Microfinance, Macro Trends

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The macro crisis in the microfinance sector may not get resolved anytime soon. But it is a symptom of a much larger trend moving through the country.
The Indian microfinance model developed differently from that in its original home in Bangladesh. It took root with self-help groups (SHGs) set up in Karnataka by Myrada, with NABARD's support, back in the early 1980s. These affinity groups created a social glue among poor women which allowed them not only to offer their mutual guarantee as collateral against their borrowings, but enabled them to work collectively for other causes in their communities. There are hundreds of documented stories of how the SHG movement has generated social change and political empowerment, in addition to accessing more finance for the poor than ever before in independent India.

As the fledgling sector began to attract notice from banks and markets for its excellent repayment rates, well into the high 1990s, a lot of things began to change. From a vision of creating slow and steady small fortunes 'for' the bottom of the pyramid, some microfinance players moved to selling a glittering story of quick and large fortunes 'from' the bottom of the pyramid.

Within a short span of five years, the microfinance sector in India, built around carefully nurtured affinities and an appropriate pace of scaling up based on capacities, has turned into a chaotic marketplace with little regulation. It now has diverse offerings from multiple players and scant regard for proper group formation. An estimated Rs 30,000 crore is chasing the poor and being collected from them, whether they are ready for it or not.

A movement that was based on the hope that women working closely together could create for all of them some economic and social value has been overrun by the idea that loose coalitions of joint liability groups can enable individuals to escape poverty. This subtle shift rides on high theory. When we the elite do not need to form groups and prove our book-keeping skills to access bank services, how long should we expect that of the poor? Hence the sector has moved to many financial products designed for individuals. Fair enough, so long as there is informed consent of the risks of indebtedness.

But the strategy shift also surfs a wave in the current polity. We are witnessing the march of socio-economic rights in India. We have had the right to information, to education and to work. We will soon have the right to food and maybe to water. Each day, someone thinks of a new entitlement to frame as law. This rush to secure individual rights seems to suit everyone.

For rights-based activists, every success brings a heady sense of power and progress. Compared to the hard and long struggles undertaken by NGOs for sustained collective action to preserve the commons, for example, the rights movement has seen relatively quicker policy wins. And it seems they plan to continue on that path.
For market players, who deal with citizens mainly as consumers, the emerging sense of entitlement is useful to consolidate messaging around high individual aspirations. As India becomes the newest focal point for all the world's leading brands, Indian consumers will be able to satisfy any whim, if they can afford it, or can access 'buy now, pay later' services.

And for a government committed to a market economy and struggling hard to deliver to a growing population all the public infrastructure that the urban elite takes so much for granted, the individualisation of demand creates an easy way to channel resources into individual citizen pipelines. Clearly, this is simpler than creating the public school education, health care services, roads and energy and communication services that the urban middle class has enjoyed and built its future on. All those services were created by the state in its more socialist avatar. Today, many governments across the country talk of public-private partnerships as the only viable model for infrastructure development. These are powerful though subtle shifts in the economy that arguably could put India on a path to more human dignity and prosperity.

But is there something we are missing, something we are losing out on, in this splitting up of the collective for the benefit of the individual? To those organisations struggling to pull people together beyond their individual or caste and creed based identities, the answer is obvious. The focus on the individual takes away the focus from work that requires collective action. Individuals cannot preserve water bodies. Individuals cannot protect forests. Individuals cannot prevent coercive states or uncaring corporations from taking away lands and livelihoods. All of these require continued and creative united efforts.

Perhaps the old institutional forms may never return; they have lost their moral power. Some cooperatives that collapsed on greed, some Gandhian groups that compromised on truth, some communists who took to extreme violence, all have made 21st century Indians wary of old paradigms and formations. And there is no denying the arrival of legitimate individual ambition in a young and economically stronger India.

Yet, if we want to belong to a nation where poverty is history and nature's power to nurture and sustain is restored, we have to find viable new models of cooperation. Otherwise, the securing of individual ambition may remain a mirage.

Some homegrown ideas and forums are emerging. There is also hope in the innovative way in which technology commons are being used to build virtual bridges across physical divides. But, as the serious distress in the microfinance sector warns us, we must not undermine the models we already have.

The writer is chairperson, Arghyam, and Pratham Books.