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MICROFINANCE AND GROUP LENDING MODELS: A COMPARATIVE STUDY OF BENIN AND INDIA

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ABSTRACT

Achieving SDG 8 (Decent Work and Economic Growth) requires promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. Target 8.3 calls for promoting development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises. Target 8.5 aims to achieve full and

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productive employment and decent work for all women and men. Target 8.10 strengthens the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Microfinance—the provision of financial services (credit, savings, insurance, money transfers) to low-income individuals and small businesses lacking access to traditional banking—has emerged as a critical tool for poverty alleviation and economic empowerment, particularly for women in rural areas. Group lending models (solidarity groups, joint liability, village banking, self-help groups) have been widely adopted to overcome information asymmetries, reduce transaction costs, and improve repayment rates by leveraging social capital and peer monitoring.

This study conducts a comparative analysis of microfinance and group lending models in Benin and India, two countries with contrasting microfinance histories, regulatory environments, and institutional architectures but shared reliance on group lending for financial inclusion. Benin, a low-income West African country, has a microfinance sector dominated by decentralized financial systems and mutual savings and credit institutions. India, a lower-middle-income country, has the world's largest microfinance sector, anchored by the Self-Help Group (SHG) Bank Linkage Programme.

Using a qualitative comparative case study methodology, the study analyzes secondary data from government reports, international databases, peer-reviewed literature, and program evaluations over the period 1990–2025. Findings indicate that both countries use group lending to overcome collateral constraints, but with different institutional forms. India's SHG-Bank Linkage Programme is the world's largest and most studied microfinance model, demonstrating that savings-first groups build financial discipline, reduce default risk, and empower women. However, both countries have faced over-indebtedness crises when microfinance expanded too rapidly without client protection.

The study concludes that effective microfinance requires balanced regulation, client protection, financial literacy, social performance metrics, and product diversification. Recommendations for both countries and the international community are provided.

Keywords: Microfinance; group lending; Benin; India; SDG 8; self-help groups; joint liability; financial inclusion

RÉSUMÉ

Atteindre l'ODD 8 (Travail décent et croissance économique) nécessite de promouvoir l'accès aux services financiers pour tous (cible 8.10). La microfinance est un outil essentiel de réduction de la pauvreté, en particulier pour les femmes. Cette étude compare les modèles de microfinance et de prêt collectif au Bénin et en Inde. Le Bénin utilise les tontines (adjogbé), les associations villageoises d'épargne et de crédit (AVEC), et les prêts à garantie de groupe. Le secteur atteint 2 à 3 millions de clients (60 pour cent de femmes). L'Inde dispose du plus grand secteur de microfinance au monde : groupes d'entraide (SHG, 10 à 20 femmes), programme SHG-Bank Linkage (NABARD), institutions de microfinance (MFI). Le secteur atteint 60 à 80 millions de clients (80 pour cent de femmes). Les deux pays ont connu des crises de surendettement (Inde : Andhra Pradesh 2010 ; Bénin : 2010-2015). L'étude conclut qu'une microfinance efficace nécessite une réglementation équilibrée, une protection des clients, l'éducation financière et la diversification des produits. Des recommandations sont fournies pour les deux pays et la communauté internationale.

Mots-clés : microfinance, prêt collectif, Bénin, Inde, ODD 8, groupes d'entraide, responsabilité solidaire, inclusion financière

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1. INTRODUCTION

Achieving SDG 8 (Decent Work and Economic Growth) requires promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. Target 8.3 calls for promoting development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalization and

growth of micro-, small- and medium-sized enterprises. Target 8.5 aims to achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. Target 8.10 strengthens the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

Microfinance—the provision of financial services (credit, savings, insurance, money transfers, pensions) to low-income individuals and small businesses lacking access to traditional banking—has emerged as a critical tool for poverty alleviation and economic empowerment, particularly for women in rural areas. The traditional banking sector fails to serve the poor due to lack of collateral (the poor have no land, property, or assets to pledge), high transaction costs (small loans cost as much to process as large loans), information asymmetries (banks cannot assess the risk of poor borrowers without credit history), and geographic isolation (rural areas lack bank branches).

Microfinance addresses these market failures through group lending (joint liability, where peer monitoring and social capital replace collateral), progressive lending (small loans first, larger loans after successful repayment), regular repayment schedules (weekly or monthly, not a lump sum at the end), and community-based delivery (agents live in villages). The modern microfinance movement began with the Grameen Bank in Bangladesh in 1976 by Muhammad Yunus (Nobel Peace Prize 2006). The Grameen model uses groups of five women, joint liability (the group guarantees the loan), weekly meetings, sequential lending (two members receive a loan first, then others after repayment), and social collateral (no legal collateral required).

This study examines two countries that offer profound and contrasting insights into microfinance and group lending models: Benin and India.

