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The Self Help Affinity Group movement and the SHG-Bank Linkage Program

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On the occasion of the 25th anniversary of the launch of the SHG-Bank Linkage program

The concept of the SHGs and the model of credit provision through the SHG-Bank Linkage, which NABARD and the NGOs promoted between 1992 and 2000 -which I call the **first wave of micro credit -** was very different from the concept of the SHG and the model of credit provision after 2000 **-which I call the second wave of micro credit**. The second wave was led by private institutions like the NBFC-MFIs and Government sponsored programs like SGSY and NRLM. Unfortunately the name SHGs continued to be used in both phases.

In the first wave NABARD took the lead in providing grants for Institutional Capacity Building (ICB) ; the objective was to train SHGs to strengthen the affinity among members, to build the organisational features of the SHGs and to help them build a group common fund in which all members had a stake. NABARD also lobbied with Banks to lend (one bulk loan) to SHGs under the SHG-Bank Linkage program. One former NABARD CGM of Karnataka, Shri Wadhwa, while addressing Bankers in the early 1990s even offered to place his Provident Fund as guarantee for the loan to SHGs! NABARD also organised regular State level meetings of Government, Banks and NGOs involved in promoting SHGs to obtain feedback. Two Chairmen of NABARD, Shri P. Kotaiah and Shri Y.C. Nanda played a crucial role during the 1990s in stabilising and spreading the SHG movement in the country.

After 2000 when the **"second wave"** of micro finance took off, led by NBFC/MFIs and Government programs like SGSY and NRLM, the concept of SHGs as well as the model of credit provision changed. The NBFC/MFIs were driven by speed and standardisation which focused on maximisation of profits. They had no time for training in institutional capacity building, and saw no reason to finance this training since credit provision had shifted from providing a bulk loan to the group towards providing loans to individuals. This undermined the strength and power of the SHG as a group. This shift of focus from the group to the individual was strengthened by the demand from Banks and

Government for data (related to credit) on individual members of groups because caste had to be identified and subsidies differed. Two central Govt. programs (SGSY and NRLM) also contributed to this shift from the group to the individual.

This was different from the demand during the first wave where, under the SHG-Bank Linkage program, only one bulk loan (without any subsidy) was extended from the Bank to SHGs which at its meetings made decisions on individual loans to members. Banks did not ask for the purpose of loans to individuals prior to disbursements. Data was provided on the amount of the bulk loan to the SHG and on repayments to the Banks. The SHGs managed all matters related to savings, credit and repayments. It was the last mile in the credit delivery chain. To demand separate data for each SHG member on these credit related matters (as is required today in the second wave) is self-defeating and a waste of time and money without commensurate returns. Separate studies, usually large samples of loans from SHGs to individual members (collected from records of minutes of SHG meetings), were conducted to capture the purpose, size and repayment periods. Trends were analysed. For example whether size of loans was increasing, if not why? Whether purposes of loans were shifting from consumption to livelihood investments; if not why? But there was no demand for data on all the individual members of the SHG. As there was no subsidy the need for identification of caste and tribal status did not arise.

This Chapter is divided into two parts **i)The history of the SHG movement from 1987 (when NABARD gave a grant to Myrada for an action research project) to1992 in which year, the SHG-Bank Linkage Program (the other pillar of the strategy) was launched. However the period (1987 to 1992) has not been recorded adequately and will be the focus of part one of this Chapter and ii) A comparison of the concept of SHGs and the strategy for credit provision during the first wave of micro credit between 1992 and 2000 with the concept of a SHG and strategy pursued for credit provision during the second wave after 2000. For the sake of clarity this comparison will be given in tabular form.**

1**. The history of the SHG movement between 1987 and 1992**. This period has been briefly described in Chapter 5 of Part 2. The highlights will be recalled here. The Primary Agricultural Cooperative Societies (PACS) with which Myrada worked in the early 80s broke down as the poorer members decided to protest against the exploitation they suffered from the powerful families in the village whose members held positions of authority in the PACS. Myrada did encourage this protest and continued to support the poorer farmers to develop alternatives. Small groups emerged which we encouraged to meet weekly and to save regularly. These savings were placed in a group common fund. When the members asked for grants to support their requirements, they were encouraged to borrow the amount from the group common fund which Myrada had embellished with grants after assessing the performance of the groups according to criteria which Myrada established in agreement with them. If assessed as “good”, the common fund was matched 3 times, if average it was matched twice and if poor they did not receive a grant but extra training in Institutional Capacity Building. These groups were called Credit Management Groups with the emphasis on “management” of savings and credit.

I approached Shri P.R.Nayak (the Chairman of NABARD and Deputy Gov.RBI) for a grant of Rs 3 million in 1987 to match the savings of the Credit Management Groups (there were already about 100 in Myrada by 1986-7) and to train these groups. Shri P.R.Nayak was previously Development

Commissioner of Karnataka and knew Myrada's work well. Nabard granted only Rs 1 million to Myrada in 1987, but this grant effectively gave NABARD ownership and responsibility to follow this pilot closely as a source of learning; this Shri P.R. Nayak did. He suggested that Myrada change the name from Credit Management Groups to Self Help Groups - which Myrada agreed to.

