

**MYRADA**

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**SELF-HELP AFFINITY GROUPS (SAGs):  
THEIR ROLE IN POVERTY REDUCTION AND  
FINANCIAL SECTOR DEVELOPMENT**

*PAPER PRESENTED AT THE*

*International Conference on*  
*“Micro Finance In The Global Strategy For*  
*Meeting The Millennium Development Goals”*  
*hosted by Concern Worldwide,*  
*Dublin, Ireland,*  
*March 2005*

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### *“Is Micro finance Leading To A Macro Mess”*

*It could* - if not “professionalised”; *it may*- if each proponent of an approach decides to hold on grimly to his/her position as the only one along the right path while the others are consigned to the join the axis of evil; *it probably will* - if burdened with the responsibility to solve all problems related to poverty and marginalisation and to remove all constraints that keep people poor. Having expressed my concerns, let me now launch into a presentation which may seem to present a case promoting what I have cautioned above; I leave it to your interpretation.

## I. INTRODUCTION

1. The broad framework of this paper is set by the theme of this conference namely: “Micro finance in the Global Strategy for meeting the Millennium Development Goals.” However the focus is on a particular component of the Micro finance strategy for poverty eradication, namely: “Self Help Groups in Poverty Eradication and Financial Sector Development”. The paper takes the position that in several developing countries where societies are still influenced by traditional customs and values – some that help to promote SHGs, others which SHGs have proved they can change as they were obstacles to progress -, the SHG strategy has proved to be successful in eradicating (or mitigating) poverty in a sustainable manner. It has also proved to be a strategy which women find acceptable and appropriate since it gives them the space they require to grow and finally, as far as India is concerned, it has been successful in changing policy and practice of the official institutions like the Reserve Bank of India, NABARD<sup>1</sup> and the Banking Sector. These official institutions

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<sup>1</sup> **NABARD** - National Bank for Agriculture and Rural Development, was carved out of the Reserve Bank of India (RBI) to focus exclusively on the 'priority sector' lending issues, and is hence a key player in any poverty lending programme: [www.nabard.org/roles/mcid](http://www.nabard.org/roles/mcid)

have accepted the alternate rules and structures developed by the SHGs to manage savings and credit and respected them, instead of insisting that they be mainstreamed which is usually the first step in the total loss of their identity and strength as an alternate system which the poor have taken the lead in designing

2. This paper focuses on people's institutions - the Self Help Groups- which are participative (as distinguished from those which are representative); they are often looked at solely from the perspective of micro finance although they have several other functions related to fostering and maintaining a level playing field for the poor as well as relations in the social, economic and political environment which promote their interests. As far as micro finance is concerned, they are geared to promoting the habit of savings, and managing micro finance (first to save, later to extend credit for all purposes to which each member gives priority and to mobilising repayments) rather than to credit provision alone or as a major objective. It is in managing micro finance rather than in its provision that the members acquire the skills and confidence to initiate change, build linkages and to protect their over all interests. The attention of international and even of national organisations promoting micro finance is largely directed solely to Micro finance Institutions which raise funds through borrowings and on lend to individuals; the extensive literature and studies in this sector deal mainly with these Micro finance Institutions. Even in India where the Reserve Bank, NABARD and the Government have come together to change banking policy radically to enable the banks to lend to Self Help Groups, most of the attention of micro finance promoters is geared to Micro finance Institutions which function as intermediaries; this focus is mainly a carry over from the attention given to such institutions in the West. Little attention is given to the policy changes in India which have allowed the main line financial Institutions (Banks) to lend directly to groups as groups thus enabling the Self Help Groups to continue to function as independent institutions in their own right. This paper therefore does not focus on the Micro finance Institutions; it tries to explain the history of the Self Help Group movement and how this resulted in a change in official banking policy; it is only in India that such a policy change has been effected and implemented over the past 13 years.

3. Micro credit is not new. The Integrated Rural Development Programme (IRDP) has been a major plank of Government policy to provide credit to the poor since the 1960s. Unfortunately it included a heavy dose of subsidy, was restricted only to so-called income generating purposes, was designed according to standard packages and costs and suffered from excessive political influence. Recoveries were poor. The Regional Rural Banks started in the early 1970s were supposed to provide micro credit; they did so but suffered from many restrictions and active trade unionism; most ran into heavy losses. The Grameen Bank of Bangladesh, started in the early 1970s; it is the popular example of a micro finance Institution; it added a feature to micro finance management by building in group pressure for repayments. Its focus however was on micro credit; the encouragement to save was introduced much later. The Self Help Groups which emerged in Myrada in 1984-85 were people's institutions; they were not what is popularly called micro finance institutions; they decided what to do and how to go about it; as a result, their scope and functions were much wider than micro credit provision.

## **II. WHAT ARE SELF HELP GROUPS?**

4. My approach has always been to describe how the building blocks of a strategy emerged in the field rather than to describe them in a more abstract way, and, since my

experience is with MYRADA<sup>2</sup>, I crave your indulgence – permit me to describe our experience which led to the SHG strategy being adopted in India as a major component of the Poverty Eradication Programme.

5. Between 1983 and 1985 several of the Co-operative Societies<sup>3</sup> started by MYRADA with over 100 members broke up because of lack of confidence in the leadership and poor management systems. Members met MYRADA staff in small groups; they expressed their willingness to repay their loans to MYRADA, but not to the Co-operative Society, which was a large and heterogeneous group and dominated by one individual. We informed them that they had not taken the loans from MYRADA; hence the issue of repayment to MYRADA did not arise. We asked: “Why not repay to the small group of people assembled here?” They agreed. The large Co-operative broke down into several small groups and the group members repaid their loans to whichever group they chose to join. Thus was born the first set of “**Self Help Affinity Groups**”. On analysis, MYRADA realised that there was a strong feeling of “**affinity**” which linked the members of each of these small groups together. This affinity was based mainly on **relationships** of trust, relations that were non-exploitative, on certain **social features** (like a degree of homogeneity among the members, of voluntarism and self reliance and willingness to support one another in need), on certain **structural features** like a common origin (blood or ancestral village) or the same livelihood base (all daily wage earners, landless or marginal farmers, even though from different castes, religions or communities), on **gender bonds** (all women, or all men, though about 5% of the groups were mixed). In a few cases they were based on **similar activities undertaken by each member** (like basket weavers – though caste also had a role to play here; besides a large group of households undertaking a similar activity often decided to break up into smaller groups of 10-15 on the basis of affinity). Interestingly no groups were formed on the basis of political party affiliations. Briefly, the affinity groups were unpolished diamonds hidden under stones, some of which we ourselves had placed; we just happened to kick these stones aside by accident; all that we can be credited for is that we stopped to look, to learn, to identify people’s strengths or the potential of the diamond and then to build on them.

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<sup>2</sup> MYRADA is a large NGO with 450 staff working directly with 1.5 million poor; “Building poor people’s institutions” is its short mission statement; it manages 15 major projects in three Indian States and has major involvements in 3 others where it has deputed staff to Government or conducts regular training and visits; its major activities are promoting self help affinity groups, watershed, water and wasteland management, forestry, community management of sanitation and drinking water, housing and habitat, improvement of primary school education, technical skills for school dropouts, micro enterprise generation, preventative health care, a major HIV/AIDS prevention programme; it started an MFI called Sanghamithra which lends directly to SHGs; besides, it is involved with bilateral and multilateral organisations in Myanmar, Cambodia, Indonesia, East Timor, Vietnam and Bangladesh largely in promoting the self help group strategy and participatory approaches to natural resources management; website: [www.myrada.org](http://www.myrada.org)

<sup>3</sup> The Cooperative Societies in the rural areas at the primary level are composed of better off and poor, dominated by the landed, especially by the farmers who have irrigation, and usually controlled by aspiring local politicians who use these societies as a stepping stone for their rise in politics. Several studies of these societies have been conducted by committees set up by Government. They all agree on the reasons for the poor performance of these Cooperatives, namely: poor governance, the lack of adequate supervision and the excessive influence of politicians which has resulted in most of these societies incurring regular loss; there are examples of success, but they are few and are due either to their leaders capturing political power which they use to further the Societies interests or because of dedicated individuals; demands for recapitalisation by political parties have been a major and recurrent feature.

6. It is important to note that the affinity relationships existed before the intervention of an outside agent like MYRADA; they were adequate to support traditional actions like mutual help in times of sickness or childcare. We often referred to this complex of relationships as “traditional social capital”. Our strategy built on these strengths. However, with new functions emerging in the self help affinity groups, this traditional capital had to be built up to cope with the demands of effective financial and organisational management, as well as with the social role that the groups had begun to play, for example, to initiate change in society and in the home, to protect and further their interests, as well as to establish linkages with supporting services and institutions. MYRADA does not take the position that ‘traditional social capital’ in every situation is static and presents an obstacle to change; rather, given adequate institutional and social space in small affinity groups and with adequate capacity building support to develop organisational skills, traditional social capital has the potential to provide a base on which institutions can build ‘social capital’ that is adequate to cope with new roles. These institutions can also be empowering, provided the structure and the rules, functions and the supporting systems are designed by the people; they can also be sustainable provided they are **appropriate to the resource to be managed** and can be adapted or changed in response to emerging situations and needs. Briefly, this approach which MYRADA adopted built on people’s strengths, which people then used to initiate changes in society and in their home which helped to protect the interests of the poor and provide space for their growth in the human, social, economic and in several cases political domains<sup>4</sup>.

