen system accrue to the MFO itself.

Self-help groups may be a less expensive distribution channel than Grameen groups, but they may also themselves be less durable. This has implications not only for their members, but also for the bank or MFO that must incur the investment of replacing them if they fail to survive. Like the ROSCAs from which many of them originate, SHGs will only last as long as the members continue to gain from them. As the cases in Chapters 8 and 9 clearly demonstrate, SHGs can be very fragile social entities; it is difficult for them to absorb the shocks of changes in membership, and they can easily be destroyed by minor disputes or disagreements.

Likewise, because SHGs are genuinely autonomous independent entities, they have little protection against hijacking or capture (either from within, or from outside) apart from their own internal solidarity or from whatever collective strength they can mobilise through coming together in clusters and federations (see Chapter 5).

The government, at the state and national level, has already identified the potential of SHGs as a channel for the delivery of subsidy. The new Swarna Jayanti Swarojgar Yojana (SJSY) initiative, which is designed to replace the massive but largely ineffective Integrated Rural Development Programme (IRDP) and other poverty alleviation programmes, is based on groups. Government development staff have already started to nominate existing SHGs for the receipt of support under this programme, and many bankers are alarmed at the possible effects this will have on their SHG clients who have thus far remained unpolluted by subsidy.

Indeed, well over half the SHGs that were financed in 2000-2001 were in the single state of Andhra Pradesh, where the state government has for some years been using SHGs for distributing subsidies. Some groups have turned down such offers, because their members are well aware of their destructive effects, and very strong groups can take advantage of subsidies without being damaged. Less mature groups can easily be destroyed by grants, however, and this has already happened in some cases (Harper, M., 1996: 88–89).
An SHG demands more management capabilities of its members, although probably less time, compared to those of a Grameen-type group. SHG members are running a bank, albeit on a very small scale. This demands significant additional responsibilities, not just of officers but also of members, who must at least understand issues such as interest rates and risk and be able to monitor the performance of their micro-bank. Such responsibilities can be significant for a poor, illiterate woman with limited time and computational skills (see Chapters 8 and 9 for many concrete examples).

A Grameen member, on the other hand, has to attend weekly meetings, and to maintain her regular saving and repayment schedule. The group and centre heads have only to ensure that the payments will be available on time: they are not bankers in any sense.

If the members of an SHG are lucky enough to identify and retain skilled officers, or if they can continue to enjoy the support of an NGO, the issue of management may not limit the life of their group; otherwise, it may collapse. Their bankers have many other customers, and cannot be expected to devote a great deal of time to sustaining their client SHGs. Grameen groups, on the other hand, are very much driven by the bank staff; they are the raison d'être of the bank, and staff are judged by their success in opening up new groups and preserving old ones.

SHGs may also switch to a different financial intermediary for their savings or loan requirements, and their new supplier may be able to offer a better deal partly because it has not had to incur the initial cost of customer development. Grameen groups, on the other hand, are tied to and kept alive by the MFO that created them. Members can and do switch to different suppliers, and groups do sometimes collapse, but they are on the whole more durable and longer-lasting than SHGs.

In summary, therefore, I tentatively conclude that at least in India the SHG system is more economical, and thus more financially sustainable, in the short to medium term at any rate, in spite of the fact that SHG members usually pay a lower price for their loans than members of Grameen groups. There is as yet, however, no proven method whereby new
SHGs can be developed at a cost that is low enough to make them into immediately profitable clients. As the analysis in Chapter 8 shows, the customer creation investment can be significant, and has to be undertaken by NGOs that benefit from external subsidy, or by the efforts of unusually committed bank staff. In addition, SHGs are more likely to deteriorate or collapse than Grameen groups which are an integral part of a larger and more rigorous system.

However, access is more important than price, and it is therefore necessary to enquire which system is most effective at reaching poorer people.

**Outreach to and impact on the poorest**

The primary aim of providing micro-financial services is not to maximise profits, nor even to cover all its costs. It is intended to alleviate poverty, and if some element of subsidy is needed to enable it to do this effectively, most would agree that such subsidy should be provided. Which of the two group systems reaches and benefits the poorest people most effectively?

There is little direct evidence as to whether the SHG or the Grameen system is more effective at reaching or benefiting the poorest people. It is now generally acknowledged that micro-finance in general does not reach the poorest of the poor, and that the poorer people whom it does reach benefit less from micro-finance than those who are better off. This applies to the SHG as well as to the Grameen system (Clar de Jesus, 1997: 21; Hulme and Mosley, 1996: 115; Wright, 2000: 56, 262).

Poorer people are excluded not only by better-off members, but they also exclude themselves. They are afraid that they will not be able to save regularly, their poverty means that they lack profitable investment opportunities, and they may also not be able to attend meetings regularly. Their exclusion may be in their own interest; poorer people benefit less than others from micro-finance, and many poorer micro-finance clients have suffered great hardship, and have even been driven to suicide, as a result of their micro-debt (Hulme, 2000: 26).
In comparing the Grameen and SHG systems, it is worth bearing in mind that the Grameen system is older and has been subjected to much more rigorous analysis and research. In contrast, there is little published material on the downside of the SHG system. Nevertheless, let us look, first, at the extent to which poorer people are included or excluded from the two different systems.

There is only one case known to me where both systems are operating in the same area. BASIX is working through SHGs in eastern Andhra Pradesh, and SHARE is working in the same part of the state through the Grameen system. Neither organisation can claim to have fully covered the market, and there have thus far been no instances where they have reached the same clients. No systematic attempt has been made to compare the wealth of their respective clients, but in brief meetings with both types of groups the SHG members appeared to be somewhat better off than the members of the Grameen-type groups.

The members of both types of groups are initially self-selected, as is necessary if they are to be willing to guarantee each others' loans. The staff of MFOs using the Grameen system, however, make a point of assessing the poverty level of the prospective members by visiting every member's home before their groups have been formally accepted (Fugelsang and Chandler, 1986: 110).

For example, Activists for Social Alternatives (ASA) in the state of Tamil Nadu, India serves 12,000 women using a modified Grameen system. It requires that potential members have less than 0.5 acres of irrigated land, or 1.5 acre of dry land, and household income of less than Rs 18,000 per annum. Their field-staff check poverty levels with a 16-point housing-quality index and a participatory wealth-ranking exercise (Hishigsuren, 2000: 29–30). ASA also ensure that the first groups formed in any village only include Dalits.

Grameen groups are therefore effectively formed or at least quite rigorously screened by bank or NGO staff before acceptance. There is, however, some evidence (Matin, 1997a: 50) that poorer people are gradually excluded from Grameen groups over time, as the staff have less influence over the recruitment of new members than they do when the groups are first formed.
In the SHG system, bankers and NGO staff who promote SHGs are more likely to accept their members without question. Many SHGs are formed from pre-existing groups (Harper, M. et al., 1998: 19), and neither NGO workers nor bankers are likely to demand that certain members leave because they are not poor enough, or that others are admitted on the basis of their poverty. Such issues are obviously of concern to many NGOs, but too much intervention here may undermine the democratic and autonomous functioning of groups that is so much part of the SHG system.

One study (Harper, M. et al., 1998: 27, 41) seems to confirm this. It found that the poorest people are excluded from SHGs, and indeed that many SHG members had suffered as a result of their membership.

There are, however, cases which suggest that the picture may not be as simple as this. Ashrai is one of the few MFOs in Bangladesh which effectively operates with the SHG system (Alamgir, 1999: 79–81). They work with over 1,000 groups of tribal people, who are from what are said to be the very poorest people in the country. Likewise, the NGO PRADAN (see Chapters 5 and 9) has promoted SHGs among some of the poorest tribal people in eastern India.

Part of the differences between the success of the two systems in including poorer people may arise from differing visions of how to tackle poverty. Unlike Grameen groups, which tend to focus more exclusively on poor people, Indian NGOs promoting SHGs may attempt to promote as many groups as possible in each village and to include every socio-economic level. This is part of their focus on building democratic people’s organisations (explored in Chapter 5), not just delivering financial services.

Take the case of MYRADA. Fernandez (2001: Chapters 10 and 11) reports that in seeking to include different socio-economic groups from among poor people, MYRADA has found that over half of the poorest families are represented in SHGs after two or three years. Studies of these groups also suggest that there is little discrimination against the poorest members in terms of access to services and leadership (see Chapter 5). It may be significant that MYRADA is also one of the highest-cost promoters of SHGs (Fernandez, 2001: 35). Social inclusion has a high cost.
Finally, the basic unit of the Grameen system is in theory the five-member group, and it would appear *prima facie* to be easier for the MFO to influence who is or is not included in such a small group, as well as its operations, than it is to influence an SHG with 20 or 50 members.

In practice, however, it is suggested that the real unit of operations in the Grameen system is the centre, with 30 or more members (Matin, 1997b: 266). This is similar to an SHG, and suggests that the apparent benefits of the smaller group may be illusory. A larger group is more likely to be influenced by existing social and economic structures within a community, rather than by the poverty alleviation agenda of the financial intermediary. This influence can be benign, but is perhaps more likely to be oppressive (Harper, A., 1998 and 2000: 25).

In looking at the potential impact of the two different systems on poor people, the operations of Grameen groups beyond their formation remain very much under the control of the MFO. Grameen clients are in effect bound by a rigid and highly disciplined system. They have regular weekly contact with bank staff, and they have little discretion as to the amounts or terms of loans, or even as to who receives them. In effect, they have merely to do what they are told.

This regular supervision can serve to protect weaker members from exploitation by those who are stronger, and in particular to ensure that all members have equitable access to loans. It is also possible, as some experience in Bangladesh has shown, that pressure for high recoveries can lead the bank workers to act even more oppressively than fellow members. Regular supervision can be a two-edged sword.

In contrast, SHGs are much freer to manage their affairs as they wish. NGO or bank staff may attend their meetings, but as observers rather than managers, and the usual intention is to phase out regular attendance of this sort. The SHG system therefore requires its members to demonstrate a much higher level of management skill and initiative than the Grameen system. They have in effect to manage their own bank, financed by their own savings, by accumulated interest earnings and by institutional finance, and with a range of loans of different maturities and often at different
interest rates. In Chapter 9, Ajit Kanitkar analyses the demands on local leadership that such a system makes, as well as its rewards.

It is possible that poorer people may be more likely to accept the rigid conditions of the Grameen system and to need the protection they imply, and be less able to cope with SHG membership, than those who are better off. This may indeed exclude the poorest from SHGs in the first place.

However, the impact of micro-finance depends in part on the differing needs of clients. As suggested in Chapter 3, poorer clients generally need greater protective services, such as savings, consumption loans and insurance, including loans to pay off higher-cost debt to moneylenders. The less poor, on the other hand, can benefit more from loans to build or expand their enterprise (see Chapter 4).

The SHG system is built on members' savings, and bank loans are taken only to increase the pool of capital available for lending to members, which can be for any purpose determined by individual groups themselves. In contrast, the Grameen system insists that loans be used for productive purposes (for investing in micro-enterprises) and demands compulsory savings as a condition of accessing loans.

The broader range of services which is provided by SHGs, and the greater flexibility of members in choosing which services to access, may thus be more appropriate to poorer people. MYRADA, for example (Fernandez, 2001), has found that while poorer members of SHGs enjoy as much access to loans as relatively better-off members, the poorer take smaller loans for consumption rather than investment.

In contrast, the insistence of Grameen-type organisations that loans be used for productive purposes risks forcing poorer members into taking loans for purposes they cannot manage effectively, and hence may push them into further debt.

However, these distinctions are becoming increasingly blurred. Recent experiments with voluntary savings by users of the Grameen system in Bangladesh (such as the Association for Social Advancement [ASA] and Buro Tangail) demonstrate that there is a substantial demand from members for such services, and that they can be integrated into the Grameen system without difficulty. The provision of voluntary savings
is therefore expanding among Grameen-type organisations, including in India. For example, SHARE collects voluntary deposits through a cooperative they have set up in the state of Andhra Pradesh, and these voluntary savings can be withdrawn at weekly intervals.

As for loans, in practice, funds within a household are fungible, and, as Grameen-type organisations have discovered, it is often not possible (and usually not desirable) to prevent the 'diversion' of productive loans to other purposes. Moreover, Indian banks lending to SHGs insist that SHG members do not use these loans for consumption needs, making those SHGs that borrow from banks little different from Grameen groups in this regard. However, SHGs can often ignore this stipulation given that they have more flexibility because their initial loans are from their own group funds and their activities are less closely supervised by the banks.

In summary, the evidence seems on balance to suggest that SHGs are probably less likely to include poorer people than Grameen groups; neither system reaches the very poorest. The evidence on impact, however, is too unclear to make a conclusive judgement. Given the very rapid growth of the SHG system in India, more work is urgently needed to ascertain whether SHGs have the same damaging effects on their poorer members as some Grameen groups, and, if they do, how to minimise these effects.

'Empowerment'

Much is made of the way in which access to appropriate financial services has a non-economic empowering effect on poor and marginalised people, particularly women. 'Empowerment', like sustainability, can be variously defined, but there is little question that micro-financial services have enabled large numbers of poor people to improve their social and even their political status, as Chapters 5 and 9 illustrate.

This effect is closely related to the group-based methods of intermediation which are used. An individual woman may not be able to make much difference to her social position, even within her own family, if she improves her financial
position, but if she has the support of her fellow group members she can do much more. Which of the two group-based systems under consideration is more likely to have this non-economic effect?

The members of an SHG are effectively the owners and managers of a small bank. This may place a heavy burden on their time and ability as Chapters 8 and 9 illustrate. However, if they are successful it seems obvious that this will enhance their status more than the fact of being a client of a bank or MFO, which is what the members of Grameen groups are. The bank of which they are clients has, at least until recently, often been far from customer-friendly. Although competition is forcing Grameen MFOs to be more flexible, they still have rigid loan rotas and repayment schedules. Although this is changing, freely withdrawable savings are still the exception rather than the rule. The analytical framework of sustainable livelihoods is increasing our understanding of the complexities of poor people's financial needs (see Chapters 3 and 4), and it is clear that the original rigid Grameen approach only satisfies a small part of those needs.

Members of SHGs can themselves decide who gets loans, when, and at what interest cost. They are indirectly remunerated for their management time and effort, in that the spread between their cost of funds and the interest they decide to charge themselves is retained by the micro-bank of which they are the owners. They build their own equity, whereas the high interest rates which Grameen clients must pay goes to pay the wages of the large numbers of staff that the system demands. It could indeed be claimed that the Grameen system is yet another way by which the relatively elite bank employees sequester the hard-earned incomes of poor people.

