UNCOMMON GROUND
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LESSONS FROM BELOW

Looking for models of financial prudence and sustainability? We don't have to look very far. Tucked safely away from the scorching heat of the meltdown, at least so far, is the vastly distributed microfinance sector in India, which offers us fascinating lessons.

With an estimated 4.3 million self-help groups (SHGs) scattered across the country, with an average membership per group of 15, mostly women, and an average savings mobilization of Rs22,000, we have the world's largest microfinance sector and certainly its most diverse. We have SHGs that operate in the classic NGO mould, politically sponsored "vote bank SHGs", for-profit microfinance institutions and so on.

Yet, there are many common values that have held fast in this diversity that we should pay attention to.

Microfinance rests on an axiom of mutualism. This is very different from the individualism that rules free market economies and might have expedited the current economic crisis. Members in a genuine, self-selected, affinity-based group are mutually responsible for the financial transactions of each individual. When a request for a loan comes in, members discuss the need, the prospects for repayment, and allocate resources accordingly. Caution is but rarely thrown to the winds. And with good reason. Everyone understands that failure for one is failure for all. After all, there is no possibility of externalization, and there is unlimited liability in the aftermath of failure. If something goes wrong, you just sell your home, your business, your *mangalsutra* and even your children, if you have to. We have all heard too many such heart-rending stories. And no group and no one in the group is too big to be allowed to fail.

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Imagine if that had been true for the Wall Street companies that are now getting all those lovely bailouts. Imagine if Messrs Lehman Brothers, Bear Stearns and others had to be part of a group where risk remained within. If they could not externalize their financial losses to society at large, I suspect they would have looked a little more closely at each other's dealings. And maybe they would have sat over coffee at their weekly meetings, checked their account books and rotated leadership, just like they do over at the Stree Shakti Mandals all around India.

This is not to say that all is rosy in the microfinance sector. There are charlatans everywhere. There are also attempts to subvert the ethic, some by entrepreneurs pushing ultra rapid growth and some by politicians who love to give away freebies at no cost to themselves. A channel of 45 million citizens is just too tempting for some people.

It is to the credit of government institutions such as Nabard and RBI that in spite of these efforts, the microfinance sector remains healthy. All entities in this sector report consistent financial discipline among their borrowers, with low NPAs and loan repayment rates above 97%. Thanks to the intense lobbying of visionary and compassionate leaders such as Aloysius Fernandes of MYRADA, which pioneered SHG formation in India, there are some remarkably progressive policies in place that empower those with little security.

For instance, RBI allows banks to lend even to unregistered SHGs, provided they have a good savings record and evidence of good bookkeeping. There is no conditionality about purpose of borrowing. Physical collateral is not required, provided—and this is the key difference—there is evidence of social capital—trust, and affinity and a traceable record of internal savings and lending and recovery.

Many people have rightly argued that it is unfair to expect poor people to remain in groups while each one of us reaps the rewards of individual liberty. Now that we all know individual security is something of a chimera, what with the meltdown, terror and global warming, maybe it is our turn instead to look creatively at the advantages of mutualism and to question current models.

When successful group dynamics are in place, other social goods are produced that cannot be measured just in terms of loan size, or repayment rates. I would put the empowerment of women at the top of the list. It is a silent revolution in the country that is bound to accelerate progress on any indicator—economic, social, or political—the last fairly visible with most of the one million women elected over the years at the panchayat level coming out of the self-help groups.

To me, the real microfinance story is neither about the numbers nor about rapid growth. In fact, it is about the slow movement—a value-based, derisked, diverse, widely spread, bottom up social transformation.

Clearly, this is the exact opposite of the dizzying development in financial markets around the world. That's why it merits discourse.

As a society, we have often looked for models that we hope will trickle down. Maybe it is just the right time for some lift irrigation for the dried-up systems on top.

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