7. The relationships that members of a group establish among themselves are motivated not only by material gain – which the word ‘capital’ popularly implies. These relationships are motivated by a mix of social and material needs. Based on existing evidence, it is even fair to say that in an affinity group, which has been fostered along the lines advocated by MYRADA, the motivation of the members in the initial stage is equally divided between the perceived fulfilment of social needs and the expectation of material gain. In the case of women’s self help groups, social needs, however, often tend to get priority. Women need space in our traditional rural societies to meet freely, to share concerns, to express a sense of togetherness and fellowship. Women in particular, need a place to call their own, as they are unable to meet (like men) at the village corner or around a shop. As spots that traditionally provided women with a level of security and privacy have become scarce -like water points some distance from the village – the privacy and security of an affinity group meeting is a godsend. This is why women’s affinity groups take a strong stand against men trying to

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<sup>4</sup> The phrase “appropriate to the resource to be managed” needs explanation. A milk society after the AMUL model (the well know Milk Cooperative of Anand, in Gujarat State), for example, has an institutional structure which is appropriate to manage milk but is not appropriate to manage credit targeted to the poor. The milk society at the village level is large and heterogeneous. The large farmer who produces a surplus of 10 litres of milk and the small farmer who produces just half a litre are both members of the society. In this case, however the small farmer needs the big farmer; it is the latter’s supply that makes the milk route viable. In the milk society it could be said that the small person sits on the back of the big one. A sufficiently large number of members is required in order to produce the quantity of milk which makes the route viable. In a credit society however, a heterogeneous structure results in the big person exploiting the small. The functioning of the Co-operatives is ample evidence of this. The large farmers and powerful members sit on the backs of the small and the poor who depend on the powerful for loans and jobs. The self-help affinity groups managing credit therefore need to be homogenous; the members need to be of the same economic status and there should be no exploitative relationships among them. In brief, unless the structure of the group is appropriate to the resource to be managed, the performance of the institution will constantly require intervention from without in order to survive.

interrupt their meetings. It is interesting to note that when other villagers are asked to express their opinion of a women's self help group, their assessments focus more on the social habits developed by the members, rather than on their material progress. The most appreciated qualities of the groups include their regular meetings, the ability of members to manage their affairs in an organised and transparent manner, to take collective decisions, to impose and accept sanctions for dysfunctional behaviour and to take the lead in improving their surroundings; these are the features that others appreciate, far more than their capital (which they build up by savings which are deposited in the groups' common fund) or material progress. These are also indicators of a well functioning institution with a high quality of governance.

8. This approach also flows from MYRADA's vision and the strategy for empowerment that it endeavours to promote. MYRADA does not consider quick increases in household income as the primary objective of its micro finance (savings and credit) strategy. It has other and equally important objectives, namely empowerment of the members both as a group and as individuals. MYRADA's strategy is to use finance management as an instrument of institution building, which in turn lays the basis for empowerment. The pace and progress of the empowerment of individuals however differs from member to member. In some cases individual members leave the group after 4 to 5 years; they are able to hold their own in society, have confidence to forge and maintain linkages with other institutions and service providers and relate directly for larger loans with the Bank, which had previously extended a line of credit to the group to which the member belonged. In other cases, they are accepted by traditional "chit fund" groups which save and lend to the highest bidder with the organiser enjoying certain privileges. These members report that they themselves did not have the confidence to join these traditional groups (or for that matter to approach the Banks), prior to their membership and experience in the affinity group which gave them an opportunity to increase their incomes and a degree of credibility.

When these affinity based groups emerged in MYRADA in 1984, they were called Credit Management Groups; the focus was on management of savings and credit rather than on the provision of credit; when MYRADA entered into a contract with NABARD in 1986-1987 to take up a pilot project to promote these groups, the name was changed to Self Help Groups; several studies were carried out between 1988 and 1990 to assess whether the SHGs really offered a sound alternate credit strategy which could be accepted by official institutions. This was accepted in 1990 by the Reserve Bank and NABARD launched the Bank Linkage Scheme in 1992 whereby the bank extended loans directly to groups –not to individuals in groups. In the late 1990s the SHG strategy was accepted by the Government of India as a major programme to mitigate poverty; funds were allocated in the Budget; targets were set and groups promoted by Government all over the country often without adequate capacity building. **It was then that MYRADA changed the name to Self Help Affinity Groups or SAGs. In the following pages these groups will be referred to as SAGs instead of SHGs;** this distinction will help to focus on the affinity required to bind the members as well as to distinguish between genuine self help groups and those groups that were formed under pressure to achieve targets, which were given grants a few days after formation with little or no investment in institutional capacity building and whose membership is based on external criteria rather than on affinity.

9. Before concluding this part on the Self-help Affinity Groups, it may be useful to reflect briefly on the various types of groups being promoted under recent development programmes implemented by Government, some of which are supported by Multilateral and Bilateral Agencies. In most cases, the groups formed are viewed primarily as "implementers" of the programme with the added attraction that responsibility of the intervening agency

(Government and NGOs in some cases) can be off loaded onto the group in the name of “empowerment”. The claim of some intervenors (including donors) that, “we are empowering the groups”, often amounts to little more than shifting the monkey from their backs to the group (often without adequate institutional capacity building investment) The “implementer” image of groups formed in this context is strengthened by the message often given explicitly by field staff: “if you want money, you must form a group and carry out a particular action to prove your good intentions”. If the criteria for the selection of beneficiaries is pre-set by the project, it further strengthens the impression that the group composed only of “eligible” beneficiaries is viewed as an “implementer” and will dissolve when the project is over and often long before.<sup>5</sup>

10. While MYRADA realises that for practical reasons, groups will continue to be formed within the context of a “project”, yet, to reduce the negative impact on institutional building that this project context imposes, it is important to ensure the following: **(i)** groups need to be formed on the basis of affinity, not on the criteria for beneficiary selection –this requires a change in the traditional approach to costing of the community organisation component which is guided by the number of beneficiaries. **(ii)** At least six to eight months must be devoted to institutional capacity building before the group is asked to prepare plans for investment in infrastructure or to apply for grants for individual assets. **(iii)** During this period a significant investment in capacity building is required; this should focus on helping the group to build a vision and a strategy which is not limited by the “project” on hand but by what the group envisages in the long term. **(iv)** If the project envisages provision of credit, the group should be assessed on the basis of its institutional strengths (not on the viability of each individual loan) and a line of credit provided to the group, leaving the group to decide on the purpose of each loan, on the interest rates, repayment schedules and on sanctions where members fail to conform to agreed schedules or accepted norms of social behaviour.

11.

Institutions, by themselves, do not empower. In fact they have the potential to disempower if their structure is inappropriate and the systems outdated and ineffective. They also disempower if the official organisational and financial management systems are imposed on them and standardised. MYRADA holds the position that these groups should not be ‘mainstreamed’ by the official Institutions; on the contrary the official institutions should recognise the emerging groups and respect their systems provided they are transparent and adequate. Mainstreaming is disempowering when the mainstream imposes its system and culture. Genuine people’s institutions provide the space within which the poor can build up their confidence and skills to establish relationships with other institutions on an equal footing.

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<sup>5</sup> For example when the Women’s Empowerment Project implemented by the Tamilnadu Women’s Development Corporation and supported by IFAD began in Dharmapuri in the late 80s, MYRADA formed groups on the basis of affinity. The project target was to reach 10,000 “beneficiaries”. Many members in the affinity groups, however, though poor did not qualify for support under the criteria set by the project. MYRADA meanwhile organised over 18,000 women into affinity groups of whom 10, 000 qualified as “beneficiaries” under the project. The others in the group availed of loans from their groups’ common fund and from other sources like financial institutions. Of course there were budget implications; the budget for training, for example, had to be enhanced which the Government supervisors would not readily accept; in this case IFAD supported MYRADA’s initiative.



12. **The SAGs need not exist forever.** Experience indicates that after several years, the self help affinity group is able to decide whether it should continue or whether it has served its purpose and can wither away, whether it has to re-engineer itself to take on new roles and functions or whether the present interests of the members require them to leave and join other institutions or establish linkages on their own. MYRADA has never claimed that each affinity group will continue “for ever” or for that matter that it is the “only” path to economic salvation for the poor. What it seeks to ensure, as far as possible, is to build the members’ confidence and skills through participating effectively in the functioning of an affinity group and to ensure that individual members and the group have the space, knowledge, confidence and skills to decide on their future. The continuation of the group itself depends on the decisions of the members. The needs and aspirations of each member change over time, and while some may decide to leave the affinity group, others may apply to join or the group itself may decide to dissolve; some members may decide to form or join other groups which are structurally more appropriate to support their growth like traditional chit fund groups formed to provide larger loans, or unions or networks to lobby for their social and political rights.

### **III. WHY GROUPS?**

13. The answer to this is relatively simple: It has to do with the strategy that an organisation adopts for empowerment of the poor. If the organisation adopts as its mission “to build poor people’s institutions” that are continuously evolving due to an internal momentum that embraces human, social, political and economic dimensions which together support the livelihood base of the poor and over which they have a degree of control, then the need to form groups emerges as a critical component. Of course this very statement reveals a bias; the most one can do is to make the bias as evident as possible. The bias emerges from the belief that to initiate a process that has the potential to eradicate poverty in a sustainable manner, it is necessary to go beyond awareness to build institutions that people can control right from the start. Our experience has shown that the institutions most suited to achieve this objective are participative (namely where all the members participate in decision making and not only their representatives) and only of the poor. Other bodies exist in MYRADA’s projects whose members are elected; these are representative bodies and have proved to be appropriate to achieve objectives related to management of drinking water systems and sanitation, but not to eradicate poverty or to change social relations since they are still influenced by traditional power structures. When well established, the participative institutions, like SAGs play a critical role in lobbying for the representative institutions to be more transparent in their operations, inclusive in decision-making and equitable in the allocation of resources. Examples of representative institutions are all the political bodies at the National, State, District (Zilla Panchayat), Taluk and Gram Panchayat (5 villages together) level; while examples of the representative institutions are the Gram Sabha (which covers one village or habitation and which is the only participative body in the Panchayat Raj system), the SHGs, Watershed Management Associations and several similar bodies below the Gram Sabha. MYRADA believes that participative and representative institutions are equally important as building blocks of a healthy democracy since together they play a major role in eradicating poverty and in bringing in good governance at the base.