At the same time, as Chapters 8 and 9 clearly show, SHGs are more vulnerable to capture by vested interests, and to inequitable distribution of the benefits, because they are less closely supervised by the financial intermediary where they deposit their savings and from which they may take loans. While it may be possible to avoid such outcomes through effective promotion (see Chapter 5), this only adds to the overall promotional costs.
Moreover, as suggested earlier, there have been many cases in India where SHGs have been used as channels for government grants and other poverty alleviation programmes. These programmes can be very beneficial to members, and strong groups in particular can use such assistance to strengthen their own position. Assistance of this sort often comes at a price, however; political interests use them as a form of patronage to demand votes or other support; grants can also erode the sense of ownership and responsibility which are necessary for effective groups, and can even destroy the groups altogether.

Grameen groups are much better protected against internal or external threats; their members are less vulnerable, but also less empowered, since empowerment is freedom and this must also include freedom to face and, if possible, to overcome threats.

Both systems appear to empower their members in the literal sense of giving them the confidence to put themselves forward for membership of local government bodies, such as panchayati raj institutions. Fernandez (2001: 91) reports that 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 (elected village councils) in 2000. In 1999, 30 members, almost exactly the same percentage, of the 12,000 members of ASA's Grameen-type groups in Tamil Nadu were similarly elected (Hishigsuren, 2000: 71).

In addition, many Grameen-type groups in Bangladesh have switched their business from one bank to another, in search of better services; this is good evidence of their independence and empowerment.

Some Indian NGOs promoting SHGs, such as the DHAN Foundation and MYRADA, encourage and assist ‘their’ SHGs to come together in clusters and federations (see Chapters 5, 8 and 9). These bodies may or may not themselves be involved in financial intermediation, and some of them have become large and powerful democratic organisations in their own right, which may be able to empower members of their SHGs further.

Grameen groups have less need to come together in this way, since the members do not themselves perform the banking
management tasks demanded of SHG members. Some Grameen replicators, however, such as ASA in Tamil Nadu (Hishiguren, 2000: 27-28) also encourage their members to form similar apex groupings, for a variety of non-financial functions.

Membership of SHGs is thus more empowering, but at the same time more vulnerable. This serves to confirm our earlier tentative conclusion that Grameen groups are more suitable for poorer, more vulnerable groups. K-Rep in Kenya found that some Grameen or 'Juhudi' groups evolve into SHGs, and they also found that it was less expensive to service SHGs than to use the more labour-intensive Grameen method (Harper, M. et al., 1998: 107). Self-help groups are a more empowering instrument than Grameen groups, but they also demand more of their members, and expose them to greater risks. Freedom does not come without a cost.

Feasibility within a given environment

There is a great need and demand for micro-finance services throughout the world. Large sums of money are also available, whether from the savings of poor people themselves or from government and foreign sources.

The main constraint is the lack of organisational capacity to deliver the services to those who need them. Organisational capacity-building takes time and costs money. A system which requires less organisational development must therefore be attractive, even if it is not obviously less expensive to operate.

Self-help groups can evolve quite easily from existing ROSCAs or other traditional financial or non-financial groups, and any bank can do business with them, so long as its management are prepared to deal with this unfamiliar but potentially highly profitable market segment. If there are many pre-existing groups, and if there is a wide network of bank branches, which need new business opportunities, the environment would seem to be ideal for the SHG system.

It takes time to change management attitudes, and regulations may make it difficult to lend without collateral, or to do business with informal groups which have no legal status.
In the early years of the SHG movement in India many bankers showed that it is not impossible to overcome these constraints, and the regulatory environment has now changed so that there are no legal barriers to which a conservative banker can appeal as a reason for hesitation. It took some 7 years for Indian bankers to appreciate the potential of SHGs as customers, but the recent rapid expansion in the numbers of SHGs which have borrowed from banks shows that their not unreasonable scepticism is now being overcome.

Those few organisations which work with the Grameen method in India are also expanding very fast, and it is to be hoped that there will be many occasions in the future when people can make their own choice from two or more competing providers of micro-financial services. Then and only then will it be possible to determine which system is actually most suitable for which types of customer, so long of course as customer choice is not distorted by excessive or misplaced subsidy.

Until that time, my tentative conclusion is that the Grameen system is more expensive, but may nevertheless be more suitable for poorer communities, particularly in places where there are few NGOs to develop the groups, and few bank branches whose staff are willing to serve them. Elsewhere, the SHG system is probably better for Indian conditions, as the present and projected numbers seem to suggest.

Conclusions

I summarise the pros and cons of each system in Table 7.1. More broadly, Bangladesh is relatively homogeneous and very poor, and to the casual observer at least there seems to be little opportunity for progress. It may be an appropriate location for a rigid, autonomous, readily transferable and dependence-creating system that can alleviate poverty for large numbers.

India is fiercely diverse as a nation, and most communities are also diverse in caste, opinion and religion. Indians are also known for their sense of personal independence, which is often translated into indiscipline, whether on the roads, in political assemblies or elsewhere. The SHG system reflects this independence and diversity. It allows people to
save and borrow according to their own timetable, not as the bank requires. Self-help groups can also play a part in a whole range of social, commercial or other activities. They can be vehicles for social and political action as well as for financial intermediation.

This flexibility and freedom also has its price. In making much greater demands on members of SHGs to manage themselves, such groups are more vulnerable to collapse. As small autonomous organisations they are also more exposed to capture, both from within and from without. In particular, politicians are driven by their need for popularity and power, and bureaucrats by their need to achieve numerical targets. Self-help groups can provide both with a ready-made vehicle.

If SHG members can identify and resist the disadvantages of being used by outsiders, and can exploit them rather than be exploited, the movement may in time play an important role in the reduction of poverty in India. If not, they will become no more than another milestone in the nation's long list of development failures.

Notes

1. Group systems are not only predominant within modern micro-finance practice, but are also common in informal financial systems, especially the traditional rotating savings and credit associations (ROSCAs), chit-funds, etc., which are found throughout the world. As suggested later in this chapter, some self-help groups in India have emerged from ROSCAs and similar informal groups.

2. The Census of 2001 suggests that the proportion has fallen to 26 per cent, a significant reduction, although there is still much debate about this figure.

3. The analysis of operating performance in Chapter 10 seems to confirm that Grameen-type organisations have higher operating costs, largely because of staff costs.

4. The analysis provided in Chapter 10 suggests that this may not be the case, but that analysis looks only at the number of SHG borrowers that have borrowed as a result of SHGs taking loans from MFOs, and therefore does not include all the other financial transactions that take place in the SHGs, whether they borrow externally or not. Including these in the calculation would make the staff of SHG programmes more productive.
Chapter 8

Costs in micro-finance: What do urban Self-help Groups tell us?

Mathew Titus

Introduction

As Malcolm Harper explained in Chapter 7, the most widespread model for micro-finance in India is that of self-help groups (SHGs). These groups of up to 20 members, usually women, are characterised by the mobilisation of savings and the subsequent disbursal of credit, either from their own savings or by accessing credit from the vast network of bank branches. The SHG movement has made dramatic progress: from 500 groups in 1992 there are now some 300,000 groups that have taken loans from banks under the ‘linkage’ programme of the National Bank for Agriculture and Rural Development (NABARD).

The programme rests on some strong assumptions that non-governmental organisations (NGOs) possess competencies to promote and provide support to SHGs, while banks are better able to manage finances. While these assumptions are in most cases right, there is little support to help NGOs meet the costs of promoting SHGs.

Unfortunately, discussion on costs has focused primarily on the costs of establishing the physical unit of the SHG, for example the costs of training programmes, while the expenditure on promoting groups has been attributed to the comparative advantage of the NGO (CGAP, 1998).

However, my decade-long experience in micro-finance suggests that the challenge is far more complex and difficult
than such analysis would suggest. In this chapter I seek to unravel some of the complexity of costs in promoting and supporting SHGs.

I use insights from both economic and management theory to draw attention to three areas that contribute to these costs. The first set of costs arises from historical distortions as experienced by poor people using perverse or inefficient service-providers. The second set of costs arises from the need for efforts by poor, illiterate communities to establish effective financial contracts amongst themselves. Only the third set of costs relates to the ability of the promoting organisation to develop and manage a service and maintain its quality.

I illustrate each of these costs (Figure 8.1) from research on the performance of SHGs and their federations promoted by an NGO, Sharan, in the slums of Delhi. Identifying characteristics of the different federations and their SHGs enables taking a first step in managing financial services more effectively (Korten, 1980).

I therefore describe the experiences of members of these SHGs with other service-providers. I then focus on the growth and performance of the SHGs and their federations, drawing out factors that contribute to the other two sets of costs. First are the functional efforts of the community to overcome imperfections in credit markets and second are the efforts of the promoting NGO to manage effectiveness to produce a service of high and constant quality.

What emerges clearly is a web of elements that contribute to the costs of promoting SHGs among poor people. For example, research suggests that there is a strong rationale for high fixed costs in starting such initiatives. These arise from a variety of constraints, including distortions introduced by perverse and inefficient service-providers, and the efforts that members have to make to overcome imperfections in credit markets.

Costs of promoting SHGs will therefore vary from context to context. The SHGs promoted by Sharan are a case in point. They operate in urban slums of often new and transient migrants where traditional community and kinship ties, or even basic knowledge about other members of the community, may not exist. And yet it is precisely such ties and in-depth
knowledge to which the literature, primarily drawing on experience in rural areas, accords great significance in the functioning of any group mechanisms for savings and credit. This will obviously have a major impact on the costs of promoting effective SHGs in urban areas.

Ignoring the need for investment to overcome such constraints will therefore lead both to members losing money and not receiving credit, and to the NGO losing the investments it made in promoting the SHGs. It will also contribute yet further to market imperfections and distortions that so undermine the provision of financial services among poor people.

It is important therefore that the micro-finance sector moves towards identifying and examining these costs and making the necessary investments. Progress with SHGs in the Indian context will depend not only on promoters driving down costs and maintaining services of high and constant
quality, but also on the extent to which the problem of perverse and inefficient service-providers and the constraints of such factors as illiteracy can be addressed.

The chapter has four main sections. The first section presents a framework drawing on insights from new institutional economics to analyse the provision of the service. The second section gives a brief background to Sharan, the NGO and the context of its work. The third and longest section presents the findings and their individual implications, which are followed by some conclusions.

What costs?

The most dominant view today argues that practitioners need to identify and allocate their costs of operations in providing micro-financial services. In turn these costs are treated as a measure of their effectiveness and, to the extent they can drive them down, as a measure of their efficiency (CGAP, 1998). What is not discussed and seldom analysed is what investment is sufficient in helping to build a quality of service that recognises the cost of distortions and constraints that exist in the market.

The economic literature of costs has a well-developed and robust history. Its contribution to economics is borne out from the recent awards of Nobel prizes to some of its most vigorous proponents: Douglass North, George Akerlof and Joseph Stiglitz. By both working through historical changes and examining closely critical economic puzzles these theoreticians have systematically unravelled and identified functions that affect markets for services.

These economists have argued that constraints to participation in markets, especially for financial services, arise from three sets of conditions. The participation of agents in markets is contingent on (i) their historical experience of losses in their holdings, (ii) their ability to enter into contracts that are optimum in their functions, and (iii) the ability of service-providers to provide goods and services of constant quality (Akerlof, 1970; Hoff and Stiglitz, 1990; North, 1990).
These conditions generate transaction costs. Such costs arise from two sources: institutions and organisations. While institutions establish the context, organisations seek to overcome constraints that prevent the exchange of goods and services or addressing any other opportunity to meet the demand for a particular good or service.

Institutions, as defined by North, are the rules of the game that provide the structure to transactions and shape incentives. Institutions can be either formal or informal. A formal institution is one that is stated explicitly, such as, for purposes of this research, rules that define conditions under which credit may be extended. Informal constraints on the other hand are the conventions that determine the codes of behaviour—ideology, beliefs and social relationships—of agents. Both formal and informal institutions together form the basis on which people will participate in an exchange of goods or services.

What determines the character of the game in particular, including the level of compliance and the costs of enforcing contracts, is the ability of institutions to deal with intentional or unintentional violations. The ability of institutions to identify such violations and trigger remedial action to enforce contracts is an important contribution of their presence. The often discussed importance of 'reputation capital' in determining compliance and ultimately repayment, even in extreme cases at the cost of the death of small farmers in South India, is a classic example of the power of an informal institution. These institutions process information in a particular manner and partly contribute to the resulting action, in this case far from optimal.

In addition to the pressure of ensuring repayment to avoid damage to reputations, these institutions also provide the framework through which agents process information. These are the 'mental models' of participants. Understanding mental models makes it possible to understand decisions resulting from the processing of information. Institutions thus exist and contribute to actions in many ways.

Organisations too play a central role in determining costs. Their role has been more widely recognised in the literature. The critique of earlier directed credit-provision was forceful
in suggesting that organisational features (elaborate administrative procedures, different bodies for sanction and disbursement, and the absence of self-correcting mechanisms) partly contributed to the failure of such initiatives (Adams and von Pischke, 1992).

The allocation of costs arising from organisational functions, such as staff costs and administration, continue to dominate the debate. Indeed, this is the only set of costs that seems to get any recognition in discussion.

Given the difficulty that the dominant organisational form, namely NGOs, faces in the provision of micro-financial services and given that very few have managed to truly cover their costs, it is necessary to revisit the approach. The sector needs to seriously examine what contributes to costs for organisations providing micro-financial services to poor people. Are there constraints that defeat all attempts at lowering costs? Are there innovations that clients and organisations need that contribute to efficiency? It is only then that practice will move to a new level of performance.

Sharan: Structure and context of work

Rapid urbanisation in India in the late 1970s and early 1980s caught most urban authorities unawares. Slums sprung up in most open spaces, and became hazards, for example in terms of health and crime. The main policy response in Delhi was to raze slums to the ground and relocate squatters to the outskirts of the city. It was in this environment that the NGO Sharan registered in 1981.

