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IS MICRO FINANCE LEADING TO A MACRO MESS?

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(This was the title of a paper I wrote about 8 years ago. Disturbing trends were emerging at that time both as regards the structure of financial institutions as well as the minimalist approach and many of them have become real. This paper carries the analysis a little further.)

INTRODUCTION:

There are currently three major programs and a few minor ones, which have incorporated micro credit in their strategy. The three major ones are i) the SHG-Bank Linkage program with no subsidy for the asset provided to the recipient, but with provision for investment in institutional capacity building (ICB) of the Self Help Group; ii) The Swarnajayanti Grama Swarojgar Yojana (SGSY) of the Ministry of Rural Development (MoRD) with a subsidy for the assets and provision for ICB which was not used for the purpose intended but to fund large gatherings addressed by politicians or given to institutions with no experience in ICB and iii) the NBFC/MFI group of institutions; this group is crystallising into two: those with neo- liberal features and the other with a development mission. Part 1 of this paper deals with this program. The minor schemes providing micro credit are several programs involving credit and./or subsidy of the Ministry of Women and Child Development, Rashtriya Mahila Kosh etc.

1. The NBFC/MFI group of institutions. ***These comments refer to those in the first group which are driven largely by neo-liberal pressures. In this case the institution reflects its work when it calls itself a NBFC. But it still claims to provide Micro credit, since "micro" was and is a word that incorporates in some way the original objective of eradicating poverty which kicked this program off. On wonders if there anything left in the "Micro" when an NBFC driven by high growth, high profit and high interest provides credit?***

Micro Credit or Micro finance as I would like to call it (because micro credit alone is no silver bullet) requires to be supported by savings, risk reduction measures, insurance etc., which comprises Micro Finance. Micro credit originated in the context of the strategy for poverty mitigation. It was meant for the poor and hence the word Micro was chosen to indicate its target population - the poor- who now would have the opportunity to access small loans (to suit their absorption capacity), quickly and at low cost. Hence micro credit interventions were embedded in the development strategy adopted by the interveners- usually the NGO. In this context it often took on a broader set of interventions than even the portfolio of micro finance. This broader portfolio of interventions included those i) to reduce risk – like Myrada took up large watershed management programs when it discovered that a large number of loans were taken by SAG members for dryland agriculture where the risk had to be reduced – this was the objective of watershed management; ii) to create a portfolio of livelihood investment options which the poor are able to select from to build their family livelihood strategy which comprises many activities managed by the whole family. These options need to be created by investment in all round development which has to come from the Government, Private sector or NGOs especially in remote areas.

Therefore when Micro credit is placed within the framework of a development strategy it includes not just micro finance but goes beyond to include investment in all round development to reduce risk, to build market linkages and infrastructure for storage and communication, to add value and scale, to diversify off and on farm produce and to introduce off farm skills. **To reduce this holistic strategy to "micro credit provision" is to castrate it and to separate it completely from its development roots**. However, this is the path along which many for profit micro finance institutions are proceeding. This enables micro credit to be "free" of additional developmental burdens and attached risks and to attract venture and other capital that drives it to maximise profit and growth. This is indeed a loud echo of the neo liberal approach which gained pre-eminence in the West after the Berlin Wall fell Since then the western world has largely built its economic and political empire on the assumption that capitalism is the only system possible; it proceeded to strip the finance sector of all controls and regulation – resulting in a capitalism that was free of ethics and under no obligation to society or the environment.

The growing dominance and attraction of the financial system over the productive economy adds lustre to micro credit. For example in 2008 Chief executives of financial institutions that were bailed out by the US Government were paid an average of $ 13.8 million which is 37% more than their counterparts in other industries (Report from Institute for Policy Studies). The echo is heard in India where pay packets of for profit Micro finance institutions are comparable to the highest salaries in the Banking and Investment sectors. The Minister's comment about "vulgar salaries" is timely.

No wonder micro credit today is sexy; it soothes the conscience of those in power and who provide the funds, it fills the pockets of those managing it and is rewarded with the highest recognitions; besides it has helped to fill the gap created by "tired donors" who need a new recipe; hence it is attractive even in the development oriented institutions. . Myrada receives dozens of applications from students to study its micro credit interventions but none for watershed management. This is not surprising, given the opportunities for employment in India and more abroad where the appetite for investment in for profit institutions providing micro credit is large and growing. Between 2004 and 2006 the stock of foreign capital investment covering both debt and equity – more than tripled to US 4 billion. The impact is being felt during 2007-9 in India since for profit micro credit institutions have attracted a fair share of this foreign capital which had to find opportunities abroad as a result of Venture capital in investment declining in the US by almost 50% last year.

