

The New Microfinance

An Essay on the Self- Help Group Movement in India

by **Kim Wilson**

Abstract: Indian NGOs have created at least one million self-help groups with 17,000,000 members since the self-help group concept was developed by MYRADA in the late 1980s. India is unique in that banks are permitted to lend directly to unregistered self-help groups and by May 2001, banks and cooperatives had financed 461,478 of these groups, with almost 200,000 new self-help groups financed between May 2000 and May 2001, indicating an accelerated process of expansion. The National Bank for Agriculture and Rural Development (NABARD) trains banks and refinances their loans. The key to NABARD's success is decentralization. Responsibility for group development and training is devolved to NABARD's 2,100 NGO partners and almost 450 banks and cooperatives provide banking services to the groups. According to the Microcredit Summit Report, 2,663,901 of the 6,651,701 active members of the groups financed through NABARD (most of them women) were categorized as "the poorest," making NABARD the largest microfinance initiative in Asia, with Grameen Bank a close second. (If the number of members of self-help groups not linked to bank financing are included, the number of the poorest being reached through self-help groups is at least double.) Local costs per group member to train and support a group until it can operate independently range between \$4 and \$12.

Late in the monsoon season in a coastal village of Orissa, I searched for a banker with whom I had an appointment. I located him standing in a watery rice field, trousers rolled to his knees, chatting with a group of women who had stopped long enough

from their work to listen. He was telling them how sorry he was that he could not, as yet, issue their self-help group a loan. Their records were not up to par, he told them. But he was pleased to note that repayment of loans from group savings was always on time. He suggested members contact a retired bookkeeper in the village, a friend of his, for help. He assured the group that once its records were good, the bank would issue a loan. After all, he had already issued loans to eighteen other groups in the village area. The women smiled. He unrolled his trousers, put on his shoes, made his way up the grassy bund, and walked me back to his village office.

This is a simple story and not particularly exciting. But it is new, new in the sense that this story repeats itself day in and day out across hamlets and villages throughout one of the largest countries in the world—India. It is a story that deserves recognition and a chance to make its way to other countries and to other women.

The new microfinance espoused herein rises from recent innovations in India and their impact, closely observed, on the lives of villagers. In light of what passes for microfinance around the world, these observations urge us to listen to our intuition: something good is happening out there and it is big.

The new microfinance is not really new at all. It is a reordering of parts in India's financial machinery so that it calibrates to the needs of the poor. This new order of things—formal and informal, social and financial—separates the new microfinance from the old.

What are the differences? Complex rules, practices new to the client, and credit power the old microfinance. Simplicity, traditional practices, and thrift power the new. The old microfinance aims for an institution to sustain itself through a push toward profit. The new microfinance aims for groups to sustain themselves through the pull of social benefits. "Best

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practices” from an institutional perspective drive the old microfinance. Breakthrough client experiences drive the new. Out with the old. In with the new.

Unnatural Acts

The old microfinance is unnatural. It asks bankers to become social workers or social workers to become bankers. It requests NGOs to transform into financial institutions and then to persist in reaching a market that, for them, is not profitable. True, microfinance institutions have reached many people left behind by conventional banks. But at what cost? At what subsidy?

Let us do the math: take the needed investment in loan capital, often with a high threshold set to the laws of a particular country. Now add to it initial operating subsidies, a few big investments like information technology and branch office buildings, fees for international consultants, travel expenses for these consultants, and in many instances, an endless stream of operating losses. Catholic Relief Services (CRS) has seen an average annual investment per client in a sponsored microfinance institution (MFI) climb as high as \$350.

Very high interest rates for clients are needed to cover all institutional expenses because, save the income from microfinance clients, the MFI has no revenues to cover costs. This equation, by any measure, is the math of failure.

Natural Acts

India has a better idea: the new microfinance, which links traditional wisdom rooted in the self-help model—and refined by pioneering NGOs, such as MYRADA—with the financial power of a network of 150,00 bank branches.

Here is how the new microfinance works. Promoters—field staff of NGOs, bank staff, or volunteers (often group members themselves)—reach out to women, gather them into groups of twenty or fewer—and encourage women to save weekly or monthly. Sometimes they save as little as five rupees

(US\$0.10) per month. Promoters show groups how to lend their collective savings for a variety of purposes, ranging from loans to buy a few chickens, pay school fees, or finance emergency medical care of a child. Promoters also instruct groups to properly record saving and lending transactions. After groups stabilize and are able to perform a variety of group management activities, promoters link them to local banks, where they may receive a group loan.

In this model, promoters organize people, motivate people, and find the poorest ones to serve—activities they do well. For them, these acts are natural. India's network of 150,000 bank branches is able to provide credit and savings services. Banks manage liquidity, analyze portfolios, calculate reserves, and collect payments. Banks already do these functions, so doing them for a new market niche poses a few challenges, but no major obstacles.

There is a third player in this model: NABARD, the National Bank for Rural Development. NABARD refinances the portfolio of state and commercial banks at an interest rate of 7.5%. This refinancing releases banks from mobilizing their own deposits to lend to untested groups of women. It is a stimulus, a good role for a national bank.