Sharan's portfolio of activities initially focused on health and education. Staff were directly involved in providing most of these services, from being teachers in schools, to taking patients to hospitals, to delivering medicines. Each of these functions was intensive and relationship-based. As the organisation learned from experience it shifted strategy and started training community-workers who spearheaded interventions to introduce preventive, and promotive measures in health and education. A strategic evaluation that followed
recommended the need to change methodology and focus on increasing community participation with community resources. The assumption was that building community resources with community effort would result in the active management of the effort by the community.

By 1991 therefore, Sharan introduced the provision of financial services to its portfolio of projects, through the promotion of SHGs and their federations. The project staff for the area were responsible for mobilising and organising these groups, most of them of women, except in the Tamil community where mixed groups were promoted.

Following the completion of an orientation programme, new members fixed a meeting to launch a group. Each group had a maximum membership of 15 and a minimum of 5. At the first meeting each group fixed the interest rate on the savings and loans (1 and 3 per cent respectively) and chose a president and secretary. At each meeting each member had to save a minimum of Rs 10. The president and secretary of the group approved loan applications.

Geographical clusters of SHGs together established a federation. The federation board was made up of all the presidents and secretaries of the SHGs in an area. One among them would be the president and another the treasurer of the federation. A Sharan representative, usually the coordinator in the area, joined them on the board as the secretary and joint signatory to a bank account opened in the name of the federation (see Figure 8.2). All surplus savings and investments were placed in the bank account to provide larger returns on these funds. The bank account also provided legitimacy to the local organisation in attracting other resources if possible. Table 8.1 lists the areas and brief financial numbers.

This review draws on a survey of 80 respondents as well as focus groups to discuss their experiences of financial-service providers, both past and present. All this data is triangulated with the savings records of the groups over a five-year period. Savings are a much more sensitive barometer of the changes taking place within the service in a particular area. In particular, savings reflect much more accurately the level of confidence that clients have in the service.
**Figure 8.2: Structure of SHGs and federations promoted by Sharan**

**Federations**: Managing board for the area, constituted by the presidents and secretaries of the self-help groups, together with one Sharan staff.

**Self-help groups**: Self-selecting neighbourhood groups: screening of loan applications, and attracting savings.

**Members are area specific**: All are residents covered by Sharan's basic services projects.

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**Table 8.1: Areas and financials of Sharan’s SHG programme (March 1996)**

<table>
<thead>
<tr>
<th>Federation</th>
<th>Location and ethnic mix</th>
<th>Date started</th>
<th>Total savings in Rs</th>
<th>Loans outstanding in Rs</th>
<th>Interest income for 1995-96 in Rs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mongolpuri Y Block</td>
<td>Resettlement: mixed religious group</td>
<td>March 1992</td>
<td>157,914</td>
<td>112,900</td>
<td>18,528</td>
</tr>
<tr>
<td>Mongolpuri Q Block</td>
<td>Resettlement: Hindi-speaking migrants</td>
<td>December 1991</td>
<td>252,169</td>
<td>105,130</td>
<td>23,933</td>
</tr>
<tr>
<td>Sultanpuri federation</td>
<td>Temporary resettlement colony: Hindi-speaking migrants</td>
<td>January 1995</td>
<td>79,092</td>
<td>34,500</td>
<td>2,950</td>
</tr>
<tr>
<td>Tamil federation</td>
<td>Slum: Migrants from single district but with caste differences</td>
<td>December 1991</td>
<td>87,969</td>
<td>46,210</td>
<td>4,064</td>
</tr>
<tr>
<td>Gautam Nagar</td>
<td>Slum: Hindi-speaking migrants</td>
<td>December 1991</td>
<td>88,073</td>
<td>29,724</td>
<td>6,110</td>
</tr>
</tbody>
</table>
First cost set: The experience of losses

Poor people in urban contexts can suffer significant losses from engaging in the investment opportunities available to them. Respondents, recalling the previous two years, provided information on losses totalling Rs 75,000 (close to Rs 1,000 per person).

Of this total, 88 per cent was attributed to losses on investments, and 12 per cent to losses from extending personal credit. Two-thirds of the total amount lost was due to participation in rotating savings and credit associations (ROSCAs), which is not untypical (Rutherford and Arora, 1997: 366; Wright and Mutesasira, 2001). Most of these failures arose from the inability of managers of such investments to enforce contracts entered into by members. Formal-sector providers also generated losses for respondents: 11 per cent arose from investments in non-banking finance companies (NBFCs)\(^2\) and 11 per cent from insurance or bank investments. Common to almost all losses seemed to be the inability to enforce contracts.

The analysis begins by examining cases drawn from a sample of SHG members that led to such losses. The cases reveal problems that confront residents of deprived urban areas as they enter into financial contracts. Understanding the reasons for such losses illustrates the institutional constraints.

ROSCAs and NBFCs

It was difficult for residents of the areas in which Sharan worked to differentiate among service-providers to see who might renge on a contract. These service-providers or agents invest time disseminating information about themselves and winning the confidence of the basti (slum) residents.

For example, members of the SHGs in Sultanpuri had saved with a ROSCA organised by a resident in the area whom they had known for well over a year. No one, however, was aware when he left the area or knew what happened to him. It was only when they did not find him for a few days that they realised that all their savings were lost.
The experience of SHG members with an NBFC in Mongolpuri Q was no different. Well-dressed agents of the NBFC regularly visited clients. They provided all accountholders with passbooks and made entries in registers described as 'important-looking'. Clients had access to their savings at the NBFC office. The close proximity of this office and the house-visits made the service extremely convenient for clients, and enhanced their confidence. However, finding the office shut continuously for a week, residents made investigations and found that none of the information given to them was true, nor did it enable them to trace the promoters.

Such experiences are not limited to poor slum-dwellers. Many middle-class residents in Delhi have experienced the same. Attempting to differentiate between service-providers with the information available is therefore a difficult task. It is made all the more difficult for residents of urban slums, where whatever information they have is largely restricted to the period of their residence in the settlement.

A second form of loss experienced by SHG members was due to the failure of ROSCAs to enforce contracts. In such cases, members of the ROSCAs borrowed large amounts and then did not repay the required monthly instalments. The organisers of the ROSCAs had no mechanism to ensure compliance. Efforts to exert pressure on the members' families, through local councils of elders in the area, failed. Unlike in rural areas, these local councils were not a regular body, but just brought together a few senior residents temporarily to resolve neighbourhood issues. From the survey there was little evidence of their success in ensuring repayment.

It is therefore not only the lack of information to differentiate among service-providers that characterises these markets, but also the weakness of existing mechanisms to ensure compliance to contracts entered into by different agents in urban areas.

Moneylenders and personal lending

Limitations in obtaining accurate information and the absence of enforcement mechanisms to ensure compliance in urban areas characterise the credit market also. This is very
different from moneylending in rural areas. Those surveyed in the urban slums suggested that all moneylenders were resident outside their local blocks. Access to a loan was contingent on the person being introduced to the moneylender's and on the collateral offered. In the absence of either collateral or an acceptable guarantor, it was difficult to get access to such credit.

Time delays and demands for collateral diminish the competitive edge of the urban moneylender as an alternative service-provider. In one of the focus groups, members discussing the advantage of SHGs highlighted the difficulties of accessing credit from moneylenders:

In the basti the moneylender charges Rs 10 as interest on every hundred rupees borrowed. Here [in the self-help groups] we can give only Rs 2 and get some money. We can get money in five minutes, and it can help in meeting our needs. It is like a bank of our own.

When we go to the moneylender, we have to make 10 trips. Then we have to listen to different things, and there is still uncertainty whether we are going to receive the money.

With the self-help groups we can return the money slowly, in smaller instalments. Even if we get the loan after one day, we at least get the loan after one day, we are almost sure of that.

This explanation highlights the constraints that moneylenders confront of verifying information and limiting default risk, resulting in delays and a large number of trips by clients before a final commitment to disburse funds can be made. The comments also illustrate the importance of low prices, smaller instalments and longer repayment periods that credit products of SHGs offer.

The survey suggested that repayment risks become even more acute in personal lending. In many cases of such lending mentioned by respondents, they had had personal information about the borrower, but once the money was given, the borrower reneged on the contract. There was little by way of remedial action any of the lenders could do.
Residents experienced loss of investments with insurance as well. Though these losses are partially a result of the design and structure of the products, they also highlight important features of the market.

Agents who are authorised to sell life-insurance receive as a commission approximately 20 per cent of the amounts deposited irrespective of providing any additional facilitation to the client, or not, beyond the first sale of the policy. Further, the client cannot transfer the commission to any other agent who provides better assistance in operating the account. The result is that while most of the agents are very active in opening accounts, there is little effort to provide any follow-up service or information to clients. The survey revealed that members who had made such investments were completely unaware of procedures in operating these insurance accounts.

In the absence of any monitoring by the insurance company of the agent-client relationship, further distortions become evident. For example, Nidhi, a resident of the area in which Sharan worked, invested in a policy from the Life Insurance Corporation (LIC). She made regular instalments to the agent in cash. However, the agent retained these cash payments, as there was no means of proving that Nidhi had made such cash deposits.

To Nidhi, an illiterate woman, the policy was operational as she made her deposits and received regular correspondence from LIC. When she showed the correspondence to a Sharan staff member, she was informed that her policy had lapsed due to non-payment of dues. Nidhi then made a trip to the LIC office to enquire about her policy and what remedial action she could take vis-à-vis the agent and LIC. The LIC officer suggested legal action after a lengthy procedure of filling in complaint forms. Recognising the futility and the high cost of initiating remedial action, Nidhi preferred to write off the investment as a loss.

There was mention too of losses of savings deposited in banks, although respondents provided little information to verify this.
These experiences with formal investments highlight investors' lack of ability to recognise the different attributes of the products on offer. When acquiring insurance products slum-dwellers are often not able to recognise the procedural requirements involved. Insurance policies assume that clients are literate and can understand the requirements of the policy.

Even in attempting recovery Nidhi faced similar difficulties. Having made the trip once to the local office of the insurance company, she recognised the need for assistance in filling the forms. The constant need for such assistance, together with the travel and time expended, would, according to Nidhi, outweigh the amount of money lost in the insurance policy.

In such cases, understanding the computational skills of agents becomes very vital. North (1990: 23) argues that it is possible to arrive at rational decisions by individuals provided we assume unlimited (perfect) computational skills. However, in instances such as these, where such skills are limited, it is difficult for investors to make correct decisions. Because she was illiterate, Nidhi was unable to recognise that her payments were not being deposited into her account, and unable to initiate any remedial action.

The failure to recognise the different attributes of the product being exchanged means that an informed decision in entering the contract is absent. Computational skills are thus a vital part in determining the success with which people enter contracts.

Conclusions

Two features stand out from this analysis. First, that losses extended over a range of service-providers and included public-sector providers. Second, that losses were not confined to savings markets, but were also found in credit markets. In urban areas NGOs like Sharan clearly confront some of the most acute deficiencies of markets for financial services.

Any initiative to provide financial services at low cost in these areas will therefore have to address specific constraints. Service-provision will have to address the asymmetries of
information that exist between different agents in urban areas. In the case of Sharan, this is relevant to Sharan itself as the NGO-promoter, and to the members of the SHGs.

Within the micro-finance world there is increasing recognition of losses poor people in many parts of the world face in engaging in financial markets. What however is not discussed is 'not only the amount by which the purchaser is cheated; the cost must also include the loss incurred from driving legitimate business out of existence' (Akerlof, 1970: 495). The cases of losses cited above, and measures to overcome information asymmetries, have an impact on any new service-provider entering the market, not least in adding to the costs of launching their financial services. This insight was ratified during the field-work when one of the participants mentioned that it took a year before she could finally trust the federation and the NGO with her money.

The constraints therefore have an impact on both the financial intermediary and the potential members or clients. In the latter case, potential members or clients must first assess the risks to themselves. They need an adequate flow of information about the different attributes of the service. This flow of information, as well as the systems and procedures, has to match the computational skills of the clients. Not only does this requirement have cost implications for the financial intermediary, but any failure or variation in addressing information related to the attributes of the service can lead to an increase in uncertainty among members, potentially undermining the intermediary.

All the agents, whether promoters, members or clients, therefore need to enter such markets with great clarity. It is probable that similar behaviour as shown by members of ROSCAs will be present in the SHGs also. It is essential for members and the NGO supporting them not only to recognise that such behaviour is possible, but also to build in appropriate incentives into the lending mechanisms, and to ensure that these incentives are neither distorted nor diminished by the wealth-maximising behaviour of some members. The success of such an approach will depend on their ability to manage and recognise the flow of information that can alert them to possible violations.
Equally important to recognise is the weakness of most enforcement mechanisms in the Indian context, especially in urban contexts where reputations of members are not necessarily significant. This may require some form of collateral. Alternatively, it may require innovations in existing institutions that encourage people to honesty and repayment of credit (Akerlof, 1970).

Sharan and the SHGs clearly need to possess or invest in information about different members or clients. This information will enable them to evaluate accurately the potential risk of default. Failure to do so will lead to difficulties and delays in attracting investments or sanctioning loans. The success in gathering and managing such information could determine costs in moving quickly towards becoming a sustainable programme.

The following sections examine the performance of Sharan and the federations to determine the significance of these institutional constraints on the programme.

**Second cost set: Overcoming imperfections in credit markets**

The previous section drew attention to the experience of losses that poor people confront from different service-providers. I concluded that the experience of these losses was likely to drive up the costs of operations. In this section I identify specific costs that emerge around contracts within the SHGs, as poor members seek to meet the provision of financial services.

The theoretical literature suggests that limitations in the nature of the institutions that underpin credit markets can affect costs in the provision of financial services. The institutions perform multiple functions in contributing to the success of financial services. Most prominent among them are their roles in making information available about clients, establishing incentives and determining the quality of contract enforcement.

For example, information helps the lender in determining the likelihood with which the borrower will fulfil her/his part
of the contract. Moreover, credit, especially small loans, is costly to monitor and enforce. Hence, incentives to repay and low-cost mechanisms to enforce contracts need to exist. Incentives can be of price, reputation or further access. Enforcement of contracts on the other hand can be done through traditional bodies of elders, kinship groups, or occupational groups that can ensure that people repay. The research on the SHGs promoted by Sharan provides real-life examples of such mechanisms, as analysed below.

Another important feature is the mental models of participants in markets. As suggested above, mental models are the frameworks that participants or agents in a market use to process information. These frameworks of course put in question the assumption that market participants possess perfect unlimited computational skills and that they will therefore arrive at rational decisions. Clearly, such assumptions about the levels of skills and abilities of participants are not always true.

