Reviews

Savings Groups at the Frontier
edited by Candace Nelson
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Banking on Self-help Groups: Twenty Years On
by Ajay Tankha
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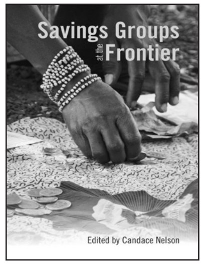

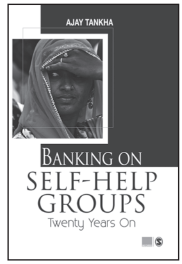

Savings Groups at the Frontier
Candace Nelson (ed.)
2013, Practical Action Publishing, 152 pages, paperback
ISBN 978 1 85339 777 6, £16.95

There have been two major shifts in the approach to financial services for the poor in the past ten years: the first is the shift from an excessive focus on credit to a recognition that savings and other services are at least as important for poor households as credit; the second is a growing understanding of the crucial role of informal financial mechanisms in the portfolios of the poor. The first shift is almost complete, though a regrettably large number of people who should know better still talk and write of 'microfinance' as if it were synonymous with 'microcredit'. The second shift is work in progress: many stakeholders remain wary of informal services on the grounds that, as the G-20 Financial Inclusion Experts Group put it, 'Although informal services are more accessible, in many cases they are also less reliable, less secure, and/or more expensive than semi-formal and formal services' (*Innovative Financial Inclusion, Principles and Report*, 25 May 2010).

Savings groups (SGs) play a central role in both these shifts, being both savings-led and informal. The first SG was started in Niger in 1991 by Moira Eknes, a CARE volunteer. Promoted by international and national facilitating agencies, SGs are now flourishing under a variety of names (Village Savings and Loan Associations, Community-based Savings Groups etc.), with more than 6 million members in 60 countries. Many useful studies have been published about the methodology, results, and impact of this technique, but until now there has been no global treatise that draws the threads together. That gap has now been filled by *Savings Groups at the Frontier*, and it has been filled admirably.

The book is the product of work and discussions begun at the Arusha Savings Group Summit in Tanzania in 2011. The result is a comprehensive review of the current state of the art in the promotion and operation of SGs. The introduction and six chapters are written by experienced and respected practitioners, covering: the

doi: 10.3362/1755-1986.2013.007, ISSN: 1755-1978 (print) 1755-1986 (online)

role of SGs in the promotion of financial inclusion; the outreach and membership of SGs and issues that arise in replicating the model; approaches to the formation of SGs; the many facets of social development that SGs have promoted; current research on the impact of SGs; and a review of the development of cost-effective SG management information systems.

Savings Groups at the Frontier is readable, wide-ranging, and thought-provoking. It is readable because it is well written and clear, and because it has plenty of short case studies and anecdotes that illuminate the argument. It is wide-ranging because it draws on experience of SGs at every stage and size throughout the world (on one page alone of Susan Johnson and Silvia Storchi's chapter on outreach and membership, evidence is cited from Tanzania, Cambodia, Guatemala, Kenya, Uganda, and Tajikistan). It is thought-provoking because it tackles the difficult issues confronting the SG movement, such as: whether SG membership can really be considered to be financial inclusion; the poverty status of SG members; the extent to which the model can be replicated; the sustainability of SGs after the facilitating agency has left; the risks involved in supply-driven promotion when facilitating agents urge groups to engage in complex activities; the risks involved in demand-driven development when existing groups take on new roles or new groups form spontaneously in imitation of SGs supported by facilitating agents; and the difficulties of measuring the impact of SGs.

The first issue, savings groups and financial inclusion, for example, is dealt with firmly but tactfully by Joanna Ledgerwood and Alyssa Jethani. There is still a widespread view that access to informal services cannot be classified as financial access or inclusion – the core financial inclusion indicators agreed by the Alliance for Financial Inclusion explicitly define financial access as the 'ability to use *formal* financial services' (my emphasis). Ledgerwood and Jethani do not confront this issue by engaging in games of semantics: that would be an arid exercise in a world where stakeholders, understandably, need clear categories for monitoring purposes. Instead, they do everyone a service by demonstrating the value of taking a nuanced approach to the analysis of financial inclusion. They show, in a very illuminating graphic, how SGs can be placed in a spectrum of financial service providers, with community-based providers such as deposit collectors at one end and institutional providers such as banks at the other. While such a continuum makes life hard for those engaged in monitoring and evaluation, Legderwood and Jethani demonstrate how important it is to recognize its existence for the purposes of analysis, planning, and action.

The book falls short in only one respect: there is virtually no discussion on what factors have determined the manner and speed in which SGs have evolved. Why are 70 per cent of SGs in Africa? Is it because Africa is where the facilitating agents have focused their attention? If so, why have they done that? Is it because there is something about existing cultures in Africa that makes it fertile ground for SGs? If so, what is that something? Or is it a combination of the two and, if so, what is the combination? Why is it that the self-help groups supported through NABARD have reached more than ten times as many people in India alone as SGs have reached throughout the world?

The editor and authors of the book are not, however, to blame for the lack of historical perspective in existing studies, and they have done an outstanding job with the research that is available. They have justified the claim on the cover that 'This book is essential reading for all those concerned with extending financial services to the poor: NGO and microfinance managers, bankers, policy makers, researchers and students'.

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Banking on Self-help Groups: Twenty Years On
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2012, Sage Publications, 328 pages, paperback
ISBN 978 8 13210 964 8, US$36

India being a large country, many of its programmes are 'the largest in the world'. As indeed is the case with the Self-help Groups Bank Linkage Programme (SBLP). In March 2012 there were over 4 million self-help groups (SHGs) (and around 60 million women in these groups) with outstanding bank loans of Rs363 bn ($6.6 bn), and 8 million SHGs with saving accounts totalling Rs65.5 bn ($1.2 bn). By comparison, microfinance institutions were providing credit to around 25 million borrowers (mainly women), with Rs209 bn ($3.8 bn) portfolio outstanding, and mostly no savings.