The shift towards market oriented neo liberal strategies is evident. Free capitalism without any restrictions is celebrated as the engine of individual mobility, prosperity and freedom. As Thomas Friedman wrote in the The Lexus and the Olive Tree;[1] with reference to the dominance of neo-liberal culture and economics: "The private sector is its primary engine of economic growth". He then adds: It needs to be accompanied by low inflation, privatisation of state owned companies, a balanced budget, minimal state

[1] Anchor Books pg 105

bureaucracy and a reduction of restrictions against foreign investment, trade and capital flows". Yet on the other hand, we all know that the three countries –China, Malaysia and India which managed successfully the financial crises, had one common policy - they went against the rule of opening national borders to free capital flows. As trade barriers are torn down and money flows across borders increased, the key to success is to be big, efficient and fast- survival of the fastest – all characteristics traditionally associated with masculinity. Social barriers which could restrain greed are not respected. In fact greed has become a virtue.

What is the impact on Indian for profit institutions? i) " grow fast and to do so mobilise investment no matter what the accompanying pressures"; ii)" commercialise and maximise profit in the name of sustainability", iii) "step up into a rapid growth orbit in the name of up-scaling to cover the millions excluded; remember numbers count for valuations - to increase number rapidly provide incentives"; iv)" zero tolerance of defaults to gain credibility- hence the means used can be justified , client protection is for the "softies"; v) "the State needs to insure the borrowers in order to protect the NBFCs" vi) "our loans are cheaper than the moneylender's, so why criticise our high interest rates, after all the cost of credit is high". These are the mantras. How do Indian for profit institutions, which have absorbed these funds and culture lull their conscience? By the fuzzy argument that " commercialisation will give them greater opportunity to fulfil their social objective of expanding access to the poor in respond to demand driven micro credit products and services." Yet these institutions are the instruments through which the neo-liberal culture and economics have reached the poor and marginalised sectors of this country. They have systematically destroyed the institutions of the poor - the self help groups especially -, selected a few of their members and formed them into so-called joint liability groups which are neither joint (because there is no internal relations uniting the members together like those of trust and mutual support- very often they hardly know one another and have had no interaction -), nor liable (there is only a document- if at all - which cannot be enforced).

If one clear lesson is emerging from the pressures brought to bear by the neo liberal economy and the international financial institutions, which are driving it, it is that the causes for the gap between the rich and the poor are structural or systemic and embedded in the institutions created and controlled by the powerful. Therefore the poor need their own membership/participative institutions (and representative Federations) which function locally – the only space where they can hope to control – and which provide them with the space to set their own agenda. The Self help Affinity Groups which are part of the SHG-Bank Linkage program is one example of membership groups; **they are micro-empowering institutions primarily. The dynamics created by managing credit –by the discussions/decisions on savings, loans, recoveries, sanctions and on credit-plus issues- is what empowers, not the provision of credit which is conditioned by decisions outside the group in the financial institutions according to the latter's norms. Myrada's experience shows that the poor in these groups are pre-clients who have no voice or power to demand services. They need intangible assets together with tangible ones. They need their own institutions to protect themselves and to provide them with a degree of self-reliance before they can change oppressive power relations that restrict their access to resources entitlements and before they can intervene to correct gender relations at home and in society.**

And this brings us to the question of "risk". Corporate greed has been translated by financial jargon into "risk" which had been bundled into mortgage back securities and credit default swaps which turned toxic and felled western financial institutions .In the US alone over 100 Banks have collapsed. Fortunately Indian financial institutions had almost entirely avoided these fuzzy instruments. Years ago we learned that good management requires that one keeps the monkey (the risk or responsibility) on one's back and does not transfer it to another's. The most well know financial institutions happily transferred the monkey, even more, wrapped it up in fine clothes and mortgaged it. The monkey meanwhile got suffocated, died, shrunk in size and the clothes fell off. Risk cannot be exterminated; it is not a pest or a virus. If one spreads it under false guises, it weakens the entire system bringing the rich and poor down with it, and worse still encourages the creation of greater risk by absolving those who decide, of all responsibility for their actions.