It may therefore become necessary, for example, for regularised patterns of interactions to emerge, on the basis of which exchanges in complex situations can be built. Reliance on ideology or on the computational skills of others may be equally important. It is therefore necessary to recognise the elements of mental models that contribute to affecting the actions and the behaviour of participants in markets (North, 1990: 23). This applies as much to financial markets as any other markets, and I now look at the evidence provided by the SHGs promoted by Sharan.

**The Sultanpuri federation:**

**The absence of information**

The Sultanpuri project was the first to be started and later shut down by Sharan. When the groups in the project were disbanded in 1993 they had total savings of Rs 40,573. The loans disbursed over the two-and-a-half years of their existence totalled Rs 61,511.

In 1995, after many petitions by some members of the community, a fresh initiative in savings and credit began. The
second phase of the project performed much better. Within a year (by January 1996) the total savings of the groups had shot up to Rs 69,255 and loans disbursed in the same period to Rs 54,975. It is clear from these results that the experience of the first phase contributed to the performance in the second phase. What was going on?

The first savings and credit project was characterised by procedural and accounting discrepancies. Moreover, local Sharan staff were active with certain members of the groups in determining who would receive loans. Remedial action by the NGO resulted only in a few of the presidents, secretaries and even staff discrediting both the organisation and the savings and credit project.

The resulting confusion among members and the problems in managing the project led Sharan to close down the project and return all the money. Sharan, however, continued its welfare projects focusing on health and education.

The savings and credit project restarted in January of 1995. The most significant drivers were some of the old members. They felt there was a demand for such a service, but that it needed some changes. These old members determined the selection of new members of the groups. They actively used local information and the record of the older groups, particularly on default and delinquency in repayment, to determine membership.

So firm and rigorous was the screening process that those excluded petitioned staff members at Sharan to recommend their membership. Having learnt from the previous experience, the staff did not interfere with this selection process. Indeed, in circumstances when the local group leaders (SHG presidents and secretaries) found it difficult to refuse membership, staff members intervened to prevent membership.

Members consequently formed their SHGs around clearer evaluations of default. The experience of the first phase removed critical information asymmetries and provided members the confidence to make investment and credit decisions of much higher quality than that achieved in the first phase. In less than six months the federation had disbursed loans that totalled the same amount the federation had disbursed over a two-year period during the first phase, with groups in the
second phase consequently earning much higher interest income on loans.

The Sultanpuri project illustrates one of the central problems confronting financial-service provision in urban areas, namely, the presence of uninformed members in SHGs. It points to the absence of relevant information in assessing risk, even though members had enjoyed proximity through long periods of residence in the community (in this case, over a decade on average).

By closing down the project and restarting it members could utilise information from the previous experience of members' performance within SHGs to achieve a better membership profile and performance. It led to members self-selecting their groups and excluding earlier defaulters. Members could also inform Sharan when default levels were questionable. Access to such information contributed to members investing and sanctioning finances at levels that would make a quick transition to sustainability more possible.

In drawing lessons for urban SHG initiatives it is therefore best to allow membership to move between groups to facilitate optimum group formation. Another solution could be to promote SHGs over two stages rather than one.

To conclude, it is important to recognise that the limited information available in transient communities or groups is not sufficient to provide the basis for effective performance within SHGs. In such communities, the necessary information can only come from building some critical experience within the community. All such measures give rise to additional costs for the promoting agency.

The Tamil federation:

The absence of skills

After a consistent performance over four years the Tamil federation collapsed. An examination of the decline reveals important implications of building community-based organisations within illiterate communities with their limited monitoring skills.

The difficulties faced by the Tamil community reflected some basic urban characteristics. Being a small homogeneous
community, migrants from the same district in Tamil Nadu, members possessed high levels of information about each other. However, as economic migrants with no language or social links beyond their immediate community, it was difficult for these Tamil residents to have access to any source of finance. Such limitations meant that their reliance on one another was extremely high.

When Angamuttu saw and understood the functioning of SHGs in other communities he quickly mobilised and established mixed SHGs of men and women within the Tamil community. Important to the acceptance of any alternative service by these residents was the need for trust. Trust would help them overcome the uncertainty faced in entering into a contract whose attributes they could not measure nor decipher. This was their condition to agreeing to join the SHGs. In doing so they trusted the person who was promoting the SHGs: Angamuttu.

From the perspective of the average resident of this Tamil basti, therefore, the main promoter was a local resident who was working with an organisation (Sharan) engaged in good works in the area. It was also agreed that members of the community would write the accounts for the groups. Sharan staff would work alongside these in maintaining a set of records. Assured by this process, and attracted to the low price of credit, members regularly put in their savings.

From their inception, the SHGs within the Tamil federation performed comparatively well. For the most part there was no problem with lending or borrowing, and most repayments came in on time. Attendance at meetings was good and members regularly updated their own bank records and those at the NGO office. The presidents typically signed all records that secretaries of the SHGs had verified.

Such a display of initiative marked out the Tamil community federation from the others and Sharan's focus now turned to strengthening what it saw as a people's movement. To reinforce and clarify group processes Sharan occasionally conducted training programmes, whenever Tamil-speaking staff were available. These training sessions addressed themselves to the formal rules that governed the SHGs. Distortions, if any, did not worry the organisation, as the results surpassed expectations.
However, after four years of such performance, monthly collections dropped drastically in most of the groups. The total annual collection of savings dropped from Rs 18,843 the previous year to Rs 8,754. For Sharan it was all too clear that something within this community-run operation had gone unnoticed.

All interviews and group discussions suggested the decline began around the departure of the main community-based promoter, Angamutti. He was the pioneer who had convinced most of the members to participate in the SHGs.

Slowly, over time, Angamutti had made loans to his coterie of associates. Although this could arguably have started the decline, it did not worry the other members as the repayments came in. When, however, it became widely known that the local accountant made wrong entries in the passbooks, the withdrawal from the groups began. Fear of further losses meant that savings dropped drastically.

For the NGO it seemed surprising that such events could have happened and that members who were so active could have condoned such action without so much as a discussion in the federation meetings. The findings challenged most of the assumptions made by the NGO in the build up of the project.

For most of the members, Angamutti was the main promoter of the project. The role of the NGO seemed unclear to them and the training programmes did not help them recognise their ownership and consequent responsibilities and decision-making powers. While part of their dependence can be ascribed to the language barrier, the community regarded the SHGs as little different from ROSCAs, which were very common in this community, except for a different set of promoters.

In response to a more detailed exploration of ownership most of the women commented that their extensive household responsibilities and limited accounting skills ensured they did not pay attention. Rather than acquiring such skills or awareness, it was simpler (less costly) to hire somebody who could understand and be trusted to manage the group. In the absence of greater monitoring within the federation, presidents and secretaries of the SHGs were authenticating incorrect records that the community accountant entered. The inability of members to decipher and measure the attributes of the contracts was therefore at the root of the problem.
This case highlights again the high costs that confront any initiative to draw illiterate members into the provision of financial services. These costs can arise from the need to help them comprehend the important characteristics of the new organisation being built in the community and to develop their skill levels to comprehend and manage the different dimensions of accounting and monitoring within the groups.

The NGO can also attempt to identify and strengthen different modifications in procedures that members introduce. Many innovations, such as handing over money publicly, or the board of the federation processing loan applications from SHG presidents and secretaries, play a considerable role in determining the success of groups. In addition, by getting different local people to validate entries in books, it becomes possible to limit any distortions.

Such informal restraints introduced by community members themselves serve to overcome uncertainties among members arising from their lack of skills. Evidence of such behaviour even in ROSCAs, and the need to build such new mechanisms in community organisations, suggests that both the strengthening of new informal innovations and an improved understanding of SHGs by the community are central costs in the building of financial services among poor people (Bouman, 1995; Bennett et al., 1996).

**The Mongolpuri Q Block federation:**

**Building the repayment norm**

By the end of March 1996 the Q Block federation was the largest of all those promoted by Sharan. Its cumulative savings had crossed two-and-a-half lakh (a quarter of a million) rupees and it had Rs 150,000 in different deposits. During the financial year ending March 1996 the federation had earned Rs 15,652 from these deposits and Rs 23,933 from its loan portfolio.

Every year in fact the Q Block federation disbursed and recovered large amounts of loan funds to and from its members. Starting from an annual disbursal of Rs 10,460 in 1991, it quickly passed one lakh (100,000) to peak in 1993–94 with
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disbursements of Rs 233,791. Over the five-year period reviewed under this research it had disbursed Rs 784,810 in loans and recovered Rs 697,672.

What operational strategies of the community contributed to such a robust loan portfolio? Successful loan portfolios crucially depend on the ability to enforce contracts. Such enforcement depends on having access to information that can recognise and alert members to any violations in a contract, in addition to having built-in incentives to repay. As the project structure in Q Block was the same as in other areas, I assume that such incentives were not the determinant of the comparative success in Q Block. Just as in other communities I have reviewed, systems and skills in accounting within both the NGO and the community were also weak. Alerting groups to possible defaults based on sophisticated management-information systems was not therefore possible.

In the absence of such internal information systems, the groups and the federation in particular had devised a proxy indicator that seemed to work well. Most of these SHGs were built and organised around the importance of cooperative values. Among others, these values included the need for consensus and participation of all individuals in decision-making processes. Such an approach was felt to strengthen the unity of the group and its ability to take action. The Q Block federation, more than any other, appropriated this idea and converted it into the basis for remedial action at the level of the federation itself. Such action contributed to strengthening the ability of groups to identify violations in contracts and impose a higher degree of enforcement.

Evidence of members reporting such violations to federation members and Sharan staff was available. Whenever individual members felt that the decision in a group was not acceptable to all members or that there was partiality in credit decisions, they reported this.

Based on one such complaint Sharan staff initiated an enquiry into a group’s accounts. A scrutiny of the records led to the detection of a violation, a second loan to someone with a bad repayment record. Providing this data to the SHG made it possible for Sharan’s coordinator to ask the office bearers in the group to desist from such decisions in future, as they violated the very effort of building shared visions.
In undertaking to relate to the groups through the prism of cooperative ideals, it became possible for the coordinator to recognise and respond quickly to infringements within groups, just as much as it contributed to members being able to recognise and inform staff about such violations.

In another instance, the president of an SHG had asked a member for a rent-charge for sanctioning the loan, over and above the existing interest-rate charges. When informed by the member of such a request, the federation called for a meeting and confronted the erring functionary. At the meeting, the president of the federation explained that such an action was against the rules of cooperation, which formed the very basis of the SHGs; the next time punitive action would follow. Besides this, group members also pointed out that such action decreased the price incentive for members to invest their savings and then seek loans from the SHGs.

Records of the federation demonstrate the close attention paid to reviewing infringements by members and remedial actions against them. The Q Block federation required its members (the SHG presidents and secretaries) to be active in screening applicants and in ensuring repayment. In case of default, SHG members who were guarantors lost their savings. According to the community worker, such appropriation of savings took place only twice. In both cases the member continued as a member of their SHG. The action, however, served to signal that enforcement was strict, after which there were no defaults.

This particular emphasis seems to have been the cumulative result of the inputs provided by the local Sharan team to the community leadership. These inputs stressed the norms that would contribute to the success of the SHGs (according to one community-worker, the most important was that rules must not be broken), and sought to build these values into the dynamic of the groups. The effect of such clarity allowed the membership to recognise and reinforce features important to decision-making within the group. While the recognition of violations was important, equally critical were the discussions and the follow-up that resulted from such recognition. In most cases the coordinator and other staff talked about the need to discuss these issues in the federation meetings.
Consequently, the intolerance towards transgressors became clear and violations decreased.

The Q Block federation case reveals the dynamic relationship of institutional mechanisms to functional requirements of financial-service provision. In particular, it highlights the importance of ideology to the success of the service. Ideological infringements can serve as a simple mechanism for policing violations within SHGs.

The presence of ideology in NGOs has been recognised as contributing to their unique cultural characteristics. In microfinance its presence has been tolerated more as a carry-over of NGO values into the new area of micro-financial services. However, for the NGOs concerned it has been a very important tool in achieving successful performance among SHGs.

Two other studies point to similar insights. In the case of the Grameen Bank, Jain (1996: 83) recognised the importance of the 'enabling routine repetition of identical behaviour by all 30 members, week after week, 52 times a year'. In contrast, Hulme et al. (1994) concluded that the Buddhist context of open and participatory group processes and dynamic and voluntary leaders has contributed to the operations of SANASA in Sri Lanka.

While the importance of such ideological reinforcement on the performance of SHGs is widely accepted, its importance to transaction costs has not been widely recognised.

**Formalising informal mechanisms and experiences**

Clearly, efforts at overcoming imperfections in credit markets are not simple for members of SHGs. In that light there are many changes from the formal design of the service that micro-finance projects need to undergo. Typically, these changes begin as informal in nature. By opting to regroup, members in Sultanpuri made use of information to screen and include only 'good' members. In the Tamil group, by failing to adopt procedures that enabled members to recognise the true attributes of the service, the federation went into decline. In Q Block the emphasis of the community on building values of
equity strengthened the enforcement of credit-contracts. These new structures and procedures relied on modifying institutions and mechanisms to make it possible for community members to measure attributes of clients or of the service. To capture these and formalise them into the provision of the service is important. The micro-finance sector therefore needs to reinforce its understanding of innovation as one that is designed to meet the needs of clients as they attempt to drive down the costs of their participation.

**Third cost set: Managing effectiveness**

So far I have analysed costs that arise from the losses poor people experience and from the efforts they make to overcome imperfections in credit markets. These two sets of costs fall outside the control of the promoting organisation. A third set of costs, reviewed in this section, arises from the effectiveness of organisations in providing a service. Only these costs are within the control of the organisations themselves.

This third set of costs arises from the challenge of entering particular markets. Institutional economics suggests that organisations must 'devise and discover markets, evaluate products and techniques, and manage actively the actions of employees; these are all tasks in which there is uncertainty and in which investment in information must be acquired' (North, 1990: 77).

These costs are threelfold. The first is the ability of organisations to identify markets. For this they need to unravel (measure) local complexities and attributes, including their ability to gather information about their clients and what they require. This information then contributes to designing a product or service that results in meeting that demand.

The second arises from continuing or expanding provision for which the organisation must provide a service of standard quality. This relieves clients of the need to invest resources to assess service-provision of varying quality.

