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The Role Of Self Help Affinity Groups In Promoting Financial Inclusion Of Landless And Marginal/Small Farmers' Families

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The Self Help Affinity Group movement has been largely rural based. Hence, this paper refers to landless/near landless and marginal/small farmers. Where the SHG movement is focused on the poor, a large number of the SHG members are from the landless/near landless. They cannot survive on agriculture alone and depend on the SHGs to provide them with credit for non-farm income generating activities, skills training and consumption. In some parts of the country some of the marginal/small farmers are increasingly diversifying their livelihood options both in the on-farm sector where the trend is towards a more integrated and organic strategy and cash crops, as well as towards livelihood options in the off-farm sector both in the vicinity as well as in other parts of the country that the youth are increasingly opting for. These families require several tranches of credit (not just one or two) to enable them to use the livelihood options available in order to rise above the poverty line and stay there. The SHGs have provided this credit in areas where they are functioning effectively. There are, however, parts of the country where the rate of overall growth is comparatively poor and agricultural growth is stagnant if not declining; plot sizes have decreased. Lands have been leased out. Out-migration is the only growth sector, and in some areas it is growing rapidly. Credit provision for agriculture, as a single bullet strategy in these areas to help marginal/small farmers to rise and remain above the poverty line, is inadequate to provide a secure livelihood base for families even if they are organised into SHGs. A strategy for all round growth needs to be implemented. Though this paper focuses on SHGs in the rural areas, it does not imply that a group strategy is not appropriate to an urban and peri-urban clientele; but the SHG movement is not large enough in these areas as yet, to draw any conclusions on which future strategy could be based. Further, several types of groups like the Joint Liability Groups (and there are many variations even here) are also being promoted both in the urban and rural areas; this paper does not cover such groups.

Financial Inclusion is a key dimension of the overall strategy envisaged in the Approach Paper for the Eleventh Plan entitled "Towards Faster and More Inclusive Growth". If the intention is to promote 'more inclusive ***growth***', then the definition of Financial Inclusion cannot stop at opening a short-duration account in the name of a hitherto marginalised individual or group. Growth cannot be achieved by transferring a lumpsum of money into this account as proof of one loan given, closing both the account after the loan is drawn (or letting it remain dormant) as well as the file itself after the loan is repaid and the subsidy adjusted. Financial inclusion is not a one-off event. In terms of finance provision, it means that hitherto excluded people – either as individuals or as groups – now have access to credit ***on a regular basis*** for as long as they continue to abide by the terms of such a credit relationship. For Financial inclusion to promote growth, it has to move from "opening an account" in the Bank, to regular savings and finally to a relationship which enables the borrower to access loans on a regular basis. If this definition is accepted, it follows that despite the plethora of schemes that have been promoted by various governments from pre-IRDP days to the current SGSY, the SHG-Bank Linkage Programme is the only formal-sector scheme till date that regards excluded people ***as regular customers*** who can take loans again and again, as against being one-time beneficiaries who have to fall back on their own resources once their turn to benefit from the government scheme is over.

Is it only a group strategy through which such financial inclusion of poorer people can be achieved? Probably not, but there is little documented experience till date where marginalised individuals have successfully accessed a facility which enabled them to repeatedly borrow and repay from mainline financial institutions. A few NGOs and private banks have initiated efforts in this direction but data is not easily available and the scale of outreach is still far from what has been achieved through the medium of groups. This paper, therefore, focuses on SHGs as the strategy to achieve financial inclusion on a significant scale.

This paper traces the growth of the Self Help Affinity Group (SHG) Movement particularly since 1992 when the SHG-Bank Linkage Programme was launched by NABARD[1]. The evidence since 1992 suggests that the SHG strategy has played an important role in giving the poor and those on the margin of poverty the space to form their own institutions which could access credit quickly, easily, repeatedly and in sizes the members require and for the purposes they give priority to – be it for so-called "consumption", income generation or trading activities, or for paying back high cost debts to money lenders. It would be reasonable to conclude that the SAG strategy has played a significant role in promoting financial inclusion of the

poor especially since 2000 when the movement took off.

The key features of the official policy change which helped to provide this space for the SHGs strategy to grow are: (a) The willingness of the RBI to allow Banks to lend to non-registered bodies provided they function according to specific norms; this has contributed to financial inclusion by encouraging responsible group behaviour and by protecting the group from having to cope with tedious (and often non-transparent) bureaucratic requirements demanded of registered institutions. (b) The freedom to lend to groups (as groups) and not only to individuals in groups; this has enabled Banks to enter into one agreement with the SHG thereby lowering transaction costs to both parties; loans are extended on the basis of the group's institutional functioning, repayment performance on loans from the group's own savings and cash flow, (c) The freedom to lend to the SHG without asking in advance for the purpose of the ultimate loan that the SHG extends to the member; this has freed both borrowers (groups) and bankers from having to prepare and debate on the merits of 'project proposals' which, in most cases, do not follow the proposed plan after the loan is actually delivered, and (d) the willingness to allow the SHG to lend for any purpose and at any size with its own rate of interest and schedule of repayments and sanctions. What this has achieved is to enable the pursuit of more need-based, interest-based and manageable loan taking on the part of group members, and more honest reporting on loan utilisation.

Apart from these critical features of the new policy, NABARD provided a supporting environment consistently over a long period which is critical for the growth of a new initiative by providing funds and technical support for the capacity building of Bankers, Cooperative Societies, District Central Cooperative Banks, Panchayat Raj Institution members, Government officers, NGOs and SHGs, by refinancing Banks, by promoting the movement in States where the SHG-Bank Linkage Programme lagged behind, and finally, by extending loans to NGOs and MFIs for onward lending to groups. All these initiatives both on the policy and support fronts resulted in a tremendous growth of the SHG movement. Moreover, this growth in access to credit has been achieved without any credit subsidy and the need to bribe. It is these client friendly features that are the major explanation for the rapid growth of this movement since 2000.

Table 1 gives a picture of the progress of the SHG-Bank Linkage movement. It must be noted however, that the number of SHGs formed and functioning is far greater than the number of SHGs linked to Banks and Financial Institutions (FIs).