A fourth player is the Panchayat Raj Institution (PRI). The Panchayat Raj is an important local governance structure with resources and political seats allocated to villages and village clusters. Emboldened members of self-help groups run for local office and draw political rights and economic resources into their villages. Group members attract biogas infrastructure; funds for bridges, wells, and roads; and structures for schools and health centers. The Organization for the Development of People (ODP), in Mysore, Karnataka, reports that in one district, 179 self-help group members ran for local and district office. Of these women, 73 won seats in local office and 2 at the district level.

For each of these players, these acts are natural, and together they shape a good idea. But for India to have a good idea, it must be a big idea.

While the SHG movement in India represents the largest microfinance initiative in the world, with over 1,000,000 self-help groups with 17,000,000 members formed—the magnitude of the work yet to be done in this nation of 1.1 billion people is staggering. In India, 70 million families—between 350,000,000 and 400,000,000 people—live below the poverty line, and at least 75 million families could make productive use microfinance services. This is more than three times the number of families currently reached by all of the microfinance institutions in the world. (Ashe, 2002)

Three Models of Linkage

The NABARD refinancing program, piloted in 1992, is one of several in India. Currently, NABARD refinances loans generated by 17,085 bank branches throughout the country, yielding a branch penetration of 11%. With plans to reach one million SHGs by 2008, NABARD's annual growth predicts success. Whereas refinancing reached 25,000 new self-help groups 1998–99, it reached 200,000 new self-help groups in 200–2002. NABARD partners with 444 banks and a network of 2,155 NGOs and independent agents.

Three models of linking self-help groups to banks have evolved over time. Model 1 encourages banks to form and finance self-help groups. Model 2 encourages NGOs to form groups giving small cash grants and training as an incentive and then link them to local banks. Model 3 finances NGOs forming self-help groups to intermediate loans to groups.

From the point of view of CRS, Model 2 is most advantageous to local nonprofit partners. CRS has development partnerships with 2,500 grassroots organizations across India. Most are small, local entities, often social extensions of the Catholic Church. Partners work in isolated areas of the tribal

Table 1. NABARD Models for Linking SHGs to Banks

Model	% of Linkages	A Few Advantages (each model compared to the other two)
Model 1: Banks form and finance SHGs	16%	Lower cost of group formation, but groups may form for sole reason of receiving bank loan and disintegrate more quickly (Srinivasan, 2000); slightly better repayment rate (Puhazhendi & Satyasai, 2000).
Model 2: SHGs formed by NGOs and financed by banks	75%	Can reach poorer SHG group members; greater percentage increase in net assets of members; greater increase in net income (Puhazhendi & Satyasai, 2000).
Model 3: NGOs, MFIs, and group clusters are financed by banks and intermediate loans to SHGs.	9%	Higher (slightly) portion of poor members crossing poverty line (Puhazhendi & Satyasai, 2000). Convenient for banks interested in bulk loans, but could cost members in form of higher interest.

belt, which stretches east to west and north to south in two great bands. Tribal villages, often composed of disparate hamlets, make the task of amassing large concentrations of SHG members a challenge that rules out Model 3.

The Process of Group Development

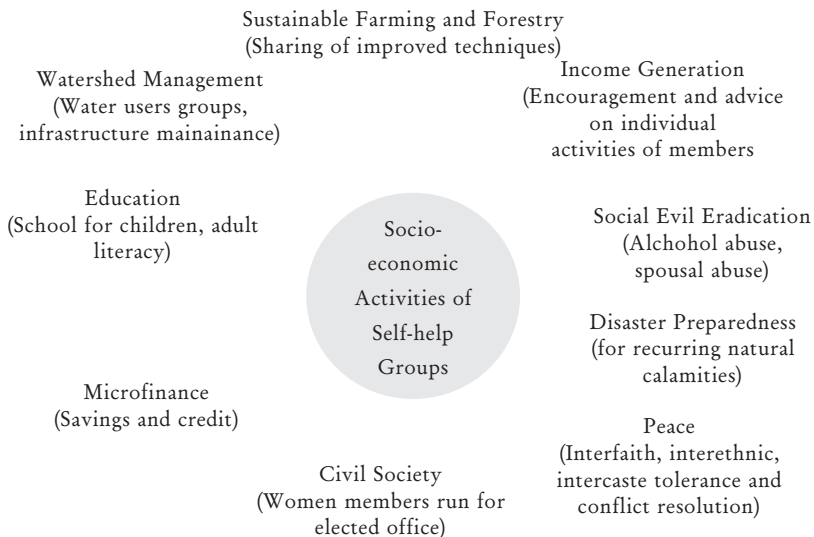
NGOs and banks define the group development process in many ways. Even among CRS partners, ideas vary about stages