MYRADA's approach to micro finance is imbedded in its overall mission to build people's institutions as instruments of empowerment. MYRADA's Mission goes beyond promoting savings and credit, to empowerment of the poor. To achieve this broader objective, MYRADA assumed — on the basis of its early experience — that it was necessary to invest in building institutions of the poor whose structure and systems (organisational and financial) are designed by them, appropriate to the resource to be managed, and based on traditional and cultural norms and relationships. The assumption was that the structure of these appropriate institutions and their governance systems developed by the members would in turn foster the attitudes and skills required for sustained management, would build the ability to mobilise resources, to establish linkages and to initiate change. Together, these features form the basis of empowerment. Several impact studies have confirmed that this assumption is valid. **MYRADA concluded that participation of the poor, therefore, would not lead directly to their empowerment; it would first be directed towards building institutions and linkages. The experience the poor gained in building these structures and networks and in maintaining them (which requires coping with vested interests which try to undermine institutions of the poor) in turn would empower the members in a sustainable manner**

#### **IV. MICRO FINANCE AS A COMPONENT OF THE BROAD STRATEGY TO ERADICATE POVERTY**

14. During 1984-85, MYRADA made several studies related to the structural causes of rural poverty. Dependence on credit from private sources at exorbitant rates of interest was identified as one of the major factors. Private sources offered credit in time, without paper work and at the door. Exorbitant interest rates however resulted in the poor never being able to build a capital base for investment even when the activity they were involved in generated adequate income to do so. As a result they were constantly in debt. Other activities like trading, which had the potential to earn around 20%-25% income per day were not considered to be viable as interest rates itself averaged around 10% per day. Often the borrower repaid debt not only in cash and kind but in labour and services (for e.g. they had to plough the land of the lender immediately after the rains leaving their own lands for later when it is difficult to plough in some types of soil leaving fields unploughed thereby missing the opportunity to use the first rains; they had to run errands often far away) and often ending up in losing land and assets which they had pledged as security. The poor had limited access to credit from formal institutions — hardly 20% of credit actually disbursed came from the four official financing institutions, namely the Commercial Banks, Regional Rural Banks (RRBs), Co-operatives and Land Development Banks (LDB). The official institutions dispensing credit were subject to political decisions and pressures, lack of capital and initiative, inappropriate credit policies and norms and a general sense of decay.<sup>6</sup>

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<sup>6</sup> When the perceptions that people had of credit institutions were taken into account, the evidence was startling. If people perceive an institution to be hostile or unresponsive to them, they hesitate to approach it and to continue an ongoing relationship on their own no matter how much they are persuaded to do so. On one occasion when people were asked to identify the credit sources in their village, they listed the Bank, the Cooperative Society and the moneylender. Asked to describe these institutions they brought a large stone and said, "This is the Bank, it is unmovable!" The Cooperative Society was symbolised by a smaller stone with a piece of paper beneath. "We can get credit but after a lot of paper work for which we have to pay". The moneylender's symbol took some time to be identified; they finally came up with a parthenium (a weed whose growth and spread is difficult to control) plant. "Once it comes into your garden, it is very difficult to eradicate!" they said. Yet when asked to identify which of these three they considered to be "most honest and reliable", they pointed to the parthenium. Which source was prompt in providing loans? Once again it was the parthenium. Any direct attack on the moneylender, therefore, whom some radical elements cannot tolerate, will not go far! The same

15. I was once asked by senior Government Officers what impact the new liberalisation policy would have on the poor. Besides pointing out the additional problems that they could face, I stressed that the poor had always lived in a “liberalised” economy, at least as far as wages and interest rates were concerned. Their wages went up and down depending on seasonal demand and the interest rates they paid were far higher than the regulated regime that governed the official financial institutions. The direct link between poverty and finance cannot be over-emphasised. Besides, when two groups of people in the same country borrow at widely different rates, it indicates an inefficient use of resources.

16. An analysis of the structural causes of poverty revealed that the relations of dependence caused by borrowing money were being strengthened and perpetuated by a host of traditional social factors related to caste and sub-castes and often class. Some of them played a constructive role in days gone by but due to expectations rising, resources becoming increasingly scarce thus increasing competition and the need to strengthen one’s social identity in order to balance the growing sense of alienation due to the increasing pace of change, these traditional social practices and institutions have become more exclusive, more intolerant of “dysfunctional” behaviour (which we would hold up as an example of social change) and more aggressive in controlling resources (land, water, government schemes etc). A sub-culture of being reconciled to one’s fate or situation also prevailed among the poor. MYRADA realised that the old slogan: “do not give the poor a fish; teach them how to fish,” which in the 1960s had led the way from a charity approach to one that invested in building people’s skills and capacities, was no longer adequate. In the social situation described above, even those who had learnt to fish continued to remain poor, **because they could not reach the river**. Apart from the lack of livelihood skills, their way to the river was blocked by a host of hurdles mainly constructed by social and political forces which they could not overcome alone. They borrowed money on the way for food and to meet with urgent needs and had to work for years to repay before they could move on; they could not draw water from wells since they were controlled by the upper castes, they could not read the road signs showing them the correct way to the river and when they reached the river, others had already captured the fishing rights. Their experience in the SAGs and their Federations which emerged later provided the poor with the confidence, power and organisational skills to negotiate these hurdles and to work out solutions adapted to each situation.

17. A major feature which MYRADA considers critical to its strategy is the legitimacy and effectiveness of conflict as a component of the strategy of empowerment which plays a key role in changing the situation of the poor both in the financial as well as in the social domains and gradually in the political. Conflict, however, has to be managed in order not to expose the poor before they are ready to take the lead according to their own timetable. The SAGs emerged as the appropriate institution to manage conflict. The SAG members did not start by challenging the existing power structure openly and in the public space but by building institutions of the poor in neutral and even private space which took time to affect prevailing systems allowing those whose interest they had an impact on to readjust. They also decided to start by attempting change in the financial domain by introducing a system of savings in the SAGs after they were convinced that their savings were safe and that they could use them according to their rules and needs. They did not condemn the moneylenders as evil. The people knew that moneylenders would always be required as the demand for credit could not

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people were later exposed to a self-help group and decided to form one themselves. Months after the group was formed, they added a “flower” to symbolise their credit group alongside the stones and the parthenium.

be met only from official sources or even from SAGs; **the objective was to bring the private interest rates down which happened when the immediate and urgent needs of members were met from the SAGs common fund**; the SAGs introduced competition in the financial sector. For example two years after SAGs were formed in a village, we discovered that the interest rates levied by money lending families living in the village (which ranged from 5% to 10% per month) fell - at times by about 50%; the purposes also changed; the SAG members no longer borrowed from money lenders for urgent needs like health, food and education though they still approached them for larger loans for assets; even this changed over a period of three to four years as the common fund of the SAGs grew larger. Moneylenders from outside the village stopped coming, as the cost of travel made their operations unviable when interest rates fell.

18. The SAGs also introduced change in the private, social and political domains while managing the conflict that arose in the process. The major objectives of MYRADA while supporting poor people to build institutions is to provide them with an opportunity and the space to develop a vision and mission, to grow in confidence and skills to maintain organisational and financial management systems, to establish the linkages required for an institution to function effectively and with a degree of sustainability and to become agents for social change. In this process, the members of the Self-help Affinity Groups build new relationships within the group and within society. The assumption is that if the status in the home of a woman SAG member, hitherto conditioned by relations with her husband and other men folk, has improved, then her membership in the group must be partly (if not entirely) responsible for it. As far as impact on society is concerned, it is reasonable to assume that if the SAG member's credibility rises with his/her being a member of the group, which is respected by others for its performance in the village, their membership in the group has influenced to some extent the traditional perceptions of society towards the poorer families most of whom are from the lower caste or social strata. All these changes are described by the word **"empowerment"**. The perceptions of society need to change along with the growth in self-confidence and the increasing involvement of the poor sectors in society. If, on the contrary, the perceptions of society do not change while the SAGs increase their social role, society tends to react negatively to initiatives of the poor; this gives rise to unhealthy tension and often to open conflict.

## **V. INDICATORS OF EMPOWERMENT**

19. In order to analyse whether becoming members of an SAG, empowers the poor, six indicators were used in studies carried out both by MYRADA and external evaluators.

20. If the poorest members hold positions of authority in the SAGs it is an indicator that the group's functioning has contributed to the empowerment of the weakest within the group. This indicator, however limited, is tangible enough to point towards an empowerment process that the institution building strategy fosters. In all affinity groups fostered by MYRADA, there are two representatives appointed by the members. They are the signatories of cheques and other documents. They are supposed to be changed every year, though this does not happen in all groups in the initial years. A study conducted by MYRADA showed that that the members who were identified by the group as belonging to the 'lower poor' category are not marginalised when candidates are selected for positions of authority in the groups, though they have not been given preference during the first years in some groups and their representation has not been proportionate to their respective numbers in other groups.