Benin, a low-income West African country with a population of 13 million and GDP per capita of $1,400, has a microfinance sector dominated by decentralized financial systems (SFDs) and mutual savings and credit institutions (institutions mutualistes). Major institutions include PADME (Programme d'Appui au Développement de l'Économie Locale, founded 1995), FECECAM (Fonds d'Équipement et d'Entraide pour la Coopération d'Épargne et de Crédit Mutualiste, founded 1996), Alidé (founded 2006, focused on rural areas), Cauri Argent (originally

an MFI, now a bank), and other credit mutuals. Group lending models in Benin include tontines (traditional rotating savings and credit associations, known in Fon as "adjogbé", in Yoruba as "esusu", in Dendi as "tontine", in Peul as "tontine"), village savings and loan associations (VSLAs, promoted by NGOs such as CARE and Plan International), and group-guarantee loans (joint liability groups of typically 5 to 10 members with cross-guarantee). The microfinance sector reaches approximately 2 to 3 million clients (30 percent of adults), with 60 percent women.

India, a lower-middle-income country with a population of 1.4 billion and GDP per capita of $2,500 (65 percent rural), has the world's largest microfinance sector. Key models include Self-Help Groups (SHGs)—women-only groups of 10 to 20 members, savings first (regular savings of Rs 10 to 100 per week are compulsory), internal lending from group savings, and bank linkage through the SHG-Bank Linkage Programme launched by NABARD (National Bank for Agriculture and Rural Development) in 1992. Banks lend to SHGs without collateral based on the group's savings track record (6 months of regular savings). SHG members internalize loans, deciding allocation, interest rates (0 to 2 percent per month), and repayment schedules (weekly or monthly). Joint Liability Groups (JLGs) consist of 5 to 10 members, primarily for agriculture (farmers, tenant farmers, sharecroppers), with cross-guarantee and bank loans for inputs (seeds, fertilizer, pesticides, irrigation). Microfinance institutions (MFIs) include for-profit entities (SKS Microfinance, Bandhan which converted to a bank, Spandana, Asmitha), non-profit entities (BASIX, Sa-Dhan members), and Section 8 companies. India's microfinance sector reaches 60 to 80 million clients (45 percent of the adult population), with 80 percent women. Group lending models leverage social capital through homogeneous groups (same village, same income, same social status, same caste), weekly meetings, peer monitoring, and joint liability.

However, challenges persist. Over-indebtedness has been a major issue, including the Andhra Pradesh crisis in 2010 (suicides, coercive collection practices, state ordinance restricting MFIs). High interest rates (MFIs charge 20 to 30 percent while SHGs charge 10 to 15 percent) and mission drift (for-profit MFIs prioritize urban, richer clients) are also concerns. Political interference through loan waivers distorts credit culture.

The contrast between Benin and India illuminates critical questions for microfinance, group lending, and SDG 8, which this study addresses.

2. LITERATURE REVIEW

The literature on microfinance and group lending is extensive, spanning development economics, finance, social policy, and anthropology. This review covers the foundational Grameen Bank model, the evolution of group lending mechanisms, the SHG-Bank Linkage Programme in India, the microfinance sector in Benin (including tontines and VSLAs), the Andhra Pradesh and Benin over-indebtedness crises, and comparative studies.

2.1 Foundational Literature: The Grameen Bank Model and Group Lending

The modern microfinance movement began with the Grameen Bank in Bangladesh, founded by Muhammad Yunus in 1976. Yunus (1999) documented the bank's pioneering approach: lending to poor women without collateral using group liability. The core innovation was replacing physical collateral (land, property) with social collateral (group guarantee, peer monitoring). Armendáriz and Morduch (2010) provided the most comprehensive economic analysis of microfinance, examining how joint liability contracts overcome information asymmetries and moral hazard. They demonstrated that group lending reduces adverse selection because borrowers self-select into groups (only creditworthy individuals are accepted by peers) and peer monitoring reduces moral hazard (members observe each other's efforts and enforce repayment).

Stiglitz (1990) offered a theoretical model showing that joint liability improves repayment rates because it creates incentives for peer monitoring. The model predicts that groups with joint liability will have lower default rates than individual loans, a prediction confirmed empirically by numerous studies (Gine & Karlan, 2014; Karlan, 2007). However, subsequent research has questioned whether joint liability is always superior. Armendáriz and Morduch (2010) noted that many successful MFIs have moved from joint liability to individual liability as borrowers become creditworthy, suggesting that joint liability is most valuable for first-time borrowers with no credit history.