Table 2: Financial Development of a Group

<i>Phase 1: Savings</i>	<i>Phase 2: Interlending</i>	<i>Phase 3: Bank linkage</i>	<i>Phase 4: Sustainability</i>
<ul style="list-style-type: none"> • Group chooses a common amount to save each month (typically between US 5 cents and 50 cents per member) 	<ul style="list-style-type: none"> • Savings continue • Group lends savings to members (charges interest) • Basic book-keeping begins 	<ul style="list-style-type: none"> • Savings and lending continue within group • Group approaches bank for credit, up to four times the amount saved 	<ul style="list-style-type: none"> • Group manages savings, internal lending, bank credit, and book-keeping without subsidized support
<ul style="list-style-type: none"> • Group opens a savings account at a nearby bank <p><i>Benefits</i></p> <ul style="list-style-type: none"> • Discipline of thrift, creation of assets 	<ul style="list-style-type: none"> • Groups learn to lend and borrow with small amounts of cash at stake • Dependence on money-lender reduced 	<p><i>Benefits</i></p> <ul style="list-style-type: none"> • Group develops relationship with mainstream financial institution for permanent credit access and savings services • Group can borrow up to four times savings 	<p><i>Benefits</i></p> <ul style="list-style-type: none"> • Group continues indefinitely (as long as members enjoy benefits)

of group development. CRS uses the simple outline below to define the financial development of a self-help group, which typically passes through several phases, as outlined in Table 2. Phase 3, “Bank Linkage,” is optional; a group enters this phase only if its credit needs outstrip its available savings.

Figure 1. Socio-economic Activities of a Group



The financial development of a group sustains the group over time so that its members may enjoy social benefits. CRS believes that social action and social change justify our subsidy. Again, the social development of self-help groups varies widely. Often, development is driven by group priorities. Just as often, it is driven by NGO imperatives. Figure 1 illustrates the types of activities in which self-help groups engage.

A group's social development passes through several stages. Depending on the locale and the make-up of its members, financial and social development of a group takes one to four years before the group reaches financial and social sustainability. Literacy rates and proximity to major travel routes cause the greatest differences in time needed to form groups and the cost of their formation. CRS partners in remote tribal areas of the Northeast and Eastern Ghats claim that scheduled castes and tribes (the most disadvantaged communities) require much more support in group formation than do more literate groups

located close to populated areas or well-traveled roads. Expenses per group from mobilization to self-management range from \$0 (in instances where volunteers and group members form new groups) to \$100–\$200 (where an NGO forms the group). On a per member basis, this subsidized cost of \$6–\$12 compares favorably to the \$350 of subsidy required to get an MFI up and running before it becomes profitable.

Why Banks Participate

As of August 2002, India's private and state banking systems had extended more than \$1 billion (5454 crore) in loans reaching 7.8 million households through self-help groups. For banks, the advantages of offering services to self-help groups range from risk diversification to incremental profits. The NABARD refinancing program allows banks to fulfill a legal requirement without using its own deposits. But more importantly, groups make excellent customers. They generate a low rate of nonperforming assets (less than 1%) and a high repayment rate: +95%, versus a much lower rate for routine commercial and individual lending. (Recent data shows that as of August 2002, 28% of bank credit extended to self-help groups is not refinanced by NABARD. Banks are choosing to finance groups with their own funds.)

Unlike typical bank customers, who borrow sporadically, groups borrow steadily and tend to increase their borrowing as their savings grow. In fact, the average loan balance of a self-help group is Rs. 22,240, up 22% from the \$463/Rs. 18,227 balance of the year. The average balance of individual rural customers is about Rs. 10,500 per customer, or US\$210. For banks, the interest income potential from groups is promising.

Groups save and deposit surplus savings—those savings not rotated as loans to group members—into a group bank account. These savings improve bank liquidity. A recent draft report notes that of 121 households surveyed in two states, 26% of “SHG households” polled in Orissa used bank savings services in contrast to only 15% of “non-SHG households.” In

Karnataka, the contrast is more striking: 34% of SHG households use banking services, as opposed to 7% in non-SHG households (GTZ, 2002).

Group linkages also bring unexpected benefits. Some banks find that as groups start to borrow, they clear old debts. Wives of defaulting husbands encourage husbands to repay late loans to preserve group status with the bank. Self-help groups represent incremental revenue, revenue beyond the bank's core income streams. Because most banks cover fixed costs with interest and fees from corporate or individual customers, self-help group interest, once variable costs are subtracted, goes straight to the bottom line. Bankers interviewed by CRS see groups as profitable or potentially profitable. Moreover, to earn this profit, banks lend to groups at interest rates of 12–13%, far lower than rates typical of an MFI.

Why NGOs Participate

CRS understands that the new microfinance means every institutional actor plays his rightful role. Grassroots organizations usually have good community contacts, knowledge of local languages and customers, and the patience and skill to organize groups of people who may be of disparate faiths, ethnicities, castes, and classes, who may be a camel ride from a good road, or a river trip from the nearest bus depot. Plus, grassroots NGOs know that they do not have what banks have—staff trained in managing cash, in conforming to regulations, in forecasting reserves, and in minimizing fraud. CRS partners claim they are glad to concentrate on “social animation” and leave the provision of financial services to banks.

In the MFI approach, the institution itself aims for self-sufficiency as a means to stay viable. Viability calls for high interest rates, often in excess of 3% per month, and relatively large loan amounts (\$50 or more), ruling out the poorest as clients. The very poor have trouble managing large amounts of debt and, in many cases, are averse to taking the initial risk of borrowing. In the self-help group model, the NGO seeks

self-sufficiency at a group level with self-sufficiency defined by CRS and partners as “unsubsidized group self-management.” Because loans originate from group savings, with groups absorbing transaction and tracking costs, members need not set high loan minimums. Such flexibility allows the poorest to borrow extremely small amounts—tiny chunks of debt well within a member’s capacity to manage. Unburdened by the yoke of institutional self-sufficiency and utilizing a methodology that costs only a fraction of starting an MFI, CRS partners can penetrate the heart of India’s tribal belt and bring services to remote villages and hamlets. Without the pressure to cover costs with internally generated income, partners feel free to bring news to groups about low interest loans, affordable insurance, and other financial services.