Poorest of the Poor: this phrase has become a mantra of many Micro credit Institutions even those who are driven by neo-liberal culture. They have this is common with religions which have always tried to each out to the poorest of the poor. And perhaps there is an implicit desire to share their mission " to save the world". But the pressures that drive NBFCs and for profit institutions raise the level of the water high enough to drown the poor, leave alone the poorest.. The approach to each the poorest of the poor is i)to have an institution which has a structure which is not high cost and complex and ii) to constantly dig deeper since those with access to credit and resources will (if the assumption is correct) rise above the poorest of the poor category after a few years. Digging deeper may not be a strategy with which the NBFCs are familiar; they may need development or action oriented NGOs to assist them.

*The present scenario in the MF Sector can be described by the following allegory: A large part of the MFI sector is a **train**, driven by a foreign chip. It is programmed to go fast and to grow. New carriages are attached which provide different products, savings, insurance; the last compartments in some trains are meant for the poor for whom special products are designed. There are ticket inspectors - the rating experts - who walk through the train, concerned about whether all the carriages are filled, the tickets (paper work) in order, whether the train is going in the "right" direction and at the required speed; they have no time or interest to look outside the window –to notice the floods or droughts or groups that may be agitating for the train to stop at a small station; they pay a special visit to the last compartments - but not to assess whether they are an integral part of the train and get equal attention but to be able to record that they exist. . The Manual of Instructions, supporting the corporate objective demands an increase in the speed of the train. After all, it has to make many trips back and forth to become viable; faster speeds are encouraged from Station to Station (MFI growth YoY, QoQ,); there is little or no attention to or concern for the impact this has on all the passengers. Further the train drivers often fail to read the signals and instructions along the track - they flash past – as a result they do not know when and how much to slow down and when to accelerate. In some wagons – the lower class ones at the end of the train – passengers are thrown around and often fall off, especially those in the general/unreserved and lower class compartments (the poor) where the supporting system of protective railings and "hand hold" straps are missing (in the credit alone-minimalist approach). In a small part of the MFI world the foreign chip is substituted by one produced by the Government. In this case, the Station Master who has experienced the power of stopping trains and letting them go but never driven one has become the train driver. This resembles financial institutions where Government Officers with authority (and even NGO leaders with commitment) are in charge of MFIs but have little experience in the financial sector. Once in the driver's seat they fail to read the signals (the ratios that indicate the health of an MFI).*

1.2. Some questions therefore need to be asked.

Is MC/MFI a silver bullet that can knock out poverty? Or is it just one of the factors of production that include other risk mitigating and investment measures. Is Micro credit at least a trigger for development or does it require micro finance as well and even more all round development?

Are the indicators of success used internationally (growth to support valuation, zero tolerance for default) appropriate in a diverse and risk prone economy especially in a sector that gives the impression that it is concerned about the poor?

In a country where poverty is evident, is it enough to say that commercialisation is required in the name of sustainability no matter what image it projects a valid one?

Is the approach which holds that one can maximise profits and pay packages provided the institutions also spends on social activities appropriate?

Can the very DNA of a for profit institution supported by venture capital which demands high returns allow it to reach the poor?

Can CEOs take what they want even when profits are high?

What does the word :"micro" signify besides small ?

II The SHG-Bank Linkage program.

SHGs emerged in 1984 when the Cooperative Societies of Myrada broke down; the poor members decided to break away as they were being exploited. They formed their own groups; self selected the members, started savings regularly. Myrada trained them to draw up a meeting agenda, to resolve conflict, to foster participation, leadership and collective decision making, to understand the importance of developing a Vision/Mission and a strategy to achieve it, how to draw up rules, to keep records and accounts, the importance of financial and social audit (Myrada staff kept the accounts and minutes meetings in the beginning; later they hired educated youth), how to analyse local credit sources and the power structures in society , how to make a self assessment etc. There were 24 modules focused on **Institutional Capacity Building - ICB - of the whole group (not** training of individuals to manage tangible assets which comes alongside or later). Institutional Capacity Building (ICB) focuses on building institutions- the en tire group - and includes the following training modules:

1) About the NGO; 2)A Structural analysis of society; 3)Analysis of local credit sources; 4) SAG, the concept; 5)How to conduct an SAG meeting; 6)Roles and responsibilities of SAG Group; 7) Norms in a Self-help Affinity Group; 8)Managing finances; 9)Bookkeeping and auditing for SAG members; 10) Leadership; 11)Consensus or collective decision making; 12)Unity – affinity in action; 13)Conflict resolution; 14)Communication; 15)Building credit linkages; 16) Building a vision; 17)Setting goals and managing projects; 18)SAG self assessment; 19)SAG graduation; 20)Linkages with other institutions; 21)Federations of SAGs; 22)Community Managed Resource Centres; 23)Credit-plus; 24)Analysing gender relations in the family and community; (A Training Manual "Capacity Building of Self Help Affinity Groups " is available with Myrada.

In 1986 Myrada approached NABARD for a grant to match the savings of the group and to provide ICB to each group. NABARD sanctioned Rs 1 million (thanks to PR Nayak the then Chairman). From 1988 to 1990 NABARD conducted several studies related to the progress of the grant and to transaction costs between three models: 1) Lending to individuals as in the IRDP; 2) lending to individuals in groups like in the Joint Liability model where each member of a group submits a separate application to the Bank where decisions are taken and 3) where NABARD funds were given as one loan to the entire group leaving the group free to decide on the purpose, size etc of loans to individual members. The study also included the respective rates of recovery. Model 3 won hands down. Myrada initially called these groups Credit Management Groups with a focus on management of credit. With NABARD's entry the name was changed to Self Help Groups.

In 1990, three decisions were taken by RBI /NABARD: 1) To allow Banks to lend to unregistered groups provided they functioned like registered bodies; 2) to give one loan to the group without asking for the purpose of loans to individuals; however after the group decided on the purposes and sizes, the data should be collected and 3) to lend without physical collateral. Nowhere in the world has such major policy decisions been taken, yet the role of RBI and NABARD HAS NOT BEEN RECOGNISED. Two reasons for this could perhaps because no foreign institution (like World Bank) was involved and secondly because the SHG-Bank Linkage program has not been integrated in the over-all program for poverty alleviation of MoRD because there is no subsidy in the SHG-Bank Linkage program.

In 1992 NABARD launched the SHG-Bank Linkage program based on the three policy decisions. **However only well functioning SHGs with the following features were linked to Banks:**

2.1 Features of SHGs and SHG-Bank Linkage:

i) The SHG groups are based on affinity (relations of trust and mutual support) of poor members who self select themselves. Several groups are composed of STCs, STs OBCs because they are all landless labourers and have helped one another; the different subsidies for these categories under SGSY often break up affinity groups.

ii) In keeping with the culture of SELF HELP, there were no subsidies given for purchase of the asset. Instead funds were provided to build the institutional capacity of the group. The amount provided by NABARD for ICB ranged from Rs 2000 to Rs 5000.

iii) The SHG members had to save weekly –to cultivate the habit of thrift. They had to lend from their savings to prove they could manage funds. They were free to levy any rate of interest and to lend for any purpose. Only after 6-8 months of lending were they eligible for the SHG Bank Linkage Program

iv) Under the SHG Bank Linkage program the Banks lend about twice or thrice their savings after assessing the strengths of the group…not the individual viability of loans. Several criteria were provided to assess the group. (Regular savings and lending, good recovery, taking up social issues, proper maintenance of books, rotation of leadership, adequate Institutional Capacity Building training etc). These criteria were all related to the group not to the asset, which was not subsidised.

In 2000 the SHG program was adopted as a national program for poverty alleviation. Targets were sent. The numbers jumped from 7 lakhs to 3.5 million within 8 years **but**

the quality deteriorated. The SHGs were used to implement Government programs. No institutional capacity building training was given and the program overlapped with the SGSY. It reverted to individual loans in groups in many places because Banks were asked to collect data on SCs, STs and because the subsidy differed.

MoRDs role in the SHG-Bank Linkage Program: Since there is no subsidy component involved, MoRD has not much to do with the SHG-Bank Linkage program. NABARD provides funds for training each SHG and for training NGOs, Bankers; it compiles the Annual report.

