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The Role of Accountants in Indian Self-Help Groups: A Trade-off between Financial and Non-Financial Benefits

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Summary. — Self-Help Groups (SHGs) create a platform that allows women to meet on a weekly basis to save and to take loans if needed. Strict records of all saving and lending are important, both to avoid conflicts in the group and to obtain access to bank loans. Accounting is either done by a group member (internal accountant), or by another villager (external accountant). Using first-hand data on SHGs in Northern India, this paper studies whether economic and non-financial returns differ depending on whether SHGs meet as independent entities or with external involvement. Economic theory suggests that repeated interaction between individuals can help build social capital. The presence of an external accountant hampers this process. Indeed, repeated interaction is more likely to create non-financial benefits in the form of mutual assistance and collective action when the accountant is a group member. However, these benefits come at a cost, as SHGs with internal accountants distribute financial benefits more unequally and the accountants themselves receive larger shares than the other members of the groups. The analysis shows that the larger shares cannot be explained as a compensation for a better financial performance, but that some form of elite capture occurs. However, other group members implicitly agree on the unequal distribution. Indeed, members are not more likely to leave groups, possibly because the loss in financial benefits is outweighed by the gain in non-financial benefits.

Keywords — Self-Help Groups, collective action, organization, Public Goods, India

1. INTRODUCTION

The microfinance sector in India has emerged as the largest in the world. Self-Help Groups (SHGs) formed by the government or NGOs are the dominant form. Nearly eight million SHGs covered about 97 million households by March 2014 (Nair & Tankha, 2015). SHGs enable the poor to build the capacity to save, so members can pool their resources, create a group fund and give out small loans to one another. Once they develop into creditworthy institutions, they open savings accounts in commercial banks and can apply for bank loans.

An accurate record of all savings and lending in the group is important to avoid conflicts, and to get access to formal bank loans. Indeed, SHGs' credit ratings are based on their books, which are kept by accountants. Accountants can be either *internal* (a group member) or *external* (another villager). SHGs with an external accountant face continued outside involvement during group meetings. This paper studies whether both economic and non-financial returns differ depending on whether SHGs meet as independent entities or with external involvement.

The analysis is based on data from a study of 1,563 women only SHGs in India. All SHGs which have been formed by five field teams of the NGO PRADAN were surveyed. The field teams are located in three different states: Odisha, Chhattisgarh, and Jharkhand. SHGs have an internal accountant if at least one of the members is sufficiently educated *and* an agreement is reached on who of the literate members should keep the books. If the latter is driven by unobservables, OLS estimates are biased. As the accountant strategy pursued by the NGO varied geographically in a plausibly exogenous fashion, an instrumental variables approach can be used. In Jharkhand, the practice of a cluster accountant system, where an external accountant serves several groups, developed. In Odisha and Chhattisgarh the groups were asked whether one of the members can keep the books. Therefore, an instrumental variable for the group having an internal accountant is a dummy that takes value one if the group is created in Odisha or Chhattisgarh and has at least one member who is well enough educated to keep the books. [1]

Economic theory suggests that repeated interaction between individuals can help build social capital. There are two forms of cooperation that go beyond economic motives. First, 57.4% of the SHGs in the study provided assistance to at least one of their members. [2] Second, 44% of the groups visited a government officer to request solutions to problems affecting their village. [3] Groups that face external involvement during group meetings are less likely to focus on non-financial cooperation: they are 28 percentage points less likely to provide mutual assistance and 27 percentage points less likely to visit government officers. This is not entirely surprising for two reasons. First, the opportunity cost of external accountants increases with the time spent at meetings. Therefore, they might prefer the meetings to be efficient and to focus on financial issues only. This impedes women to get to know each other better and to discuss common problems. Second, most external accountants are men (74.3%), while survey evidence suggests that the non-financial issues are mainly related to topics of greater interest to women. The accountant might lack interest in those topics, or reveal the issues discussed to the villagers in question (he is likely to know relatives of SHG members), which reduces the probability of success. [4] My results are robust to taking out female, external accountants in Jharkhand. Hence, the first contribution of this paper is that repeated interaction is more likely to strengthen social capital when there is no external involvement. This is an important result given the emphasis on the creation of SHGs to overcome barriers to collective action in India (Desai & Joshi, 2014).

The financial value of SHGs consists of loans and profits. The latter is created because members pay interest, and may

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have common activities such as the provision of mid-day meals. Compared to groups with an external accountant, groups with an internal accountant distribute the financial benefits more unequally: the Gini coefficients on the allocation of the bank loans and profits increase by approximately 19 and 14 percentage points respectively. Within-group regressions suggest that the accountant receives 10% of bank loans and 8% of profits which are respectively 43% and 14% larger than an equal share of 7% for each of the on average 15 members. The paper discusses three explanations for this phenomenon, which—to a certain extent—can be tested empirically.