Sustainability, while taking into account self-sufficiency, means far more in the Indian context than in most MFI scenarios. As MFIs have evolved, self-sufficiency has gained primacy as the key indicator of sustainability. Data on desertion rates around the world, however, show such a definition to be inept. As MFIs churn their clients, their victory in gaining new clients is Pyrrhic. MFI performance in Africa shows that in some instances, annual dropout rates are as high as 60% per year (Wright, 2001). Lost profit streams siphoning unchecked from an MFI will guarantee its failure. In contrast, data on dropouts of SHGs, though scant, show a surprisingly low rate of desertion. According to internal reports from CRS partners and the author’s own observations of more than 250 self-help groups, a group of twenty loses less than one member per year.

In the context of self-help groups, CRS and its partners prefer a definition of sustainability that approximates reality more closely. That is,

$$\begin{aligned} & \textit{Unsubsidized group self-management} \\ & + \textit{Benefit stream to each member} \\ & = \textit{Sustainability.} \end{aligned}$$

Table 3: Opinion on the utility of SHGs

Perceived Utility of SHGs	Age of SHGs (in years)	
	2 or less	3 or more
Source of consumption loan	96%	91%
Source of production loan	46%	68%
Link to get loan from banks	79%	91%
Ability to solve social and community problems	45%	68%
Elevates social status	51%	70%
Link to other agencies and government	40%	62%

The key to this simple equation is the benefit stream—derived internally from the initiative of members and externally from opportunities introduced by NGOs and government—that accrues to each self-help group member over the life of a group. While MFIs do indeed provide benefits, evidence suggests these benefits are short-lived and inadequate to retain loyalty in the long run. Local self-sufficiency—meaning the ability of a group to manage its affairs without subsidized support—twined with an unbroken chain of benefits would be a far better proxy for sustainability than the vogue for more “precise” measures of financial self-sufficiency.

Why Members Participate in Groups and in Bank Linkages

A healthy self-help group offers each member a steady stream of benefits. Together these benefits ensure that the group will sustain itself for as long as its members value participation. Table 3 (Puhashendi, Satyasai, 2000) indicates changes in what groups value, depending on the age of the group.

CRS observations indicate that benefits are diverse and vary not only by beneficiary, but also by locale.

Instant Benefits. CRS partners have observed that members see value in gathering with other women to meet and talk. They also value the practice of thrift: the chance to put aside small amounts of cash or grains they can quickly convert to cash. Thrift differs from savings (accumulation of surpluses). Thrift implies small sacrifices. SHG members, even the very poor, can practice thrift by putting aside a measure of rice each day or week and converting that rice to cash when their group deposit comes due. Women see the benefit of motivating one another to practice the discipline of thrift, even in lean times, for a future gain in the form successively larger loans.

Another widely cited reason for gathering into groups is to receive information—how to save, where to find a rural extension worker for agriculture, which government schemes work, what income generation opportunities offer profit. In many cases, groups report that an even supply of news is important in all phases of group evolution. When asked informally, members respond that valuable information includes news about health resources, farming techniques, the latest methods of sustainable energy, and possibilities for income generation, like mushroom cultivation and auto-rickshaw operations.

Interim Benefits. We have observed that thrift satisfies members for a few months. In some tribal areas (for example in Phulbani District, Orissa), the practice of thrift at the modest scale of a few rupees per month sustains groups for more than ten years without other apparent practices or benefits. Most groups, however, move on to a second benefit: internal credit. Members borrow from the group fund for many purposes—consumption during lean times, medicine and doctors for household emergencies, household and farm improvement, and income generating initiatives. If credit needs outstrip supply from the group fund, groups may avail further credit by a factor of four through a local bank (the NABARD program explained previously).

Long Term Benefits. CRS partners and former partners have had hundreds of groups functioning for longer than eight

Table 4. Sample Task Forces of Self-Help Groups

Task Force	Objective
Panchayat Leadership	To run for local and district level office, to represent village interests, and to claim needed resources at the village level.
Health Development	To avail village of health and sanitation practices, and attract government resources (health workers) for primary health care.
Environment	To develop sustainable natural resource management practices, and to attract government resources (funds for infrastructure), and training sessions (e.g. biogas).
Economic	To oversee financial health of group and equity in the issuing of loans. To inform group of training in income generation by government and other SHPIs.
Education and Literacy	To ensure basic literacy of each member To ensure every boy and girl child attends school in village

years. These groups claim they still benefit from savings and credit but find meetings hold a more powerful purpose: to gain and share information, to take social action, and to link to government resources.

Groups as Catalysts of Social Action

Powered by financial activities—where poor women save regularly in a group fund, lend savings to members, and finally link their fund to a bank for additional credit—self-help groups, wisely engaged, are a route to peace, equity, and a just and civil society. Groups also act as agents of information and change. They prepare communities for natural disaster and lessen the impact of diseases such as tuberculosis, malaria, and HIV/AIDS. While the model's benefits are many, its financial activities sustain it and make a group's many and varied social gains possible.