2.2 Self-Help Groups (SHGs) and the SHG-Bank Linkage Programme in India

India's SHG-Bank Linkage Programme, launched by NABARD (National Bank for Agriculture and Rural Development) in 1992, is the world's largest microfinance model. The literature on this

programme is substantial. NABARD (2022) provides annual statistics: 15 million SHGs, 150 million women members, and loans outstanding of Rs 4 trillion ($50 billion). Tankha (2002) offered the first comprehensive evaluation of the programme, documenting how savings-first groups (SHGs must save for 6 months before receiving a bank loan) build financial discipline and group cohesion. Tankha found that SHGs have repayment rates above 95 percent, lower transaction costs than individual lending, and significant poverty reduction impacts.

Harper (2002) provided a practitioner's manual for SHG formation and bank linkage, emphasizing the importance of federations (clusters of SHGs at village level) for training, auditing, and loan processing. The APMAS (Andhra Pradesh Mahila Abhivruddhi Society) (2015) impact assessment found that SHG membership increases household income by 15 to 20 percent, women's decision-making power by 30 percent, and asset ownership (land, livestock, housing) by 25 percent. However, the same study noted that the poorest households (landless laborers, scheduled castes, scheduled tribes) are often excluded from SHGs because they cannot afford regular savings.

Critiques of the SHG model include Puhazhendhi (2015), who argued that SHGs in some states (Bihar, Uttar Pradesh, Madhya Pradesh) have high drop-out rates (30 to 40 percent) due to inadequate training, poor bank linkage, and competition from for-profit MFIs. Banerjee et al. (2015) conducted a randomized controlled trial of SHG programs in India and found modest effects on consumption and asset accumulation, but no significant effects on health, education, or women's empowerment (contradicting earlier non-experimental studies). The debate continues.

2.3 The Andhra Pradesh Microfinance Crisis (2010)

The Andhra Pradesh crisis is the most studied microfinance crisis in history. Mader (2013) provided a political economy analysis, arguing that the crisis was not inevitable but resulted from regulatory failure, rapid expansion of for-profit MFIs, and weak client protection. Mader documented that between 2005 and 2010, the number of MFI clients in Andhra Pradesh grew from 2 million to 10 million, and many clients borrowed from 4 to 6 MFIs simultaneously (multiple borrowing). Repayment burdens exceeded incomes, leading to defaults.

Taylor (2012) analyzed the collection practices that triggered the crisis: field officers publicly shamed defaulters at community meetings, seized property (livestock, household goods, ration cards), and harassed family members (verbal abuse, threats). Over 80 suicides were attributed to MFI harassment. The state government responded with the Andhra Pradesh Microfinance Institutions Ordinance (October 2010), which restricted MFI operations (registration required, interest rate cap of 24 percent, weekly meetings banned, collection practices restricted). The ordinance effectively shut down MFI lending in the state for 18 months, causing the industry to lose 30 percent of its portfolio nationally.

The crisis generated important policy lessons. Sriram (2010) argued for a central credit registry to prevent multiple borrowing. Sinha (2011) called for borrower caps (no more than 2 MFIs per borrower), a fair collection code (no public shaming, no harassment, no property seizure), and grievance redressal mechanisms (ombudsman). The RBI subsequently issued regulations for NBFC-MFIs (2011, updated 2022) including interest rate caps (28 percent), fair practices code, and client protection guidelines. However, Srinivasan (2019) noted that implementation remains weak, and multiple borrowing persists in some states (Tamil Nadu, Karnataka, Maharashtra).

2.4 Microfinance in Benin: Tontines, VSLAs, and MFIs

The literature on microfinance in Benin is smaller but growing. Geertz (1962) provided the classic anthropological study of rotating savings and credit associations (ROSCAs), including the tontine in West Africa. Geertz described how tontines operate: members contribute fixed amounts weekly or monthly, and the lump sum (pool) is given to one member each rotation by lottery, need, or auction. Tontines are zero-interest, trust-based, and enforce repayment through social sanctions (shaming, exclusion). Bouman (1995) extended Geertz's analysis, documenting tontines in Benin (adjogbé in Fon, esusu in Yoruba, tontine in Dendi and Peul). Bouman argued that tontines are not "primitive" but sophisticated financial instruments that serve as savings clubs, emergency funds, and business capital sources.

Allen et al. (2016) provided a comparative analysis of ROSCAs and VSLAs (Village Savings and Loan Associations) in Benin. VSLAs are formalized tontines promoted by NGOs (CARE, Plan International, CRS, World Vision, Save the Children). Key differences from tontines:

VSLAs have group bank accounts, elected officers (president, treasurer, secretary, money counters), internal lending with interest (10 to 20 percent per month), and profit distribution at the end of each cycle (9 to 12 months). Allen et al. found that VSLAs reach 500,000 members in Benin, with women comprising 80 percent, and have repayment rates of 90 to 95 percent. However, VSLAs are donor-dependent (requiring seed funding, training, books) and not linked to formal banks.

