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WHY MYRADA NEEDS TO USE NAB-YUKTI

What is NAB-YUKTI?

NAB-YUKI is the name given to the software which MYRADA played a major role in developing. It was tested in several of our Projects and is now installed in all. It is the software that helps us to analyse data related to SAGs with the objective of building a sound livelihood strategy. NABARD provided finance to develop this software. It is named NAB-YUKTI to recognise this support as well as to make it easier for adoption by Government and NGOs who are promoting SAGs and livelihoods. All MYRADA projects are already using NAB-YUKTI, but somehow or the other, this effort is being looked at as if it is an administrative concern of the ED. Few staff have taken the trouble to analyse why this software has been introduced. This short paper seeks to explain why. I am working with some major projects who have seen the need to introduce this software. They need training, which Myrada can provide. In order to train effectively, we need to understand why we have introduced it and even more they must see that Myrada is actually using the software to carry its strategy on promoting livelihoods forward in a focused and effective manner.

I have repeatedly said that credit is important but not the only factor to promote livelihoods of the poor. In fact if we take a broader view, prior to advancing credit, the area must already have some investment or growth in terms of infrastructure, industry, business, agriculture diversification and increase in productivity in on and off farm sectors etc. This investment and growth in the area largely driven by the families who have resources, provides the poor who are SAG members with the opportunities to invest, for which they need credit. Credit therefore comes much later, and even when it comes, it may be the "command" factor but it is not the only one. The family needs quality and regular inputs, advice and linkages like markets. Apart from this context of growth, there can also be the need to reduce the risk of investment based on loans taken by SAG members. The objective here would be to ensure food security and provide the opportunity to SAG members to reduce high cost loans taken from moneylenders. Myrada did this when we realised that a large number of loans were taken by SAG members for dryland agriculture, which is risk prone. Hence we needed to reduce the risk of this investment. We did this through major investments in watershed management with resources drawn from other sources. We must understand these connections.

So far the focus of NABARD's annual reports on SAG promotion is on the supply side: how much finance provided, in which States, how many SHGs promoted, in which States. One domain which has not been adequately addressed is i) the purposes of loans ii) size of loans per purpose iii) the annual trends in the purpose and size and iv) the patterns of purpose which are often due to the comparative and competitive advantages of particular areas: The analysis of the purposes of loans using NAB-YUKTI software is the first step towards a larger framework which provides this entire breakdown

One of the major changes in policy made by the RBI in 1990-1991, which drove the SAG strategy forward was the agreement that the banks would not ask for the purpose of loans taken by members of SHG in advance before the loan, was extended to the SAG. On the contrary, the Bank would assess the SAG 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 SAGs as institutions were designed by MYRADA in the early 1990s. These criteria were used and adapted and improved by several NGOs and finally adopted by NABARD.. This approach was based on Myrada's experience which showed that the transactions costs in writing out individual applications (which restricted loans only to income generating activities 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 approved in the official scheme, but used part of the loan- if not all - to fund their immediate needs which included consumption, education, health and small investments.

However once the loans are given, and the Banks get their repayments, they do not go further. It is Myrada's responsibility to analyse the use of loans which could provide the Banks and Sangamithra with some insights as to which areas and which products to focus on. It is necessary for those organisations, like Myrada, which chose to work with the poor to support their initial efforts to build a sustainable livelihood base. To enable them to do this in an effective manner we need:

1. To analyse the purposes of loans:

- To find our whether the assumption generally made that SHG loans are for "Consumption smoothening" only or mainly- is valid.
- To find out whether the data on the purposes of loans for consumption (food, clothes,health,) shows a trend. For example: If there is no reduction, then one can conclude (allowing that consumption patterns and expectations do change) that the other investments/interventions it has made to promote watershed management, productivity and income increases, trading, non-farm and off-farm livelihoods and linkages have not been effective; in other words the incomes have not increased to cope with basic needs especially for food, clothes and health.
- To find whether a pattern of similar loans emerge, since this could indicate that there is as part of a comparative advantage in the area, which supports such activities. For example, in a particular village where 5-6 SAGs function, it emerges that one or two members from each SAG borrows for a particular activity like poultry or weaving because it is a traditional skill or because there is a market. A training programme is organised for these individuals to help them add value or scale, but they do not form into a separate group; after the training they return to their own SAG from where they borrow for the new activity if they decide to take it up and the others assess that the risk they are taking is manageable and therefore can be supported through a larger loan from the SAG. NGOs however need to provide support for them to expand their activity or add value –or even to take up a non-traditional activity.
- To find out whether the portfolio of purposes in particular, one purpose or a few, grow significant at a faster rate in some areas than in others. This indicates that more options are available in some areas, which people can use. It is of no use to push credit in SAGs or particular products in areas where there is no growth through major investments by Government or private sector or the NGOs, and where options have not increased for small investments.

2. They need to analyse the size of loans per purpose:

- To find out whether the assumption generally made that loans given in the micro finance domain are not adequate to raise a poor household above the poverty line and keep it there is valid. Myrada's experience is that at least 5-8 loans are taken before a member feels comfortable that he/she is not vulnerable and is confident that the family can meet both its needs and growing aspirations. The total amount borrowed through these 5-8 loans would be in the range of Rs 70,000 to Rs 80,000.

- To find out what are the factors that motivate some SAGs to set limits to the size of loans; is it due to the reluctance of the SHG, or of the individual to take higher risks? Or are there other reasons which needs to be addressed.
- To find out why in some areas the size of loans tends to grow faster than in others. This will require greater focus in these areas to provide all round support - including insurance- to lower/cover the risk of investment in growth sectors.
- 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 cost tends to coincide with these average figures. This would make the size of loans in government schemes more realistic

3. They need to analyse repayments per purpose and per size: In case repayments for certain purposes have been poor, the reason may well be that the purpose identified by the scheme does not suit the area .For example the main activity in Dharmapuri District under SGSY was milch animals; the area is drought prone and cannot maintain high bred cows; the activity was selected under SGSY because the milk route was running at a loss. No one asked why it was running at a loss. Another example relates to activities grounded in the wrong season. In one project the staff were forced to plant mulberry in the dry season because the target for the quarter had to be achieved.

Experience indicates that the strategy to promote livelihoods needs to evolve from an analysis of the purpose of loans and on and size per purpose in areas where the intervention involves well functioning SAGs.. **Since the members are under no pressure to conform to any prescribed purpose or size, it is assumed that in well functioning SAGs the purpose and size of loans conforms largely to the real need of the members in the initial years.** Many Livelihood Studies made by Consultants have concluded by suggesting activities, which people are already doing, or which the Consultant thinks could be done. The current programmes in Enterprise Development training are not effective since they are rarely based on an analysis of the purposes and sizes of loans, which SAG members decide on. An analysis of the purposes and size per purpose of loans taken in SAGs, therefore, using NAB-YUKTI, would provide a sound base on which to select members of Enterprise development training as well as to provide guidelines to MFIs for investment.

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