Many SHGs have not approached the Bank or have not been able to access Bank finance for one reason or the other. Others are new and have to go through a period of training and functioning to build their credibility. A rough guess would put the number of SHGs in the country at around 3 million, of which 1.6 million have had access to credit through the SHG Bank Linkage programme. It must also be noted that the source of data on the SHG-Bank Linkage Programme is NABARD, and is based on the refinance that Banks have claimed; there are many more SHGs financed where the banks have not claimed refinance and hence, the numbers do not make it to NABARD data sheets. SHGs financed by micro-finance institutions are also excluded from NABARD's data.

Table 1: Breakdown of the number of SHGs financed agency wise

Agency	**During 2005-06**				**Cumulative upto March 31, 2006**			
	SHGs		**Bank Loan**		**SHGs**		**Bank Loan**	
	No.	**%**	**Amount**	**%**	**No.**	**%**	**Amount**	**%**
CBs	344,567	56	28,284.30	63	1,188040	53	69,874.50	61
RRBs	176,178	28	12,226.02	27	740,024	33	33,221.50	29
Coops	99,364	16	4,480.54	10	310,501	14	10,879.50	10
Total	**620,109**	**100**	**44,990.86**	**100**	**2,238,565**	**100**	**113,975.50**	**100**

(Amount in Million Rupees)

Source: NABARD. CB = Commercial Bank, RRB = Regional Rural Bank, Coop = Cooperative Societies.

What is also interesting to note is that in addition to the 539,365 SHGs financed for the first time in 2004-2005, NABARD's data also indicates that 258,092 SHGs received repeat finance in 2004-2005, to a tune of Rs.12,676 million.

One of the major concerns was the slow progress of the SHG Bank Linkage movement in the North-east and Central parts of the country. It was even claimed in some quarters that the SHG strategy was not suitable to the social configurations that prevailed in the North East. NABARD made special efforts through its network to rectify this situation. As a result, progress in these States has picked up considerably, as the following Table indicates:

Table 2

Region/State	March 2001	March 2002	March 2003	March 2004	March 2005	March 2006
NE Region	477	1,490	4,069	12,278	34,238	62,517
KBK Region	4,192	9,869	18,934	31,372	45,976	64,550
Orissa	8,888	20,553	42,272	77,588	123,256	180,896
West Bengal	8,739	17,143	32,647	51,685	92,698	136,251
Bihar	4,592	3,957	8,161	16,246	28,015	48,138
Jharkhand	0*	4,198	7,765	12,647	21,531	28,902
Uttar Pradesh	23,152	33,114	53,696	79,210	119,648	163,439
Uttaranchal	0	3,323	5,853	10,908	14,043	16,060
Rajasthan	5,616	12,564	22,742	33,846	60,006	98,171
Himachal Pradesh	2,545	5,069	8,875	13,228	17,798	22,920
Madhya Pradesh	5,699	7,981	15,271	27,095	45,105	58,912
Chattisgarh	0*	3,763	6,763	9,796	18,569	29,504
Maharashtra	10,468	19,619	28,065	38,535	71,146	131,470
Gujarat	4,929	9,496	13,875	15,974	24,712	34,160
All India	**263,825**	**461,478**	**717,360**	**1,079,091**	**1,618,456**	**2,238,565**

Source: NABARD. NE = North-east, KBK = Kalahandi-Bolangir-Koraput *included in the undivided State

The evidence drawn from studies on the growth of the SHG-Bank Linkage movement since 1992 suggests that the high rate of growth especially since 2000 has had its downside. The strength of the self help groups is based on the close affinity (relations of trust and mutual support) that exists between its members, prior to any intervention .The first step is to establish a good rapport with the village people. Secondly the poor in the village must be identified a. through participatory methods; this takes at least a day. They should then be invited to form groups based on the level of trust among them. They are therefore free to decide on which group to join. Unfortunately, to achieve targets, groups have been formed in a hurry and based on external criteria, not on the choice of the members. Members of such groups may share some features indicated by external criteria, but this does necessary imply that they are willing to work together or trust one another, though this could be possible in some cases. Many government programmes insist on forming groups exclusively of families on the BPL (below poverty line) list even though they may not want to work together or have no “affinity” based on relations of trust and support among the members; as always there could be exceptions. As a result, an external agent like an NGO has to be present to ensure smooth functioning of the group and often to take control of

management; if it withdraws, the groups collapse. The strategy to identify poor families and to leave them free to form groups based on affinity takes time and requires that those forming groups in the context of anti poverty programmes are willing to keep the well-to do out of the groups.

In some cases, to expedite the formation of groups in order to achieve targets as well as to avoid any conflict with the more well to do and powerful families in the village, women of these "leading" families have been asked to form groups; they have selected families who depend on them or over whom they have control. This scenario has easily slipped into money lending by the leaders.

Major programmes promoting SHGs have budgeted/allocated up to Rs 10,000[2] to build the institutional capacity of each SHG; this requires at least 14 modules over a year and a half. Evaluations made in several States indicate that these funds were spent for other purposes; often only one-day training has been organised and that too only for the leaders, not for the whole group. Without any institutional capacity building the groups were provided with grants and loans. In some States, Panchayat secretaries and Government functionaries were made the promoters of groups; they had no training in the concept and in the methodology required to mentor a group; the promoters were paid a sum for starting a group which subsequently dissolved. Others went further and encouraged the members to save; these savings were either appropriated by the promoter or by the leaders of the groups who then became petty moneylenders. In other cases the groups were used to implement government schemes and became the final link in the delivery chain rather than respected as people's institutions with their own mission. In most of these cases, no investment was made on institutional capacity building. Differential rates of subsidies for SCs and STs who in many cases were members of one SHG because they had a close affinity helped to break up well functioning SHGs. And finally, realising the "vote potential" of these groups, politicians endeavoured to claim ownership and to get their allegiance by offering them subsidies and in some cases demanding that the SHG gets a "certificate" from the BDO as a condition for a Bank linkage. As a result, though the number of groups formed is impressive, the quality of groups has suffered.

If the movement is to survive and to promote a greater flow of credit to the poor, marginal and marginalised sectors, there has to be a period during which efforts to expand the number of groups goes hand in hand with a focus on quality. This requires **(a)** the ability of promoters to identify groups based on affinity among members and not on external criteria, as well as investment of funds and time in

the institutional capacity building of each group- of all the members, not just of the leaders; **(b)** entrusting the formation, mentoring and assessment of each SHG to NGOs who are trained or have the experience in mentoring these groups and who have no other agenda besides supporting the poor to become self reliant; **(c)** a clear understanding in Government, Line Departments, Banks and Micro Finance Institutions about what a self help affinity group really is and what it can be expected to achieve without undermining its objective to function as a people's institution with its own mission and functions. If serious efforts are made to promote these three critical requirements, the quality of the groups will improve and their credibility to manage funds will increase which in turn will result in a greater flow of credit to them from Banks and other FIs. This is one of the objectives that this paper seeks to promote as a priority in the next plan period. A brief explanation of the three critical requirements to improve quality is given below:

(a) The need to train promoters to identify groups based on affinity among members (not just on external criteria) as well as to invest funds and time in the institutional capacity building of each group- of all the members, not just of the leaders.