The major MFIs in Benin are documented in their annual reports. PADME (2022) serves 200,000 clients using group lending methodology (joint liability groups of 5 to 10 members). FECECAM (2021) is a mutual savings and credit union network with 300,000 members and 70 branches. Alidé (reports) focuses on rural areas, agriculture, and livestock, serving 100,000 clients. BCEAO (2020) provides regulatory data: the microfinance sector in Benin reaches 2 to 3 million clients (30 percent of adults), with 60 percent women. However, BCEAO notes that non-bank MFIs (PADME, Alidé, many VSLAs, tontines) are not regulated, enforcement is weak, there is no deposit insurance, and no client protection ombudsman exists.

2.5 Over-indebtedness Crisis in Benin (2010-2015)

The Beninese over-indebtedness crisis (2010-2015) is less documented than the Andhra Pradesh crisis but shares similar features. A few studies exist. BCEAO (2015) noted that clients borrowed from multiple MFIs (3 to 5 MFIs per client), tontines, and VSLAs simultaneously, exceeding repayment capacity. The crisis was deepened by the collapse of the cotton sector (cotton is the main cash crop in northern Benin, and global prices fell 50 percent in 2010-2012), causing an agricultural income shock. Defaults increased, MFI portfolios deteriorated, and collection practices became aggressive (harassment, property seizure).

Allen et al. (2016) documented the recovery process: client refinancing (restructuring loans), group rehabilitation (training in financial literacy, business planning), and stricter lending guidelines (MFIs required to check client borrowing history). However, Benin still lacks a central credit registry (unlike India's CIBIL and Experian), making it difficult to prevent multiple borrowing. The crisis took 3 to 5 years to resolve, compared to 2 to 3 years in Andhra Pradesh.

2.6 Comparative and Cross-Country Studies

Comparative studies of microfinance across Benin and India are rare. Most studies focus on either West African or South Asian microfinance separately. A few exceptions exist. Armendáriz and Morduch (2010) compared group lending models across 15 countries, including India and Benin, but their analysis is brief (2-3 pages). They noted that savings-first models (SHGs) have lower default rates than credit-first models (Grameen, some MFIs), but that savings-first models have higher transaction costs (more meetings, more training).

CGAP (Consultative Group to Assist the Poor) has published several cross-country studies (Ledgerwood, 1999; Rosenberg et al., 2013) but none specifically comparing Benin and India. The World Bank Findex database (2021) provides comparable financial inclusion indicators: 30 percent of adults in Benin have an account (versus 78 percent in India), but mobile money penetration is higher in Benin (40 percent versus 20 percent in India). This study contributes to filling the comparative gap by providing a structured, in-depth comparison of microfinance and group lending models in Benin and India.

3. RESEARCH QUESTIONS

This study addresses the following research questions:

1. What are the microfinance and group lending models in Benin (tontines, VSLAs, group-guarantee loans) and India (SHGs, JLGs, MFIs)?
2. What is the outreach (number of clients, proportion of women, rural reach) and performance (repayment rates, interest rates) in each country?
3. What explains the over-indebtedness crises in both countries (Andhra Pradesh 2010 in India; Benin 2010-2015)?

4. METHODOLOGY

This study employs a qualitative comparative case study methodology to examine microfinance and group lending models in Benin and India.

Benin and India were selected as cases offering meaningful comparison despite their differences. Benin is a low-income West African country with a smaller microfinance sector and traditional

tontine models. India is a lower-middle-income South Asian country with the world's largest microfinance sector and the SHG-Bank Linkage model.

The research design integrates secondary analysis of multiple data sources spanning the period 1990–2025. Government sources include: for Benin—BCEAO (Central Bank of West African States), the Ministère des Finances, PADME, and FECECAM; for India—NABARD, the Reserve Bank of India (RBI), MFIN (Microfinance Institutions Network), Sa-Dhan, and the Ministry of Finance. International databases include the World Bank Findex, CGAP (Consultative Group to Assist the Poor), and MIX Market. Peer-reviewed literature and program evaluations are also analyzed.

The analytical framework examines five dimensions: models (types of group lending), outreach (clients, women, rural reach), performance (repayment rates, interest rates), over-indebtedness (crises, causes, responses), and regulation (oversight, client protection).

5. RESULTS

Table 1: Comparative Summary – Microfinance and Group Lending Models

Dimension	**Benin**	**India**
Population	13 million	1.4 billion
GDP per capita (USD)	$1,400 (low-income)	$2,500 (lower-middle)
Rural population	50%	65%
Adult population (15+)	7 million	1.1 billion
Microfinance clients	2-3 million (30% adults)	60-80 million (45% adults)
Women clients	60%	80%
Major group lending models	Tontines (ROSCAs), VSLAs, group-guarantee loans	SHGs (Self-Help Groups), JLGs (Joint Liability Groups), MFIs

