Tensions between Financial Sustainability and Organisational Sustainability

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Content

- The significance of group-based microfinance
  - The areas studied
- Trade-offs between the group’s financial sustainability and organisational sustainability
- Why is the forming of groups so difficult?
- The art of group interactions
- Sanctions that hurt the poor disproportionately
- How to make things better
Group-based microfinance

- Formation of groups
- Learning period
- Critical period
- Consolidation period
Why is the forming of groups so difficult?

Main findings:

• Fragmented and heterogeneous groups
• Information about members’ default risk is imperfect
• Initial knowledge about household management and exposure to risk is particularly low

Why?

• Little time allocated to the formation process
• Increasing market competition
• People’s eligibility criteria do not necessarily coincide with MFI eligibility criteria
Main findings:

- Extent of peer monitoring is low and the quality of auditing deteriorates over time
- Monitoring is very costly
- Information derived from monitoring is distorted, hidden, or simply not volunteered

Why?

- Deep-seated power structures rule
- Institutional ambivalence about valid loan usage
- Communication structures are limited and decision-making is centralised
What people say or not say

“...I told group members about our neighbours’ comings and goings and that I’d seen that they had just bought a big truck with their loans to take their maize to [the market at] Puno. Two weeks later, someone stole my pigs from my little patch of land. I know that it is that family taking revenge on me. They think they can do anything in the group and no-one should say anything.”

(Transcription from fieldwork in Huayllabamba, Cusco, 2000-2001)
Sanctions that hurt the poor disproportionately

Main findings:

• Sanctions intensify over time
• Joint-liability system is gradually abandoned
• The poorest get excluded from any given group, negative impacts arise producing deeper poverty

Why?

• Clashes and convergences of vested interests
• Insufficient protection of group savings
• Increasing incentives to default strategically
• Traditional coping strategies are reinforced
The poorest get excluded

<table>
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<th>Group's maturity</th>
<th>Less than 1 year</th>
<th>1-2 years</th>
<th>2-3 years</th>
<th>More than 3 years</th>
<th>Total</th>
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<tr>
<td>Very poor</td>
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<td>17</td>
<td>60</td>
<td>15</td>
<td>116</td>
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<td>41%</td>
<td>81%</td>
<td>48%</td>
<td>68%</td>
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<tr>
<td>Middle poor</td>
<td>22</td>
<td>15</td>
<td>15</td>
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</table>

Pearson Chi-Square significance value = 0, i.e. highly significant
How to make things better

• Re-balancing the institutional objectives
• Improving information and communication systems
• Re-engineering staff performance incentives
• Introducing social performance indicators
• Examining behavioural strategies that are being encouraged in group members and officers