The outcome of this pilot could be summarised in three policy decisions taken by NABARD and backed by RBI. The discussions which led to these policy decisions took place between 1987 and 1992. Shri P.R. Nayak involved me in these discussions. These policy decisions allowed the Banks to lend a bulk loan to SHGs without co-opting or mainstreaming them. These decisions gave the SHGs the space to set their agenda to manage the size and purpose of loans, rates of interest and schedule of repayments. Though they received loans from the Banks and were "included" in this sense, they were not mainstreamed; they did not have to follow the guidelines set by Nabard which standardised the size of loans and restricted the purposes to so-called asset creation for all programs involving loans (and subsidies) to the poor like the Integrated Rural Development Program.The three policy decisions were:

i) **To lend to SHGs** (one bulk loan to the SHG) and not a loan to each individual member in a group. As transaction costs to Banks decreased in the first model (one bulk loan to the SHG), the Bankers supported this. The decision to give one loan to the group was the result of the discovery that social **affinity** existed among few (10-20) rural families prior to Myrada's intervention; it was based on relations of trust and mutual support; this was called affinity and provided social collateral. This social collateral was created by their intimate knowledge of the lives and livelihoods of the group members; as I said earlier the SHGs were the Facebook of the 80s and 90s. As a result of this affinity, which already existed, they self- selected the SHG members. Affinity was a strength of the people on which the Institutional Capacity Building (ICB) Training was built. The group common fund (comprising savings, grants, and loans) was an economic base in which all members had a stake and which strengthened social affinity**. In brief the members of the SHG were united both by the social and economic strengths of the groups; they were stakeholders in the social and economic capital of the group.**

ii) **to lend to unregistered SHGs** provided they kept accounts and maintained records of decisions taken; this was difficult until Dr.C. Rangarajan of the RBI gave the go ahead. This decision gave the SHG space and freedom to operate; even though they had taken a Bank loan, they did not have to follow Bank's rules regarding size and purpose of loans- like in the IRDP program; there were no subsidies for the asset. They were included in "growth" but not "mainstreamed"; they were included in the financial system but not constrained by it as Government programs require. NABARD and RBI recognised that the SHG members lived and worked in the informal sphere which was diverse and prone to risk.

iii) **to lend without physical collateral**; there were precedents and hence the Banks agreed since there was social collateral based on affinity among members and an economic base , namely, the group common fund in which all had a stake.

These policy changes enabled NABARD to launch the SHG-BANK Linkage program in 1992. This was required to support the SHG model. But these two pillars –namely the SHG model and the SHG-Bank Linkage model of loan provision were not adequate; a third was required, namely funds to train the

SHGs which had now taken up major responsibilities. They had to develop and internalise the systems and culture required for promoting participation of all members, decision making in a transparent way and accountability. The training was called Institutional Capacity Building (ICB). NABARD provided grants to V.Os for ICB training of SHGs to build them into sound institutions. Their performance till 2000 proved that this objective was largely achieved. The Training comprised 14 modules some of which Myrada provided in the 80s and gradually expanded in the early 1990s. They included: exercises to increase participation, to arrive at consensus and resolve conflict, to provide basic numeracy, to create a critical awareness that would enable them to analyse sources of credit and local power structures that had control of local natural resources, to provide basic knowledge and build confidence to monitor usage of funds from Government/panchayat, to recognise the importance of maintaining minutes of meetings and accounts, to address common issues related to domestic violence, caste and oppressive practices, to carry out self- assessment, to build a vision for the group, village and their families, etc.

The first wave between 1987 and 2000: The SHGs formed between 1987 and 2000 focused on "building Institutions of the poor" which managed their resources and set the agenda for their growth. These features made the SHG the last mile in the credit and repayment management structure. In 2001, I wrote a book entitled "Putting Institutions first even in Micro finance" when there was already strong evidence of the second wave which focused on individuals emerging, and which I foresaw would dismantle the SHGs as institutions in favour of extending loans directly to individuals. This shift was accompanied by the decision to set up centralised Credit Bureaux which was expected to help mainly in controlling multiple lending and in providing data on the amount and size of loans to individuals; experience has shown that they have not been as effective as expected in achieving these objectives.

A sample study of 4090 SHGs promoted in Myrada's Projects shows that the SHGs used their freedom provided by the structure of the SHG and the SHG-Bank Linkage program, to decide on the purpose and size of loans in a client centric manner. The total number of members in these SHGs was 66,766.

The total amount lent by Banks to these SHGs was Rs 80 crs. The SHG own funds amount to Rs 40 crs. These own funds consisted of savings, interest on loans to members which were given at a slightly higher rate than the rate charged by the Banks to the SHG, grants, fines etc. The break-up of loans advanced was as follows:

Amount vs Purposes: Agriculture 31%, Non-Farm livelihoods 26%, Animal Husbandry 12%, Household expenses (food, clothes) 12%; Housing 7%; Debt release 5%; Education 4%; Health 1%;Purchase of assets 2%; Health 1%.