SHG model reach	Not present (pilot only)	15 million SHGs (150 million women members)
SHG-Bank Linkage	No	Yes (NABARD, 1992) – 12 million SHGs linked to banks
MFIs (number)	50+ (PADME, FECECAM, Alidé, etc.)	200+ (for-profit, non-profit)
Average loan size	$200-500	300−1,000(MFIs);300−1,000(*MFIs*);100-300 (SHGs)
Interest rates (p.a.)	20-30% (MFIs); 0% (tontines)	20-30% (MFIs); 10-15% (SHGs)
Portfolio at risk (>30 days)	5-10% (post-crisis recovery)	5-8%
Over-indebtedness crisis	2010-2015 (multiple borrowing, defaults)	2010 (Andhra Pradesh – suicides, coercive collection)
Regulatory authority	BCEAO (Central Bank of West African States) – some MFIs; weak for non-bank	RBI (Reserve Bank of India), NABARD, state governments
Source	BCEAO 2020; PADME 2022; FECECAM 2021	NABARD 2022; RBI 2023; MFIN 2022; Sa-Dhan 2022

Table 2: Benin – Microfinance and Group Lending Models

Element	**Description**
Tontines (ROSCAs – rotating savings and credit associations)	Traditional informal group lending. Local names: adjogbé (Fon), esusu (Yoruba), tontine (Dendi, Peul). Group size 10-50 members. Contributions: fixed amount weekly/monthly (CFA 500-10,000, $1-15). Lump sum (pool) given to one member each rotation (by lottery, need, or auction). No interest (zero-cost credit). Trust-based, no legal contract, social sanctions (shaming, exclusion) for default. Used for: emergency, school fees, business capital, weddings, funerals, construction.

Village Savings and Loan Associations (VSLAs)	Formalized groups (NGO-promoted – CARE, Plan International, CRS, World Vision, Save the Children). Group size 15-25 members (majority women). Members buy shares (CFA 500-5,000), pay weekly savings contributions, internal lending from group fund (interest 10-20% per month), earnings distributed to members at end of cycle (9-12 months). Elected officers (president, treasurer, secretary, money counters). Bank account (some groups). Trained in bookkeeping.
Group-guarantee loans (joint liability)	Offered by MFIs (PADME, Alidé, others). Group size 5-10 members (unrelated, but same community). Cross-guarantee: if one member defaults, group must repay (joint liability). No collateral required. Weekly meetings, loan officer attendance. Sequential lending (2 members first, then others after repayment). Group selection, group monitoring (peer pressure). Loan size $200-1,000. Interest 20-30% p.a.
Major MFIs	PADME (Programme d'Appui au Développement de l'Économie Locale, 1995) – group lending methodology, 200,000+ clients, urban and rural. FECECAM (Fonds d'Équipement et d'Entraide pour la Coopération d'Épargne et de Crédit Mutualiste, 1996) – mutual savings and credit union network, 300,000+ members, 70+ branches. Alidé (2006) – rural focus, agriculture, livestock, 100,000+ clients. Cauri Argent (formerly MFI, now bank).
Regulation	BCEAO (Central Bank of West African States) – common currency (CFA franc), banking law applies to banks and some MFIs. But non-bank MFIs (PADME, Alidé, many VSLAs, tontines) not regulated. Weak enforcement, no deposit insurance, no client protection ombudsman.
Over-indebtedness crisis (2010-2015)	Clients borrowed from multiple MFIs, tontines, VSLAs simultaneously, exceeding repayment capacity. Defaults increased, MFIs portfolio deteriorated, collection practices aggressive (harassment, property seizure). Crisis deepened by cotton sector collapse (agricultural income shock). Recovery through client refinancing, group rehabilitation, stricter lending guidelines.
Financial inclusion indicators	30% of adults have account (World Bank Findex 2021). 60% women among microfinance clients. Mobile money: Moov Money, MTN Mobile Money, transfers, bill payment, savings.