21. A second indicator of the ‘empowerment’ of poor is whether affinity group members get elected to the ‘Gram Panchayat’ (a local governance body). If the members selected by the group win the elections and get elected to the Panchayat, it indicates that the confidence level of the group has grown sufficiently for the members to be engaged in the political domain. Further, it indicates that the village by and large has begun to respect the group as an institution, since many have supported the candidates it puts up. Several of those interviewed in the village after the elections indicated that they had voted for the group member because she/he was a member of a group which was functioning well and which they respected. A significant number of Self-help Affinity Group members have been elected to the Gram Panchayat. This was the case in previous elections, as well as in the last elections. **Approximately 200 members of Affinity Groups in MYRADA projects have been elected to their respective ‘Gram Panchayats’ in the elections of 2000<sup>7</sup>.**

**Social Intermediation Study:**

SAG member’s interaction with the ‘Gram Panchayat’ had increased after joining the group for two reasons: Firstly, many SAGs were co-ordinating and implementing infrastructural programmes in the community, which were funded by the Gram Panchayat. This increased the interaction of SAG members with the Panchayat. Secondly, a larger number of women (in their capacity as representatives of the federation) were attending Grama Sabha meetings than before. This increase in the number of women attending the meeting may be attributed to both the confidence derived from having a reputed institutional backing and an increase in confidence to interact in ‘formal’ settings.

**(Social Intermediation Study – Page 23.** The Social Intermediation Study was conducted by a group of three outside consultants commissioned by The Canadian International Development Agency (CIDA) and the Aga Khan Foundation (Canada).

22. A third indicator is the degree or level of impact the Group has on village life. This indicator must be viewed in the context of the status of members of the group in society, before the group was formed. These affinity groups are formed of the poor, marginalised and generally lower castes. For them to have influence in the village, to act and to be accepted as ‘agents of change’ is not viewed as a “traditional” role. In fact, any such initiative on their part would be viewed normally as a sign of “arrogance”. If therefore, the group has gained respect because of its functioning both as an institution and of the social roles that it has performed, it further supports the position that an institution that functions well is a powerful instrument of ‘empowerment’.

23. The CATAD<sup>8</sup> study (“NGO-Based Participatory Impact Monitoring of an Integrated Rural Development Project in Holalkere Taluk, Karnataka State, India”), which covered 64 Self-help Affinity Groups, selected three indicators to assess the impact of the group on

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<sup>7</sup> An independent study conducted by a group of IRMA (Institute of Rural Management, Anand) students in MYRADA’s Talavadi Project showed that better off families (mainly of upper castes) in the village, had begun to respect the Self-help Affinity Groups because they had helped their members to grow in terms of increased incomes and livelihood sources, as well as in their concern for the welfare of each other and of the village. The groups had taken the lead to mobilise the entire village to undertake programmes like sanitation, and to ensure that cleanliness was maintained.

<sup>8</sup> CATAD - Centre for Advanced Training in Agriculture and Rural Development, Humboldt University Berlin, Germany.

village life. It admits that all three indicators have limitations, but the findings from each indicator tend to support one another. (Pages 127 and 128)

- The percentage of groups who have been approached at least once by other groups in the village to help solve socially related problems:
  - Data indicates that in the first year 25% of Groups were approached to resolve social problems, in the third and fifth years 50% of the groups were approached to perform this social role.
  
- The percentage of groups in charge of maintaining at least two village infrastructure assets.
  - Data indicates that in the first year 30% of groups are involved, in the third year 65% and in the fifth year 90% are involved in maintaining at least two village infrastructure assets.
  
- The percentage of groups having elected members to at least two local bodies.
  - Data indicates that the percentage of groups with members in elected bodies was 10% in the first year, 25% in the third and 55% in the fifth year.

**Confer Annexure 1 for a few case studies.**

24. A fourth indicator of empowerment, particularly of women, is the change in gender relations in favour of women. In women's groups, the issue of gender (understood as gender relations) is a major one. The CATAD study attempted to assess whether membership in an affinity group had an impact on gender relations in the home between husband and wife. Three areas of decision-making in the family were analysed: Decisions on the purpose of loans, decisions on adding to household infrastructure and decisions on household purchases. In general, the number of decisions made exclusively by the husband decreases significantly over the years. The highest shift from husband's decision making to wife's decision making is seen in the issues related to household infrastructure. This kind of change is least in decisions related to household purchases. What emerges from discussions with families is that a joint decision in issues related to the household is most acceptable; disagreement can be managed in a way that relationships are strengthened without leading to conflict.

25. The fifth indicator is the acceptance of SAGs as bankable by financial institutions. In general, Bankers are not comfortable with informal groups of the poor. Dealing with a group of poor women who turn up in a group to their Bank branches has not been their daily experience. These clients do not carry the image that a Banker wants to project to his high profile customers. Besides, the poor have long been considered to be poor risks and in general "un-bankable". There has been a remarkable change in bankers' perceptions and approach during the past 6 years due largely to the performance of the SAGs in repaying loans which averages 98%. For example 8618 SAGs from MYRADA's projects have received Rs. 661 million as credit; this is another indicator that the profile and credibility of institutions of the poor has risen significantly.

26. The sixth indicator was whether participation in the group increased member's self confidence?

The "Social Intermediation Study" provides some insights that are quoted below: – **Page 25-26**

**“Confidence to Access Mainstream Institutions:**

- ◆ **Learning To Sign** – Many members said that they had learnt to sign after joining the group. Although this might seem like a minor achievement to us, to SAG members it seemed to be a way of gaining acceptance in the ‘mainstream’, and a source of pride. Many members spoke of how they were previously ashamed to conduct bank transactions, as they had to use thumb impressions in place of signing. Only after learning to sign were they comfortable going to a bank. This realisation may be attributed to an increased exposure through the group to the requirements of the ‘mainstream’.
- ◆ **Confidence To Approach A Bank** – Many members mentioned that, only after joining the SAG, they had gained the confidence of conducting bank transactions on their own, and approaching Bank officials for a loan. This increased confidence may be attributed partly to MYRADA’s efforts at promoting bank linkages in all its projects, by providing both SAG members and bank officials with training on SAG-Bank linkage during which they interacted with one another.
- ◆ **Confidence To Speak To Visitors And Government Officials** – Many members said that after joining the SAG they had frequent exposure to visitors. Representatives of SAGs linked to the IMK (Indira Mahila Kendra – a Federation of SAGs), had frequent interaction with public offices, and are now able to seek out and approach Government officials on their own.
- ◆ **Learning Communication Skills Required To Deal With The ‘Mainstream’** – Several members, mentioned about their ability to frame an agenda, talk, argue and hold their own in a meeting or a formal setting, and be attentive to what others are saying. They attributed this to the skills they had acquired after joining the group. Many also said that they had learnt the ‘appropriate’ language for dealing with officials, i.e., using the plural instead of the singular when addressing another person, using ‘mainstream’ language rather than the local dialect when talking to outsiders, etc. These skills may be attributed to an increased exposure to participation in formal settings, and exposure to interacting with visitors and Government officials through the group.
- ◆ **Awareness of Rights and Procedures** – Many SAG members mentioned that it was only after exposure to mainstream institutions and officials, that they acquired greater awareness of their rights in the welfare system, and of the procedures and requirements of negotiating the bureaucratic maze. This increased awareness may also be attributed to the willingness of the ‘mainstream’, to target SAG members for awareness generation, and the efforts of MYRADA staff to educate the SAG members on their rights. Many less aware members of the Groups have also benefited from the experience of the more exposed members who already had access to information and contacts before joining the group.
- ◆ **Confidence To Start New SAGs And Provide Support To Existing Groups** – Many ex-members expressed a wish to start a group on their own. Some had already formed groups in their localities on their own initiative. Many group members also act as community trainers for the new groups in the area. Through the federation, many representatives of the affinity groups provide support to new groups and also help in the process of conflict resolution in the groups. Members attributed this ability to capacity building programmes conducted by MYRADA and to the experience in group processes gained in the SAG.”

## VI. WHY FOCUS ON WOMEN'S GROUPS?

27. MYRADA is often asked why the focus in its projects is mainly on women's groups. This focus emerged when MYRADA discovered that as soon as men in the SAGs increased their income, they spent most of the increase on themselves. They shifted their consumption pattern from beedis to cigarettes for example. On the other hand it emerged that women spent their increased income on their household requirements especially for their children. There were also other reasons which strengthened this focus. A summary of these reasons is given below; it is an extract from a study made by a student M. Osborne from Kassel University, Germany.

One of the most fundamental changes was the decision to focus (almost) exclusively on women's groups. The main reasons given for the focus on women are to encourage their equity and empowerment. Nevertheless, what are the differences between men's groups and women's groups that make focusing on women-only groups worthwhile? Using the SHG model as our guide we can see the following: Firstly the needs of women are broader than merely the need for credit and finance. "Spots that traditionally provided women with a level of security and privacy have become scarce, like water points some distance from the village; the privacy and security of an SHG meeting is a godsend" (Fernandez, 2001). Secondly, women's groups – because they have traditionally faced more exclusion from the cash economy – have greater need of a common fund. Thirdly, women's traditional roles have been geared more towards inter-dependence, which the SHG needs in order to function. Furthermore, the near vacuum of female village institutions not only highlights the need for one but also suggests the comparative ease of its establishment. In contrast, men have clearly defined traditional roles in public relations and village politics. These relationships cannot simply be excluded by the formation of an equity-oriented SHG as they will continue to play a role bringing either conflicts or allegiances into the group. Furthermore, men have traditionally controlled all economic issues like trade, property and money. The SHG disrupts known cash flows and can often be regarded as a drain on existing inadequate funds rather than as a method of accumulation and emancipation from moneylenders. Men are also in a better position than women to exploit the SHG common fund in purely self-interested behaviour, by being freer to decide to migrate after taking a loan, for example. Both these problems can have destructive effects in the running of any men's group.

