UNLEASHING THE DEMAND FOR FINANCE WITH POWERFUL MENTORS

Yuriko Watanabe

Self-help group is the measure platform for financial inclusion in India

Yet the proportion of financially active members remains limited

Member who had socioeconomic similarity with her mentors is likely to be more financially active

Homogeneity of the group does not have significant correlation with member's financial activities

By enhancing the similarity between mentors and group members, we can expect the increase in the number of financially active members

Establish the tight feedback loop to ensure the learning process

WHY FINANCIAL INCLUSION? WHY NOW?

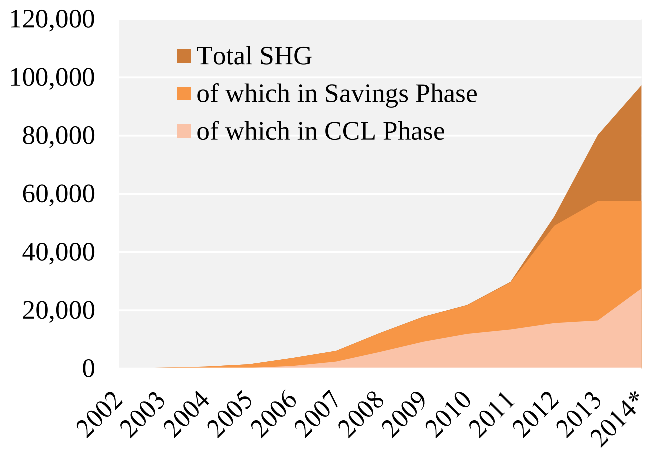
The lack of access to finance is a critical mechanism for generating persistent income inequality, as well as slower growth. Hence the promotion of the financial inclusion based on self-help groups has been a national agenda initiated by government and non-government organizations.

However, we don't have a clear picture if the members of the self-help groups are equally benefiting from the financial services. In other words, we don't have a clear cut answer to the question; Are *all* of the members able to borrow money when they need? Unless we know that the formation of the self-help groups is beneficial for many, if not all, of the members, we cannot be rest assured of the effectiveness of tens of millions of dollars spent for the self-help group formation in the past years and another millions of dollars to be spent in the years to come.

An in-depth research on the Financial Inclusion Project of Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP) addressed the question. RGMVP is one of the largest financial inclusion program providers in India. RGMVP has formed 97,254 self-help groups across Uttar Pradesh, covering more than one million members, mostly women from the poorest of the poor and the lowest castes.

RGMVP's financial inclusion program is designed to allow the groups to expand their access to finance in three steps; group formation, acquisition of the bank account to start internal lending, and the sanction of cash credit limit which serves for enterprise loans. RGMVP's achievement is remarkable. As of March 2014, the total saving corpus has accumulated to Rs 430 million, and Rs 2.6 billion of loans were availed from the banks. Nevertheless, 46.5 percent of the groups are yet to have bank accounts. The proportion of the groups that received cash credit limit drops to 28.1 percent.

FIGURE 1 NUMBER OF SHGS IN EACH PHASE UNDER RGMVP'S FINANCIAL INCLUSION PROGRAM



Group formation expanded remarkably but the degree of financial inclusion remains limited.

Source: RGMVP Management Information System, as of March 14th, 2014

KEY EMPIRICAL FINDINGS

The researcher studied 2,905 women's data to map out the correlation between their financial performance and their social background. The focus of the study was to see the correlation between the socioeconomic similarity with the mentors and between the profiles of the peers. First of all, none of the variables had consistent and significant correlation with the member's financial performance. This means that **there isn't a magic bullet to improve all of the financial performances**; loan amount and the frequency through internal lending and cash credit limit. Yet, if we focus on each financial performance, there are several factors that had significant correlations.

Social similarity between the mentors and the mentees exhibited significant and fairly large correlation with the loan amount through cash credit limit. Social similarity with the mentor has something to do with entrepreneurial action, such as the startup of a new business, which requires bigger amount of loan but not necessarily the frequency of loan.

Homogeneity of the group did not exhibit significant correlation with the financial performance of the group member. This also questions the conventional view that the homogeneity of the group provides the "safe" environment of the participants to encourage the member to take loans.

When there are more general castes in the group, a group member is likely to take more and larger loans from the banks.