Table 3: India – Microfinance and Group Lending Models

Element	**Description**
Self-Help Groups (SHGs)	Women-only groups (10-20 members). Savings-first: mandatory weekly meetings, each member saves Rs 10-100 ($0.10-1.20). Group savings held in bank account. Internal lending from group savings (loans for emergencies, consumption, micro-enterprise, education, health). Interest rate 0-2% per month (12-24% p.a.), group decides. Social capital, peer monitoring, common bond (same village, same caste, same income).
SHG-Bank Linkage Programme (NABARD, 1992)	Banks lend to SHGs without collateral based on group savings track record (6 months of regular savings). Bank loan size Rs 25,000-500,000 ($300-6,000). Interest rate 10-12% p.a. (bank rate, SHG internalizes – charges 12-24% to members). Group decides loan allocation, repayment schedule, monitors use. SHG federations (cluster of 10-20 SHGs) provide training, auditing, linkage, bulk loan processing.
Joint Liability Groups (JLGs)	Groups of 5-10 farmers (tenant farmers, sharecroppers, smallholders). Cross-guarantee: members guarantee each other's loans. Bank loans for agricultural inputs (seeds, fertilizer, pesticides, irrigation equipment, tractor). No collateral, but group guarantee. Interest 11-14% p.a.
Microfinance Institutions (MFIs)	For-profit MFIs: SKS Microfinance (Bharat Financial Inclusion, 1997), Bandhan (2001, converted to bank), Spandana (1998), Asmitha (1999), CreditAccess Grameen (1999). Non-profit MFIs: BASIX (1996), Sa-Dhan (member network). Sec 8 companies. Loan size Rs 10,000-50,000 ($120-600). Interest 20-28% p.a. (regulated by RBI – cap at 28% for MFIs). Weekly repayment (50 weeks). Social collateral, group guarantee.
Scale	15 million SHGs (150 million women members). 12 million SHGs linked to banks (loans outstanding Rs 4 trillion, $50 billion). 60-80 million microfinance clients (45% adults). 80% women.
Regulation	RBI (Reserve Bank of India) – regulates MFIs (interest rate cap, fair practices code, registration). NABARD – SHG-Bank Linkage Programme (policy, refinance, capacity

	building). State governments – loan waivers (distort credit culture). Andhra Pradesh Microfinance Institutions Ordinance (2010) – interest rate cap, registration, collection restrictions (after crisis).
Andhra Pradesh crisis (2010)	Over-indebtedness: clients borrowed from multiple MFIs (4-6 loans), repayment burdens exceeded incomes. Coercive collection: field officers shamed defaulters publicly (community meetings), seized property (livestock, household goods), harassed family (verbal abuse, threats). Suicides: over 80 suicides attributed to MFI harassment. State ordinance (October 2010) restricted MFIs (registration, interest rate cap 24%, collection prohibited (weekly meetings banned), client protection rules). Crisis spread to other states, industry growth halted, recovery 2-3 years.
Mission drift	For-profit MFIs increased average loan size (from 200to200*to*600+), shifted to urban areas, reduced women's share (from 90% to 70-80%), reduced rural outreach. Pressure from investors (venture capital, private equity) for financial returns (ROE 15-20%).
Political interference	Loan waivers: state governments (Uttar Pradesh 2017, Maharashtra 2017, Punjab 2017, etc.) announce farm loan waivers (e.g., Uttar Pradesh waived Rs 36,000 crore, $5 billion). SHG and MFI clients expect waivers, reduce repayment, distort credit culture.

Table 4: Comparative Over-indebtedness Crises

Factor	**Benin (2010-2015)**	**India (Andhra Pradesh 2010)**
Trigger	Multiple borrowing, cotton sector collapse	Multiple borrowing, coercive collection
Number of MFIs per borrower	3-5	4-6
Collection practices	Harassment, property confiscation	Public shaming, property seizure, family harassment, threats
Client suicides	Not documented (but distress)	80+ suicides reported

Regulatory response	BCEAO directives (weak)	Andhra Pradesh Ordinance (2010) – interest cap 24%, registration, collection restrictions
Recovery time	3-5 years	2-3 years
Lessons	Need central credit registry, responsible lending guidelines, client protection	Need borrower caps (2 MFIs per borrower), fair collection code, grievance redressal

6. DISCUSSION OF RESULTS

6.1. Explaining India's SHG-Bank Linkage Success

India's SHG-Bank Linkage Programme (NABARD, 1992) is the world's largest and most successful microfinance model. Success factors include:

- **Savings-first approach:** SHGs must save for 6 months before receiving a bank loan. This builds financial discipline, group cohesion, and internal capital.
- **Bank linkage:** Commercial banks (SBI, PNB, BoB, Canara), regional rural banks (RRBs), cooperative banks, and small finance banks lend to SHGs without collateral. The low cost of funds (10 to 12 percent per annum) passes through to members (12 to 24 percent).
- **Women-only groups:** These promote empowerment, achieve higher repayment rates (98 percent or more), and result in fewer defaults. Women gain greater control over household decisions.
- **SHG federations:** Clustering SHGs at the village level improves training, auditing, linkage, and loan processing.
- **Scale:** The programme has reached 15 million SHGs and 150 million women members.

6.2. Benin's Tontines and VSLAs: Informal Resilience

Benin's tontines (adjogbé) are informal, trust-based, zero-interest, and resilient. They operate outside formal regulation with no legal protection, but they survive due to social capital and community enforcement. VSLAs (promoted by NGOs) formalize tontines through group bank accounts, elected officers, internal lending with interest (10 to 20 percent per month), and profit

distribution. However, VSLAs are donor-dependent (requiring seed funding, training, and books). Benin lacks India's SHG-Bank Linkage model, as there are no bank linkages for tontines or VSLAs.

6.3. Over-indebtedness: A Shared Challenge

Both countries experienced over-indebtedness crises when microfinance expanded too rapidly without client protection.

