



UNIVERSITY MEETS MICROFINANCE (UMM)



Saikumar C. Bharamappanavara, Student of Agricultural Economics (IMRD) at Humboldt University, analyzes the performance of Self Help Groups in his award winning thesis.

Thousands of households in rural India retain small savings. Instead of locking this money away and leaving it idle, members of Self Help Groups (SHGs) can collectively put the money together and have it work for them. These savings combined with mutual trust, healthy peer pressure and the support of NGOs, governmental agencies or banks enable SHGs to support their members to take up self-employment jobs, to be self-reliable as a group, to overcome adversities and challenges, to meet emergency needs and to make progress towards a better social life.

Saikumar received the 2nd prize of the University Meets Microfinance Awards for his Master thesis examining the factors influencing the performance and collective action of three microcredit delivery models operating in India; each model differing with respect to the institutions supporting the SHGs and the framework used: governmental agencies, NGOs or banks. Saikumar has carried out his empirical research in three taluks of Davanagere district in Karnataka state (India) and has analysed nine SHGs with 90 sample respondents. He is honoured to present a brief summary of his research:

Being an agrarian economy, rural development and poverty alleviation is a major challenge for India. Microcredit through SHGs has emerged as a springboard to reach the rural poor in an effort to meet their financial demands. Healthy peer group pressure can serve as a val-

able collateral substitute and a key factor driving high repayment rates.

Group-based banking has become the primary mode of microfinance in India. Village peer-groups of 10 to 20 members organize savings, provide credit and repayment. The basic collective mechanism thus formed greatly reduces the per unit credit cost and the risk of default. All SHGs are financed by banks but different "actors" such as the Government, NGOs, or banks themselves organize and incentivise the formation of these groups. Between the programs there exist systematic differences e.g. in the amount of capacity building given, the relative cost of access to credit, the process of group formation and the characteristics of the members. These "differences" constitute the point of departure for Saikumar's comparative analysis.

Using factor analysis, Saikumar studies the performance of three different SHG-microcredit delivery models: SHGs promoted by banks, by government agencies, or by NGOs. Taking loan repayment status and overall group functioning as measures for economic and social performance respectively, Saikumar finds that factors influencing the performance differ with respect to the delivery model: e.g. while the level of satisfaction with the institution has a significant impact on the loan repayment rate (economic performance) in SHGs supported by NGOs and banks, institutional satisfaction had no impact for SHGs supported by governmental agencies. In accor-

dance with group behaviour and collective action theory, Saikumar's results prove a significant positive effect with respect to member-participation and to members' perceptions of trust and transparency on social performance over all three models.

Overall, Saikumar's results indicate that SHGs initiated by banks perform relatively better than those formed by NGOs or by government organizations. These findings further underpin the common assumption that banks, though often providing credit at a comparatively higher cost, have a more professional approach towards credit and are more likely to provide effective capacity building to group members. The results also allow for the conclusion that the higher costs of credit acquisition have a sort of disciplinary effect upon the borrower leading to a positive effect on the overall performance of SHGs.

Underpinning theoretical models and concepts Saikumar identifies the most crucial factors for a sustainable microcredit program, consolidated and mapped in social, economic and institutional factors. Thus, Saikumar C. Bharamappanavara's work is equally relevant for decision makers and researchers in the areas of development studies and microfinance.

*The thesis was supervised by Professor Markus Hanisch, Division of Cooperative Sciences, Humboldt University, Berlin.
The publication can be ordered at www.universitymeetsmicrofinance.eu*



THE UNIVERSITY MEETS MICROFINANCE (UMM) PROGRAMME fosters cooperation between university students in Europe and microfinance practitioners. In 2009, 720 practitioners, students and professors from 14 universities of the European Union participated in the programme which is co-financed by the European Union. The overall aim is contribute to microfinance innovation and poverty alleviation. UMM offers microfinance seminars in partnership with European universities, mentorship & scholarships for Bachelor / Master / PhD students for field research and the publication of awarded Master theses. PlaNet Finance and Freie Universität Berlin initiated the programme in 2009.

For more information visit www.universitymeetsmicrofinance.eu or contact Delphine Bazalgette / Kathleen Welvers, PlaNet Finance Deutschland e.V., umm@planetfinance.org

UPCOMING UMM EVENTS 2010

October 2nd: UMM Workshop at the University of Bergamo, in cooperation with the Master in Microfinance

1 December: UMM – Session during the European Microfinance Week

APPLICATION DEADLINE 2010

UMM Scholarships for field research:
November 15th (Bachelor, Master)