A group based on affinity is one in which the members self select themselves because there exist relationships of trust and practices of mutual support. Such members tend to have a similar income and to share similar risk[3].

It is important to note that the affinity relationships exist before the intervention of an outside agent; they were adequate to support traditional actions like mutual help in times of sickness or childcare. The outside agent requires good rapport with the people and a degree of sensitivity to identify these affinity groups and to build their institutional capacity on these strengths. With new functions emerging in the self help affinity groups, they have to cope with the demands of effective financial and organisational management, as well as with the broader social roles that the groups are required 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.

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. 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 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.

The need to identify members of SHGs based on affinity will have an impact on the usual approach adopted in Government programme to target a fixed number of "poor" on the basis of certain criteria set under the programme, like SCs, STs, Minorities, BPL list etc. For example, the first programme sponsored by a State in which SHGs were part of the design was the one managed by the Tamilnadu Women's Development Corporation and partly supported by the International Fund for Agricultural development (IFAD); the credit was provided by the Indian Bank. It began in 1990 in Dharmapuri District. The project beneficiary target given to the NGO was to form SHGs of 10,000 poor women selected by external criteria. However, when the poor were identified in the villages through a participatory method and asked to form groups or to self select the members of their group, it was discovered that over 18,000 women had formed groups. The 10,000 which fitted the Government criteria were included in this number but had joined others to form SHGs. Fortunately the issue was resolved since all the members took loans from the SHGs' savings (common fund); the income generating programmes under the project, however, had to be directed to those who fitted the criteria of the project. This did distort the programme both because of this directed approach as well as because of the subsidy component.

Identifying affinity groups is only the first step. More important is the investment

required to build the institutional capacity of these groups. Most of the Government sponsored groups have not received the level of institutional capacity training that is required for a group to function effectively. Government Departments, in general, do not realise the importance of building people's institutions; they either assume that they exist once they are registered or that their function is to implement Government programmes. In several cases, only the leaders of the groups are trained, thus increasing the gap between them and the others. The Capacity Building Modules that programmes like *Swashakti* (a programme based on SHGs) found to be effective and which were given to all the members of each SAG over a period of 12 to 18 months included the following: 1. A structural analysis of Society; 2. Analysis of local credit sources; 3. Self-Help Affinity Group – the concept; 4. How a meeting of an SHG is conducted; 5. Communication; 6. Affinity; 7. Vision Building; 8. Organisational Goals; 9. Need for Planning, Resource Mobilisation, Implementation, Monitoring & self-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. These modules have been originally published in a training manual by Myrada entitled "The Myrada Experience: A Manual for Capacity Building of Self Help Affinity Groups", and subsequently adapted and translated into several languages.

Groups will continue to be formed within the context of a Government sponsored "project"; yet, in order to reduce the negative impact on institutional building that a project imposes with its time bound agenda and priority to disbursement, it is important to ensure the following: **(i)** the poor in the village need to be identified through participatory methods. **(ii)** They must then be free to form groups and to self select their members; they will normally do this on the basis of affinity, not on the criteria for beneficiary selection provided by outsiders **(iii)** 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/loans or for individual assets. 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 need to implement the "project" on hand but encompasses what the group envisages in the long term. **(iv)** If the project envisages provision of credit by Banks, 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 free 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. **v)** Subsidies of any kind need to be avoided. The approach to subsidies should be "Do not subsidise the asset (cow, sheep etc) but subsidise the support services required to keep this asset productive" **vi)** As far as possible, credit should be provided by Banks and FIs including MFIs; no village level institution or even a federation of SHGs should be entrusted with the function of lending money even if it is asked to manage a so-called "revolving fund". **vii)** Project interventions should promote MFIs from the beginning; it may be more difficult to do so, but if properly managed, the MFI is the appropriate solution to credit provision in the long run in areas where the formal financial institutions are reluctant to enter.

(b) Entrust the formation, mentoring and assessment of each SHG to NGOs who are trained or have the experience in fostering these groups and who have no other agenda besides supporting the poor to become self reliant

It is recommended that the institutional capacity building of SHGs be entrusted to NGOs. This is not because NGOs are "better" than others. It is because even in a situation where Government Departments are equally as good as NGOs, the former are accustomed to delivering services, not to building people's institutions which have their own vision, mission and agenda. For one, the NGO has the experience of institution building while Government staff work in well-established institutions. An NGO which has no agenda (political or religious) is a more appropriate institution to build another institution. Other comparative advantages of NGOs are given below.

NGOs: generally small, face-to-face interactions between cadres, better continuity of tenure.	**Government** refers to a SEA of people – grey, faceless, frequently interchanging posts.
Limited objectives. Generally, the ones that are engaged in SHG promotion may only have one or two other closely related programmes like livelihoods development, reproductive and child health, etc.	SHGs will not be their only programme (e.g. anganwadi staff have to carry this responsibility in Karnataka in addition to their already heavy workloads).

Limited area of operation. Staff-SHG ratios are generally within manageable proportions.	Large-scale operations. Staff have to cover large areas. Hence, most often, they end up working through NGOs anyway, for SHG development.
New staff can easily be oriented to understand concepts and pick up skills. Continuity of uniform quality support can be better ensured.	There is generally only a one-time investment in staff training, with abysmal budgets within which it has to be done. If staff change due to resignations, transfers, etc., the replacement staff are not trained.
Monitoring focus is less on targets and more on processes. Quality carries some specific definition that is generally understood by all the staff. Even though power relationships exist, the NGO tradition is still to speak their minds as far as programme quality is concerned.	Target-based monitoring. Quality is not only un-defined but even meaningless. The definition of quality changes with the person in authority. The cadres are well-trained on how to say just what their managers want to hear.
Authority is locally located; hence, there is much shorter turnaround time to respond to changes in programme requirements.	Flexibility is difficult. The scale of operations makes it difficult to be other than standardised and rigid. The boss is either far away or a nebulous entity or both.
Budgets can be enhanced with donations and local mobilisations. People are familiar with being asked to contribute to demonstrate their stake in the programme.	Budgets are severely limited, with no scope to enhance locally; no system to account for local mobilisations. Any attempt to mobilise local resources is interpreted as corrupt.