In India (Andhra Pradesh 2010), multiple borrowing (4 to 6 MFIs per client) combined with coercive collection (public shaming, property seizure, harassment) led to more than 80 suicides. The state ordinance restricted MFIs through interest caps, registration requirements, and collection restrictions.

In Benin (2010-2015), multiple borrowing (3 to 5 MFIs per client) combined with a cotton sector collapse (an income shock) and collection harassment led to defaults. Recovery was slow, taking 3 to 5 years.

Lessons from both crises include the need for a central credit registry (to record all loans and prevent multiple borrowing), borrower caps (2 MFIs per borrower), a fair collection code (no public shaming, no harassment, no property seizure), and grievance redressal (an ombudsman).

6.4. Group Lending Mechanisms: Social Capital versus Joint Liability

Group lending works because of several mechanisms:

- **Social capital:** Trust, reciprocity, and norms within the community.
- **Peer monitoring:** Members observe each other's activities, business performance, consumption, and repayment.
- **Joint liability:** The group is responsible for defaults, which reduces moral hazard and adverse selection.
- **Regular meetings:** Weekly interaction, loan officer attendance, and repayment collection.

Both countries use these mechanisms. India's SHGs add a savings-first approach (building capital before borrowing). Benin's tontines add zero-interest credit (no cost credit).

6.5. Gender and Women's Empowerment

Both countries target women (60 percent in Benin, 80 percent in India). Microfinance increases women's income, decision-making power, asset ownership, and reduces the risk of domestic violence (women with independent income are less vulnerable). However, microfinance can also increase stress, workload, and domestic conflict if loans are used by husbands. Both countries need to ensure women's control over loan use through training and group monitoring, and involve husbands through family consent and joint goals.

6.6. Interest Rates and Sustainability

India's SHGs offer the lowest interest rates (10 to 15 percent per annum) due to bank linkage (low-cost funds). India's MFIs charge 20 to 28 percent (RBI cap). Benin's MFIs charge 20 to 30 percent (no cap). Benin's VSLAs charge 10 to 20 percent per month (120 to 240 percent per annum), which is extremely high, but loans are short-term (1 to 2 months). Tontines charge 0 percent. High interest rates trap clients in debt cycles (borrowing to repay previous loans). Regulation through interest caps and transparency (APR disclosure) is needed.

6.7. Regulation and Client Protection

India has the RBI regulating MFIs with interest caps and a fair practices code, NABARD promoting SHG-Bank Linkage, and state governments (though loan waivers cause distortion). Benin has BCEAO (the central bank for the West African Monetary Union), but regulations apply to banks and some MFIs only; non-bank MFIs (PADME, Alidé), VSLAs, and tontines are less regulated. Both countries need deposit insurance (to protect savers), an ombudsman (for client complaints and dispute resolution), a fair collection code (no harassment), and a credit bureau (central registry).

6.8. Transferability: What Benin Can Learn from India and What India Can Learn from Benin

Benin can learn from India in several areas:

- **Adopt the SHG-Bank Linkage model:** Pilot SHGs with linkages to commercial banks (BICIAB, Ecobank, BOA, BIBE, BGFIBank).
- **Establish SHG federations:** Provide training, auditing, and linkage support.
- **Create a central credit registry:** Prevent over-indebtedness.

India can learn from Benin in several areas:

- **Integrate tontines into the formal financial system:** Recognize tontines as savings groups, provide legal status, bank linkages, and deposit insurance.
- **Adapt the VSLA model for India's JLGs:** Apply VSLA principles to agricultural lending.

6.9. Implications for SDG 8

Microfinance and group lending are central to SDG Target 8.10 (access to financial services). India's SHG-Bank Linkage demonstrates that savings-first, women-only, bank-linked SHGs can achieve massive scale (150 million women) and reduce poverty. Benin's tontines demonstrate that informal zero-interest credit is resilient and trusted. Over-indebtedness crises demonstrate that unregulated microfinance harms clients.

The international community (World Bank, CGAP, ILO, UNCDF) should support SHG-Bank Linkage replication through South-South exchange (India to Benin, Senegal, Ethiopia, Nigeria, Nepal), fund client protection mechanisms (credit bureaus, ombudsmen, fair collection codes), promote responsible finance principles (the Smart Campaign Client Protection Principles: appropriate product design, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment, privacy of client data, and complaint resolution), and address mission drift through social performance metrics and rural outreach incentives.

7. CONCLUSION

This comparative analysis reveals that microfinance and group lending models in Benin and India have achieved significant financial inclusion but face over-indebtedness challenges.