In Mysore, Karnataka, CRS partner ODP, sees social action as the objective of self-help group promotion. ODP has organized its 20,000 SHG members so that each group includes small task forces with counterparts at the village level. Table 4 shows typical task forces and their objectives.

A recent study commissioned by a CRS partner in Tripura indicates groups are active in community development and peace building (Ramchandran & Ambroise, 2002). Mass violence and tribal conflict characterize this small state that borders Bangladesh, so communal activities across groups and tribes are very important. The study reports high participation in social justice activities. They have assisted in the release of wrongly accused victims from the local police (32%) or in campaigning against the use of alcohol (44%). Women make up 80% of group membership, proving they are unafraid to confront worthy social causes.

In addition:

- 71% of groups have installed latrines for community use
- 54% have helped construct village roads
- 98% have helped establish preschools
- 99% have helped establish elementary schools

Scale and Additionality

The pliability of the SHG model is such that taboo practices in the old microfinance become possible, even practical, in the

new microfinance. For example, an organization with no intention of reaching many clients, with a multiservice orientation, and with services targeted to a specific population would be unwelcome in the old microfinance. St. Paul's Trust in Samilkot just a few hours from the coast in Andhra Pradesh performs "worst practices" if seen through the old lens. But, by a different standard, a standard that looks at service, St. Paul's Trust is a success.

Founded in 1989 by Dr. I. K. Jacob, St. Paul's Trust dedicates itself to helping women who are infected or affected by HIV/AIDS. Samilkot borders a well-traveled truck route and has a high prevalence of HIV/AIDS. Dr. Jacob administers a variety of medical services to these women, ranging from testing to treatment to counseling. About eighteen months ago, Dr. Jacob began organizing women into self-help groups. Dr. Jacob and his staff gathered 100 women into self-help groups. Half of the members are HIV positive; the rest have HIV-positive family members, many of them very sick. SHG members under Dr. Jacob's care have designated family members to take their place should they die or become too sick to continue. Designees claim they will help repay loans and will continue with savings practices.

Of special note is the spontaneous marketing of the self-help group concept that emerged. Members of these groups report that local villagers have approached them, repeatedly. These villagers, healthy themselves and with healthy families, asked St. Paul's Trust groups if they could join as new members. Because most groups were already too large to take on new members, groups have agreed to help villagers to form new groups.

The St. Paul's experience signals how an inappropriate actor in the old microfinance has a valuable place in the new one. The simplicity of the self-help model and the removal of self-sufficiency as a requirement allow multisectoral NGOs to participate. Such simplicity also allows an unspecialized NGO, such as St. Paul's Trust, to provide quality services as an

addition to its core objective (in this case, to treat HIV/AIDS affected women) and core services. Moreover, the easily understood benefits of the new microfinance allow the concept to spread easily among villagers so that coverage does indeed take place, but not necessarily directly by field staff. In this case, members' own word of mouth satisfaction and a willingness to help other villages is the chief form of promotion.

The Ripple Effect

Venkat Ramnaya established Youth for Action (YAK), near Mahabubnagar, Andhra Pradesh, to promote village development focusing on agriculture. Ramnaya began creating self-help groups as a way to sustain his conservation farming agenda. To stem migration in the drought-prone area in which the organization operates, YAK raises quick-growing teak trees, processes neem into beneficial health and agricultural products, promotes vermi-composting, instructs in brick-making and methods of grafting, and harvests rainwater through clever, low cost housing designs.

Ramnaya initially promoted self-help groups personally by gathering village volunteers who came to YAK's model farm. He instructed volunteers on savings, credit, record-keeping, and bank linkage opportunities. His aim was to help finance sustainable agricultural activities promoted at the model farm. With access to savings and loans, villagers could invest in drought mitigation measures.

Trained volunteers, each a member of a self-help group, have since formed hundreds of groups and helped link them to local banks.

Volunteers first organize members in their own hamlets into groups and clusters of groups. They then find counterpart volunteers in other villagers and train them. On average, each volunteer interviewed had formed her own group plus one other. Groups also develop their own bank linkages. Villagers pay the expenses for volunteers who attend training sessions in

government schemes, sustainable agriculture courses, and self-help group strengthening sessions. When asked why they form self-help groups, volunteers responded they did so for the prestige of bringing “important services to their villages.” These benefits warrant working about three hours per week to promote SHG responsibilities. Ramnayya does not know exactly how many groups have formed and has no intention of tracking this number. Since no external donor funded the self-help group effort, YAK’s founder feels no pressure to report on “microfinance” activities. He concerns himself with sustainable agriculture.

Serving the Natural Village in Emergency Prevention

The natural village is a village defined by its watershed, the slope of land, and the pull of gravity on rains and upland springs. In India, nature forces village inhabitants to continually address the flow of water, the lack of water, or disturbances from cyclone, tremor, and landslide. The natural village in India is apart from the revenue village, the ruling construct that defines government resource allocation and political votes. But the natural village rules supreme in circumscribing rhythms of rural life and figures largely in managing emergencies.