The third arises from the need to manage employees who are critical for building information and providing inputs of
constant quality. In managing its employees, an organisation must focus on acquiring skills, knowledge and learning from doing. Skills relate to the particular requirements of the service; knowledge, both tacit and communicable, relates to the ability to understand and decipher local complexities of clients and inputs; and learning by doing relates to the organisation’s ability to develop skills and routines that come from repeated interaction (North, 1990: 74).

As in the cases analysed above, I use evidence on the ground to demonstrate the importance of these tasks, identifying markets, providing a service of constant quality and managing staff, and how they can impact the performance of SHGs.

**The Y Block federation:**

**Building new kinship groups**

The first case, of the federation in Y Block, illustrates the need to identify markets clearly to understand, and act upon, the complexities of local conditions and behaviour.

Though located in the proximity of Mongolpuri Q Block and Sultanpuri, the Y Block project got off to a slow start. By March 1993 the federation had savings of Rs 28,456. The groups, though few in number, seemed active and regular in their meetings.

Within a year, however, field-staff reported a declining trend in savings. In response, Sharan initiated an examination that revealed major deviations from the guidelines on member participation. Proxy membership was common and multiple membership from within the same family had led to loan decisions that favoured the few, often by ensuring they received the largest and greatest number of loans. One family had even managed to dominate the decision-making process of the federation.

While most members complained in private about this, the only evidence of the problems was the declining trend in cumulative savings and repayments during group meetings.

Following a new supportive intervention by Sharan staff, the project was back on track by early 1995. Savings at the federation had risen to Rs 84,273 by March 1995, and to Rs 157,914 by the end of the next financial year. This growth
was the highest among all the federations for that year. The total loan amount outstanding at the end of the financial year was also the largest at Rs 112,900.

To understand potential costs better, it is important to identify the nature of the problem and recognise the corrective mechanisms adopted by the local Sharan team and by members of the SHGs.

While Sharan focused on promoting SHGs, few recognised the benefits of controlling the resources of the groups. One family (relatives of Bijli), however, played an active role in supporting the formation of SHGs by including their extended family across different groups. In two groups, this family included the name of a member who was not even residing in the area. Moreover, when Bijli and one of her relatives became the president and secretary of the federation, they were able to exercise even greater control of the funds. In the absence of information on relations among members, the NGO was unaware of this distortion. Consequently, the surplus funds at the federation were used to finance loans to groups where Bijli's family were members.

On recognising such behaviour, Sharan initiated remedial action. The first job of the staff was to change its interaction with the community. The project began a concerted thrust in investing time and resources to gather information about members. Proxy and double members, as well as those who did not qualify for membership, were removed, in part by ensuring that all members had to affix pictures of themselves to their cards.

Sharan also undertook steps to check the board of the federation. Most decisions were closely scrutinised until the end of the tenure of the existing board. The sanctioning of loan applications from SHG leaders was now done in meetings of all members of the federation rather than by the president of the federation. Such behaviour increased transparency and confidence in the transactions. In fostering such norms members also moved increasingly towards adopting honest behaviour. Sharan then actively promoted an alternative leadership from among the members.

The project staff also returned savings to whoever wanted them back, but followed this up with an intense period of
personal home-visiting to explain the project and the current change process in detail. The new supervisor who joined the Sharan team actively explained to the SHGs how Sharan functioned as the promoting organisation, and why there was little opportunity for their savings to disappear. Specific attention was given to explaining the attributes of the service, including the responsibility of members and the process of sanctioning loans.

Given the schedules of poor working-class people, including many young mothers, it was not possible for all members to attend training programmes. Leaders of SHGs therefore undertook to educate and inform their members. This engagement increased the flow of information among households in a group.

Such information also made it easier for an SHG to offer flexible repayment contracts in response to delinquency without affecting the basic discipline of the group. As one leader put it: ‘I explained, “what is your problem is our problem” and assured the member of a considerate response.’ Such information therefore led to a better understanding of risk and improved the flexibility and hence lowered the price of the contract. Significantly, this behaviour contributed to a steady rise in, and repayment of, loans within the groups.

The training thus resulted in greater clarity among members about important attributes of the service. This increased flow of information and greater adherence to norms resulted in improving the operations of each of the groups and the federation, as seen in the increase in members of the groups and their savings.

The case of the Y Block federation demonstrates that organisations providing any service need to understand the complexities of local conditions and behaviour. The promoting organisation needs to acquire detailed information about the market and develop the necessary information to monitor any distortions that might emerge, all of which contribute to costs.

It is equally necessary for clients to understand the operating structure of the service. Particularly important when forming SHGs are high quality inputs from the promoting organisation that explain to members their rights and
Costs: what do urban self-help groups tell us? 227

responsibilities, their functions and roles, and other information on the attributes of the service.

This information helps establish norms within SHGs. By recognising the importance of managing local information and enhancing the flow of information among members, Sharan helped the members of SHGs to establish new relationships amongst themselves. In practice, the new relationships mimicked kinship groups and thus established a new urban family and community. The approach therefore not only provided a clear understanding of the service, but also made available information that enhanced relationships among members.

The Gautam Nagar federation: Information and the maintenance of SHGs

The second case, of the federation in Gautam Nagar, illustrates the need to maintain information to provide constant service and the critical role staff play in terms of their skills, knowledge and learning.

From even a casual scrutiny of Sharan's intervention in Gautam Nagar, two points immediately attract attention. First, there was a large turnover of staff within the project, and, second, the fluctuation in savings of the federation was volatile.

On the first point, during the first four years of the savings and credit project in Gautam Nagar, there were four trainee-supervisors, none of whom stayed in the organisation for more than six months. It was these trainee-supervisors who supported groups in organising meetings and doing the accounts. The only two staff who had completed a year with the project were then sent for relief work following an earthquake in the state of Maharashtra. The greatest variation in staff occurred between 1993 and 1995.

On the second point, savings in Gautam Nagar witnessed the largest volatility among all of Sharan's projects. In the financial year 1991–92, there were barely three groups with savings of Rs 6,897. By the end of the next year, the number of groups and members had increased, with savings of Rs 52,018. In 1993–94 the federation reached its nadir with
the membership of SHGs falling and savings dropping to Rs 13,089, with almost half of this amount coming from one group. Following the introduction of changes, the project turned around in 1995 and achieved total savings of Rs 52,323.

With a significant turnover of staff and large fluctuations in membership and savings, it becomes necessary to examine the relationship, if any, that existed between these two features of the project.

The success of Sharan’s community development project in Gautam Nagar relied on close relationships of staff with the community. The isolation of new migrants and their inability to decipher urban systems often results in poor families relying intensely on NGO field-staff. In the case of Sharan, staff used the welfare activities (health and education) to build up close relationships with families. Such relationships form a contrast to what migrants generally face in their workplace, likely to be characterised by poor working conditions and exploitative contracts.

Critically, these close relationships helped establish the difference between Sharan and other service-providers, of great importance given the widespread experience of investment losses analysed above.

The relationships therefore enabled staff to attract participation in the SHGs, and to use their knowledge of families from the welfare activities to limit the possibility of inappropriate members joining groups and, in particular, of delinquency and defaults. This in turn gave members greater confidence in the groups.

All in all, as the local coordinator suggested, the SHGs were highly dependent on personal relationships, with ‘an obvious premium on the [staff] person’. From the perspective of SHG members, individual staff members formed an important feature of the service. It was on this basis that the SHGs were able to mobilise some Rs 52,000 of savings by March 1993.

In 1993, Sharan undertook a general reorganisation of staff across the organisation. Given the limited resources the NGO possessed, it was difficult to ensure a clear overlap period when one team departed and another took over. The handover was therefore very cursory.

The new coordinator and team found that members of the SHGs in Gautam Nagar did not seem eager to participate.
The chorus was for old staff members to return and close the accounts. When visited, members would refuse to handover savings and more importantly their loan instalments. Unable to recognise the significance of what was happening, the team watched as members withdrew their savings and groups closed down. The team, charged with an agenda of growth, was confronting a decline.

Clearly, with the departure of the old staff, the close personal relationships that contributed to enforcement were lost. The decline in repayments only confirmed to group members some of their worst fears about the project.

The new team therefore had to restart the process of gathering information about members. In many instances the groups collapsed while the new staff groped for such information. While gathering information was time consuming, the more difficult task for the staff was to judge the likelihood of default among individual members, which was critical to maintain the confidence of members in their SHGs.

In an attempt to restrict the number of members leaving, the organisation deputed many new and inexperienced staff to attend meetings. In their enthusiasm, the new staff did not pay sufficient attention to what they said, or simply said the wrong things, introducing confusion in the minds of the members about the attributes of the service.

Poring over the financial records, holding training programmes for the community, and closely monitoring the SHGs did not seem to help either. On all counts (savings, repayments and interest earnings) the project experienced a rapid decline. Sound and active SHG members such as Menaka just seemed to want to withdraw their savings.

After much discussion, the team slowly defined a systematic response to the problems. In the first place, supervisors changed the way they functioned, informing members about the role of Sharan and the degree of its responsibility for the service. The project team moved towards standardising different processes, from the selection of group members to meeting procedures, and reviewed these regularly at project meetings. Arranging meetings within the community became compulsory to ensure the regular presence of members in all group meetings and that systems were in place within the
groups. The team coordinator reinforced these changes by accompanying the team during field-visits and observing that procedures followed a fixed format.

This new structure contributed to diminishing the uncertainty and making good the loss of information the project had faced earlier. Within little more than a year of such efforts savings climbed back to their previous level of just over Rs 52,000.

Though perhaps an extreme case, the Gautam Nagar project and its difficulties direct attention to the relationship that exists between staff and the performance of an SHG project. While it is widely recognised in management theory that staff in organisations come to possess vital information, its importance among NGOs and more particularly in microfinance has been less recognised.

There are three functional roles that field-staff provide in extending micro-financial services. First, they are crucial in helping clients overcome their diffidence to participate arising from their previous experience of losses. Second, in the absence of peer-information in urban settings, staff contribute to diminishing the probability of delinquency and default. Third, they can ensure a constant quality in the provision of the service. Together these functions form the basis on which the success of the service depends.

Any organisation promoting financial services must therefore be able to ensure that staff can deliver these functions. To achieve this will require greater attention to the resources and skills NGOs possess to recruit, instruct and equip staff to manage these functions. Only then will NGOs be effective in providing their service over the long term.

Some lessons

The cases of the federations in Y Block and Gautam Nagar illustrate well the third set of costs that arise from managing an organisation's effectiveness. The organisation must invest in gathering local information that provides the foundation on which it can devise, initiate and maintain services that are effective within local markets. In the case of financial services, such local information is particularly important in screening borrowers.
For investing in local information and maintaining service-quality, staff are of course critical. The case of Gautam Nagar makes it clear that it is not just the staff themselves who are important, but also the manner in which they are managed. Non-governmental organisations, like other development organisations, can focus excessively on understanding and servicing their clients to the detriment of building their staff and hence themselves as organisations.

Staff are therefore central in determining the effectiveness of an organisation in providing a service. Non-governmental organisations in particular need to develop systematic systems in managing their staff. This will require them to identify how they recruit, develop and replace their staff. It is only when such systems are in place that they will be able to offer a service of constant value to their clients over the long term. While it is evident that these requirements will drive up costs in the short term, they will contribute in the longer term to the ability of NGOs to capture the gains of their investments in the promotion of SHGs.

Conclusions

The provision of micro-financial services to poor people remains an abiding challenge for development in India. In recognition of the potential of SHGs to contribute to this objective, there is increasing support for their promotion. In tune with worldwide attempts at moving towards cost-recovery in micro-finance, there have also been efforts at identifying and recovering the expenditure incurred on the promotion of these groups.

Most service-providers working with poor people in remote or under-serviced areas are quickly discovering that the costs of service-provision are high, challenging their attempts at achieving sustainability. The sum of these costs unfortunately gets attributed to the comparative advantage of organisations in promoting SHGs. As this chapter demonstrates, such attribution of all the costs of building these community-based organisations is simplistic and the conclusions arising from it, therefore, potentially harmful.

I have argued that it is necessary to begin any exercise of cost-allocation by identifying what contributes to these costs.
This chapter is therefore a first attempt at outlining the factors that contribute to the costs of promoting SHGs. There are at least three sets of costs that need attention. First is the costs arising from historical losses; second, the costs of establishing a new set of organisations built by poor communities to overcome credit-market imperfections; and third, the ability of the promoting organisations to provide and maintain an effective service. Of these costs, only the last set can justifiably be included in the pricing strategy of the organisation.

Providing a reasonable service therefore requires service-providers to address market distortions and imperfections that drive up their overall costs of providing the service. The future of promoting community-based organisations for poor people will require further work in estimating the actual value of these costs, and in enhancing regulatory mechanisms and public investments to overcome these distortions and imperfections, as well as appropriate incentives that encourage service-providers to be effective and efficient within a given market context.

The regulatory challenge is difficult. While it is easier to restrict the entry of service-providers in these markets, the exercise might begin more appropriately by building an understanding of these markets. Such understanding must include sound knowledge on the demand for financial services by poor people, of issues that affect product design and monitoring, and of the role that different stakeholders can play in investing in service-providers. This will require systematic and close coordination among all the different stakeholders, as I outline in Chapter 11.

As important is the emergence of innovations to overcome distortions and imperfections. In most cases these are informal mechanisms that get introduced on the edges of the formal design of the service, often by field-staff and communities of poor, illiterate clients. The success of a promoting organisation in expanding and controlling its own costs will rest on its ability to recognise and formalise these innovations into its operating strategy.

Finally, supportive investments need to continue and expand. Public agencies and donors making such investments
need to recognise that it is not only the provision of the service but its quality that is important. This is especially important to reduce the many uncertainties poor people face in imperfect markets.

Notes

1. This paper was written during a period of research generously supported by the India Education Foundation. I would like to thank Jean Schmid at the Foundation in particular for her support.

2. All NBFCs must register with the Reserve Bank of India (RBI). While a large number are registered, an equally large number claim to be registered. Since the time of the survey, and in response to a range of scandals, the RBI has restricted the ability of NBFCs to raise deposits (at least those that are registered!).