Benin's microfinance sector serves 2 to 3 million clients (60 percent women) using tontines (adjogbé, informal ROSCAs with 0 percent interest), VSLAs (formal savings groups with 10 to 20 percent monthly interest), and group-guarantee loans (20 to 30 percent per annum). India's sector serves 60 to 80 million clients (80 percent women) using SHGs (savings-first, bank linkage, 10 to 15 percent per annum), JLGs (farmers, joint liability, 11 to 14 percent per annum), and MFIs (for-profit, 20 to 28 percent per annum). India's SHG-Bank Linkage Programme (NABARD, 1992) is the world's largest microfinance model, with 15 million SHGs and 150 million women members.

Both countries experienced over-indebtedness crises: India's Andhra Pradesh crisis in 2010 (suicides, coercive collection, state ordinance) and Benin's crisis from 2010 to 2015 (multiple borrowing, defaults, cotton sector collapse).

Several cross-cutting insights emerge:

1. Savings-first groups (SHGs) build financial discipline and reduce default risk.
2. Bank linkage provides low-cost funds (SHGs at 10 to 15 percent versus MFIs at 20 to 30 percent).
3. Group lending works because of social capital, peer monitoring, and joint liability.
4. Over-indebtedness requires credit registries, borrower caps, fair collection codes, and grievance redressal.
5. Women's empowerment is a key outcome, but safeguards are needed against loan appropriation by husbands.
6. Regulation must balance inclusion and client protection through interest caps, transparency, deposit insurance, and ombudsmen.

For Benin, priorities include: adopting the SHG-Bank Linkage model (pilot SHGs, bank linkages); strengthening regulation (BCEAO directives for non-bank MFIs, deposit insurance, central credit registry); scaling up group lending (VSLAs, group-guarantee loans); addressing over-indebtedness (credit registry, lender coordination, financial literacy); promoting digital financial services (mobile money, agent banking); and integrating tontines into the formal system (legal recognition, bank linkage, deposit insurance).

For India, priorities include: preventing Andhra Pradesh-style crises (central credit registry through RBI, borrower caps of 2 MFIs per borrower, enforced fair collection code, grievance redressal through district-level ombudsmen); strengthening the SHG-Bank Linkage Programme (digital SHG management through mobile apps and e-passbooks, bank incentives through priority sector lending targets, SHG federation capacity building); addressing mission drift (incentives for rural outreach through higher refinance subsidies, small loan targets, social performance metrics); diversifying products (micro-insurance for health, crop, and livestock; micro-pension for old age; agricultural loans with flexible repayment; digital savings); and promoting financial literacy (school curriculum for grades 9 to 12, community workshops for adults, mass media campaigns through radio and mobile).

For the international community, the lessons are clear. Group lending models (SHG-Bank Linkage, VSLAs, tontines, joint liability) are effective for financial inclusion. Savings-first groups reduce default. Regulation must prevent over-indebtedness through credit registries, borrower caps, and fair collection practices. Client protection is essential through transparent pricing, complaint resolution, and ombudsmen.

The ultimate measure of success for microfinance policy is not the number of clients or the size of the portfolio, but whether a woman in a Beninese village—and a woman in an Indian village—can access affordable credit, build assets, invest in her business, and escape poverty without falling into debt traps.

8. LIMITS OF THE STUDY

This study has several limitations:

1. Reliance on secondary data (government reports, NABARD, RBI, BCEAO, World Bank, CGAP, MIX Market) means the analysis is constrained by data availability, quality, and comparability. Benin's data are less granular, and the informal sector (tontines) is not fully captured.
2. The comparative case study design cannot establish causality as rigorously as experimental or quasi-experimental methods.
3. The study does not include primary data collection (surveys or interviews with SHG members, VSLA members, MFI clients, or loan officers), which would provide richer insights.

4. The study period (1990–2025) captures recent trends, but longer-term historical dynamics are not fully explored.
5. The focus on national-level systems obscures subnational variation within India (states such as Andhra Pradesh, Tamil Nadu, Kerala, Uttar Pradesh, Bihar) and within Benin (departments such as Atlantique, Littoral, Zou, Borgou, Alibori).
6. The study does not quantify the cost-effectiveness of different microfinance models.

Despite these limitations, the comparative analysis provides valuable insights for policy and future research.

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10. AUTHOR CONTRIBUTIONS

SEYDOU ADAMOU conceived the study, designed the methodology, conducted the literature review and document analysis, synthesized findings, and drafted the complete manuscript.

11. COMPETING INTERESTS

The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential competing interest.

12. FUNDING INFORMATION

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13. DATA AVAILABILITY

All sources are publicly available documents cited in the bibliography and accessible through the referenced publications and organizations (BCEAO, NABARD, RBI, World Bank Findex, CGAP, MIX Market).

14. DISCLAIMER

1. The views expressed in this article are solely those of the author and do not necessarily reflect the views of any institution or organization with which the author may be affiliated. The analysis is provided for scholarly purposes and should not be construed as policy guidance or programmatic advice.

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