The Challenges of Group-Based Microfinance and Suggestions for Improvement

Dr Ana Marr

University of Greenwich, London, UK

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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

The art of group interactions

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 1: Members who left the programme before its end					
	Group's maturity				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Very poor	24	17	60	15	116
	100%	41%	81%	48%	68%
Middle poor		22	15	15	52
		53%	19%	48%	30%
Less poor		2		2	4
		6%		4%	2%
Total	24	41	75	32	172

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