

ILLUSTRATION: AJAYA MOHANTY



Learning from self-help groups

Policymakers may look at experimenting with a lower interest rate (thereby costs) for small retail repetitive savings in order to encourage the poor to save

The self-help group (SHG) movement is the most significant innovation in the rural financial landscape in many decades. It challenged many myths and proved that counter-intuitive thinking could work if we are able to embrace and formalise the attributes of informal exchanges. The policy question is whether we nurture a system coming from the grassroots and allow them to naturally grow or infuse growth hormones.

The movement started with savings, a counter-intuitive initiative in the rural financial system. This was the first instance where credit was not talked about as a credo. This movement also targeted poor women in rural areas, circumventing the patriarchal belief that the head of the household, who is usually male, should be at the centre of poverty-related intervention. People may explain this by saying that women have a natural tendency to save because they are caregivers of the family. But we need to look beyond. The design of the programme reveals that, even if we agree with the gender argument, it was basically a product-design argument.

Women saved predictable, fixed and small amounts regularly (weekly or monthly, depending on how the groups were formed); they pooled the money in a meeting on a pre-specified day; the meeting was held in an open area, proximate to where the women lived; and most of the groups did not pay interest, but women nevertheless saved because

they wanted to put some money away, in a place that they trusted. If one were to see the effect of discipline and accumulation, then SHGs give a good example of how that was managed.

But savings were not the end. Those were then lent within the group to people who needed cash, on which the community charged interest. The interest rate on

loans was pegged to the informal rates to ensure very little arbitrage. The rates were articulated on local terms, as some paise per rupee per month, rather than the annual percentage rate. Basically, the groups were talking in a language that the women understood. This was a closed loop "local bank". The accumulated surplus was distributed as gifts for Diwali and Dusshera annually, making the product design culturally relevant. Leveraging on the accumulated savings with bank linkage for a group loan was the next natural step as they (the group) were gradually formalising.

Instead of looking at what SHGs brought to the table comprehensively, the co-option of the movement by the state took it back to the old thought process of achieving poverty alleviation and livelihood augmentation through group funds given as grants for on-lending as subsidised credit, encouraging higher leverage. As a result, we have a peculiar situation in multiple groups and their community organisations that have idle cash, while the members cannot borrow because of extant default.



REPROSPECT
M S SRIRAM

The SHG movement was a golden opportunity for the banking system to embed the groups by using their economies of aggregation on both sides of their balance sheet but the banks had to be dragged to the party.

Whenever one talks of small savings of the poor, the refrain is that unit economics does not work for a large bank. This is where we need to learn from informal systems, much the way microcredit learnt from informal systems. We need to understand the pain point and address it, rather than take a paternalistic view. The customers may not be able to read and write, but they are not idiots. They understand the value propositions and are not bothered about the transmission of a few basis points following a monetary policy interest-rate modification. In microcredit, the focus is on access, ease of transaction, and proximity rather than competing on pricing. A similar approach must be adopted in formalising the savings of the poor. In most of the informal arrangements we find that the poor look for safety, proximity and ease of transactions rather than returns. In some cases, they even pay to put their savings away. Therefore, policymakers may look at experimenting with a lower interest (thereby costs) for small retail repetitive savings in order to encourage the poor to save, by solving for access.

One SHG in Ananthapur, Andhra Pradesh, innovated on an insurance product, seeing it as an extension of savings. This experiment is worth noting. Insurance products sold by microfinance companies to the poor are loan cover masquerading as life cover. And then there is also health insurance, with no credible cashless settlement facility. Both should be treated as mis-selling.

The group in Ananthapur found an insurance agent to help them (the group) get a long-term endowment policy, where they would get their money back in case no adverse event happened during the duration of the policy. There was a catch: The insurance company would not allow a monthly premium payment because the group was not large enough and the sum assured was small. The group just got all the members to sign up for an annual premium payment. They got an interest-free loan for each member to pay the annual premium. Thus, it was effectively a monthly premium for the SHG members. Half the premium was paid from the group fund — the accumulated profits of the group. The genius of not only looking at life cover, but doubling it up as savings, is worth noting. This demonstrates that unit economics can be easily overcome if we are imaginative in how we structure the last mile.

It is time policymakers and markets stopped taking cover with the argument that savings products are not for the poor. It is time we stopped paternalising financial literacy and empowerment. Design an appropriate product and the poor will see reason. The providers are not seeing the point, not that the poor are unable to save. Hope there will be more conversations, and the conversations will lead to conversion into an actionable initiative.

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