2.2. Learning from SHG-Bank Linkage Program:

i). The SHG members have a livelihood strategy which comprises 7 to 8 small activities managed by family members; they do not have one or two large tangible assets which are called "viable" and provided under the SGSY scheme with a subsidy. Many of these larger activities may be viable in themselves but are not manageable by the poor and do not fit into their livelihood strategy which includes a few small self employment activities like agriculture, animal husbandry and cottage industries, other on farm and small off farm activities including trading and some labour activities,

ii). The SHG members require at least 15 loans over 6-8 years amounting to a total of Rs 150,000 to Rs 300,000 for them to have a sustainable livelihood strategy. As the years progress the number of activities tend to decrease and get larger.

iii). The group must be free to decide on the purpose and size of loans if a realistic picture of peoples priorities is to emerge. Providing subsidies only for assets distorts the "demand driven" culture since people will ask only for those assets for which there is a subsidy even if they cannot manage them. Myrada's analysis of the purposes of loans given by SHGs shows that initially several small loans are given for food, clothes but these decrease as other income generating activities increase.

An analysis of the purposes of loans given by a sample of 238 SHGs in Myrada's projects – all in rural areas – during a one year period (2003-3004), showed that out of a total of 5,880 loans (amounting to Rs. 26,280,230) advanced to 3558 members during one year (2003-2004), 1,574(27%) loans were for agriculture amounting to Rs. 6,568,397 (25%). Animal husbandry accounted for 457 loans (8%) amounting to Rs. 3,131,854 (12%). **All other loans were for non-farm activities**. The average amount lent for agriculture was Rs. 4,173 which was the lowest when compared to averages of all other non farm purposes except consumption (Rs.2,915). Hence the new thrust of SGSY to invest in providing intangible assets like INSTITUTION CAPACITY BUILDING, service providers to manage various government programs, off-farm technical skills which have a market is welcome.

Over 50 million families who are members in the SHGs are taking loans from their common fund, which includes savings, interest and loans from banks. They take loans for a variety of livelihood activities (agriculture, horticulture, animal husbandry, trading, cottage industries, processing, repaying high cost loans, education, food and clothes, for learning practical skills and for construction of houses and toilets.

III. The SGSY Program:

It was launched in 1999 with a worthwhile objective to integrate all former poverty alleviation programs. Briefly at the beginning the components of the SGSY were the following: i) Formation of SHG groups and starting of regular savings; ii) Institutional capacity building for which Rs 10,000/ was provided for each group – the Swa-Shakti Manual based on Myrada's Manual was to be used for ICB; iii) provision of loan (Rs 15,000) and subsidy (Rs 10,000) iv) Assessment of the group "good", "average" or " poor". If poor or average, further Institutional Capacity Building training to be provided; v) Provision of major loans and subsidy after 18 months.; the priority of purpose of the loans were given by the District; largely the priority was animal husbandry. These steps were altered as the SGSY progressed or were not implemented as expected. Implementation differed from State to State. Personally, I think that if the SGSY was implemented as envisioned it would have been far more successful than it is.

As a result what actually happened was this: i) Groups were formed on external criteria –not on affinity; ii) the habit of regular savings was not promoted; iii) No Institutional Capacity Building was provided. The amount of Rs 10,000 per group meant for Institutional Capacity Building was spent in some states to organise large gatherings addressed by politicians, in others it was given to the Secretary of GPs to form and train groups –they had received no training and selected the members of the group starting with the wife of the GP Chairman and Secretary; iv) In some cases the Banks under pressure to reach targets decided to provide the major loans and subsidy immediately since the group had already borrowed under the SHG Bank Linkage program. As a result there is overlapping of the number of groups claimed to be formed under SGSY and SHG-Bank Linkage program; v) No assessment of groups was done in the first years and patchy in the others; vi) In many States the groups were used to implement government programs like PDS. vii) The patterns of lending shifted from lending to the group to lending to individuals mainly because the demand from Government was to report how many loans were given to SCs, STs, etc. In other words it went back to the old IRDP pattern during implementation.

The major drawback was that the States did not follow the strategy prescribed in SGSY where Rs 10,000/was provided to form the SHGs and to build the institutional capacity of the SHGs. This is best done by NGOs not by Government officials. Secondly no assessment of groups was made in the initial years. Thirdly the purpose of the major loans were decided by each District. For example Dharmapuri a drought prone District gave priority to animal husbandry because the milk route was not viable without asking why it was not viable in the first place.