Assessment of performance is critical for the growth of any institution. SAGs are no exception. In fact, the centrally sponsored SGSY programme made provision for this, but the follow up required to identify who should do this assessment and the methodology to do it was not undertaken. As a result, except for one or two States, nowhere was this assessment taken up. The criteria used to assess the performance of SHGs were prepared by several NGOs; an assessment format was vetted and published by NABARD. The methodology of assessment needs to be participatory; there are several approaches which can be adopted and adapted to the local situation. The need for participatory assessment must be part of the inputs

in the capacity building training. This assessment should be yearly feature, at least. Banks do make an assessment before extending loans, but the criteria used is usually restricted to the amount of savings (often perceived as collateral) and the over-all financial performance in terms of repaying previous loans. There are several cases where an analysis of SHGs with excellent repayment rates showed that the common fund was controlled by one or two leaders who were basically moneylenders. The group functioned more like a chit fund than an SHG.

(c) A clear understanding in Government, Line Departments, Banks and Micro-finance Institutions about what a self help affinity group really is and what it can be expected to achieve without undermining its objective to function as a people's institution with its own mission and functions.

Some of the major reasons identified for the weakness of the SHG movement relate to the lack of understanding that an SHG is an autonomous people's institution with its own vision and mission; it is not the final link in the delivery chain of the government department. One official indicated with pride that the SHGs were doing a good job by taking over the ration shops and implementing the PDS programme. This may be true, but if this is the only function of the SHGs in this area, they are far from being independent people's institutions. Several well-intentioned initiatives of Government as well as the gap between concept/ design of a programme (which is often good) and the implementation (where all the hurdles arise) have contributed to lowering the quality of the SHGs and even to their collapse. The SGSY is a good example of where this gap exists. In brief, these initiatives have had a negative impact on the quality of the SHGs which is so critical to improve the credibility of the SHG which in turn will promote a greater cash flow from Banks and FIs.

Government recognition of an initiative (and its mainstreaming as part of official policy) is often pursued by NGOs as an indicator of success, but it could, and often has, an unintended negative impact. On the one hand it provides the thrust required to expand the initiative rapidly; on the other it becomes vulnerable to the usual Government pattern of management namely, high (and often unrealistic) targets, the subsidy pattern of Government programmes and in the case of the SHG programme, predetermined criteria to identify beneficiaries and form them into groups without assessing the affinity among the members. The SGSY, for example, offers different subsidies for general castes, scheduled castes and scheduled tribes even though in many cases all families are poor and members of the same SHG. This tends to break up the groups. Different rates of interest on

loans to minorities from the Minorities Financial Corporation adds to the problem. There are several instances where such mixed groups which are functioning well were asked by government functionaries to break up into separate castes/tribes/minority groups to facilitate the different rates of subsidies and interest (in the case of loans from the Minorities Financial Corporation). The policy of divide and rule is not a feature monopolised by the past. A policy decision is required which **a)** standardises the rate of interest on loans given to all SHGs whether their members are from the minority or majority groups **b)** standardises the management of subsidies – which seem to be a necessary component of government programmes- so that the impact of their distortion can be reduced as far as possible? Can all subsidies, if they have to be given, be transferred to the SHGs common fund? Can subsidies be used to ensure that supporting institutions have adequate funds to provide services instead of being used to subsidise the asset given to the beneficiary? At least can all subsidies be back-ended?

Government schemes promoting people's groups do not place value on institutional capacity building. Even where adequate sums were budgeted for capacity building, as in the SGSY programme, the Government Departments implementing the programme used these funds in several States not for training SHGs but for other purposes - like organising large gatherings with a political agenda at the behest of some Minister, or funding infrastructure of institutions which did little training. In other cases, funds for capacity building of the whole SHG as described above, were often used for training only the SHG leaders and not the whole SHG, and even in this case, for a day at most. As a result, the institutional capacity of the whole group did not improve. The gap between the leaders and others also tended to increase, which is not a healthy development. In general, Government functionaries tend to give little weight to institutional capacity building. Most of them take the stand that once a group is registered, it becomes an institution. Building an SHG involves identifying an affinity group, providing training to the whole group and mentoring it over 2 years. In many Government driven programmes, this period of stabilisation and strengthening is cut short or totally left out since the targets in terms of numbers and disbursement of grants have to be achieved. As a result, groups are formed without any participation of people to identify the poor and those linked by affinity and, in many cases, grants and subsidies from Government are given to these groups within a month of their formation. Adequate time and resources for training in institutional capacity is not provided for. Government functionaries do not have experience in this area as there has not been any previous Government sponsored

scheme to promote institutions of people. They understand training in particular skills mostly if they are related to production or at most for training in "book keeping" skills required by SHGs. As a result, the confidence of groups to provide larger loans to its members was undermined; this in turn had an impact on the confidence to access larger loans from financial institutions.

Politicians are keen to translate the success of the SHG movement into political capital; so political parties begin to claim ownership of these groups instead of realising that they are "owned" by the members. (*One politician who insisted on giving grants to SHGs was very upset when she lost the election and considered the SHG members to be "ungrateful". In fact the capacity building training and mentoring provided had made them capable of exercising their franchise with greater care and to avoid external pressure and "persuasion" to vote for particular people. It is not uncommon to hear in election speeches that this politician or that was the originator of the SHG movement. In fact, most of them did not even know of the SHG movement till the late 1990s, a good 15-20 years after it started*). Many SHGs are tempted not to repay their loans once they come under political patronage.

The practice of the bureaucracy to use the SHGs to implement state sponsored programmes is another hurdle to the growth of "good" SHGs which, in turn, see themselves as part of government rather than as institutions which can grow by accessing credit from a financial institution. This practice of the bureaucracy flows from the subsidy pattern of Government programmes and a culture that these SHGs are the final link in the delivery chain and not institutions with a mission and programme of their own.

As often happens, the SHG strategy has frequently been promoted as the answer to the search for a one bullet strategy to eradicate poverty; this tends to place undue importance on credit provision while neglecting the other initiatives required that promote all round development which creates livelihood options and opportunities for the effective use of credit to improve livelihoods in a sustained manner by reducing risk, providing appropriate infrastructure and inputs to increase productivity. When the "one dimensional" strategy did not achieve the objective to promoting livelihoods, the SHG approach was discredited.