First, given that both the group's financial value and the distribution are known to all group members, the internal accountant might simply be compensated for a better financial performance. Indeed, if a group with an internal accountant generates a higher financial value than a group with an external accountant, it can attribute a larger share to the internal accountant without reducing the amounts that other members receive. Therefore, the probability that SHGs obtain a bank loan, the sizes of bank loans, profits, and group loans, and the probability that a member defaults are compared between SHGs with internal accountants and external accountants. The absence of significant differences suggests that groups with internal accountants do not generate a higher value than groups with external accountants, and reduces the plausibility of this explanation.

A second explanation is related to elite capture. Elite capture occurs if powerful members - like the accountant—take a large share of the resources. An unequal distribution, however, does not necessarily imply elite capture has occurred. If members have a different marginal utility of money, an equal distribution of loans is not necessarily the optimal one. However, given that the choice between an external and an internal accountant is mainly driven by the NGO's strategy, there is no reason why members of a group with an internal accountant should be more different from each other than members of a group with an external accountant. Due to the special training that the internal accountant received, she has a particular authority in the SHG, that is obviously related to the group's finances. Several results suggest it is likely that the internal accountant uses her position to take some extra benefits, i.e. that some form of elite capture occurs. Firstly, internal accountants, who are—just like external accountants—paid for keeping the books, still receive an extra share of bank loans and profits. Secondly, one can compare the total amount allocated among the group members with the size of the bank loan. If SHGs allocate group funds along with the bank loan, the group savings can be used at the discretion of the internal accountant and she can take an even larger share. Indeed, in SHGs which allocate group funds along with the bank loan, the internal accountant's share increases by 6.2 percentage points. This is 88.6% more than what she would have received under an equal distribution. Thirdly, family members of the internal accountant receive a larger share as well.

The final possibility is that the value of the group cannot be measured in financial terms only. Although an internal accountant seems more expensive than an external one, there is no evidence that SHGs with an internal accountant are less stable. Members are just as likely to leave groups with internal accountants as external accountants in the months that follow the distribution of bank loans and profits. Hence, the lower financial benefits do not increase the rate of exit, suggesting that members implicitly agree. Internal accountants seem to take advantage of their position, but they keep other members satisfied through non-financial benefits.

The paper contributes to several strands of literature. First, it underscores that the design of a program can significantly affect its impact, by showing important differences between SHGs who meet independently and with external involvement. Three recent studies have also found sizable impacts of changing the microfinance program design: joint-liability loans have a stronger impact than individual-liability ones (Attanasio, Augsburg, De Haas, Fitzsimons, & Harmgart, 2015); repayment grace periods increase short-run business investments and long-run profits (Field, Pande, Papp, & Rigol, 2013); and an approach in which SHGs are charged a membership fee is significantly more effective in delivering outcomes than an approach in which they are facilitated for free (Greaney, Kaboski, & Van Leemput, 2016).

Second, economic theory suggests that repeated interactions among individuals can help build social capital. Empirically, Feigenberg, Field, and Pande (2013) show that microfinance clients are more likely to cooperate in an economically meaningful way if they meet more frequently, i.e., they exhibit a higher willingness to pool risk, and are less likely to default on a loan. According to Desai and Joshi (2014) and Casini, Vandewalle, and Wahhaj (2015), SHG membership makes it more likely that socially disadvantaged women engage in community affairs. The paper complements this literature by adding important effects on mutual assistance among SHG members.

Third, the paper adds to the growing literature on SHGs in India (Baland, Somanathan, & Vandewalle, 2008, 2015; Casini *et al.*, 2015; Datta, 2015; Deininger & Liu, 2013; Desai & Joshi, 2014; Khanna, Kochhar, & Palaniswamy, 2015; and Swain & Varghese, 2009). To the best of my knowledge, this is the first paper that focuses on the organization of SHGs.

Finally, my findings contribute to the empirical literature on elite capture. Platteau (2009) overviews this literature and considers two different forms. In the first one, if preferences are heterogeneous, village elite impose their own interests and objectives while negotiating projects with external funding agencies. My story fits in the second form: the powerful take a larger share of the external resources provided to the community. This holds especially for bank loans, which might be partially subsidized. More specifically, my results are close to Platteau and Gaspart (2003), who find that leaders were allowed a disproportionate share of benefits in the form of over-invoicing and falsifying accounts, as villagers believed that their situation would not have improved without the efforts of the leaders. This paper argues that SHG members do not experience an unequal distribution as unfair because, thanks to having an internal accountant, it is more likely that the group also provides non-financial benefits.

The paper is organized as follows. The next section describes the survey, the financial and non-financial benefits of SHGs and the selection of accountants. Section 3 presents the empirical strategy. Section 4 examines whether there are differences in the provision of non-financial benefits, in the economic performance and in the allocation of funds between groups with internal accountants and groups with external accountants. It also examines whether there is an indication of elite capture in groups with internal accountants, and finally suggests there might be a trade-off between economic and non-financial benefits. Section 5 concludes.

2. BACKGROUND

(a) *The survey*

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