28. Initially, when MYRADA staff began organising women's Self-help Affinity Groups, there were reactions from men who tried to prevent women from attending meetings, often resorting to the use of force. But gradually this changed, as men realised that the women were able to access loans. Many women's groups continued to have problems with men demanding to attend their meetings. When this was refused, they were found lingering around the meeting place to overhear the conversation. This behaviour was strongly objected to, and fines were imposed on some men.

29. Changes in attitudes in favour of the girl child are also evident. In many groups, resolutions have been taken by the members to ensure that their daughters attend school regularly, and that they will be treated equally as the sons. Fines have been imposed on those who have not conformed to these decisions. The Social Intermediation Study also records several case stories of changes from traditional women's roles. Three case stories are given in Annexure 2.



## VII. AFFINITY VS. COMPETITION

30. The social context described above within which the SAGs function and the underlying cultural pressures and practices do not make much sense to those who function in a liberalised and globalised context. It may be interesting to share the reactions of a group of fairly top and middle level management persons from Motorola and Hansen (a construction/construction materials firm) who visited and interacted with SAGs in one of MYRADA's projects (Dharmapuri) as part of their Advanced Leadership Programme organised by the Indian Institute of Management, Bangalore, one of India's premier institutes. Let me quote from the report of their reactions:<sup>9</sup>

*... There were typical questions and concerns and counterpoints during the 'Advanced Leadership Programme' debriefing*

- ***Competition vs. cooperation; individualism vs. 'autonomous interdependence'; individual utility vs. greater common good***

*This was for most participants the contrast between the way they usually think everything should be organised. They saw leadership as what gives competitive advantage (a la Nokia vs. Motorola). Leadership is about being the best – the best individual, the best group, etc. and they could not perceive how SAGs have cooperation not only between members but also between groups in the village.*

*While all were quite impressed that SAG members were showing extraordinary leadership abilities, they felt that MYRADA's insistence on practices like 'rotation of leadership', preference to call people 'representatives' not 'leaders' – as practices that were preventing natural leadership from living up to its potential (some also said that rotating leadership was really rotation of tasks). Some felt that if natural leaders were allowed to stay in their positions longer there would be 'quicker economic development'. Of course, some of their own members disagreed – that economic development was alone not the objective of agencies like MYRADA – but that 'leadership development' itself was an objective and that such leadership can be defined differently from 'winning horses' (again read "competition"). The responses for this point were – that countries like India did not lack 'leaders' – the buck fell short of 'leadership' that was compassionate, responsible and cared for the 'greater common good'. In fact the participants were shocked that every SAG member when asked 'what she wanted for herself?' said – she wanted a better village, better education for children (hers and others'), better relationships between individual and institutions – etc. they were impressed by this 'expansive vision' of people. They felt that the strength of the SAGs was that they were organisations that were 'driven by a vision – that was broad' and 'committed to a strong belief in wanting a greater common good' – the greater common good here is a 'value'.*

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<sup>9</sup> The Advanced Leadership Programme for two companies: Motorola and Hansen is held in three institutes: (1) The Lancaster University Management School; (2) Indian Institute of Management, Bangalore; and (3) The McGill University, Canada. The IIM-B has promoted a Micro finance Group which is involved in developing teaching material on Micro finance that can be used in the mainstream MBA programmes and to support students who write their dissertations or thesis on MF. MYRADA has deputed one of its staff to work with this Group. It is currently funded by CGAP-OSI under the "Micro finance in MBA Programmes". It also proposes to start a course- the Micro finance Incubator" for CEOs of MFIs which will comprise a month or so of in house training and a year of mentoring.

My Comment: There appears to be a link between the levels of consumption...and the relations of trust and affinity...the higher the levels of consumption (affluenza) the weaker are the relations of affinity...

***There was an interesting contrast: Singapore vs. Bangalore***

*Singapore = organised; Bangalore = chaotic or 'self-organised'. The SAGs in their opinion fell more under the Bangalore model – they were not necessarily regimented – no clear hierarchies, no clear environment in which they could function – but were self-organised in such a way that they could manoeuvre even in uncertain situations – one needs greater management and leadership skills to do so. Singapore of course needs leadership of the Lee Kuan Yew style – at the macro – and that sorts out the micro level. Singapore's rules are known and top down – Bangalore has to work them out on its own. SAGs are essentially creating rules for themselves and for the larger community/environment in which they live. In fact the self-organising at MEADOW<sup>10</sup> was an eye-opener for them. (they don't have supervisors – somehow they know how to divide up the work and when they want to rotate). For Prof.Mintzberg the key question was, "is Motorola's leadership managing Motorola or are they managing the numbers?" If it is managing numbers (while numbers are important) – the processes will not empower the employees – nor may it be beneficial to the world at large (short-termism); contrast with processes that empower SAG members and mindful of impact on community. The objectives of SAGs was not only to manage savings and credit well – but to empower the individual members and to attain greater common good. It is typical in corporate organisations to change the leader to increase profitability (often measured by earnings per share). Whereas in the SAG context leadership was seen as a process of raising the leadership abilities of the many to a higher level, to develop the checks and balances – to ask appropriate questions of other leaders and to decide what is good in the long run.*

***Mintzberg:*** *Kibbutz in Israel were more egalitarian as long as they were agrarian and as soon as they turned to industrial pursuits – the needed specialisation invariably brought in hierarchies and unequal rewards. This point was made in reference to MEADOW – where the women did not quite have an 'incentive system' that differentiated heavily between different responsibilities. How long can MEADOW carry on like this?*

*In his paper on alternate forms of organising – he speaks of three strategies for organisational development*

- ***Handing over:*** *such as MYRADA developing SAGs and slowly allowing them to take over functions it performed for them for their daily management – e.g. bookkeeping, basic training, etc.*
- ***Crossing over:*** *in this type the new organisation (e.g. SAGs) actually moves on to a more complex activity – such as MEADOW or MASS (Mahila Abhivruddhi matthu Samrakshana Samsthe - An organisation of Devadasis promoted by MYRADA): Prof. Mintzberg thinks this is often 'too much of a stretch' for local organisations and they tend to saturate or close down. This is his reason for the failure of many complex enterprises of the poor – though their small-scale efforts actually succeed.*

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<sup>10</sup> **MEADOW** - Management of Enterprises and Development of Women –A group of 250 women originally organised by MYRADA with the help of SAGs who formed a company and have an agreement with Titan a major watch and jewellery manufacturer -part of the Tata group - to undertake several subsidiary activities; it is nine years old).

*The third form is a bit of a meeting mid way – MYRADA for e.g. simplifies its expectations and the groups build up their capabilities – perhaps having Anandan, a MYRADA staff on MEADOW’s rolls is a bit of this strategy too.*

### **VIII. HOW DOES ALL THIS THEORY UNFOLD ACTUALLY ON THE GROUND?**

31. Let us take just one example of one of the 16 Projects managed by MYRADA and analyse the relevant data collected from all the 1816 SAGs promoted in this project area. The project which covers 350 villages is involved in promoting and financing several sectors including the management of natural resources, housing and sanitation, management of village schools, health programmes, children’s rights and education, micro enterprises, agriculture and animal husbandry. Several types of people’s institutions are promoted including School Management Committees, Watershed Management Associations, Children’s Clubs, Companies to manage micro enterprises; however here the focus is only on the SAGs which form the base institution; they are participatory institutions and not representative ones like some of the others.

#### **MYRADA Dharmapuri Project - SHG Information as on December 31, 2003**

Let us start with an analysis of the common fund of these 1816 SAGs.

#### **Group Details**

Total No. of Groups	1,816
Total No. of Members	28,522

#### **Frequency of Meeting**

Weekly	1,730
Fortnightly	6
Monthly	80

#### **Composition of Common Fund of 1816 SHGs (Indian Rupees)**

Membership Fee	153,150
<b>Savings</b>	<b>73,801,060</b>
<b>Fines</b>	<b>820,135</b>
Others	927,640
Donations	180,800
<b>Interest on Loans</b>	<b>53,067,140</b>
Bank Interest	1,997,180
Capital Mobilised from Government	2,431,960
Capital Mobilised from NABARD	20,000
<b>Loans from Banks/Sanghamithra*</b>	<b>85,653,370</b>
Repaid to Banks/Sanghamithra (-)	44,731,975
Community Contribution	785,070
Refund (-)	781,320
<b>Total Common Fund</b>	<b><u>174,324,210</u></b>

\*Sanghamithra is a Not-For-Profit MFI promoted by MYRADA which lends only to SAGs (not individuals) formed by MYRADA and by other NGOs  
1 USD= Indian Rupees 46.

