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The Vulnerability of 'Self-Help': Women and Micro-Finance in South India
By K. Kalpana (2008) IDS Working Paper

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The Promise of Microfinance

Micro finance can transform the lives of the rural poor, especially women. Its success in creating economic and social development from below was celebrated by the award of the 2006 Nobel Prize for peace to Muhammad Yunus and the Grameen bank of Bangladesh. But critics suggest that reality often falls short of the ideal, and that microfinance is no panacea.

A popular strategy in India has been to encourage links between banks and village women's self-help groups, with some credit lines subsidised by state anti-poverty programmes. The intention is to lower transaction costs, enable banks and local government departments to meet their targets for social lending, and give poor women access to subsidised credit for starting local enterprises as well as unsubsidised loans for consumption. The banks also see longer term commercial potential in servicing a growing rural market for financial services.

But recent research in villages of Tamil Nadu, South India, suggests that microfinance is not automatically empowering, and that poor people can be vulnerable when caught up in unequal power relations with banks and local organisations implementing credit-based development schemes. How microfinance actually works depends on a web of formal and informal relationships between bank managers, NGOs, local officials and women's groups, which can distort the original aims and create tension and conflict.

The Village Level Reality

A common practice is for banks to make new loans to self-help groups conditional on repayment by individual members of old debts, including those incurred under quite different schemes by a woman's male relatives. Swarna faced expulsion from her group because her husband had borrowed Rs 2500 sixteen years previously, and with interest now owed arrears of Rs 10,650. It was not until her daughter-in-law had repaid Rs 6500 from her own savings that the bank manager yielded to pleas from the group to allow a new loan to proceed. Saradamma, an elderly widow, was less fortunate: she was forced to quit her group when she was unable to repay her deceased husband's debts to the bank. Many self-help groups face a choice of effectively becoming debt collectors for the banks, or expelling members who are unable to pay.

A Legacy of Mistrust

The spectre of old bank loans haunts self-help groups in other ways as well. The research makes it clear that, in the study villages, bankers' concerns about non repayment of loans to self-help groups are entirely unfounded. The groups typically bend over backwards to ensure that they repay on time -- sometimes to the point of imposing fines on members, or otherwise harassing them. Nevertheless some banks persist in seeing self-help groups as potential defaulters. There are instances of banks demanding three-year fixed deposits amounting to 25-30% of a subsidised loan as collateral, in spite of the fact that the scheme's rules explicitly forbid this. Banks also discriminate on the basis of caste, making it harder for self-help groups including Dalits or other marginalised communities to secure loans.

A Lack of Understanding

Although there are some honourable exceptions, women perceive banks as insensitive to their needs and circumstances, and bank managers as impatient with their lack of experience. Mutual trust is largely absent. For example, banks often fail to disclose the basis on which they calculate interest rates, or to explain procedures. As a result, women feel exploited and suspect extortion.

Much depends on the individual bank manager. But many are intolerant of rural women with low literacy levels, and unsympathetic to their circumstances. In one case a bank required self-help group members to take it in turns to make the weekly visit to the bank, failing to take account of the fact that women who were wage labourers would be penalised for missing a day's work by losing the opportunity to work on four successive days. When the group's president pointed this out to the bank manager, he sarcastically suggested that she should expel all wage labourers from her group.

Fictitious Enterprises

Other problems arise from the design of subsidised credit schemes. Bank officials have to disburse an annual quota of subsidised loans through self-help groups, and loans must be offered for a pre-selected range of income generating activities. Banks therefore offer large loans for enterprise promotion to women who are neither willing nor able to engage in the prescribed activities. The result is that women invest considerable effort and resources in subverting the scheme.

In one instance, the self-help group contacted a brick kiln operator and struck a deal with him. For a fee of Rs 4000, the owner provided documents to show that the group had acquired a brick kiln and leased it to him to manage. Bank staff colluded in this fiction. In another case, arrangements to fabricate evidence of setting up cement stone manufacturing units went awry when the bank manager made release of the subsidised portion of the loan conditional on purchase by the group of cement and other equipment. Some bank managers expect bribes and payments for ignoring fictitious enterprises; and payments to local level officials for processing subsidised loans are routine.

Costs, Benefits and Lessons for Policymakers

Members of self-help groups do gain from access to credit, and also from networking with banks, public officials and NGOs. But they also face multiple pressures and costs -- both financial and social -- that help explain why credit schemes for poor people sometimes fail to deliver expected benefits, especially for the most vulnerable. The research highlights the importance of understanding the social and institutional pressures and incentives faced by all the key stakeholders. Some of the problems encountered could be addressed by more appropriate design -- for example, of rules governing subsidised loans for enterprise creation. Others could be eased by better communication and greater transparency about procedures. But how the schemes actually work depends in large measure on how bank managers and officials exercise their discretion, and how individual groups and group leaders respond, in the context of very unequal power relations.

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