Not only does the scale of SHGs represent huge potential for financial intermediation, but the model was largely developmental from the start, providing an opportunity for women to save, to manage their own funds as a group, and to link in with wider development programmes.

This book marks 20 years of SBLP, and aims to take stock of where SHGs stand in their role as financial intermediaries: tracing the origins of banking SHGs in India; analysing the methodology as it has evolved; reviewing the lessons of the past 20 years; and the implications for the future. This comes at a time when MFIs in India are just beginning to emerge from the crisis of confidence in their methods. The book also coincides with the launching of the National Rural Livelihoods Mission of the Indian central government, linked to the World Bank's (well-funded) National Rural Livelihoods Project, to enable 70 million poor households to access gainful self-employment opportunities. SHGs – and their federations – are identified as the key component of this nationwide programme, so apparently no crisis of confidence there, on the part of the government and the World Bank at least.

The first half of the book charts the evolution of SHGs, starting with the pioneering role of MYRADA (working with 'self-help affinity groups' of men or women in the early 1990s) followed by the pilot initiative taken in 1992 by the National Bank for Agriculture and Rural Development (NABARD), with the aim of bringing about a viable means of improving the access of the rural poor to the banking system. With background funding and conceptual support from Swiss Development Cooperation and (then) GTZ, the SBLP subsequently took off. The available data for the growth of the SHG bank linkage programme is presented – with expected reservations on its reliability (no one is quite sure where this data comes from) – followed by chapters providing substantial details of the two main approaches to SHG promotion that have emerged: through NGOs (often with some NABARD funding to support group formation) and through government programmes.

The link with government programmes is one of the reasons behind the rapid expansion of SHGs since the early 2000s. Growth of SHGs has been particularly high in the southern state of Andhra Pradesh where the government confrontation with MFIs took place in 2006 and again in 2009. The numbers indicate over-saturation of the total market in the state with a reported 22.9 million loans to SHG members and 7.5 million loans to MFI clients, compared with a total of 17 million families and an estimated 7–8 million financially excluded, eligible families (data for March 2011, before the MFI loans began to be written off).

Currently, over 75 per cent of groups are promoted by and part of government programmes. The numbers may look impressive, but there is a downside to government promotion, as this book clearly documents: issues of target-driven numbers at the expense of group quality and member engagement; the introduction of subsidies undermining the 'self-help' principle; dependence on project staff; and the general governmental approach of providing 'development benefits as charity through a hierarchical system'. It must be acknowledged however that quality is an issue for all types of groups, however promoted, with an ongoing debate around the level of promotion required, the costs involved, and who should bear those costs.

The second half of the book summarizes and discusses the different studies that have been completed looking at costs of promotion, sustainability, and impact. The promotion of each SHG and the associated federation support clearly have a cost – estimated at Rs25,000 ($500) for at least 5 years – which adds up when there are several hundred thousand groups to be developed. Whatever the costs incurred, studies show that while it is relatively straightforward for SHGs to be viable (given the margin charged to members on the price of bank credit) there are issues in group quality (bookkeeping, leadership, savings, attendance). Moreover, SHG federations can only be viable at scale, but tend to lack the staff capacity required to manage large funds. Furthermore, the viability for banks to lend to either SHGs or to federations also depends on scale and is apparently limited by banker reluctance. The chapter on impact lists a series of studies that may 'pose as impact assessments', while commenting (more importantly) that what is needed are studies that identify practices that help to improve outcomes, and relevance for rural women, including the poor (who are not necessarily included in SHGs).

The final chapter, in 'taking stock', summarizes a fairly negative picture: concerns about the low quality of SHGs ('practitioners and researchers assess that not more than one-third of SHGs nationwide would be of good quality in that they are functioning as intended and where member savings are secure'); and talk of 'routine, monotonous' group meetings linked to the failure of capacity builders. There is a lack of agreement on what are the capacity-building interventions that are relevant in the context of diverse approaches, though one consensus that has emerged is that long-term handholding (and long term means several years) is required. There is also a reluctance on the part of banks actually to lend to SHGs (or to their federations) and the limited relevance of the standard bank products – credit or savings – available to SHGs. Finally the capacity of SHG federations to themselves play an effective role in financial intermediation is limited.

A range of suggestions for future directions are reviewed, including the need for NABARD to set up fresh policy initiatives to 're-energize' the SBLP, but recognizing the overarching influence (and funds) of the World Bank/government-driven National Rural Livelihoods Mission, with its high expectations of the role to be played both by SHGs and by their federations, in the face of the evident challenges. The hope is that the policy makers will read this book, paying particular attention to the last chapter and the key observations that are dotted throughout, *in italics*. Microfinance researchers will find the comprehensive overview a useful reference, although the depth of descriptive detail is sometimes daunting, and could have benefited from closer editing and tabulation of issues.

What is missing – and maybe this is missing in the studies covered – is a closer look at what may be working well. Even if the overall situation clearly needs improvement, there are some SHGs of good quality, a few federations that are performing, and some good examples of effective promotion. What are the features of these, and what can we learn from them, so that the substantial investment by the National Rural Livelihoods Mission in SHGs and their federations can indeed be 'directed in such a way that self-managed, sustainable and self-reliant SHGs and SHG federations are formed and supported'; and hopefully provide benefits to their members, which are monitored and documented? Otherwise 20 years from now a review of the programme may not have much to add to the conclusions of this book.

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