32. The highlighted items only will be commented on:

In keeping with the thrust towards self reliance, the SAGs have mobilised Rs. 73 million through their **savings** out of a total common fund of Rs. 174 million (approx 41 %). **Interest** on loans remains with the respective SAGs; it is not taken away by MYRADA; it amounts to Rs. 53 million which is 30% of the total fund. When Banks or Sanghamithra lend to an SAG, the SAG is free to levy its own interest rate on each loan to the member; it is usually slightly higher and differs, depending on the profit that the SAG anticipates from each loan; the difference, if any, remains with the SAG. Together the savings and interest amount to 71% of the SAG's common fund. This shows that they rely primarily on their own resources; in turn this increases their ownership of the common fund and improves the management of financial transactions. **Fines** are levied not only for delays in repayment, but also for dysfunctional behaviour related to standards of behaviour that each SAG adopts. For example some men's groups have decided that no one will smoke during meetings – I asked why assuming that it had to do with cancer...their reply startled me: No one smokes alone, they offer “beedies” to all around them, this disturbs the meeting! Some women's SAGs have decided that if any men disturb their meeting or ill treat their wives, they will be fined; others have resolved to ensure that the girl child of every member goes to school; if she is given other tasks by the family, the latter is fined; punctuality in arriving for meetings and the discipline of informing the group when a member cannot attend are common norms; if broken fines are levied; Fines therefore are more an indication of a good group which imposes penalties on dysfunctional behaviour which is accepted by the member concerned since he/she realises that his/her behaviour has undermined the group's strength and cohesion. Fines are imposed as well as accepted.

**The Patterns in Lending also bring out certain important features of the SAG model:**

ACTIVITY	NO. OF LOANS	AMOUNT LOANED	AMOUNT RECOVERED	BALANCE
CLOTHING	3773	7,727,499	2,575,093	5,152,406
<b>EDUCATION</b>	4149	7,958,400	5,588,572	2,369,828
<b>FOOD</b>	10384	13,940,541	10,603,924	3,336,617
HEALTH	13591	15,140,980	9,831,549	5,309,431
HOUSEHOLD EXP.	36443	49,167,696	36,655,169	12,512,527
HOUSE PURCHASE	86	305,450	190,000	115,450
<b>REPAID TO MONEYLENDERS</b>	6290	29,113,188	22,487,014	6,626,174
SOCIO RELIGIOUS	5421	19,030,490	13,327,275	5,703,215
<b>CROP LOAN</b>	36222	150,166,276	91,649,711	58,516,565
EQUIPMENT (AGRI)	56	1,022,150	658,250	363,900
IRRIGATION	438	579,605	375,920	203,685
LAND DEVELOPMENT	1256	5,179,450	3,641,006	1,538,444
BULLOCK	25	58,490	58,490	0
COW/BUFFALO	13290	62,484,569	43,056,607	19,427,962

ACTIVITY	NO. OF LOANS	AMOUNT LOANED	AMOUNT RECOVERED	BALANCE
POULTRY	73	877,540	660,940	216,600
PIGGERY	22	7,084	7,084	0
SHEEP/GOAT	1204	3,211,703	2,157,364	1,054,339
<b>COTTAGE INDUSTRY</b>	566	3,745,280	2,605,100	1,140,180
<b>PETTY BUSINESS/ TRADING</b>	4224	30,881,602	20,497,761	10,383,841
SERICULTURE	210	981,445	617,834	363,611
HOUSE CONSTRUCTION	6850	26,695,079	18,629,987	8,065,092
HOUSE ELEC'FICATION	702	90,981	61,445	29,536
HOUSE REPAIRS	1826	5,786,029	2,418,210	3,367,819
RENT	12	15,250	15,250	0
TAILORING MACHINE	15	25,000	25,000	0
<b>TOTAL</b>	<b>147,128</b>	<b>434,191,777</b>	<b>288,394,555</b>	<b>145,797,222</b>

33. Each SAG has a group common fund. The major feature of the common fund is that it is the concrete expression of our ideology of people's participation in decision-making. The practice that says: "You cannot take loans for this, only for that", forces people to be dishonest. In SAGs, loans are given for Clothing, Food and Health. Most finance experts consider these purposes to be consumption loans and discourage them; they do not earn any profit, hence how can they be repaid. MYRADA's studies, however, indicate the following:

- i. The number of loans for clothing, food, health and social religious purposes is comparatively high in the first two years, at times reaching 40% of the total - though the amount is not as large-usually around 20%; but the trend in the number of loans and the amount declines from the third year. This indicates that people have been able to address their consumption needs from their incomes. The people always took loans for consumption, to tide over days when they needed food but did not get work, to meet with urgent health needs, etc. If the SAGs, after becoming operational, do not provide these loans they would approach moneylenders who charge exorbitant rates of interest; this would leave them in perpetual debt, as they would never be able to repay the capital. The SAGs also agree to give loans to repay moneylenders from whom previous loans at high interest rates had been taken
- ii. A study of loans for assets given by SAGs in a Government-NGO sponsored programme where the repayment was over 75% showed that 60% of the repayments did not come from the asset but from other small livelihood sources like wage labour; therefore the insistence that people take loans for a "viable" unit of say 20 plus 1 sheep did not ensure that repayments came from the asset; the people gave importance to manageability - 2 or 3 sheep rather than a flock was considered manageable while they went about other business. Therefore even the so-called asset loans were not the source of the entire repayments.

- iii. The flexible pattern of managing repayment also makes the entire transaction more transparent and manageable; for example some members borrow to buy an animal which is fattened and sold after 6 to 8 months. In such cases, the SAG does not require repayments to start in instalments immediately after the loan is taken, but requires that the loan be returned in one instalment (with a comparatively higher interest) after the animal is sold; if the borrower is required to pay instalments a week after the loan is taken as in the Grameen Bank he/she would have to borrow from elsewhere in case there is inadequate cash flow to cope with repayments.
- iv. A large number of loans are given for cottage industries, petty business and trading. These loans are accessed quickly and in amounts that they require from the SAG which is often far less than Banks are willing to provide even under a sanctioned scheme. Timeliness is also a critical factor; loans from Banks take time.

MYRADA realises that many of the loans for income generating programmes are not large enough to provide the entire livelihood needs of a family; they play a supplementary through important role. In order to move from income generating activities to larger micro enterprises, several other inputs are required like larger loans, improved skills, better marketing linkages as well as packaging and preservation. In order to encourage micro enterprises, MYRADA identifies patterns in the loans taken for income generating activities like cottage industries, trading, cash crops, animal husbandry poultry, and off farm activities and tries to see whether there is a comparative advantage which makes these activities more profitable in certain areas. It works with the people who have taken loans for these smaller income generating activities in order to assess their interest and potential for larger micro enterprises; MYRADA then brings in skilled trainers, usually local entrepreneurs, who help to identify appropriate technologies, to establish linkages with input suppliers and markets, to increase the scale of these activities, to add value to the products and to diversify if people so decide.

## **IX. DOES THE SHG STRATEGY SUPPORT THE GLOBAL EFFORT TO MEET THE EIGHT MILLENNIUM DEVELOPMENT GOALS (MDGS!)**

34. It must be noted that while the MDGs give the impression that they focus on social development which is also the primary objective of the SAGs, there is no doubt that social development is intrinsically linked to economic and sustainable development; the SAGs also promote, in differing degrees, these objectives.

35. The SHGs provide not only credit but also linkages, information and skills required to strengthen and diversify the livelihood base of the poor. The first MDG seeks to eradicate extreme hunger and poverty. Most of the SAG members have been able to ensure adequate food for 12 months after 3 – 4 years in a well functioning SAG. However, the income generating activities that the SHG enables them to undertake are largely part -time and help to add supplementary income and to tide over urgent consumption needs without getting bonded to money lending families. These income generating activities still need to be upgraded into micro enterprises which require technology, power, skills, a regular flow of credit, stable markets and which become a full time occupation. This is the next step. MYRADA's approach is to identify patterns among loan purposes. The assumption is that when people are free to borrow for any purpose, and to decide on the size if the loan, members of the SHGs opt for activities which they know they can manage and for which have a market; the other members of the SAGs also assess these important indicators before agreeing to the loan. Further patterns of similar purposes indicate some comparative

advantage that a particular area has over others. MYRADA and the CMRCs<sup>11</sup> (with increasing frequency) invite the members from each of the SAGs who have taken loans for similar purposes and arrange for training to upgrade their skills as well as for new technologies and larger loans. Not all of them take the next step, as not all the SAG members want to become micro entrepreneurs. These members return to their own SHGs for credit. They may form associations to purchase or transport their finished goods in bulk, as some have done; but they cling to their membership of their SAGs as they have a degree of affinity with the members.

36. MDGs 2 to 6 are largely concerned with education, health and gender equity. The SAGs play a major role here as well. Members are free to take loans for education and health; the SAGs are involved in setting up and helping to manage School Management Committees which include others like the village leaders and prominent persons in the locality. Gender issues are regularly dealt with in SAG meetings and combined action is often taken by SAGs when there is domestic violence to help resolve the problems and to exercise social pressure on men to stop drinking, gambling and womanising which are often the causes of domestic violence. The ability of women to bring in credit and income has enhanced their status both at home and in society and the SHG has given them a space within which to grow.