3. The key staff member explained the group values as follows: People understand each other's financial needs. Collective money needs to be handled in a fair manner, and those who are better off should not have undue influence. People have a tendency to change decisions and make decisions in favour of a few. They need to understand that the money belongs to 10 other people and the return of the money is very important because it will affect the other families.
Chapter 9

Exploring empowerment and leadership at the grassroots: Social entrepreneurship in the SHG movement in India

Ajit Kanitkar

Introduction

The 1990s saw the emergence of a movement throughout India of thousands of poor women (and some men) organising themselves into self-help groups (SHGs) to access savings and loan products. As Malcolm Harper set out in Chapter 7, it is estimated that by 2008 at the latest there will be one million SHGs with a membership of some 17 million, mainly women.

This chapter focuses on a less researched aspect of this movement: the phenomenon of social entrepreneurship within the SHG movement. Based on a survey in the field, I explore what entrepreneurship means in the context of poor rural women setting up and leading SHGs. I set out what entrepreneurial traits are seen among women SHG leaders, and what challenges as well as rewards they receive for their leadership. Finally, I discuss the possibilities of developing and nurturing qualities of social entrepreneurship among women engaging in SHGs.

Given the lack of detailed research on these aspects of SHGs, the insights from this chapter can only be tentative. I hope nevertheless that they will stimulate further debate on this critical topic.
I also do not want to get bogged down in definitions about who is, or is not, a social entrepreneur. I have focused on those leading individuals, a few women always present in every group and community, who have taken the initiative of forming and sustaining an SHG in their village.

**PRADAN and SHGs**

The study draws on the rich experience of Professional Assistance for Development Action (PRADAN), a well reputed and professional non-governmental organisation (NGO) working in some of the most resource poor and difficult regions of India. PRADAN began promoting SHGs (or savings and credit groups, as PRADAN usually calls them) in their Alwar project in the state of Rajasthan in 1987. What began as a way to revolve funds the project provided to buy cattle fodder evolved into a mechanism to provide savings and credit services to poor people, organising them into strong groups in the process. By mid-2001 PRADAN had promoted more than 3,000 SHGs with over 40,000 women members. Promoting SHGs has also become the launching pad for PRADAN’s strategy to generate livelihoods (Narendranath, 2001).

As described in Chapter 5, PRADAN sees SHGs as far more than channels to deliver financial services:

The SHG has a bigger role besides financial intermediation. 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 (Narendranath. 2001: 2,4).

The ability of SHGs to draw on external credit from banks, and the empowerment that this often entails, is a particularly important feature of PRADAN's strategy for building SHGs as self-sustaining and mature village organisations.

Leadership plays an important role in such groups. However, it is worth noting that PRADAN is not in the business of promoting social entrepreneurs, but democratically owned and managed groups, whether SHGs, water-user groups or groups with other functional roles. The insights reflected in this chapter arise from looking at the SHGs from a new angle, seeking out the role of entrepreneurial leadership within the groups. While this does not diminish from the role of the promoting agency, which remains critical to the emergence of SHGs, it does assume that leadership within the local community will be an important factor in the emergence and progress of healthy groups (see MYRADA, 2000: 121-28).

This issue is all the more important, first because the entrepreneurial traits of women SHG leaders have not been significantly explored, and are therefore not fully understood. Second, if the SHG movement is to grow as forecast to one million groups by 2008, it is likely to outstrip the promotional capacities of NGOs. Local leadership will be a critical factor in the quality of the SHGs that emerge, not least because SHGs are already spreading among women (and some men) without the intervention of external agencies.

**The fieldwork**

Fieldwork was undertaken with PRADAN professionals in May 2001 in two locations in the state of Jharkhand, first in Barhi block of Hazaribag district and second in Lohardaga district. PRADAN has been working in Jharkhand (formerly part of the state of Bihar) for some 14 years.
The population of villages in Barhi block consists primarily of members of Scheduled and Other Backward Castes. Complementing earlier and still on-going work on lift-irrigation schemes managed by groups or management committees of users, PRADAN began work on SHGs in this area in 1992. PRADAN has now promoted almost 500 SHGs for women in the area. It has also promoted clusters (currently 29) that cover the SHGs in about eight to 10 villages. A group of clusters then form a General Body or federation.

PRADAN took up SHG activities in the Lohardaga area a little later (in 1995), and has promoted about 270 SHGs for women there. The population in the area consists mostly of tribal people belonging to the Oraon and Munda communities. Here again PRADAN promoted lift-irrigation schemes. Unlike in Hazaribag, however, PRADAN did not actively promote a formal structure of clusters and a General Body for the SHGs in Lohardaga. Though cluster meetings were held at regular intervals, women took turns to attend these. This enabled more women to participate in the cluster meetings representing their own SHGs.

The rationale for choosing SHGs in the two areas was to compare the potentially different patterns of social entrepreneurship in Hazaribag, where a formal structure of clusters and a General Body was deliberately promoted and therefore leaders or social entrepreneurs consciously designated, and in Lohardaga where such structures were not institutionalised.

During the fieldwork we interacted with about 200 women in 17 groups and spoke to about 20 women social entrepreneurs who were taking an active lead in the running of the SHG in their respective villages. All these 20 had been to several cluster meetings, and in Hazaribag some of them were representatives of the General Body. I also held discussions with 10 PRADAN professionals involved in the promotion of SHGs and lift-irrigation in the area.

PRADAN selected the 17 villages and SHGs to include as much diversity as possible (by the age and performance of the SHGs, the communities represented in them, and in villages which also had lift-irrigation schemes and others which did not). In terms of age, groups varied from those promoted
recently to at least three that PRADAN professionals had for some time stopped visiting and providing support to.

The analysis focused on three key aspects. The first relates to the evolution of the group and the role of the social entrepreneur or the lead person in steering the group to a desired objective. In setting out the results of this part I draw on concepts that have been widely discussed in the context of the performance of a team. The second part of the analysis looks at the social entrepreneur herself and the challenges and rewards that she experiences. The central question I explore is what makes this person tick in shouldering responsibility often accompanied by no apparent gains. The third analyses the qualities of the women social entrepreneurs, as perceived by SHG members and the social entrepreneurs themselves.

The evolution of an SHG and the role of the social entrepreneur

**SHGs and the four-stage model of team dynamics**

An SHG passes through a number of stages that might be called a life-cycle. The life-cycle of an SHG based on PRADAN's experience and analysis is presented in Table 9.1.

There is in fact a fifth stage of expansion (from 19 to 36 months and beyond) where the SHG lends more for income-generating programmes rather than just for consumption needs and PRADAN is able to withdraw its support.

Based on this framework, PRADAN has developed clear strategies to promote and support SHGs through their life-cycle until the final stage in which SHGs become mature village organisations, often engaging in more than financial intermediation, and PRADAN can withdraw. Here I focus on the role of the local leaders or social entrepreneurs within the SHGs.

The life-cycle of an SHG can be compared with the stages in the formation of a team, as developed in literature on organisation behaviour and development. An important
**Table 9.1: The life-cycle of an SHG (as set out by PRADAN)**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Time-frame</th>
<th>Tasks or activities PRADAN</th>
<th>Tasks or activities SHG</th>
<th>Major milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pre-formation</td>
<td>0-1 month</td>
<td>• Identification of area to initiate project</td>
<td>• No SHG. The potential members attend village meetings</td>
<td>• In-depth understanding of the socio-economic situation, markets, natural resources, occupations and skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Selection of village-hamlets</td>
<td></td>
<td>• Decision whether to work in the area</td>
</tr>
<tr>
<td>2. Formation</td>
<td>2-4 months</td>
<td>• Rapport building</td>
<td>• Forms into an SHG of 10-20 members</td>
<td>• Accountant identified</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Participatory processes to identify group</td>
<td>• Attend weekly meetings</td>
<td>• Systems in place</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Initiate weekly meetings</td>
<td>• Identify accountant</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Start savings and credit</td>
<td>• Formulate norms and rules</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Introduce systems for meetings, transactions, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• To encourage autonomy and proaction by SHG, PRADAN provides or promises no subsidies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Stabilisation</td>
<td>5-8 months</td>
<td>• Staff attend alternate meetings to stabilise systems</td>
<td>• Attend regular meetings and conduct transactions as per norms and rules set</td>
<td>• Office bearers identified</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Bank account opened</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Meetings regularised</td>
</tr>
</tbody>
</table>

(Contd)
model suggests there are four dominant stages in building a high-performing team (Tuckman, 1965). These stages are: forming, storming, norming and performing.

- **Forming** is about providing orientation and generating commitment and acceptance through getting acquainted, setting goals, clarifying values and visioning.
- **Storming** is about overcoming resistance and conflict and generating clarification and belonging through active listening, conflict management, flexibility and creativity.
- **Norming** is about developing communication, cohesion and cooperation and generating involvement and support through communicating, feedback, affirmation and networking.
Performing is about problem-solving and generating achievement and pride through decision-making, problem-solving and rewarding.

In addition to some promotional inputs from an NGO, a successful SHG needs quality inputs from its social entrepreneurs at each stage in its life-cycle. In the formation stage, a social entrepreneur needs in particular to demonstrate her skills in social mobilisation. This stage also demands initiative and risk-taking as the community is embarking upon a new venture. In many communities who have had bitter experiences of past failures and betrayals in financial ventures the task for a social entrepreneur is further complicated (see the case of Chamudevi later as well as Chapter 8).

Once the group is formed, many new dynamics emerge. On the one hand, social issues such as leadership, trust and participation need to be resolved. On the other, the SHG also starts undertaking business functions. The group needs to take a range of decisions on these business activities: how will they ensure the security of their savings, who will be given a loan and at what interest rate, and what actions need to be taken to ensure repayment? This stage of churning, also known as storming, presents significant challenges for the social entrepreneur who has to attend to not only social but also business dimensions.

After these two stages, the SHG may be more stable, but still needs to give on-going attention and reinforcement to norms of functioning both for group members and business activities. For example, when some members decide to pursue income-generating activities for which they need loans, the social entrepreneur in such a group is faced with critical choices. A good decision can lead to a positive precedence while a miscalculation could destroy the credibility and the reputation of the SHG.

What does the fourth stage of 'performing' involve? In the context of an SHG, this stage again brings uncertainties that require risk-taking and entrepreneurial behaviour on the part of the social entrepreneur. For example, when the SHG decides to link up and access loans from a bank or microfinance organisation (see Chapter 7), the SHG moves into a
totally new and complex game plan. It is not only the volume of business and the associated risks that go up as a result of such linkages. It may also affect the inter-relationships and the cohesion among group members. The skill of a social entrepreneur is to take on these challenges.

**Evidence from the field**

Evidence from the field supports such analysis. For example, many SHGs had experienced churning in their membership as some dissatisfied members withdrew and others joined in their place. In particular, some SHGs had stabilised only after some of the initial members withdrew because the SHG had not fulfilled their expectations. In some villages, one big SHG had been replaced by two or three SHGs structured around geographical proximity or community membership (tribal, Scheduled Caste, etc.) or both. These examples of forming, storming and norming were critical in the stabilisation of the SHGs.

Some of the older SHGs, promoted by PRADAN more than five years ago, clearly demonstrated high performance. Some groups had successfully linked themselves with a bank. For example, two SHGs in Purhara village had each borrowed Rs 100,000 from the bank. In Urma Mor village, all the Muslim women of the seven-year old SHG actively participated in its lending operations, and had accumulated savings of Rs 20,000.

Other older SHGs were struggling because PRADAN had withdrawn almost all support such as visits, attending meetings and facilitation. For example, the first group promoted by PRADAN in Titirchanch village was functioning only haphazardly; many women did not remember the name of their SHG, some were unclear about their savings.

This difference was visible even in the same village. The SHG in one hamlet was struggling to function while another SHG in another hamlet of the same village was doing good business.

It became clear that SHGs need continuous re-engineering and that the responsibility for this often falls on the shoulders of the social entrepreneurs, especially when PRADAN professionals withdraw.
Another framework for team dynamics argues that in any team or group two processes simultaneously evolve as members come together to achieve common objectives (Pfieffer and Jones, 1976). The task processes (what it takes to do the job) involve behaviour and actions of members that contribute to the attainment of the group's objectives. Simultaneously, the maintenance processes (what it takes to strengthen and maintain the group) ensure the upkeep of the 'climate' and 'environment' that underpin a successful team. The framework argues that members need to be proficient in both the task and the maintenance processes. Imbalance in any one of these or over-emphasis on one at the cost of the other is likely to affect the well-being of the group in the long run.

Drawing upon this framework, SHGs clearly require a skilful balance of both the task (business) and maintenance (social) processes. The purpose of forming an SHG is to engage in the business of savings and credit. This necessarily involves financial transactions, record-keeping, setting interest rates, linking up with banks, diversifying into income-generating activities and so on.

Equally important as member involvement in these financial transactions are softer (and often invisible) issues such as group norms, discipline and climate. For an SHG the maintenance processes (the social dimension) are many, including, for instance, taking note of members who remain absent, members who deviate from norms of savings and/or repayment, members who attempt to hijack the benefits of the SHG for achieving their own personal ends and so on. The social dimension becomes more complex when factors such as gender, caste and community also influence the group's proceedings.

The task and maintenance processes may become more challenging if the SHG also takes on non-financial roles, engaging in other developmental issues in the village and acting as 'an effective inter-face for the poor to deal constructively with the external world', as Narendranath put it.

The role of a social entrepreneur in such a scenario becomes demanding as she has to skilfully balance both the
business and social dimensions. The fieldwork suggested that this is not always easy.

For example, Draupadididi in Mahuva Tand village had played a leading role in her SHG for over seven years, and had been elected to the General Body in Barhi block. However, her group was finding it difficult to manage its business. There were at least three loans that had not yet been repaid since the SHG took a loan from the bank. Sakunadevi in the Harijan hamlet of Pandeywar village had been successful in mobilising all the members into the SHG. They were certainly aware of their rights and felt empowered. However, the SHG was not functioning as expected. All the women had found it difficult to repay the small loans they had taken from the group. Though the group was meeting regularly, the credit activity had almost stopped.

In some groups the SHGs had become dependent on external factors, such as an accountant who recorded the financial transactions of the SHG or a PRADAN professional whose on-going facilitation was expected.

However, wherever one or more social entrepreneurs were in command of both the social and the business dimensions, the SHG functioned smoothly, and was far less dependent on PRADAN’s facilitation, the availability or otherwise of an accountant, and so on. The SHG in Jogidihi village led by Hemantididi and Manjudidi, the SHG in Purhara village led by Samrididi, the SHG and irrigation management committee in Gadbutoli village where Shivbidevi and Basantidevi were active, are some of the live illustrations that support this argument. The functioning of these groups makes clear that social entrepreneurs need to demonstrate capabilities in both business and social processes, and both those in abundance.