3.1 The SGSY Program is now being restructured by MoRD and is called the National Rural Livelihood Mission. Extra funds will be allocated for training to develop service providers for various Government programs and in marketable skills for those who are not self employed and do not want to be. The implementation strategy is in "Mission Mode" and the entire program is expected to be "demand driven"

Mission Mode: It is clear that any program where institution building and empowerment of the poor is concerned cannot be promoted by regular Line Departments no matter how committed the top Officials are. Therefore a new structure has to be created in which the Convergence has to be linked to the "demand driven approach". Convergence from on top – among various Departments – has been attempted for several years. The experience shows that unless orders come from the very top, convergence among Departments does not start and even when it does, it gets torpedoed very soon. The real convergence will be achieved if the demand is driven by people. This requires a shift of power from government's delivery systems to peoples institutions. But these institutions need to be promoted and nurtured so that they are in a position to demand services they require, at the time they require them and of good quality; they must set the agenda and drive convergence. Any structure set up under a Mission mode should involve the Private Sector and NGOs at National, State and District levels.

3.2. Roles of MoRD, Private sector and NGOs in implementing the restructured SGSY:

NGOs are required to identify affinity groups and to train them in INSTITUTION CAPACITY BUILDING. **Affinity is based on relations of mutual trust and support which exists before NGOs intervene; this is the strength of our society –NGOs need to spot it and build on it –it is a strength not a need. Funds are required to build institutional capacity to take on new functions. The amount required to train each SHG ranges from Rs 5000 to Rs 10,000 depending on the area, acceptance of the concept and coverage/experience of the NGO involved.** Credit is not the problem as stated by MoRD. From my interactions with Bankers across the country it emerges that the Bankers hesitate to give loans to SGSY groups because they are weak. On the other hand they are giving loans to good SHGs as the records show. Therefore lack of institutional capacity building of groups is the major issue.

Experienced NGOs need to be selected and given the responsibility to identify the poor in villages using PRA methods. Once the poor have been identified, they should be briefly exposed to SHGs and then asked to form their own groups –in other words to self select their members. Many States are forming groups with their Government or PR officials. This must be stopped.

Experienced NGOs should be asked to provide institutional capacity building training to each group. The training manual brought out by Swa-Shakti (Ministry of Women and Child development), could be used for this purpose.

NGOs should be engaged for at least 3- years to mentor the SHGs. to ensure that minutes and records are kept, that they develop a Mission and Vision of their own and to ensure that they are not reduced to implementers of Government or NGO programs

The Groups should be encouraged to save and lend over a period of eight months at least; then they should be assessed (criteria already drawn up and used by NABARD) before Rs 25,000/- is provided. Assessment teams should be placed at District level as part of the Mission structure. Since the revolving fund component of Rs 15,000/- in the present SGSY is not being managed well, it is suggested that the entire amount of Rs 25,000 be given as a grant. (This will also help MoRD's disbursement, which will soon become an issue). However this should be done only after the SHG has functioned for 8 to 10 months and after an assessment of its performance. If it is performing well the entire amount of Rs 25,000 can be given. (I know in many cases this is divided equally and the group disbands, but this is largely because it is given too early and without any institutional capacity building). If the group is "average" then Rs 15,000/ plus training can be given and if "poor" – no subsidy is given but Institutional capacity building is provided. This will introduce a culture of "performance" which will balance the present welfare approach of the program.

An analysis should be made to assess the purpose and size of loans given by SHGs during the first 4-18 months. This analysis indicate peoples choices for a livelihood activities which comprise their livelihood strategy A software for this analysis has already been developed and is in use; it is called NAB-YUKTI.

Based on this analysis, intervention to upscale or add value should be made through the larger loan/subsidy provided under SGSY.

Federations of SHGs can be promoted after 3-5 years of SHG formation. SHGs performing well only should be admitted to membership. If the culture of self-help is to be preserved, the SHGs should pay for membership and in return the federations could provide certain services like the annual audit. Gradually the federations should charge for all services. If you want to see how this works please visit the Myrada Community Managed Resource Centres, which have been functioning for 3-4 years and have broken even.