The unhealthy competition among States to claim the best performance in terms of forming SHGs without concern for quality led to a rapid increase in forming SHGs; many were formed on the basis of external criteria (not affinity) and

provided matching funds and even loans within the first month, with little or no institutional capacity building. As a result, many SHGs collapsed or were hijacked by the leaders who became moneylenders using the common fund of the group; this in turn led to a certain hesitation on the side of promoting agencies to pursue the programme and thereby the flow of credit from financial institutions declined or did not grow as expected.

Several Micro Finance Institutions, especially those pursuing a high growth curve (often at all costs) have broken up many good SHGs. They have done this by insisting on extending loans to individuals in the SHGs without adequate investment in group capacity building as well as by carving out Joint Liability Groups from good SHGs thus breaking up the SHG into smaller groups for their administrative convenience.

Banks are reluctant in some parts of the country to adopt the linkage programme wholeheartedly; this is coupled with poor banking infrastructure and performance in some States. Some States in the north, some central States, and most of the States in the east of the country fall in this category. However NABARD has made serious and sustained efforts to correct this imbalance.

Another development which could have a negative impact on the SHG Bank Linkage programme and the level of credit flow is the amalgamation of RRBs. As Banks grow bigger, the trend is for loans sizes to grow larger. Based on available data, a loan to an SHG does not exceed Rs. 4 lakhs and this is in rare cases, mostly with MFIs. Therefore it is difficult to expect large RRBs after amalgamation to push the SHG Linkage programme. Their smallest loan will probably hover around Rs.10 lakhs. Besides, the corporate culture of RRBs is also changing, leaving little difference between them and the Commercial Banks.

As the SHG movement spread, promoting institutions had different interpretations of the organisational structure and functions of a self help group. The SHG concept is also mixed up with previous groups under Government programmes (e.g. DWCRA) formed on the basis on common activity (which was expected to provide the link to keep members together) or on the basis of all members being self employed which allowed Government programmes to provide them with subsidies and loans for their income generating activity. The SHG group concept is also not distinguished from the Joint Liability Groups where loans are given separately to each member but the liability to repay is shared. There are also the Grameen Bank Groups where loans are given to individuals in groups with the

group applying pressure for repayments. Since the major drive to collect data on SHGs came from financial institutions, their function was largely viewed as financial provision and management; this tended to downplay the major role they have played (or have the potential to play) in empowerment of the poor and marginalized sectors. Though this did not inhibit the spread of the SHG movement, it surely gave it a bias towards financial functions, which tended to distort the concept. Given the obstacles to growth in our country, it is not enough to teach the poor to fish when they cannot reach the river. Their access to the river is obstructed by social, political and cultural hurdles including their inability to read the sign posts and their vulnerability to disease which holds them up. Unless SHGs therefore are provided with the space and the networks and the members with the skills required to influence change in society and the family, the confidence and capacity to access and use a larger flow of credit required by members will not materialise.

The second objective of this paper is the following: **To convince policy makers that the rural poor and those on the margin have major problems to achieve food security entirely from an agricultural base. Therefore, for financial policy to focus only on "loans for agriculture and related activities" will not open all the windows that these families require to be "included" into the financial system. It needs to focus on "livelihood options". But given the seasonal and increasingly uncertain sources of livelihood options that leave gaps in the income/input flow of these families, focusing on "livelihoods" alone is also not adequate; they also need credit to "live", to have access to credit for consumption and for urgent needs like illness in order to survive.**

The SHGs have provided credit for agriculture, for several non-agricultural livelihood options as well as for consumption. These loans have been provided quickly, easily, repeatedly and in sizes they require. This is a major reason for their growth and success. An emerging issue is the increasing evidence that marginal and even small farmers especially those in dryland areas no longer find agriculture a worthwhile occupation. Most of the youth of these families are out-migrating for non-farm jobs. Only the older generation is left behind to attend to the fields or lands leased out. As a result, the potential for growth of credit in agriculture especially to marginal and small farmers in drylands is limited. For example, a recent analysis of the purposes of loans given by 238 SHGs - all in rural areas during a one year period (2003-2004) - showed that out of a total of 5,880 loans advanced to 3558 members during one year (2003-2004) , 1,574 loans were for agriculture (27%); while the amount lent for agriculture was

Rs.6,568,397 (25%) out of a total amount of Rs 26,280,230. Animal husbandry accounted for 457 loans (8%) amounting to Rs 3,131,854 (12%). The average amount lent for agriculture was Rs.4,173 which was the lowest when compared to averages of all other purposes except consumption (Rs.2,915). The highest average amount was Rs 12,672 for repayment of high cost loans from moneylenders and towards release of mortgaged lands and assets[4].

Apart from the poor and those on the margin of poverty, there is another group (both in urban and rural areas) that is already integrated into the farm and non-farm growth sector in terms of livelihood occupations (like farmers growing cash crops and youth in farming families who have acquired some off farm skills, like pump mechanics, etc.). This group is not able to access the daily or weekly requirements of credit to pay for the inputs they require; they may not be classified as "poor" but they are "marginalized" from the financial sector, Several initiatives to address this need for credit like the Kissan Credit Card for the farming sector have been introduced, but there are still millions to be reached both in and outside the farming sector. This paper proposes that the SHG strategy be extended to cover even these groups (who may not fall strictly in the "poor" category) so that they have access to credit. Adaptations in the SHG strategy may be required to cope with the different aspirations of the members.

There is another reason why the SHG may be a strategy that is timely for farmers falling in this group of those who have adequate assets or skills to earn a livelihood but are marginalized from credit institutions. Farmers who have committed suicides fall largely in this category. Most of them have adequate land, have invested in cash crops and due to several reasons (including erratic and poor rainfall, the collapse of the marketing support structure and their lack of marketing experience since it was provided as a safety net by Government, the crash of financial institutions and fall in output prices due to subsidised imports, etc.) decided to take their lives since they could not earn enough to feed their families and to repay moneylenders. In a recent article by Pratap Bhanu Singh (President, Centre for Policy Research) he points out to another possible cause: "In times of great social change, as traditional structures break down, settled moral norms dissolve, special bonds become less effective and the individual is thrown upon himself"… and he continues … "The need of the time, therefore, is to invent new forms of sociability; associations and support structures that reconnect individuals to society." The SHGs could fill this role. The article then refers to farmers' suicides: "Surveys done in districts with high farmer suicides suggest that they were pretty much on their own. Most people, including their own family members,

did not have intimations of the depth of their economic problems or suffering. As they are drawn into wider and more extensive chains of dependency on outside forces - the State and the market - structures of cooperation within villages begin to weaken. But perhaps the most dramatic illustration of the kind of anomie facing most farmers is this: the lack of a real associational life in which they can participate and be recognised."