The social entrepreneur: Challenges and rewards

Management literature has devoted significant attention to understanding the psychological profile of entrepreneurial individuals. The need for achievement motivation has been
seen as the driving force for an individual to take risks and venture into new business opportunities. The rewards for such entrepreneurial behaviour are indeed monetary, but researchers have put much more emphasis on the non-tangible rewards that an entrepreneur seeks.

How does this relate to the social entrepreneurs in action in the various groups we visited? The principle question we explored was what prompts these women to take an active part in the functioning of their SHG. What are the challenges and rewards these women associate with their active involvement in their SHG? Are these women motivated by achievement motivation, or by what some researchers on social entrepreneurs have described as extension motivation?

**The case of Chamudevi of Kauvakhap village**

The task of mobilising a community or group for savings and credit activities can be challenging, as the following example illustrates.

Kauvakhap is a small village in Kudu block of Lohardaga district. Most of the inhabitants are tribal people belonging to the Oraon community; there are also a few Muslim households in the village. Socio-economic conditions are typical of the region: rainfed agriculture, degraded land, lack of irrigation facilities, menfolk migrating to earn wages and so on.

Chamudevi, a resident of the village, approached PRADAN in January 2001. She had heard about the SHG movement spreading in neighbouring villages, and felt that such an activity could be useful for her village also. Samir, a PRADAN professional working in the area, made a couple of visits to the village. The response of the women in the community to the proposal of initiating an SHG was quite encouraging. Chamudevi, therefore, organised a series of weekly meetings with the prospective women members. Samir attended these initial meetings and facilitated whenever needed. After this initial preparation, the group was ready to form the SHG.

A few members were encouraged to attend a cluster meeting in the adjacent village. It was hoped that this exposure would boost the confidence and morale of the new group. In March, during *jatra*, an annual gathering or 'fair' in which
women from all the SHGs in Lohardaga district participate, about 15 women from Kauvakhap were also invited. These women went to Lohardaga town about 15 km away in a jeep provided by PRADAN. A day-long training programme was organised at which Chamudevi and two of her colleagues from the village learnt basic concepts of accounting and record-keeping. Members also purchased a cashbook and individual passbooks.

Judging by the progress of the group, Samir thought that the group was now ready to take on further activities and that it no longer required regular visits and facilitation inputs from PRADAN.

We visited the group on Friday (18 May 2001) around two in the afternoon. This was the time scheduled for their weekly meeting. As expected, about 10 women had assembled under the tree near the village. After initial greetings and introductions, Samir asked how the group was doing, but there was complete silence. It was also clear that members did not have their passbooks with them. The register (cashbook) was not being used either. Instead, an old register was brought for the meeting.

Something was not working in the group and the women with whom Samir had established a good rapport were not forthcoming. With great persuasion, Samir requested the women to express what was on their minds. Slowly, one by one, women started sharing their concerns.

One member said that the group would decide later whether they wanted their group to go the 'PRADAN way' or the 'Aanganwadi' type. (Aanganwadi is a government-initiated scheme for supplementing the nutritional needs of children in the age-group from 2 to 6. The community organiser for Aanganwadi is also given responsibility for promoting new SHGs in the area.)

Some members shared their experience that after their visit to the jatra, a few men from the village abused them. The menfolk were agitated because apparently the women had not taken their 'permission' to visit the jatra. At this point, Samir pointed out that in fact a few women had boarded the jeep in front of their respective houses and, in some cases, their husbands had actually helped them to board.
Other women then said that some men were propagating rumours that outsiders would run away with their hard-earned money. Samir again patiently brought to their notice that the cash-box, the key to the cash-box and the pass-books and register were with them and nowhere else.

At this stage, another woman, Shantidevi, who was a little more articulate in her ideas, said that similar activities in the past had failed. She had taken responsibility for promoting and organising an SHG in the past. However, that attempt had failed and she had had to bear the brunt of public criticism. Villagers accused her of siphoning off money. So this time she would not take the lead and would go by the consensus of the group. It was becoming evident in the meeting that Shantidevi was affecting the group with her logic and subtle influence.

Samir then asked each and every woman to speak for herself whether she wanted to be in the group and whether she felt the need for continuing the SHG. Everyone except Shantidevi spoke in the affirmative. All of them wanted the SHG to continue and to develop further. Shantidevi was polite yet diplomatic. She said that she would follow whatever the group thought appropriate.

In further discussion it also became clear that lending had commenced in the group. The first loan of Rs 200 was taken by a woman whose husband needed it for medical treatment. The women also reviewed the two attempts to promote an SHG in the village in the past that had failed. The group resolved to be extra diligent about record-keeping and other functions.

In spite of all the preparations in the initial meetings and the subsequent inputs from PRADAN, it appeared that the group had come full-circle back to the beginning. Samir suggested to the group that they should not decide in haste to wind up the functioning of the group. If required, they should not hesitate to call him again for their next scheduled meeting on Friday next week. The women could also invite their menfolk to that meeting so that whatever apprehensions they had could be discussed in an open and transparent manner.

The meeting ended on this note and the women who had gathered continued for another hour depositing their savings
of Rs 5 or 10. One member requested a loan of Rs 400 to purchase paddy, arguing that paddy prices go up by at least Rs 2 to 3 a kilo during the rainy season.

And where was Chamudevi? We were told that she chose to remain absent from the meeting as she felt upset and hurt about these developments. Probably she also felt bad because it was at her initiative and request that PRADAN had facilitated the forming of the SHG. We left the village without meeting Chamudevi.

The challenges for a social entrepreneur

A detailed description of the events that took place in Kauvakhap suggests the manifold challenges that may confront a social entrepreneur forming an SHG. Building credibility for herself may itself be an important task, which may be helped by education, social standing or personal qualities such as honesty and integrity.

However, it is more daunting to build faith in the rationale and system of an SHG. The concept of SHGs is not new to village communities in India. It is the earlier failures and bad experiences of fraud, theft and malpractice in similar programmes that make the task of the social entrepreneur so difficult. How can the new system be fool-proof and tamper-free? Will it go the same way as earlier promises of other agencies and individuals had gone? The social entrepreneur needs to build the community’s confidence in the face of such doubts lurking in everybody’s minds. It may be relatively easy to be first in the field. It is more challenging to enter the field when other attempts have miserably failed. This is where the support of a trusted external agency already working in the area can prove so vital in inspiring confidence, as also seen in Chapter 8 on SHGs in urban slums.

Another dimension of the challenge is to manage processes both in and outside of the group. There are women and men in and outside the group that need to be convinced. Some of them may directly oppose the initiation of such a venture, others, like Shantidevi, through her lukewarm responses, can hamper the progress of the group.

As we were returning from Kauvakhap, a woman from the group joined us in the jeep for some distance. She alleged
that Shantidevi had herself misutilised the money in one such earlier scheme and that her son was found stealing goods. If true, Shantidevi may have been concerned about a new group in the village that she could not control. If not true, it shows the depth of suspicion and lack of trust that can undermine a group.

For Chamudevi and other such social entrepreneurs, the battle is fought on both fronts: she has to influence and convince not only the women members of her group but also the larger community of men and women.

Another challenge is to promote a sound alternative in the midst of an environment that blatantly encourages populist and unsustainable operations. In Kauvakhap, the group probably thought of organising themselves through the government’s Aanganwadi scheme (and not through PRADAN) because of expectations that the group would receive ‘free gifts’ of a dholi (a musical instrument), a duri (a carpet for meetings) and so on. Some women shared these thoughts in the meeting. It was also thought that the association with Aanganwadi would enable the village to get a talab (tank) from the government. Both the promotional agency and the local social entrepreneur who operate in such an environment have to convince group members on issues like sustainability, repayment, discipline, capacity-building, etc. This is swimming against the current!

Perhaps the biggest challenge in the work of a social entrepreneur is to keep going amidst adversity. This is easier said than done, especially in the context of a rural environment. Operationally, it means to sustain her own and the group’s morale week after week after week when abuse and criticism, and lack of participation, cooperation and encouragement are amply present.

The challenge of continuity is indeed a tough one. On the way back from the village, we were discussing how many activities we as professionals have done voluntarily and continuously week after week in the last few years. We could not think of any! And yet this is what many of the social entrepreneurs mobilising SHGs keep doing.

The challenges faced by a social entrepreneur at the beginning of forming an SHG may be quite different from those
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at a later stage. For instance, in Kauvakhap the initial tasks for Chamudevi were to build credibility for the activity by convincing not only the women but also other stakeholders in the community. The challenges will change once the group matures, stabilises and gets into more advanced levels of financial transactions.

At such a stage, maybe two years after start-up, the social entrepreneur will encounter other challenges. For instance, if there is a possibility of a default or if a particular member who has taken a large loan is not following her repayment schedule and such behaviour starts affecting the performance of the group, the task for the social entrepreneur is to persuade and influence the behaviour of a recalcitrant member. The challenges will also be very different when the group decides to link itself to a bank.

What makes social entrepreneurs tick?
The social rewards

In all our meetings with SHGs in Hazaribag and Lohardaga, we deliberately provoked the key promoters and leaders of the SHGs by asking a standard question: 'In spite of being aware of the thankless job as a leader of the SHG, why do you continue to take up the responsibility of running and managing your group?' Based on the responses, I have drawn out certain conclusions. These are by no means the final words on the issue. However, it is important to debate them to achieve deeper insights into social entrepreneurs in general and the women leaders of SHGs in particular.

I begin with the social rewards. Invariably, all the women interviewed said they 'felt good' and 'happy' to take up the responsibilities of organising and managing their SHG. What specifically did they mean?

Initially, not all of the women had consciously thought about taking up these responsibilities. All of them were a little better off in terms of education compared to other women in the community. Some of them had greater exposure to the world outside the village, perhaps again through education.

For example, Kalavatidevi from Salagi village stayed in a hostel in Lohardaga town for her studies up to Class X
(matriculation). Her father worked in a bauxite manufacturing company. Thedidi from Saliya Kasitarn village went to school up to Class V. Both she and her sister Zibi are now leading SHGs in their respective villages. As a result of being educated, these women had been able to earn the respect and trust of the community, which made them 'feel good'. Through their role in the SHG, the community even looked to them as leaders and opinion-makers.

The women interviewed also mentioned that they were happy to take on the role of leading an SHG, though a difficult one, because they could use their expertise to improve their community. Jasvadevi from the Harijan hamlet in Jogidihi village was a member of the SHG led by Hemantididi and Manjudidi in the main village. Experiencing the functioning of this group and recognising the strength of such activities, she realised that such an intervention was required for her own people too. She said,

Our people need SHGs the most. I saw our hamlet going deep into the red as a result of loans that were taken from the market. Menfolk were spending money on drinking and there were no savings. It is when seeing and realising this that I said I will promote a new SHG in my small hamlet.

Today she is happy and proud to say that her group has been functioning well. She continues to be a member of the SHG in the main village as well as leading the SHG in her own hamlet.

Thus both the recognition of their role by the larger village community and their involvement in developmental activities to improve their community were seen as a reward and a point of satisfaction.

This recognition and involvement can be seen in specific events. For example, Draupadidi of Mahuva Tand village recounted in great detail her participation in and contribution to the gram sabha (a meeting of all villagers). Earlier, no one bothered to consult the women. However, as a result of the strength their SHG has achieved, they are now consulted by the gram sevak (a government functionary in the village).
Draupadidi and three other women from the SHG in fact spoke in the *gram sabha*. They articulated their demands for ration cards for families below the poverty line, for pensions to widows and allowances for mothers who had one daughter. Draupadidi also enquired in the meeting about other developmental activities such as the construction of roads and the deepening of wells. As she narrated all these details, we could clearly see in her eyes a unique sense of satisfaction, confidence and self-expression, in other words, empowerment.

Another incident from Mayapur village is worth recounting. After our meeting with the women in the SHG, the two key leaders Satyadevi and Parvatidevi requested a lift in our vehicle to the main road, about 2 km from the village. We checked with them whether they had any specific work to do, and they said they wanted to visit some shops on the main road for buying food-grain. However, they also said that they wanted a ride in the jeep so that upper-caste people of the village who had shops on the road could see them travelling in a vehicle with PRADAN professionals.

It was a simple five-minute ride. But on reflection, one can see what such a ride can mean to them. Later, the PRADAN professionals shared the struggles these two women had gone through, how the villagers had abused them in the past and how these women had gained confidence and self-assertion over a period of time. The jeep ride illustrates some of the 'social rewards' for poor and low-caste women of being a key member of an SHG in the village.

**The financial rewards**

While it was important to appreciate the social rewards such as satisfaction, recognition, self-esteem and confidence that a social entrepreneur receives from the community, we also explored any financial rewards they might receive.

In our meetings with SHGs, we asked the group to share information on the amount of loans taken by members, the frequency and size of loans, the on-lending of loans taken from a bank, and, in those villages with lift-irrigation schemes, the distribution of water (through the managed sale of coupons by the irrigation management committee). Here
are four examples from among women social entrepreneurs leading the SHGs:

(1) I have already mentioned Draupadidi as a leader of the SHG in Mahuva Tand village. The SHG had linked up with the bank and taken a bank loan of Rs 20,000. Draupadidi took a loan of Rs 10,000 from the SHG after the linkage with the bank so that she could do business in selling fertilisers.

(2) Samrididi in Purhara village played a leading role in the SHGs in her village, as well as in the lift-irrigation management committee. There are three women SHGs in the village. Two of the groups had successful bank linkages. In both cases the first bank loans of Rs 25,000 each were repaid. Of the second repeat loans taken from the bank, Samrididi had taken a loan of Rs 50,000 to purchase a second-hand truck that her son drove. She also mentioned that she had purchased the largest number of coupons from the irrigation management committee.

(3) Bantididi had run the SHG in her village (Tiko Banda Toli) for the last three years. She took the first loan of Rs 200 from the SHG, and also had the largest outstanding loan of Rs 2,000 taken for medical treatment for members of her family.

(4) Kalavatidevi in Salagi village (who had been educated up to Class X in Lohardaga town) ran a group that was quite autonomous. The group had twice taken a loan from PRADAN's revolving fund for SHGs, and both loans were repaid. Kalavatidevi had taken a loan from the SHG for a marriage function in her family, and she hoped to repay it when she received money due to her from an insurance company.