Provision for skills development: Not everyone wants or can be self-employed. Hence provision of skills training is essential. The major new thrust in the SGSY program proposed is to invest in providing training in marketable skills. This is to my mind is a priority. The NSSO survey indicates that over 60% of the rural families are involved in agriculture; this does not give a clear picture. The question asked by those who did the survey is: "During the last 365 days have you been involved in agriculture for 30 days?." If the answer is yes he is listed as a farmer. The implication is that farming is his major livelihood activity. In reality the "farmer" is involved in farming only for 30 days or less. The rest of the time he is involved in labour or other activities for which he has traditional skills or working in sectors where non-traditional skills are required (like welding) as a helper who is exploited till he learns the trade. A visit to several villages in UP showed that 30% to 50% of the youth have migrated and are working in the coal fields, ship breaking yards etc; but they have no training and are paid low wages. Further,they cannot join the ITIs because they are not 10th std passed. This group must have the facility of training in skills for which there is a demand. A large number of construction workers in Bangalore are from North Karnataka. They are treated as casual labour and need to be rained in brick laying, bar bending etc. which enhances their incomes and self respect.

A major thrust is required to train youth in marketable skills like construction, garments electronics, plumbing, electricals, metal work etc,(which do not require high school education or English);others who have education can be trained in computers and retail skills as well as for the BPO sector.. Each family in the SHgs should select one member at least for training which can be provided by the various institution listed. However provision must be made to lower the entry level qualifications .For example, instead of insisting on 10th pass for entry into the Industrial Technical Institutes, it is suggested that basic literacy is sufficient…..or 10th failed. However the technical training course provided should include not just provision of technical skills but also courses in language, maths, accounts, character building, yoga etc

Technical Training Institutes: The model to be adopted is the Public Private partnership one which has already been adopted in several it is. However the syllabus should be left to the Management Committee and not standardised by Government.

Other Support required from MoRD¨:

Marketing infrastructure and linkages for farm produce including horticulture:

The MoRD should invest in at least 100 more SAFALs like the one in Whitefield outside Bangalore, which was promoted by NDDB and is now under the overall responsibility of MoRD (I understand). However the SAFAL model in Bangalore needs to be adapted. It is too large

The Federations should be provided with facilities to exhibit daily information of prices at various markets leaving the farmer to choose on a day-to-day basis. The federations should also be provided with temporary collection and storage facilities to support aggregation and quality control.

Government (Private sector and NGOs) needs to intervene in order to: i) Lower the risk of peoples investment. For example when Myrada's analysis of the purpose of loans taken by members of its 12,000 SHGs showed that a large number of loans are taken for dryland agriculture, it decided to lower the risk of this investment by taking up major watershed management programs; Government. Departments funding watershed programs should be integrated with SGSY; ii) invest in all round growth including infrastructure and electricity; unless Government and Private Sector invest in the area thus triggering growth, the options of investment by SHG members is limited; iii) Government especially needs to ensure good governance and security for the SHG movement to flourish. These are areas where convergence among various government departments is essential

IV. Are the Self Help Affinity Groups lending for livelihoods?

The brief answer is YES. The SHGs have come under criticism from some quarters for lending only for 'consumption'. Myrada's analysis shows that this is incorrect. There are trends in lending over a period of 0-5 years - from small consumption loans to trading and retiring high interest loans, to small assets, and finally to larger ones; - from loans for traditional activities to loans for activities which require added value and/or scale. The new software NAB-YUKTI[2] developed by Myrada with the financial support of NABARD helps to analyse the purposes of loans given in the SHGs. Myrada is willing to provide on request, adequate data on the loans for livelihoods given by SHGs; providing the data here will make this paper too long. However, the sample case studies given below supports this claim that the SHGs provide loans for livelihoods and not only for so-called consumption smoothening.

[2] SHG monitoring software developed by Myrada and available with NABARD.

Self Help Affinity group Chikkajajur,Holalkere Taluq,Chitradurga Dt.,Karnataka

(1) Shanthamma*

Date of Borrowing	Amount (Rs.)	Purpose
1996	500	Household expenses
1996	1,000	Cow Purchase
1996	2,000	Education
1996	3,000	Cow purchase
1997	3,000	Agriculture inputs
1997	3,000	Education
1997	4,000	Education
1998	5,000	Education
1998	6,000	Agriculture land purpose
1999	8,000	Education
2000	11,000	For job in Railways
2000	15,000	Business
2000	325	To purchase SHG uniform
2001	20,000	For telephone booth
2003	8,325	Sewing machine (SGSY)
2004	35,000	Education
2004	2,300	LPG for home use
2005	1,000	Jewellery loan
2006	45,000	Agriculture land purchase
2006	2,000	Jewellery loan
Total	**175,450**	

* **Note:** Her husband was a sweeper in the railways. After he died in service, the family spent considerable money to see if one of the sons could get appointment in the railways.