37. MDGS 7 and 8 are related to environmental sustainability and linkages (partnerships) as well as good governance. The SAGs take several years and require wider associations – like Federations of SAGs or CBOs - in order to achieve these goals. This paper has not dealt with the influence of SAGs on watershed management associations (WMAs) which focus on the immediate environment for want of space and time; but the impact on the WMAs ability to manage their organisation and finances in a transparent and effective manner is well documented in MYRADA. However, in rural areas especially where crops are highly vulnerable to erratic rainfall, the general awareness of the importance of long-term goals is low, given the priority of daily needs. There is however scope for the SAGs to introduce policies at local level which promote environmental sustainability; this is why MYRADA has introduced, what it calls “Credit Plus” awareness and educational programmes which are shared with all the SAGs it promotes. As far as good governance is concerned, there is ample evidence that SAGs have an impact on the local governance structures like the Gram Sabhas (village level and below) and Gram Panchayats (5 villages). The SAGs are accustomed to set an agenda for every meeting and to conduct it in a participatory manner, to record all decisions, to maintain proper and updated books of accounts and to arrange for annual audits. The Panchayats do not abide by these salutary organisational and financial management practices and are generally dominated by local interests. The SAGs have been able to change this situation in many villages. However their impact at the State level is still limited, though they do intervene in several cases on specific issues where the interests of poor women and children have not been given adequate support in Government policy or practice. In general it can be said that the SHGs have promoted values of equality, solidarity, tolerance, and shared responsibility. They have to move towards promoting the values of respect for nature and for good governance.

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<sup>11</sup> CMRC - Community Managed Resource Centre. One Resource Centre supports 100-150 CBOs, including SAGs and Watershed Associations which pay a monthly fee for membership, as well as for all services rendered. Membership is open to CBOs formed by any NGO or institutions but they are assessed by the Management Committee of the RCs before they are accepted; they are also rated annually. Each RC has its own Management Committee comprising representatives from the CBOs, an office with a computer, an RC Manager and Community Resource Persons.

## X. HOW IS THE SAG STRATEGY DIFFERENT FROM THE GRAMEEN BANK OF BANGLADESH

I think that the Grameen Bank of Bangladesh has done outstanding work in bringing banking to the poor; though an official bank, it was able to preserve a degree of flexibility and independence. Unfortunately, the Regional Rural Banks in India which started in 1975 and which had similar objectives suffered from excessive Government control and aggressive trade unionisation, resulting in making it almost impossible for them to implement their mandate of keeping transactions costs low and maintaining flexibility in their policies to respond to local needs.

38. I was asked in the mid-eighties to start in India a clone of the Grameen Bank of Bangladesh. I pointed out that India had a vast network of banks. Though in some States, banks were constantly in the red, particularly where they are overly politicised, in general, the banking system functions reasonably well. Priority sector lending is mandatory. The Regional Rural Banks (RRBs) together with the Co-operative Societies were expected to spread the formal credit system in rural areas particularly among the poorer sectors. The RRBs in particular (which incidentally were instituted in 1975), were expected to provide a delivery system with comparatively low transaction costs, which was flexible and “friendly” especially to the poor. These are features which in the popular mind characterise the Grameen Bank of Bangladesh. However, thanks to a combination of aggressive trade unionism and unbalanced socialism, the base of the RRBs was eroded. Yet their network is established and there is hope that a majority of these institutions can be revived. (Latest reports in fact show a marked improvement in over 60% of these RRBs thanks to change in Government policy).

39. What India needed was not another Bank; rather it needed a model which used the existing Banking network, but was adequately decentralised (designed and controlled by people), flexible enough to respond to the complexity of individual needs and above all low cost in terms of overheads and transactions (In fact the concept of the RRBs incorporated all these objectives, but excessive Government control and aggressive trade unionism ensured that they could not be achieved.) This was the basis for the alternative credit system which MYRADA had started promoting between 1984 and 1986 and which the Government and the Financial Institutions were invited to assess.<sup>12</sup> MYRADA however insisted that **if this alternate system was considered by Government to be adequate and appropriate to achieve the objective of providing credit to the poor, and could therefore be supported officially, it would not be “mainstreamed” by the financial institutions; “mainstreaming” as understood by official institutions meant that the alternate system had to accept and abide by the rules and procedures of the official system. On the contrary, if the Banks opted to finance these affinity groups, they would have to accept the rules designed by the groups and to work within the framework developed by the groups to manage their affairs.** Briefly the model proposed was more in line with a strategy of “Banking **BY** the poor” than “Banking **FOR** the Poor”

40. The credit management model that emerged in the late eighties, after several years of trial and error, was one with structural features different from those of the Grameen Bank or the model adopted by major MFIs which are all centralised and controlled by a Financial

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<sup>12</sup> For a detailed description of this model please refer to, “The MYRADA Experience in Savings and Credit” published in 1991 by this author.



Institution. It was initially called the “Credit Management Group” approach by MYRADA since the focus was on “management” as an empowering tool. When NABARD started supporting this initiative in 1987, the name of the model changed to “Self Help Groups”. When the Government of India decided to officially accept this model and to provide it budgetary support in 1998-1999, MYRADA decided to change the name to “Self Help Affinity Groups” to highlight the critical importance of “affinity” as a binding force.

41. The differences between the groups formed by the Grameen Bank and the Self Help Affinity Group Model are several: **To begin** with, the self-help group model started with identifying affinity groups. Since this affinity existed before the NGO intervened, there was no fixed number (as in GB) of members in a group; the number in each group ranges from 15 to 20. **Two:** the SAGs were not primarily formed to provide credit, but to meet regularly to discuss their problems and their strategies to overcome them; they created a social space where they were free to discuss these issues. **Three:** when the members expressed the need for funds, they took the decision to save, since MYRADA staff informed them that they had to build on their own strengths; as a result the groups’ capital was built on savings (Savings in GB started much later). No promise was made that savings would leverage grants; on the other hand the group’s were informed that if their performance both in savings and lending was good, they would be linked to banks to access loans; they would have to start to meet members credit needs by disbursing loans from their savings. The banks would offer credit based on their performance of lending their own funds and on their cash flow and not only on their performance on mobilising savings. Hence Banks would link up only after a year or so. At this point, MYRADA invested heavily in building the groups organisational capacity.<sup>13</sup> **Four,** all the decisions regarding savings, loans, interest rates and recovery schedules are taken within the group even when the Banks lend to the group. **Five** there is only one loan to the group; the individual loan requests from members (which are not written down but verbally expressed during the meeting and recorded in the Minutes book of the group) are not carried to a Bank; they are assessed by the group. The loan from the bank therefore is given to the group and not to individuals in a group as in the Grameen Bank model. **Six:** The group is free to lend for any purpose, not only for so called “income generating” purposes (as in the original Grameen Bank model). Analysis of data indicates that in the first year a large number of loans are given for health, food, clothing and to release members from moneylenders to whom assets had been mortgaged – yet repayments to the bank exceed 98%. The trend changes over the next two years towards “trading” and “asset” loans. **Seven:** the interest rates are decided by each group and they differ from group to group and from loan to loan. The schedules of repayment are also decided by the group and differ from loan to loan. For example if the loans is for an animal which is sold after fattening over a period of six months, the repayment is given only when the asset is sold; no repayment instalment is required within a week of the loan (as in the GB model). **Eight,** the interest earned does not leave the group; it is added to the group’s capital from which loans are advanced; the interest charged by the banks averages 10% per annum on a declining rate; the group lends at rates ranging

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<sup>13</sup> The Capacity Building Modules include: 1. A structural analysis of Society; 2. Analysis of Local Credit Sources; 3. Self-Help Affinity Group - A concept; 4. How a meeting of the Community Based Organisation is conducted; 5. Communication; 6. Affinity; 7. Vision Building; 8. Organisational Goals; 9. Planning, Resource Mobilisation, Implementation, Monitoring & Evaluation (PRIME); 10. Rules and Regulations; 11. Responsibilities of Group Members; 12. Bookkeeping and Auditing; 13. Leadership; 14. Conflict Resolution; 15. Collective Decision Making; 16. Common Fund Management; 17. Self-Assessment; 18. Group Graduation; 19. Linkages with other Institutions; 20. Building Credit Linkages; 21. Federations; 22. Credit Plus; and 23. Analysing Gender Relations in the Family and Community.

from 12% to 20% per annum and the difference is added to the common fund of the group; as a result a major component of the groups' common fund is the interest earned. **Nine:** members are free to leave the Group according to the rules worked out and agreed to by all. **And lastly**, the groups are linked to a Bank or MFI and organised into federations which supervises their performance leaving MYRADA the freedom to withdraw.

42. These are some of the features that distinguish the groups in this model from that of the Grameen Bank of Bangladesh. MYRADA believes that these organisational features are critical to a credit management model for it to have the potential to be an effective instrument to promote empowerment. Instead of starting a clone of the Grameen Bank, the Government was requested to change the official Banking Policy to make it more responsive to the requirements of credit and savings institutions like the self help affinity groups, set up by the people. It is to the credit of NABARD that it took up this challenge and supported the emergence of an alternate credit system which in turn required major policy changes in the official system. The approach in India therefore was not to start another bank for micro finance but to influence the official banking system which had a good outreach to adopt policy and systems that enabled it to collaborate with the poor in such a way that the poor could manage their own micro finance institutions according to their priorities.

43. Interestingly, major Multilateral and Bilateral Institutions which have promoted micro finance like the World Bank have stuck to one model, namely the Grameen Bank of Bangladesh, – though there are signs of change recently, the damage has been done. What is even more intriguing is that these major institutions promote a policy of “sectoral reform” to improve the efficiency and effectiveness of Government institutions and to influence pro poor initiatives. Yet they refuse to accept that the Indian approach, namely the SHG-Bank Linkage model, which did precisely this has adequate credibility. In fact this is not peculiar only to the Multilateral and Bilateral Institutions but even to individuals including the famous Dr. Amartya Sen who just last week in a lecture in Kolkata, made no reference to the SHG-Bank Linkage model which has spread all over India; instead he chastised the country for failing to learn from the Grameen Bank experience of Bangladesh. The Indian model has not been accepted and written about abroad, partly because it was not initiated by Multilateral/Bilateral Agencies, partly because it does not fit into the regular pattern of micro finance as understood by the West. Yet, the reality of the situation is that it is only when such agencies write about a model that it gains credibility abroad. It is also such sources from where international figures draw their information. One must however place on record that the only multilateral organisation that shows signs of accepting the SAG approach as one of other models that has potential for empowerment and to manage micro finance is the International Fund for Agricultural development (IFAD) based in Rome.