It appeared to us that there were legitimate financial rewards associated with taking on the role of social entrepreneur in a women's SHG. We found that in most of the groups that we visited, the social entrepreneurs had been taking a large share of the associated benefits. Whenever an SHG had taken a loan from the bank, a significant proportion of the loan amount was on-lent to key social entrepreneurs and
leaders in the group. They were also usually the largest buyers of coupons for water in those villages with lift-irrigation schemes.

I do not intend to pass any value judgement nor do I want to be critical and biased. While Mathew Titus in Chapter 8 cites examples where individuals had clearly captured most of the benefits from a cluster of SHGs for themselves or other family members, some financial rewards seem legitimate, especially when they do not undermine the functioning of the group.

One hypothesis that could be tested is that the distribution of the benefits reflects the risks taken by the social entrepreneurs in leading the SHG. I have already cited cases where the failure of an SHG brings reproach and rumours of misutilising funds. The responsibilities only increase when an SHG takes a bank loan, for example. The social entrepreneur may therefore derive legitimate benefits by accessing her claims on a priority basis in return for the additional responsibilities she takes on.

These are some of the financial rewards social entrepreneurs derive from taking on a leadership role, and I hypothesise that a combination of the kind of social and financial rewards set out above continues to make them tick, year after year, in difficult situations.

Qualities of a social entrepreneur

During the fieldwork, we asked members of the SHGs a hypothetical question. If they were to select a woman among themselves to form new SHGs in neighbouring areas, who should be given that responsibility? We also asked them who was capable of shouldering the responsibility and what qualities made that person capable. In most of these meetings, the social entrepreneurs in that particular group were also present and contributed to the discussions.

Members attached a great deal of importance to a woman 'being educated'. For most members who are illiterate, a woman who had attended even some primary education classes made sense as a potential leader. In an environment
where education seems to be a luxury for women, leadership roles therefore naturally come to a woman who is more qualified than others. Levels of education among SHG leaders we met ranged from Class III or IV to X (matriculation) and, in a rare case, graduation. The community looked upon them as a guide and friend in matters of money and business.

In addition to education, another basic criterion that was constantly referred to was the ability of a woman ‘to talk’ (‘bolnewali chahiye’). We probed this aspect in greater detail and realised that it was not just about talking itself. The quality meant much more than this to women who had never interacted with an outsider. We heard stories in different villages about how they used to run away when any outsider came to their village. Many women also told us how difficult they found it to introduce themselves in a meeting. Some even now found it difficult to state their full name in front of everyone in a meeting. Thus this quality was not just about talking, but also captures a sense of confidence and belief that only a few women had. Those who had these qualities were encouraged by others to take a lead.

Managing consensus was seen as another important qualification for a social entrepreneur. Women described this characteristic in their own ways, for example, talking of a woman who led a joint family, one who had a sweet tongue, one who managed her household efficiently, one who had understanding and empathy for others. These qualities made her acceptable to the community at large. In other words, women expected the social entrepreneur to prove herself in her own family environment before stepping out to take on larger responsibility. A person who enjoyed the trust of everyone was seen as a natural choice to take up the responsibility of leading an SHG in the village.

Given household responsibilities, women were also quite practical about the ability of the social entrepreneur to take time out for the group. They were clear that not everyone could do this. A leading role within an SHG required a woman to have ‘free’ or ‘extra’ time away from their household chores. This is not easy in a rural environment. In one meeting, women narrated how they had to take turns to manage the household of Draupadidi, the SHG leader in Mahuva Tand
village, when she had gone for three days of training and meetings organised by PRADAN. The time factor was thus a very important consideration for them.

Social entrepreneurs are the women who take a lead in community activities. Taking initiative and venturing into the unknown were thus important criteria that separated the leaders from other members of the SHGs. The women had their own ways of illustrating this. For example, Samridididi, the SHG leader from Purhara, explained, 'You are asking us who should qualify as a member of the General Body' (GB, the apex body or federation of SHGs in Barhi block in Hazaribag).

Do you plough a field with an old ox? This old ox will need to be whipped time and again; it will get bogged down in mud while ploughing. We don't need such an ox for the GB! If I go to the GB and sit quietly as if my tongue is locked, what is the use of attending the GB? I must talk, I must fight for my poor women members. If I sit in a meeting and people like you say one hundred and one new things, I must be capable of comprehending at least 10 such ideas. When we formed our group, we had to listen more than once to criticism and taunting from members of the upper-caste community. Male members used to say, don't behave like a bird that sleeps at night with its legs up thinking that it is holding the sky in its legs. We used to listen and ignore it. Now our SHG has become stronger, so the taunting has stopped.

Initiative and risk-taking may also be associated with empathy for the community and the need to exert oneself to do something for the community. Above I quoted Jasvadevi in Jogidihi village who saw a group functioning successfully in the main village and realised the need to initiate the same activity in her Harijan hamlet. She felt that her community badly needed such an intervention.

In general of course, leadership capabilities, trust and reliability were seen as the important characteristics of a social entrepreneur. What came out clearly through the stories women told was the challenge for the social entrepreneur to
take everybody along with her. In Jogidihi, where the SHG in the main village had been functioning for over eight years and was running very well, the women members even went to the extent of saying that they had ‘made’ their leaders, Hemantididi and Manjudidi, and that the success of these two was the result of the collective support they derive from all members of the group.

The belief in the social entrepreneur’s fair play and sense of justice was visible in a comment made by a group member in this village. ‘Even if Hemantididi gives me a slap, I will take it sportingly because I know she wouldn’t take such a drastic step unless I made some serious mistake.’ Leaders and social entrepreneurs therefore command trust and respect.

Institutionalising social entrepreneurship: can it be done?

Is it possible to train individuals to take up the role of a social entrepreneur? PRADAN worked with two different approaches towards the SHG leaders in Jharkhand. In the first approach, in Lohardaga, PRADAN facilitators helped the groups designate leaders, who were then rotated consciously every year (for example, different members would attend cluster meetings, there would be a new secretary of the group each year). The rationale was that such rotation would provide enough space for new leadership to emerge. This was in a way an attempt to engineer social processes. In the second approach, in Hazaribag, PRADAN facilitated the emergence of leaders within a group and these leaders then took over responsibility for running the group.

On the basis of my observations, I believe that wherever the leadership of groups rotated by design, the groups in fact continued to be led by the main social entrepreneurs. In other words, only a few women took responsibility whether they were formally designated as leaders or not. Thus, while everyone may have abilities and competencies to take up leadership positions within the group, only a few may demonstrate these in large measure.
PRADAN's experience of Community-based Group Promoters

With its vast geographic spread and innumerable challenges India needs hundreds and thousands of social entrepreneurs at the grassroots. How can small and successful initiatives in one area be replicated for greater impact and reach? Any NGO that had successfully mobilised a few hundred SHGs in a particular block, would start thinking of scaling up its efforts.

The PRADAN team in Lohardaga experimented with one such initiative during 1999–2000. The initiative was called Community-based Group Promoters (CBGPs). This initiative was conceived and implemented as an alternative strategy for promoting more SHGs in a wider geographical area, in the hope that more SHGs could be formed in less time.

A group of five women and three men were informally selected. These Promoters were selected on the basis of their involvement, for at least one or two years, in a successful SHG. They were either directly associated with SHGs (women) or were supporting them in maintaining accounts (men). They were supposed to have both accounting and organising skills, and to be conversant with group dynamics. All of them were from the local community and had an educational background varying from Class VI to X. They were articulate and vocal, and had some capacity in convincing and communicating with others. They also had some free time that they could use for the formation of new SHGs.

To start the initiative, PRADAN conducted a one-day training event for these Promoters. In the meeting, through participative methodologies, potential areas (villages or hamlets) for forming new SHGs were identified, and geographical boundaries set. Generally, it was expected that a Promoter would work in villages or hamlets about 3 to 4 km from her/his place, a distance that could be covered on foot or bicycle. It was expected that each Promoter would be able to form and nurture about five to seven SHGs in a year.

At the meeting they also set indicators for measuring the performance of the Promoters, who were to be compensated with an honorarium that was linked to the performance indicators. The indicators were finalised for a year and performance assessed at the end of the third, sixth and twelfth months.
At the end of three months, for example, a group would have 10 to 20 members who had met 10 times sitting in a circle (to encourage equality) and could all say the name of their group. Member savings would be at least Rs 20 per member per month. Lending would have started, and interest payments on loans be regular. An accountant would have been selected and cash and passbook training would have started. For this, the Promoter would get Rs 200 a group.

The Promoter would get a further Rs 250 for each group that reached similar targets for the first six months, and another Rs 500 for each group that reached the targets for the first year. The latter included at least 45 meetings held, one round of dividends distributed, a bank account opened, the process for taking a bank loan at least initiated and a stable accountant writing perfect accounts, as well as meeting all the indicators for the first three and six month periods.

Initially, in the first six months, the performance of the Promoters was very positive. As they were from the same community, they were able to build a rapport almost immediately. Potential members of SHGs had more faith and trust in them as they shared their experiences of having been a member or supporter of a successful SHG in the neighbouring village or hamlet.

However, difficulties arose especially after the first six months. The Promoters did not have the necessary facilitation and capacity-building skills. For instance, the Promoters would correct an accounting mistake at a meeting themselves rather than explaining the mistake to the accountant who was writing the accounts and getting him to make the correction. The Promoters also found it difficult to handle the more complex tasks of higher-order transactions like the distribution of dividends. Thus PRADAN sometimes had to follow up later with the group when a Promoter did not have sufficient skills to deal with particular situations. Some of the Promoters also went about their work in a more restrictive manner, for example, focusing on collecting savings and lending, rather than being able to see the bigger picture of an SHG, its needs, its ability to empower and so on.

Some Promoters also could not understand the logic of honoraria being linked with the performance indicators. For
instance, one of them thought that though the group was formed nine months ago, she was compensated for six month's work only.

As a result of these difficulties, PRADAN discontinued the scheme half way through. PRADAN feels that the CBGPs could have been more effective had they received further training and inputs beyond informal discussion and monitoring, and if PRADAN professionals had sometimes accompanied them to group meetings.

While this initiative was discontinued, the innovation involved is important. It attempted to build local capabilities that could spread the SHG movement in an area where the local capacities of tribal communities are emerging, but most development indicators, such as literacy, poverty and infrastructure, are very low.

The closure of the scheme also indicates limitations that would need to be addressed through additional training inputs. It may also have proved more effective to develop a cadre of professionals with higher educational backgrounds, say among any college graduates from the community.

BASIX has also sought to develop what they call micro-finance agents (see Box 4.1 in Chapter 4). These are indeed often more educated than PRADAN's CBGPs, and over 300 groups have been formed under the programme, of which 150 have graduated beyond their start-up phase and 110 received loans from BASIX.

Conclusion

By 2008 at the latest India is expected to have 1 million SHGs with 17 million members, almost entirely women. All the three chapters on SHGs in this part of the book, as well as Chapter 5, suggest that SHGs are much more than just financial mechanisms for extending financial services to the poor. While they perform this function, SHGs are autonomous organisations that may have strong impacts on their members that go well beyond access to financial services.

As autonomous organisations they share the challenges and dynamics of other small organisations. For example,
forming new groups requires significant energy, and the necessary group processes (in addition to financial tasks) cannot be bypassed. Likewise, if an SHG is not able to maintain itself as a well-functioning group, the financial intermediation it performs will collapse.

Governments, donors, policy-makers and resource-providers need to be aware of the dynamics involved in these small organisations. In their enthusiasm to promote and support a large number of SHGs and their anxiety to meet targets, they run the risk of turning these groups into ‘state-helped groups’, in the process destroying their very foundation of self-help and autonomy.

As more than financial organisations, SHGs can, at best, support better or new livelihoods for their members; empower them, including thousands and potentially millions of poor women; and form a major movement of grassroots democratic organisations.

This chapter has reviewed the role, qualities, challenges and rewards for the women leading SHGs in their respective villages. It is clear that their role is critical for SHGs to perform their task of delivering financial services to poor people, for maintaining and sustaining what are often fragile and vulnerable groups, and for ensuring they have wider impacts of economic development and democratic empowerment.

By approaching SHGs from a new angle, of social entrepreneurship, this chapter has taken a fresh look at what such leadership involves. It has revealed some of the challenges, in some cases perhaps realities, that underpin the leadership of SHGs that are emerging all over the country. For example, Draupadididi in Mahuva Tand village may be a very articulate and vocal leader, but her SHG was struggling, with three loans being behind in their repayments. A number of the groups had had long-standing leaders, even though many NGOs, including PRADAN and MYRADA, often encourage the rotation of leadership (MYRADA, 2000: 125-28) as an essential democratic feature of the group.

Likewise, the insights gained from the experience of the CBGPs suggest that local social entrepreneurs cannot easily take on the promotional role of an NGO which is so often essential for the emergence of well functioning groups. The
promotional role requires more professional inputs, which are likely to demand higher educational and skill levels.

Nevertheless, already many women leaders are emerging from SHGs, fighting for their rights, promoting broader development in their villages or communities, and helping women to engage in democratic processes. A small number have already been elected to serve on their local panchayati raj institutions (local councils) (see the section on empowerment in Chapter 7).

Moreover, many of the organisations that promote SHGs in India are looking for more effective and cost-efficient ways to do so, and potential solutions are beginning to emerge from the experimentation by BASIX, PRADAN and others.

However, the main institutional challenges, which remain largely unanswered at present, are threefold:

1. How to support existing leaders and social entrepreneurs and nurture new ones; at least one million will be required!

2. How to ensure that SHGs remain autonomous and are not captured by political and bureaucratic interests pursuing votes or targets. Will the emerging movement of SHGs be any better at preventing this than previous movements, such as cooperatives?

3. How to support the SHG movement so that it can go beyond financial-service provision to support the development of a large number of livelihoods among SHG members. Some would argue this is inappropriate for such small organisations. Others, including PRADAN, would say it is essential given the livelihoods India needs to generate, not least for women.

Note

1. I am grateful to the professionals in the PRADAN offices in Ranchi, Barhi and Lohardaga in the state of Jharkhand, especially for the valuable interactions I had with Soumen, Sukanto, Ajay Kumar, Avijet, Ramkishore, Dhiraj, Satish, Aparna, Meenakshi, Abdus, Samir, Vijay, Pavan and Rajnikant. I am thankful to all of them for managing the field-visits professionally and yet with modesty.