If the member can identify herself with the mentors by social category, rather than economic status, it is likely that she becomes more active in borrowing larger loans.

Figure 2 Predicted change by having additional mentor, by the background of the mentor

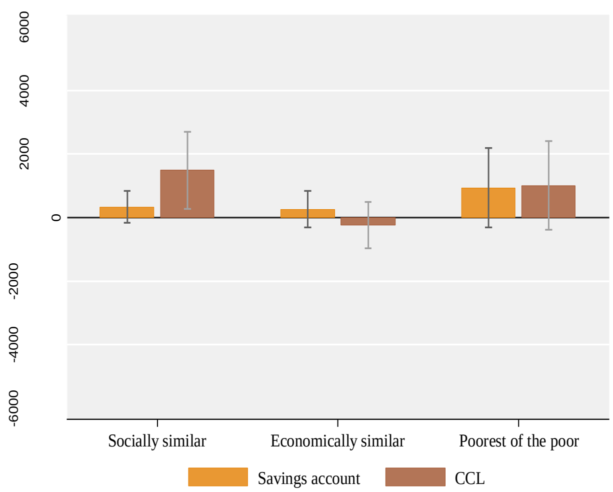
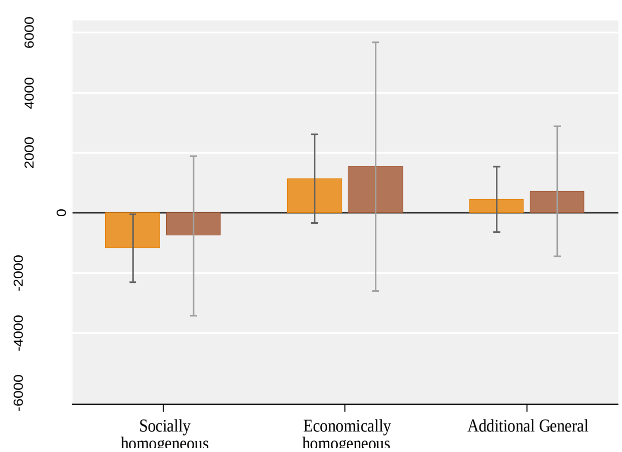


Figure 3 Predicted change by being in a group, by the profile of the group



Note: The vertical lines indicate the confidence interval at 95% confidence level. When the line crosses $\beta = 0$ (where the predicted change in the amount of loan is zero), it suggests that the predicted change is not statistically significant.

SCALING UP, WITHOUT LEAVING NO ONE BEHIND

Recruit more mentors from scheduled castes.

The study suggests to change the mentor selection criteria to ensure the social similarity with the potential members, in order to enhance the efficiency and the efficacy of RGMVP's financial inclusion program. Essentially, this is equivalent to state increase the number of mentors from scheduled castes, since the proportion of scheduled castes among the mentors is 32 percent which is significantly lower than the entire membership where 45 of them are from scheduled castes.

The alternative reform is to restructure the self-help group to have members from general castes. It is, however, extremely costly to disband the existing groups and destruct the trust among group members, their families and the banks. Moreover, it may hinder the impact of other initiatives which are designed based on the current self-help groups.

Monitor and evaluate to make sure the program draws upon the expertise in, and build capacity within the communities.

This is not to say that changing the selection criteria of the mentors are always easy and always valid. Identification of favorable candidates is done by the members, not by the RGMVP, which requires significant experience of the members. However, the members in charge of mentor selection are not stable but are chosen by rotation, which curbs their learning process. We also need to note that RGMVP is expanding its program areas. Hence, it is especially important to note that the empirical evidence may not hold for the future program areas.

The vital process RGMVP needs to incorporate in the reform is the learning process in order to examine these assumptions. It is important to secure the learning and experience of the experienced members are handed over to the next members in order to ensure the knowledge accumulation of the office bearers of the self-help group and higher organizations.

TABLE 1 EXAMPLES OF INDICATORS FOR MONITORING AND EVALUATION

Indicator	Target at minimum
Goodness of fit of the mentors	0.02
Number of SHGs formed	20,000
Percent of account opened SHGs	50%
Percent of CCL sanctioned SHGs	30%
Percent of members with outstanding loan	35%
Percent of members with credit history	15%

Source: Author