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Microcredit world record

Thanks to a large network of diverse institutions, the microcredit programme of India's National Bank for Agriculture and Rural Development reaches almost 25 million poor households. The concept builds on the experience in other Asian countries and is implemented all over the country.

[By Stefan Karduck]

"Linking banks and self-help groups" is the name of a fast-growing programme run by the National Bank for Agriculture and Rural Development (NABARD) in India. It started out in 1992 as a pilot scheme with 500 self-help groups (SHGs) and has since grown and become the world's biggest initiative of its kind. NABARD reports that the programme was providing 24.3 million poor households with access to the formal banking system last year. Moreover, 90 percent of the SHGs had an all-female membership (see next page), which in itself amounted to a major success in normally male-dominated India.

Informal self-help groups have a long tradition in India. The basic idea of the NABARD programme is to offer such initiatives formal banking services. As most SHG members have large families to feed, NABARD now reaches more than 100 million people – at least a quarter of those living in absolute poverty in rural India. By the beginning of 2004, banks had granted a total of more than $870 million in SHG loans, and $470 million of the total sum was refinanced by NABARD. SHG savings were estimated at $130 million. At the time, the programme operated through some 36,000 branch offices of hundreds of banks.

There are practically no repayment problems. Therefore, the "linkage business" is financially attractive. This fact ensures the sustainability desperately needed to have an impact on the dismal deprivation still found in rural India. Today, the programme operates all over the country, but the density of the branch-office network varies considerably from one region to another. India's North-East, in particular, is still undersupplied.

Necessary thrust

Government-run agricultural banks are not generally noted for successfully reducing poverty. They have a reputation of being unwieldy institutions with little concern for results and efficiency. Nonetheless, NABARD has developed the necessary dynamism thanks to a host of different factors. The deregulation drive of the early 90s triggered a burst of economic growth that helps small businesses to expand. By liberalising the financial sector, India's central bank, the Reserve Bank of India (RBI), created scope for action, which the NABARD management – most notably Chairman Y.C. Nanda – have taken advantage of. NABARD assumed the role of a facilitator, providing refinance funds for the retail banks it is working with. NABARD is drawing on India's massive network of (mostly state-owned) commercial banks, regional rural banks and cooperative banks.

The poor used to be practically excluded from the formal finance system in India. Four-fifths of the population live in rural areas and generate 40 percent of GNP. But only two percent of bank loans flow into agriculture. Consequently, the majority of the population depend on informal money lenders – despite the government's long-standing commitment to improving credit provision in rural India.

In 1969, Prime Minister Indira Gandhi nationalised 14 private banks. That step gave the government total control over the formal finance sector. In the mid-1970s, seeking to promote branch-office development, the government set up regional rural banks to provide subsidised loans to a growing number of clients. In 1982, the government spun off the NABARD from the Reserve Bank of India – again with a view to improving the provision of credit for farm regions.

However, state intervention proved problematical. Many recipients of loans regarded credits as gifts. Loan repayments are still outstanding today – and on a massive scale. In 1983, a NABARD conducted study found that India had an exceptionally well-developed financial infrastructure for a developing country. However, it was not run according to normal banking conventions, because it was state-directed. Unsur-

Self-help groups are active throughout India – in Rajasthan in the North-West just as well as in Andhra Pradesh in the South-East (next page).

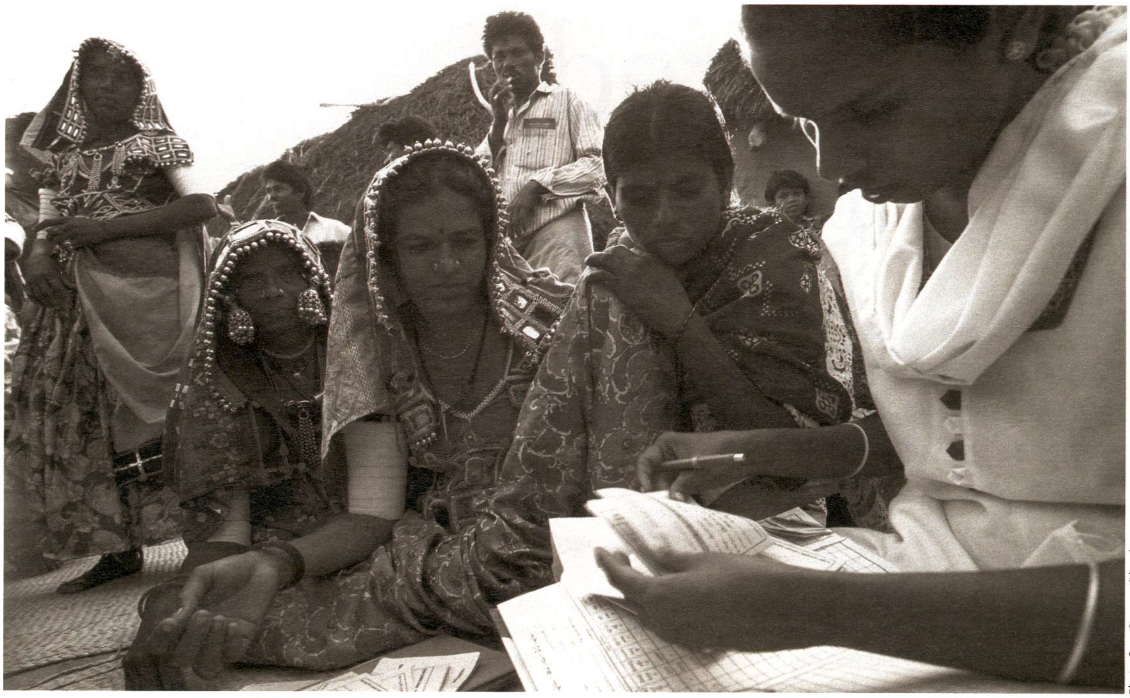

Photo: Sean Sprague/Lineair

prisingly, the rural financial sector was in dire economic straits by the late 80s.