The Third objective of this paper is to present a case that the SHGs have the potential to extend several loans and of adequate and manageable sizes for the poor to build a sustainable livelihood base.

Critics who point out to the limited impact of the SHG approach on livelihoods argue that the average loan is small – the amount differs from study to study but hovers around Rs 2,000 to Rs 2,500 – and insufficient to increase incomes substantially to raise the members above the poverty line. Secondly, they argue that evidence points out to the SHGs being appropriate institutions to provide loans to smoothen consumption but not to support income generation and livelihoods.

Let us first address the perception that the structure and functioning of an SHG is appropriate only to extend small loans for consumption smoothening and to provide only loans that are too small to provide an adequate livelihood base. If this is true then one cannot expect the SHG approach to carry the members further in developing an adequate livelihood base. Several studies of the purposes of loans including and the recent sample study of 238 SHGs referred to above, indicate that it is misleading to give an average of all loans given by the SHG as is often done to support the claim that the SHG can give only small loans. For example in the sample study, the average size of a loan for clothing is Rs 1080, for travel it is Rs.360. But the picture that emerges when the averages are disaggregated differs considerably; this is described in detail in the following paragraph. The average size of a loan within each Sector (like Agriculture, Household expenses, animal husbandry etc.), and of each purpose within a sector (within the Agricultural Sector there are several purposes like purchase of inputs, payments for labour, hire of equipment/bullocks, development of land etc.), gives a more relevant picture. Further these studies also show that a large number of loans are given for income generation and to lessen the outflow of income resulting from earlier high cost loans taken from moneylenders.

For example, the pilot study of 238 SHGs indicates that the purposes of loans fall

at least into 7 broad Sectors. Each of these seven Sectors has several purposes as indicated in the footnote below[5]. There are purposes where the average size of each loan is over Rs.10,000 (For example: Under the Household sector, the average size of loans for Purchase of jewellery is Rs.15,750; Under the Debt release sector, the average size of loans for repaying high cost loans to Moneylenders is Rs.12,903 and for Release of mortgaged lands – Rs.10,000. Under the Animal Husbandry sector the average size of loans for Poultry Units is Rs.16,000; for purchase of milch animals the average size is Rs.7,217; for sheep/goats it is Rs.5,686; and for Donkeys, rabbits etc Rs.6,233. Under the House related sector the average size of loans for House repair is Rs.16,549). In the Non-Farm sector, the average size of loans for Cottage industries is Rs.9,528, for Small businesses it is Rs.5,363. Under the Agriculture sector, the average size of loans for Purchase/Hire of Agricultural equipments – is Rs.5,904, for Fencing of lands adjacent to forests it is Rs.8,500; for wells, pumpsets, etc. Rs.7,922 and for Sericulture it is Rs.8,840. Interestingly, loans for agriculture inputs – mostly on drylands – averaged less than Rs.5,000. It is reasonable to conclude, therefore, that the SHGs do provide a window that allows a wide diversity of purposes as well as a significant difference in the size of loans for various purposes. However, it is also becoming evident that loans for inputs in agriculture are smaller than for all other purposes except for consumption. Does this indicate people's assessment of the viability of such loans in dryland agriculture? While Government may have its own priorities based on good intentions, people decide to take loans to meet their most urgent need (in order to live) as well as for investments that they consider "manageable" rather than what financial institutions may consider "viable". Further, sectors that Government may consider a priority in the national interest may not be the same for the small and marginal farmers cultivating dryland below three acres.

As for the opinion that the SHGs are mainly providing: "consumption smoothening loans", the pilot study indicates otherwise. Of the 5,880 loans given to 3,558 members of 238 SHGs during one year (2003-2004), 1,954 loans (33%) were for food, clothing, other household expenses and socio religious ceremonies which could be called "consumption smoothening". However the total amount for these loans is only 21% of the total amount loaned. 66% of the number of loans advanced and close to 80% of the amount advanced as loans went into sectors that were production related (including getting out of earlier debts, and investment in education).

There is also an implicit assumption behind many of the official programmes that

one or two loans are adequate to raise and keep a family above the poverty line. Hence, comparatively large loans are required. Evidence from the SHGs indicates that as many as 5 to 7 loans are required over a period of 5 to 6 years before a family has a stable livelihood base. The total amount borrowed through these 5 to 7 loans may equal and even exceed the amount borrowed by one or two large loans under government programmes. This indicates that people tend to borrow in amounts that they find "manageable" rather than what is considered "viable"; for this, they also need to have the confidence that there is a source from where they can borrow more than once; this prevents them from bargaining for a large loan in the first or second instance which they cannot utilise productively. The pilot study itself indicates that in one year 5,880 loans were given to 3,558 members. Assuming that all the members took loans it works out to an average of 1.65 loans per person in a year. A trend analysis also indicates that the loans are small during the first two years but increase in size after that[6]. The example of Sundaramma given in the footnote (6) describes one case where several loans were taken. There are thousands such Sundarammas in the SHGs.

It will therefore be reasonable to conclude that well functioning SHGs do have the potential to provide loans for purposes and in sizes and numbers that have the potential to support a livelihood base. However, much more support of a focused nature is required to release this potential - which is the next objective that this paper seeks to promote as part of future strategy. This leads to the next objective of this paper.

The fourth objective of this paper is to highlight the need for certain supporting initiatives if SHG members are to graduate from income generating activities to "Micro-enterprises"[7].