The 1991 census (the 2001 census is not yet available) shows that 628 million people depend on farm incomes. These incomes rely on a monsoon that releases too much or too little water. Self-help groups made up of farming families are often part of a village that experiences recurring weather-related disasters, particularly drought and flood. Proper management of the natural village, then, is a form of insurance, protecting farm assets, food, animals, and people.

Self-help groups can and do serve as a means for mobilizing the natural village, including its web of tiny hamlets, to lessen the effects of natural hazards. In West Bengal, using self-help groups as a springboard, Catholic Charities Krishnanagar

(CCK), a CRS partner, provided disaster preparedness training in 300 villages. By using a participatory learning and action methodology, staff of CCK reached villagers in three districts, all flood prone and devastated by rains in 2000. As a result of these activities, (1) families feel more confident in managing a potential crisis, (2) families have changed animal raising practices and cropping patterns (to pre-September harvests) to avert flood impact, (3) communities have created infrastructure to prevent loss of life (raised platforms and school-based shelters), (4) families have reserves of grain in protected bins and important documents sealed in plastic, and (5) women have been highly active at Gram Samsad meetings to effect important policy changes and to attract resources (roads, bridges, and wells) to their communities.

Self-help groups rank disasters according to potential impact and create plans to respond to them. Early warning systems, planned rescue procedures, and plans for the immediate protection of a community's most vulnerable citizens (children, sickly, and elderly) are part of responding to a disaster in progress. Supplies of food, water, and infrastructure (wells, rafts) are part of preparation. Changes in animal raising and cultivation patterns are additional food-security measures to lessen the impact of potential disasters.

Self-help groups in drought prone areas have also marshaled efforts against natural disaster. A CRS partner in Rajasthan, Gram Vikash Navyuvak Mandal Laporiya (GVNML), reports villages have shored up water harvesting structures and developed pastureland for animal fodder as measures against a failing monsoon. In the Diocese of Udaipur, CRS partner UDSS notes that self-help groups of Dongarbhil village have constructed check dams and routinely clear and clean waterways and wells. As a result, water levels and farm productivity have increased, allowing villagers to return to their cultivation of traditional crops, like corn, wheat, and lentils. In one watershed, self-help groups have been able to convince all villagers to refrain from new marriages for an

entire year. Weddings in this tribal area constitute a major expense, with high a premium placed on the availability of food and alcohol. Regulating this tradition is the village's way of building a surplus of cash to mitigate predicted drought.

As a relief agency, CRS has seen particular benefit to the self-help model. Working with local NGOs, and coordinating with a variety of government and international agencies, CRS made two relief distributions in the State of Orissa within a two-year period. When a major cyclone struck in 1999, it affected 19,000 coastal villages, leaving many families homeless. CRS made distributions using conventional relief inputs and methods of distribution. CRS and partners also experimented with distributions through 365 self-help groups. The performance of relief efforts through self-help groups was far superior to conventional methods, inspiring CRS-led formation of new groups and instruction in disaster preparedness. In 1999, when massive floods returned, CRS made all distributions through self-help groups. Local distribution costs dropped by 60%. Moreover, improved watershed structures and other mitigation measures, spearheaded by SHGs as disaster preparedness activities, lessened flood impact on crops, animals, food stores, and elderly family members.

Loan Elasticity

The new microfinance takes into account the seasons and rhythms of the natural village. Two CRS partners in Madhya Pradesh, an extremely poor and drought-affected area of India, report that groups prefer to meet and save on evenings related to the lunar cycle, during full and half moons. These natural markers are easy to remember. Banks are even known to tie repayments to seasonal signs. A local banker near the rural city of Banswara asks groups to repay their loans when the tree called the Flame of the Forest blooms, usually coinciding with the harvest of winter grains and vegetables. The self-help group model acknowledges the importance of sowing and harvesting in farm life, and that farm life is subject to the vagaries of

nature, which separates the new microfinance from the old. Whereas in many countries, the sectors of agriculture and microfinance duel, in India, they are inseparable strands of rural development.

Internal loan terms from self-help group funds vary widely. Some groups require payments to come due in three months. Others require members to remit interest only each month, with principal payable in balloon installments based on household cash flow. Flexibility from banks is also surprising. Banks in Uttar Pradesh have successfully issued “cash credits,” or a line of credit to groups based on savings. Orissa, the Puri branch of the Bank of India, issues “top-off” loans, where groups have a two-year term, but can apply for more credit as their savings increases.

But Does It Work?

Do self-help groups offer the anticipated impact? Does linking them to banks increase prosperity? A recent study commissioned by NABARD of 560 households from 223 self-help groups in 11 states indicates an emphatic “yes” to both questions. According to the study, 37% of members linked to banks by self-help promoting institutions were marginal farmers and 34% of members were illiterate (Puhazhendi & Stayasai, 2000). CRS partners located in tribal areas (covering about 70,000 members) report that more than half the membership is landless due to losses to moneylenders.

According to the study, self-help groups linked to banks have produced benefits to members. Average assets increased by 73% from Rs. 6,843 (US\$125) prior to joining an SHG to Rs. 11,793 (US\$225) after joining an SHG in the study period, spanning an average of three years. Average annual income increased by 33% and savings tripled from Rs. 460 (US\$9) to Rs. 1,444 (US\$30).