In the early 1990s, the country plunged into the worst financial crisis in its history. Under pressure from the World Bank and the International Monetary Fund, the government started to liberalise the economy. Even though banks were not immediately privatised, their managements won back the right to make business decisions – for instance, on how much interest to charge for loans.

Asian models

New micro finance projects were developing at the time in Asia – and particularly so in Indonesia. The new models showed that linking self-help groups to financial institutions was an effective way to provide the poor with long-term access to financial services. After a workshop in 1986 in Nanjing, the umbrella organisation APRACA (Asia – Pacific Rural and Agricultural Credit Association) made this strategy its main programme.

NABARD managers participated in the workshop. In its wake, the bank conducted its own feasibility study and scrutinised the successful example of Bank Rakyat Indonesia. Nanda went there himself in 1989 and 1990. As a member of NABARD's Development Policy Department, he had a crucial influence on defining the strategy.

In contrast to the much applauded Grameen approach in Bangladesh, the Indian management decided to rely on the locally prevalent savings potential as well as on regular bank loans instead of on loans or grants from donor countries. The conditions for doing so seemed propitious. In India, plenty of financial institutions, non-governmental initiatives and financial self-help groups were already active. All that was needed, was a way to network the various actors.

The pilot scheme mentioned above showed the potential for success. The repayment rate was excellent – nearly 100 percent. Normally, the repayment rates for rural credit vary between only 50% and 60% in India. In a paper written in the mid-1990s, Nanda mentioned 637 SHGs working with 28 banking institutions at the end of June 1994. He forecast that there would be 10,000 such groups by March 1997. In line with his motto "Either we do it with full force or not at all", the goal was set in 1999 to service 100 million poor through a million bank-linked SHGs by 2008. When that threshold was crossed as early as 2004, the management set a new target, aiming to more than treble the total volume of micro-loans to $3 billion by 2007.

From the present vantage, that goal seems realistic. The programme will keep on growing because all parties involved benefit. The SHG business is profitable for the banks. It also sustainably improves the living standards of the SHG members and their families. So far, there was an emphasis on establishing new SHGs. It is likely to shift, however, to more intensive advice for existing groups. The reason is that many SHGs – especially those that have been around for a long time – have built up such considerable funds that they need professional accounting services.

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Link:
NABARD
http://www.nabard.org/roles/mcid/introduction.htm

Social control and group solidarity

"And then we adopted a child," the interpreter says, translating the words of the older woman sitting with the self-help group in the only room of a village school in Bangalore Rural District. "A group member adopted a child?," I ask. "No, not one of the group – the group itself adopted a child," is the reply. I am impressed by the civic commitment of these poor people in the State of Karnataka. They have also painted the school building and made a donation for earthquake victims in 2001.

The social side-effects of many microfinance programmes are now widely known. They essentially result from the empowerment of group members – especially of women. Success breeds confidence, helping people act more assertively as a group and also as individuals. They negotiate with banks, take charge of family finances, and even get the district authority to close down local liquor shops because men squander too much money there. Some women even save for their own dowry and thus get a say in the choice of their husband.

The self-help groups start out without bank loans, collecting small but regular sums of money saved by members. The average amount is 40 rupees (roughly €0,80) per member and month. In many cases, groups are established by NGOs or even government agencies. Only around a quarter are formed at the direct or indirect instigation of a bank. At the outset, the groups need support – not least because of widespread illiteracy. But once a group has gained some ground financially, it is likely to even need an accountant to keep track of its capital.

The money saved is lent to members on terms the group determines itself. Between two and three percent interest a month is payable and used to augment the group's asset base. In this phase, groups learn the fundamental rules of lending and recovering money. At the same time, the members learn to handle, invest and repay borrowed funds.

Photo: Sean Sprague/Lineair

The bank that will later partner the initiative observes the group from an early stage. If after six to 18 months it is convinced that the group is sound, it tops up the group's capital fund with a loan. To this end, the group formally opens an account with the bank, its members accepting joint liability for all debt.

The banks normally set interest at between eight and 15 percent a year. In the world of microfinance banking, that level is very low. It is due partly to India's long tradition of "social banking" but also to the near-100% repayment rates achieved, which make cross-financing unnecessary as a hedge against default. The fresh money from the bank is lent to members at the interest rates normally charged by the group. The group's potential is thus strengthened and individuals can take up bigger loans.

Social control and group solidarity take the place of the collateral banks normally require. The groups chose their membership according to personal trustworthiness. Accordingly, personal acquaintanceship renders checking credit – a cost-generating activity – unnecessary. In the eyes of those lending the money (banks, NGOs or government bodies), this practice means more credit volume and low transaction costs.

Of course, not all groups are equally successful. For the German researcher, some of them seemed rather artificial entities formed for the personal benefit of the two chairpersons. Sometimes ambition would also seem directed at getting access to governmental support. Most of the self-help groups we studied, however, were obviously working well and enjoying the respect of their entire villages because of their achievements. *Stefan Karduck*