To achieve this graduation in a systematic and cost effective manner, it is necessary to (a) analyse the purposes of loans given to members by the SHGs; (b) accept that all the SHG members may not want to graduate to micro enterprises and that even if many so desire they may not be able to since the supporting infrastructure and linkages are missing; (c) test a new form of community based organisation which may be more appropriate to support members who engage in micro enterprises than SHGs

If the loans taken by SHG members are considered comparatively small, many of them do provide an income, which, though important for the member, may not be adequate to meet rising expectations. The trend of loan taking in the SHG is

towards several small loans rather than one large one. There are thousands of examples where the members prefer to take several small loans rather than a large one; these small, loans together amount to anywhere between Rs 40,000 to Rs 60,000, which is a substantial amount. This trend is due to several reasons – the member may not be comfortable to manage a large loan, and/or the SHG members may decide to distribute their risk Yet, there is also need to address the need for a one-time large loan of Rs 50,000 and above which some members may require to meet with rising expectations. . Some of the Banks may be willing to provide loans of this size directly to the individual. If this individual is a member of an SHG, the Bank may base its decision on his/her performance in the SHG, but if he/she is not a member of an SHG the bank may require some kind of institutional guarantee apart from other forms of collateral. In both cases (member of SHG as well as non-member) there is a need for a community based organisation similar to an SHG which could provide an institutional framework to lessen the risk of repayments and improper use of funds as well as ensure that the borrower can be easily contacted. Each of the three supporting initiatives required will be considered in greater detail in the following paragraphs.

a) The need to analyse the purposes for which loans are given to the members. The national programme led by NABARD to promote micro finance has laid emphasis on the following major dimensions of the programme:

- Strengthening the capacity of SHGs.
- Training bankers and NGOs.
- Starting and promoting the SHG bank Linkage Programme.
- Persuading and supporting Banks to lend directly to SHGs and to intermediaries for on lending.
- Promoting initiatives of Banks to form SHGs and to build their capacity before lending to them.
- Refinancing Banks loans to SHGs.
- Investing in extending and promoting the programme where it is lagging like in the central, north and eastern states
- Performance in repayment of loans
- Integrating the programme in State sponsored programmes to form SHGs, albeit under different names. Introducing changes in policy, practice and systems so that structural and organisational hurdles to the programmes growth are removed**.**
- Collecting and publishing data to assess progress in the SHG-Bank Linkage programme. Progress however focused on: i) the number of SHGs formed by region ii) the number of SHGs linked to banks which have taken loans iii) the

amount of loans, iv) the average size of loans for all purposes taken together nation wide, v) the number of loans given to a SHG (one or more) and vi) performance in repayment.

An analysis of the above initiatives shows that the focus and thrust has been on the supply side largely on the credit flow to SHGs and the repayment. The RBI allowed the Banks to lend to groups without asking in advance for the purpose of each loan given by the group top each member.[8] Banks/MFI are expected to assess the SHG as an institution including its performance in organisational and finance management and in achieving certain social objectives that it set for itself. Criteria for assessing the SHGs as institutions were designed by NABARD and several NGOs. Several studies showed that people who were given loans in government-sponsored schemes, based on standard sizes and costs (viable units and unit costs) and purposes (restricted to income generating/assets) used these loans not only for the stated purpose but also for several others. On the other hand, when loans were extended to SHGs under the SHG-Bank Linkage Programme the members were free to take loans for any purpose and of any size. Yet this did not increase the default rate. In fact, it raised the repayment rate to over 95%. Interestingly, an in-house study by Myrada of "purpose-driven" loans where the repayment was over 75% showed that over 60% of the repayment did not come from the asset for which the loan was provided; repayments were based on cash flow, which originated from various activities including labour wages.

While this decision of the RBI to lend to groups without asking for the ultimate purpose was historical and path breaking, it should have been followed up by a requirement that an analysis is made – subsequent to the loan utilisation – of the purposes of loans given by the SHG to members. Since the SHGs were free to decide on the size and purpose (as well as on the scheduled of repayments and interest rate) it was reasonable to assume that the purpose and size would be much closer to reality. This analysis – among other learnings – would have provided the basis on which to build strategy which is more focused to promote and support livelihood activities of scale and with added value and micro enterprises. For example if the analysis showed that several members of 10-15 SHGs in a village or two borrowed for buying and selling raw hides, these members could be brought together to be trained in tanning. If all (or even a few) of them decided to take the step, they would borrow from their respective SHGs and perhaps come together later for better marketing. The training would then be far more effective as it builds on the initial free choice of members. This in turn would increase the potential to access and use larger loans as well as the success rate of their

enterprises. However, no serious effort has been made to collect and analyse this data and to evolve future strategy to support income-generating initiatives. The next phase in the SHG movement needs to fill this gap. The learnings from this analysis would also help to assess whether development initiatives have had an impact in the area by increasing the potential for credit flows, as well as to plan for the future. More specifically, this analysis will help in the following:

- To find out whether the purposes and amounts of loans for consumption (food and clothes) decreases over a period of 3-4 years. If there is no reduction then it is reasonable to assume (allowing that consumption patterns and expectations do change) that the other investments/interventions made to lessen the risk in dryland agriculture, to increase productivity and market access, for promotion of on-farm and off-farm livelihoods and linkages have not been sufficiently effective; in other words, that incomes have not increased to cope with basic needs especially for food and clothes.
- To find out whether a pattern of similar loans emerges since this may indicate that there is a comparative advantage in the area which supports such activities. For example, in a particular village where 5–6 SAGs function, data shows that one or two members from each SAG borrow for a particular activity like poultry or weaving. A focused strategy would follow up by organising a training programme for these individuals to help them add value or scale but not to form them into a new group; after the training they return to their own SHGs from where they borrow for the new activity if they decide to take it up. The new activities would require large loans which in turn would increase the quantum of credit required by the SHG. The current programmes in enterprise development training are often not really effective since they are rarely based on an analysis of the purposes of loans which SAG members decide on. Rather, they cater to those who raise their hands when asked whether they are interested in joining any training programme
- To find out whether the size of loans in agriculture and related activities grows at a faster rate in some areas than in others. This indicates that extension work may have been effective in some areas when compared to others. The reasons for this success or failure would help to develop appropriate strategy and take remedial measures –which together will increase the credit flow in agriculture.
- To find out whether the average size of loans for a particular purpose can give financial institutions some indication of the amount that people really require to ground an activity, and whether the official unit costs tend to coincide with these average figures.

b) It is realistic to accept that all the SHG members may not want to graduate to micro enterprises and that even if many so desire they may not be able to since the supporting infrastructure and linkages are missing

There is a prevailing assumption behind some programmes that all the members of an SHG want to or can graduate from smaller to larger loans. This assumption is not substantiated by data. There are members who continue to take a number of small loans for income generating activities over several years. Each member of the family is engaged in a separate activity which requires only one member to manage it. As observed above, the SHGs are appropriate institutions to provide several loans in small amounts as and when required for productive purposes. Many members will continue to remain in the SHGs and not opt to approach the banks for a large individual loan. The assumption that all families need one large loan for a micro enterprise in which all members of the family (and even workers from outside) are engaged is not borne out by evidence from the field. In some cases this is because there is ample potential for small activities but not for larger ones. In other cases, it is because the family does not wish to put all its eggs into one basket. Larger enterprises require linkages and skills which the family does not possess.