(2) Sakamma

Date of Borrowing	Amount (Rs.)	Purpose
1996	500	Education
1996	100	Medical expenses
1996	445	Medical expenses
1996	1,000	Education
1996	2,000	House repair
1997	2,000	Agriculture inputs
1997	2,000	Education
1997	2,500	Education
1998	4,000	Education
1998	5,000	Agriculture land purchase
1999	7,000	Agriculture inputs
1999	10,000	House repair
2000	325	To purchase SHG uniform
2001	15,000	House site purchase
2003	8,325	Sewing machine (SGSY)
2003	22,000	House site purchase
2004	2,300	LPG for home use
2004	40,000	Agriculture land purchase
2005	1,000	Jewellery loan
2006	2,000	Jewellery loan
Total	**127,495**	

Note:

(3) Kausar Banu

1996	1,000	Trading
1996	3,000	Trading
1997	5,000	Trading
1997	500	Education
1997	5,000	Medical expenses
1997	300	Medical expenses
1998	4,000	Trading
1998	5,000	Trading
1998	5,000	Trading
1999	5,000	Trading
1999	12,000	Trading
2000	25,000	To release house mortgage
2000	325	To purchase SHG uniform
2001	2,000	Education
2002	40,000	House purchase
2003	325	Household expenses
2003	8325	Sewing machine (SGSY)
2003	50,000	Agriculture land purchase
2004	2300	LPG for home use
2005	58,000	To release agriculture land from mortgage
2005	6,000	House repair
2005	1,000	Jewellery loan
2006	2,000	Jewellery loan
Total	**241,075**	

***(4) Nagarathnamma**

1997	2,000	Education
1997	500	Education
1997	2,000	Education
1998	4,000	LPG for home use
1998	5,000	Education
1998	5,000	Vehicle loan repayment
1999	7,100	House repair
1999	8,000	Vehicle loan repayment
2000	8,000	Vehicle loan repayment
2000	15,000	Vehicle loan repayment
2000	325	To purchase SHG uniform
2001	18,000	Business
2002	30,000	Vehicle repairs
2003	28,000	Vehicle loan repayment
2003	8,325	Sewing machine (SGSY)
2004	2,300	LPG for home use
2005	40,000	Vehicle repairs
2005	1000	Jewellery loan
2006	2,000	Jewellery loan
Total	**186,550**	

***Note:** The family purchased a used minibus on loan; she borrowed from the group to repay the loan in instalments and to repair and refuRBIsh the vehicle.

Size of loans :. The assumption made by Government programs is that substantial -one or two large - Loans for assets/enterprises are required to 'pull' people out of poverty: This assumption did not prove to be valid. Myrada's analysis of the pattern of loans taken by each member in the SHGs showed that it differed considerably from the pattern of one or two large loans under government programmes. We found that over a period of 6-8 years an SHG member takes about 7 to 9 loans of various sizes and for various purposes - usually complementing one another. The total amount is in the range of Rs. 80,000 to Rs 2 lakhs, which is much more than what was provided under IRDP/SGSY. **The poor have a livelihood strategy which comprises several livelihood activities ranging from those based on assets (like animal husbandry) to trading, to repaying high cost loans, to edu**cation **Several researchers analyse the size of a single loan and conclude that it is too small to ensure their livelihoods. This is misleading and shows the lack of knowledge of how the poor approach their livelihood security.**

Purpose of loans: Tangible or intangible assets: There is another assumption that loans must be asset based in order to raise the poor family above the poverty line. We need to distinguish between 'asset focused loans' and 'loans for livelihoods'. The portfolio of livelihoods is much broader; it goes beyond 'asset focused loans' and includes any activity that increases capital in the hands of the poor. Credit for livelihoods includes credit for any activity that increases the capital in the hands of the poor and not just credit that provides assets. In other words, if the poor take loans from the SHG to repay high cost private loans; this must be considered as credit for livelihoods, as capital increases in his/her hands to purchase essentials. If the poor take loans for urgent health problems, this must be viewed as credit for livelihoods as he/she does not have to resort to private lenders and can also return to work and hence capital increases in his/her hands. If the poor take loans for education - is this not for a livelihood? None of us reading this paper would have been able to, unless someone had invested in our education.

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MYRADA
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