## **XI. THE ROLE THAT THE SAG STRATEGY PLAYED IN CHANGING BANKING POLICY AND IN FINANCIAL SECTOR DEVELOPMENT:**

44. *A little bit of history:* Self Help Groups, initially called Credit Management Groups, emerged in MYRADA in 1984-85 and drew the attention of NABARD in 1986 when MYRADA applied to NABARD for a Research and Development Grant which was sanctioned in October 1987; it was used for institutional capacity building of SAGs, and to match the groups' savings, which was required since their capacity to manage finance and to undertake small income generating activities was higher than their ability to save partly as a result of the capacity building training, partly because some of them has the skills required due to prior experience. The credit for this decision to support MYRADA's R&D initiative in a formal

manner and for leading negotiations with various Banks and the Reserve Bank of India (RBI) between 1987 and 1991 goes to Shri P.J. Nayak, the then Chairman and Managing Director of NABARD, and his team at the NABARD Head Office. Between 1987 and 1999, MYRADA expanded the number of SAGs; NABARD on its part also supported a few other NGOs after 1987 (once the precedent was established) to start SAGs in order to broaden the basis of the experience, so that it would have a stronger argument for change. MYRADA developed a software that helped to analyse the purposes of loans given to each member (and to put them in sectors), the size of loans per sector, the repayment related to each sector and even to each size

45. Between 1987 and 1991, NABARD was involved with MYRADA in conducting studies to assess the SAG R&D initiative, supported by its grant, and in several meetings with the RBI and major Commercial Banks to share its findings. The objections raised by the Bankers were many, but the majority by far related to two structural features of the model proposed. The bankers asked: How can Banks lend to groups which are not registered? How can banks lend to groups without knowing in advance the purpose for which a member will borrow? They also wanted to know how it was possible to assess groups; their entire system was based on assessing the viability of individual loan applications, or in reality on ascertaining whether with the standardised norms prescribed throughout the country related to the “beneficiary”, the purposes and size of loans in the priority sectors were observed in each case.

46. The new proposal –which we called the Indian Model based on the experience of the SAGs – required certain policy changes including the following: to allow the Banks: a) to lend to groups (and not only to individuals in groups), b) to lend to groups without asking for the ultimate purpose before the loan to the group was advanced and c) to lend to groups which, even though not formally registered, functioned according to the norms of a registered institution. These were the three structural features of the SAG-Bank Linkage Model and required policy, institutional and attitudinal changes to be introduced in the financial system and operationalised

47. To cut a long story short, NABARD was able to change the policy of the Reserve bank of India. The RBI issued a notification in 1990 allowing banks to lend to groups as groups without asking for the purpose in advance and to lend to unregistered groups which functioned according to certain norms. NABARD came out with guidelines in 1991 (which it kept updating and revising based on the growing body of experience, studies and feedback from various parts of the country).

48. Once convinced that the SAG strategy was a viable initiative, NABARD launched the national SHG-Bank Pilot Linkage Programme in 1992 and backed it up with resources to train Bank staff, NGOs, Government officials and SAGs. It has continued relentlessly to invest in this capacity building of intervenors and SAGs as well as to come up with regular reviews and policy changes to provide a more enabling and supportive environment to enhance the flow of credit to SAGs over the past 13 years. The consistency of the CEOs and Managing Directors of NABARD through this period is a rare example of what is possible, even in Government, provided a degree of professionalism and corporate objectives prevail. In 1999, the Government of India lent its full support by making a budgetary allocation to support this micro finance approach throughout the country with special emphasis on regions where the programme had not taken off as vibrantly as required. There is no better example, to my knowledge in the history of anti poverty strategies where a small initiative was picked up and supported by NABARD, a Government financial institution and built up by a number of intervenors with NABARD taking the lead over a period of 15 years during which it

changed policy at the national level. Today the SHG Bank Linkage Programme has spread throughout the country though not with the same degree of success in all parts.

## **XII. THE EMERGENCE OF A NOT FOR PROFIT MFI CALLED SANGHAMITHRA**

49. A question is often asked: Why start a Financial Institution when the mainline Financial Institutions are lending to SHGs? The major reasons are: (i) the priority given to the SHG Bank Linkage programme during the past five years is being rapidly diluted indirectly by the liberalisation sweeping through the Banking Sector which has resulted in mergers, stress on the bottom line and closure of Bank Branches in rural areas which are not breaking even. (ii) MYRADA's own experience has been that the response of Bank Managers in rural areas is not consistent. As a result, very often large gaps occur where SHGs are not being financed. We had an interesting case in one project three years ago where the Bank Linkage programme was not moving. We opened a branch of Sanghamithra in the area which rapidly lent to over 500 SHGs. Since all these transactions go through the Banks the Bankers were well aware of what happened as well as of the good repayment rate. The Chairman was soon sitting in my office offering to lend to all the SHGs in the area. I was quite happy with this offer and informed him that Sanghamithra would now go elsewhere. There are many such examples of the influence of Sanghamithra on the banking sector which have been documented in a booklet, "*Sanghamithra – A Micro finance Institution with a Difference*" by this author.

50. The second question is why keep it separate from MYRADA? Sanghamithra Rural Financial Services (SRFS) has been kept distinct from MYRADA since MYRADA did not want to enter directly into lending transactions. MYRADA has consistently held the position over the past 10 years that lending operations should not be conducted by NGOs managing development programmes; it should be left to Financial Institutions including Companies set up to manage micro finance. The culture of the staff, the systems and the financial parameters to assess performance differ and consequently also the pressures which drive the two types of organisations. Further, if SRFS is to demonstrate that banking with the poor is indeed profitable and sustainable, it has to function as a distinct institution so that cross subsidisation — which is often well hidden — can be avoided.<sup>14</sup> Sanghamithra is registered under Section 25 of the Indian Companies Act. Efforts to launch it began in 1993. Several policy decisions were required which were taken to enable it to launch operations in 2000. The Canadian International Development Agency (CIDA) provided the initial grant to set up the infrastructure and to extend loans to SAGs; NABARD, the Canara Bank, Indian Bank extended loans to SRFS for on lending to SAGs, SIDBI extended both grants and loans and a private donor Mrs Rohini Nilekani of Infosys extended grants for on lending to SAGs.

51. The significant features that identify Sanghamithra are the following: (a) its client is only the SAGs formed by MYRADA and by any NGO or Government e.g. 'Stree Shakti' which are assessed as bankable; it lends to the SAG as an institution and not to individuals in the SAG; (b) the client profile is overwhelmingly women (98%); (c) the initial contact and the training of the SAGs is done by the NGO with its own funds — SRFS has provided financial support from its surplus to NGOs to train SAGs, especially those formed under various Government programmes; (d) the appraisal of the SAG prior to extending a loan is done by the SRFS Credit Manager; (e) the instrument of credit disbursement and repayment

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<sup>14</sup> For more on this, refer to "Is Micro Credit Leading to a Macro Mess" (1999) and to the publication "Sanghamithra, a MFI with a Difference"(2004) by this Author.

is always a cheque – never cash; (f) the interest rate to the SAG is 12% on a declining balance — the SAGs on-lend at rates which they decide in each case — SRFS also levies a service charge of 2% on the loan amount with a ceiling of Rs.200; (g) the repayment is done through post-dated cheques — at any time there are two cheques with SRFS; (h) the frequency of repayment is monthly and the repayment terms are 1/10 of the principal per month for a one year loan, 1/20 of the principal per month for a two year loan and 1/30 of the principal per month for a 3 year loan; the additional instalments cover the interest; (i) SRFS has one major loan product — a general purpose loan product to the SAG. It does not offer any savings product to its clients. However, the SAGs have the practice of regular savings; their performance in the regularity of savings is an important parameter in assessing their performance. The group decides on the amount of savings. SRFS does not have an insurance product; however, it recognises the value of such a product and encourages the Resource Centres to mobilise insurance coverage both for people and livestock; as the Resource Centres earn a commission on this product, they are actively engaged in promoting it. Over 10,000 Life Insurance cases have been promoted over the past 6 months. SRFS has also introduced a housing loan product which runs concurrently with the general service loan to SAGs.

**52. MYRADA's role (and that of other NGOs involved with Sanghamithra) in micro-finance was (and continues to be) restricted to:**

- i) Identifying Affinity Groups of the poor and of marginalised sectors.**
- ii) Strengthening the Groups institutional capacity –**
- iii) Lobbying for policy change so that the official finance system recognises the alternate systems of the poor in their own right and supports them, instead of imposing official and standardised rules in the name of mainstreaming people's institutions.**
- iv) Offering opportunities for members to acquire new productive skills.**
- v) Training Bankers to assess whether the Groups are bankable institutions and to establish a long term link with them through a line of credit.**

The first four need to be fully subsidised. The fifth pays for itself. Sanghamithra restricts its role to financing the SAGs; it has reached financial self sufficiency in the third year of operations.

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**March 2005**