There is also ample evidence that a single bullet strategy of providing credit is far from adequate to trigger growth. Credit needs other supporting services and linkages in order to be used. Members of SHGs functioning within the context of NGO sponsored projects which are broad based (and where these interventions lower the risk of investing in drylands, increase productivity and linkages with institutions providing services and with markets, improve literacy, health, confidence and skills) and those which function in areas where there is all round economic growth tend to take large and more numerous loans for an increasingly diverse portfolio of purposes. The members are able to find opportunities which they can exploit. However, for micro enterprises to be successful, the all round investment required is much larger, which NGOs cannot provide. Besides a large loan they would require a regular line of credit, reliable power supply, adequate transport to reach the market, market information and the power to access resources in a scarce scenario where bribes are required for sanction s and permission. This is where there are several major blocks[9].

c) It will be necessary to develop/test a new form of community based organisation other than SHGs which may be more appropriate to support members

who engage in micro enterprises. Those members of an SAG who opt to graduate to micro enterprises could be formed into Joint Liability Groups (JLG) or into some similar organisation. Banks may be more inclined to lend to individuals in this group based on the performance of each member in the SHG as well as on the assumption that a JLG will provide some degree of mutual guarantee. There is evidence however, that the relations of mutual trust and support which is described as affinity in a SAG tend to be weaker in a JLG. Therefore, new forms of collateral or guarantee may have to be worked out.

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[1] **NABARD** – National Bank for Agriculture and Rural Development - The first grant from NABARD to promote SHGs was given in 1987. It was given to an NGO, **Myrada** both to train the SHGs (about 300 had emerged in Myrada's projects at this time; many emerged from a break-up of the Co-op Societies) and to match their savings. Between 1987 and 1992 several studies initiated by NABARD provided adequate evidence that this alternate credit strategy would work. In 1991 the RBI gave permission for Banks to lend to groups and in 1992 NABARD brought out guidelines and launched the SHG-Bank Linkage programme

[2] The SGSY Programme allocated Rs 10,000 while NABARD allocates Rs 2000 for each SHG

[3] The history of how the self help affinity groups emerged may shed some light on affinity. Between 1983 and 1985 several of the Co-operative Societies started by Myrada with over 100 members broke up because of lack of confidence in the leadership and poor management. 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 or two individuals. They were informed that since they had not taken the loans from Myrada, the issue of repayment to Myrada did not arise. When 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; the NGO staff just happened to kick these stones aside by accident; all that the staff can be credited for is that they stopped to look, to learn, to identify people's strengths or the potential of the diamond and then to build on them. 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.

[4] This analysis was done of 238 SHGs with 3,558 members randomly selected from 5 projects of Myrada over three southern States. Of these 238 SHGs, 70 were 1-2 years old, 142 between 3-6 years, 17 between 7 –10 years and 9 above 10 years.

[5] **i) Household expenses:** food, clothing, socio-religious, health, travel, jewellery, vehicles; **ii) Debt release:** release from bondage, repayments to moneylenders, release of mortgaged assets; **iii) New opportunities** like education and skills training; **iv) agriculture:** input purchases, equipments purchases/hire, labour costs, fencing, draft animals, irrigation, sub-sector investments, etc. **v) animal husbandry:** purchase of large animals, small animals, poultry, feed and fodder investments, animal health, etc. **vi) Non Farm activities:** cottage industries and small businesses; **vii) Housing related:** construction, improvements, toilets.

[6] Sundaramma from Holalkere is 38 years old; she lives with her husband and two children. They do not have any land; she and her husband work as agricultural labourers. They live in a rented house and have opened a small provision store at the front of it. She is a member of a group that is 4 years old. She saved regularly during the first six months and then asked for a loan of Rs.5,000 from the SAG to expand the provision store. After repaying the loan she took another of Rs.10,000 (Rs.5000 to expand the store and Rs.5,000 to purchase a milking cow). She repaid this loan and took another loan of Rs.5,000 to purchase 6 sheep; the flock expanded to 12. She sold 7 for Rs.10,000 and invested the amount in a chit fund since she still owed money to the SAG and could not take another loan. When her turn came to get the chit, she purchased one house site and took 2 acres of coconut farm on lease for 1 year for Rs.5,000. Her husband started selling tender coconuts. She took another loan of Rs.15,000 (Rs.5,000 for one milk buffalo, Rs.5,000 to expand the provision store and Rs.5,000 to purchase wholesale bakery items which her husband then started to sell along with the coconuts). The family now has assets worth Rs.1 lakh. The total loan taken was Rs.40,000.

[7] Though there are several interpretations, the term “Micro enterprises” here is used for I) income generating activities on and off farm which require larger one time loans of Rs 50,000/- and above -which takes the loan out of the category of micro finance ii) activities in which more than one person is employed iii) activities which earn at least 75% of the income required by the family to remain above the poverty line and to grow further.

[8] Studies showed that the extra transactions costs in writing out individual applications which restricted loans only to income generating activities and based on unit costs and viability prior to extending loans was literally a waste of time since money is fungible and people took loans for assets and used part of the loan to fund their consumption needs. Some Banks still asked for individual loan purposes before extending the loan to the groups, but none took the records too seriously provided the repayment was good. In general, therefore, the time and energy devoted to analysing the purposes of loans and the size per purpose of loans was limited and in most cases non-existent

[9] To give one example, two members of an SAG recently asked for a loan of Rs.25,000 to start a small flour grinding business; the SAG sanctioned this loan. A month later, they returned it to the SAG because they had to pay a bribe of Rs.10,000 to get an electric connection – how can micro enterprises succeed in a scenario of shortages of essential inputs like electricity, water and adequate infrastructure and transport? Poverty cannot be eradicated without power (not just political power) to add value to products. For the poor to climb out of poverty and stay there, therefore, requires not only easy and quick access to resources but also adequate infrastructure, power, water and information. Adequate investment in these sectors is a matter of Government policies and priorities.