As important as economic indicators are social measures of success. Before joining self-help groups, only 20% of members “exuded confidence,” while after participation, 88% did so.

While only 29% of members felt they “could confidently face financial crisis” before joining their groups, 92% felt they could confidently do so after joining. Fifty-six percent of surveyed member households in self-help groups (older than three years) crossed the poverty line (Puhazhendi & Stayasai, 2000).

Interesting Findings and Trends

Recently, as more practitioners, bankers, donors, and scholars have soldiered forth into the world of self-help groups, many have reported findings worth noting. Here are just a few:

Moneylender activities. In Karnataka, CRS partner ODP reports that in four districts near Mysore, moneylender rates have dropped from 120% per year to 36% in villages where ODP groups operate.

Groups helping others. Many groups with members that include the poor in a village extend themselves to the very poorest. They do so in several ways. Groups in Jharkhand report that members save a handful of rice each day. At the end of the month, members sell the collective rice to their poorest neighbors for about half the price that they would sell it to market vendors.

In Orissa, several groups faced the problem of day laborers (the poorest of the poor and often members of scheduled castes) being unable to save the same amount as other group members in a village. Further, these poorer community members could not attend the same meetings as the better-off ones; meeting times were inconvenient. Self-help groups have helped the poorest women to form their own groups. In these new groups, members save as little as Rs. 5 per month. Leaders set meeting times when members can all meet, often early in the morning.

Social Clustering. With NGO support, groups cluster themselves as part of more powerful, village-level entities. Clustering, or the grouping of groups, is taking place so that groups can solve community problems and bring in more resources efficiently. Social clusters have worked to stem

murder (Madya Pradesh), to stop rape (Jharkhand), to improve schools (Kerala), to manage watershed and income generation projects (Rajasthan), and to reclaim land (Uttar Pradesh).

A Profile of the Old and New

Table 5 summarizes some of the major differences in approach between the new microfinance and the old.

Challenges Ahead

The new microfinance has enjoyed an auspicious beginning. But what lies ahead as self-help groups multiply and the bank linkage programs continue?

Are NGOs a bottleneck to information? A key role for NGOs is to bring information to groups about local opportunities: bank credit, skills training, and ways to participate in the village governance structure. A growing concern for CRS is that some partners may be withholding information that is inconvenient for them to share with the groups. For example, one CRS partner is still offering self-help groups credit from its own pool of loan funds. Groups are unaware that they can borrow at a lower interest rate from a local bank. The partner claims groups do not use banking services. In reality, groups know little about the service and what they do know comes from biased remarks delivered by the partner. This situation asks this question: to what extent should NGOs screen opportunities and information?

Can members really leave their groups? This is a second challenge. Most self-help groups evaluated by CRS do not make provisions in their bylaws for a member to exit the group, until a member actually wants to leave or needs to leave. Members must leave for a variety of reasons, with migration and marriage commonly cited. Groups make provisions for a member's exit on an as-needed basis. A lack of a clear means, discussed in advance, for a woman to leave a group makes withdrawal difficult. Women often report feeling shame when they do leave because they believe they are breaking the rules.

Table 5: Comparison of New and Old Microfinance

	Old Microfinance
Rules of Model	Intricate, explicit rules dictated and directed by MFI
Institutional Thrust	Single actor providing both organizing and credit services
Growth Strategy	Reliance on paid animators (field workers) to engage community members to participate in scheme
Locus of Sustainability	Self-sufficiency sought at institutional level; institution to cover all costs through internally generated income
Transparency of Options	MFIs tempted to withhold information concerning competitive local resources (e.g. lower interest loans)
Service Providers	MFIs provide group organizing functions, credit, and in some cases, savings and insurance (insurance often provided by third parties)
Financial Service Focus	Credit-led with savings services in some cases; credit minimum high in order to cover transaction costs of borrower
Credit Profile	Credit tailored to the needs of the financial institution for cost purposes; loan terms and repayment practices based on institutional viability; therefore rigid regarding regular payments of principal
Loan Purpose	Initial loans typically designated for income generating purposes
Interest Rate	Calculated to cover costs of specialized institution plus institutional and investor need for return on investment; rates often ranging from 36% to 87% (CRS MFIs)
Depth of Outreach	High minimum loan amounts (at least \$20 per member) preventing reaching the poorest; also, rigidity in repayment of principal excludes seasonal cash flow patterns of poorest
Drop Outs	CRS own data shows 11% lowest rate; some programs with 30%
Annual Investment per Client	Investment and opportunity costs high; in initial five years investment is as high as \$300 per client, including operating subsidy plus loan capital

Table 4 Cont'd

New Microfinance

Rules of Model	Simple rules made by groups
Institutional Thrust	Multiple actors providing organizing, savings, and credit services
Growth Strategy	Growth often resulting from “ripple effect”: groups forming new groups; local volunteers spreading information
Locus of Sustainability	Self-sufficiency sought at group level; group able to cover costs through members’ labor and internally generated cash
Transparency of Options	NGOs have no reason to hold back important information and options that speak to the best interests of groups and members
Service Providers	SHPIs provide group-organizing functions; groups and banks provide credit; third parties provide insurance
Financial Service Focus	Savings-led, based on the concept of thrift; credit minimum nil, as group bears costs
Credit Profile	Financial services flexible and based on capacity of each group member; terms often negotiated—even mid-term—to adjust to repayment capacity of borrower
Loan Purpose	Initial loans typically used for any purpose
Interest Rate	Calculated by group to cover “hard costs” and varying according to group need for return on investment; group level rates often range 24%–60%; Bank rates 12–13%
Depth of Outreach	Low minimum loan amounts allow even the most risk-averse poor to participate; flexible repayment of principal (both at group and bank level) consider the variable cash flow of the poorest
Drop Outs	Less than 5% per year (undocumented officially; data drawn from CRS-partner reports)
Annual Investment per Client	Investment and opportunity costs low; in initial five years, investment is as low as nil (for self-replicating groups) and as high as \$10 per year per client (for CRS/partner supported groups)

Is there confusion in the marketplace? Swarnajayanti Grameen Swarozgar Yojana (SGSY) is a government program administered through NABARD. Groups may access one-time subsidized loans to help with income generation and other purposes. Because NGOs and groups have difficulty differentiating between this program and the SHG/bank linkage program, two problems arise. First, groups often form for the sole purpose of receiving these one-time benefits. Groups formed for an instant benefit tend to break up over time. Second, these government programs have targets that managers feel pressured to meet. Members have reported feeling pressured to form groups for the purpose of receiving SGSY loans.

Are the poorest still overlooked? While very poor women can and do participate in the self-help movement and the SHG/Bank linkage program, we find that sometimes the poorest are still excluded. Exclusion presents serious concerns. Rigid and regular savings, a practice designed to achieve a balance of power within the group, may prevent the poorest villagers, with irregular cash flows, from participating. The following example, while possibly an exaggerated form of the problem, illustrates what can go wrong for the very poor. In eastern India, an NGO was encouraging groups to save Rs. 100 per month in order to build up their internal loan fund. While in of itself this may be good advice, the groups we interviewed reported that half their members had left early on, unable to keep up with the high savings rate.

A second reason that the poorest may feel excluded is the increasing loan size. As group funds build, loan amounts tend to grow. A group member may have little trouble managing a loan for a few hundred rupees to buy chickens. But a loan for a few thousand rupees to purchase pigs can be daunting, especially if hardship visits the household. CRS has noted members dropping out because they could not repay a loan, even though they enjoyed perfect loan repayment previously.

Can SHGs really do everything? NGOs and government initiatives often task self-help groups with multiple activities,

many of which reflect a larger social agenda, specific governmental targets or the mission of a particular NGO. The engine which allows a self-help group to sustain itself and provide a stream of benefits to members is finance—credit and savings. Distractions from core financial activities can undermine their quality and thus jeopardize not only the financial functions of a group, but its ability to enjoy long term social benefits.

Few studies show whether or not a group is better off in social performance if it concentrates on perfecting financial activities—leaving social good as an expected consequence—or whether, conversely, a social agenda serves to strengthen a group's financial activities. A CRS partner in Darjeeling claims that its own lack of “social animation” in groups has led to members saving and lending, but little else. A partner in Karnataka asserts, as do its groups, that multiple social activities serve to strengthen core interest in economic functions. Yet, when and how do external agents introduce social elements? How much can a group take before it implodes? Various organizations are looking into this concern.

Conclusion

Why is the new microfinance the world's best kept secret? Here is why: Western donors cannot take substantial credit for the success of this model, so why publicize it? Though many international donors, such as IFAD, DFID, GTZ, Misereor, and Ford Foundation have supported the new microfinance, the U.S. government has been missing in action. Sadly, for many followers of positive trends in microfinance in the United States, the SHG/bank linkage scheme will gain currency only when USAID blesses it as a “best practice.” That blessing will occur as experts realize that profitability in a microfinance institution, a best practice of the old microfinance, comes to a handful of players and that breaking even is an elusive goal and, if ever reached, is reached by virtue of having exacted huge subsidies in start-up costs and capital.

This essay argues for a return to our original intent in microfinance, that is to improve the lives of the very poor. The new microfinance is a reaffirmation of our original intent, armed with new knowledge about how to make our intent real.

The new microfinance is a wholesale departure from the old. It rejects an imported model of development in favor of an indigenous one. It understands that in the eyes of our poorest clients, the power of thrift exceeds the power of credit. It recognizes the totality of problems in rural communities and the diversity of solutions inherent in the self-help model. It places groups at the center of a wide sweep of activities and promotes microfinance as a means to sustain these activities, not as a goal unto itself. It builds on local NGO strengths and natural capacities and discards the costly notion of transforming grassroots organizations into financial institutions.

Best of all, the new microfinance acknowledges that development is messy. It makes no effort to reproduce the tidy formulas or the gloss of the old microfinance. The new microfinance is loose, uncontrolled, free ranging. It is human and intimate, simple, nimble. It celebrates the many expressions of group formation and the infinite, improvised experiences of group members. It looks to banks to provide banking services and to offer bankers a chance to enjoy an unbidden but gratifying social contribution. The new microfinance sees the division of labor as key to efficient programming and looks to a robust set of actors to play their appropriate roles. It honors in full measure the notion of stewardship, where subsidy, if wise, is good.

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