Number vs purpose: Agriculture 39%; Non-Farm livelihoods 19%; Animal husbandry 11%; Household expenses 14%; Housing 6%, Debt release 4%; Education 4%; Health 2%; Purchase of assets 1%.

2. After 2000 a "second wave" emerged, led primarily by NBFC-MFIs which watered down or discarded most of the features of the first wave as will be explained below. Government sponsored programs like SGSY and later NRLM which claimed to have adopted the SHG approach also undermined some of the features of the first wave of SHGs. In effect they nationalised people's institutions and co-opted them in the Govt. delivery system. These two thrusts, one backed by

Government, the other by the private sector effectively undermined the features of the first wave SHGs**. Unfortunately even during the second wave, the NBFC/MFIs and Govt. sponsored programs continued to call the groups they formed as SHGs** – as this name had gained acceptance in Govt. and financial institutions. It was at this time that Myrada changed the name to SAGs (Self Help Affinity Groups) to identify those groups which continued to preserve the features of the SHGs of the first wave.

For the sake of clarity, rather than describe the first and second waves separately, I decided to compare the first and second waves using a few parameters. The following table may cause some constraints to rapid readers, but I think it is necessary to highlight the differences between the first and second wave especially the differences related to the concept of SHGs and the models of financial provision. In fact the ignorance of these differences is widespread. One reason is that most analysts and journalists have entered this "arena" rather late – around 2000-2005. Last month (early 2017) one of the founders of a major NBFC-MFI said that SHGs emerged as common activity groups when in fact very few SHGs were based on common activities. With the Joint Liability Groups (JLGs) emerging in the second wave, the confusion has become greater. In fact the original SHGs (1987-2000) were the real Joint Liability Groups as they had strong unifying relations of affinity (relations of mutual trust and support) as well as a common economic base namely the group common fund in which all members had a stake. The recent SHGs/JLGs have neither a social nor an economic base in which all have a stake. Hence the sad spectacle of 3 to 4 staff of various NBFC--MFIs camped before a borrower's home to exert pressure on the defaulting family to repay loans; the JLG members took no responsibility to exert pressure to repay.

A comparison of the concept of SHGs and the strategy pursued for credit provision by the SHG-Bank Linkage program during the first wave of micro credit between 1992 and 2000 with the concept of SHGs and the strategy pursued for credit provision by financial institutions during the second wave after 2000. References are made to the critical role that ICB Training played in the first wave and its absence in the second and comparisons with the Grameen Bank of Bangladesh in a few cases .

First wave 1992 to 2000 (thereabouts)	Second Wave(2000 onwards)
1. Objective: Poverty mitigation & Inclusion of the poor in growth thru collectively owned and managed institutions which foster and sustain livelihoods.	**1. Objective: Financial inclusion of individuals; Whether financial inclusion leads to growth in income is not given priority. NBFC/MFIs objective is to maximise profit and expand rapidly; few exceptions.**
Strategy. From 1992 to 2000-the focus was on Building poor people's institutions –mainly SHGs as a first step*:* -- credit was only one of the inputs and was managed by SHGs. -- NABARD/VOs recognised that there are other critical features of the strategy for poverty mitigation, namely to build self-confidence, a critical awareness and management skills, to promote numeracy and networks; this was provided by the SHGs, which were peoples institutions. Together – in networks or CMRCs - they were also appropriate institutions to influence change in unequal power relations -- SHGs were also equipped with skills to take decisions to deal with diversity (in size, purpose of loans) and to manage	**Strategy:** No investment in building poor people's institutions. -- Priority given to quick provision of credit, based on the assumption that credit alone is sufficient to eradicate poverty. --No recognition that unequal power relations are a major cause of poverty and that most institutions, including the PACS strengthen these unequal relations because they are controlled by families that hold traditional political, economic and social/political power in the village. Hence no effort to build poor people's institutions to trigger change - for

repayment. SHGs emerged as the last mile. Hence: --Priority was given to institutional capacity building (ICB)of SHGs to strengthen them as peoples institutions which could mobilise and mange resources (thru savings and debt),to adapt to diversity of purposes and sizes of loans ,to lobby for change in unequal power relations (social and gender) . --Nabard/VOs provided funds/trainers for ICB and mobilised technical support for effective/efficient use of loans to increase productivity/income and confidence to initiate change at their pace --NGOs functioned as Business Facilitators , they did not manage cash but did ICB Training and overall monitoring; did not get commission and had to rely on donor grants. - Banks provided bulk loan directly to SHGs;, they made a profit but did not profiteer. **Comments.** Our learning was that the deeper the poverty the less is credits the trigger for growth. Other inputs are required to build empowered and independent peoples institutions in order to increase capital at the bottom of the pyramid rather than to extract it.	which grants are required - Strategy dominated by emphasis on rapid expansion of loan portfolio of NBFC/MFI to achieve financial sustainability thru profit maximisation and zero default rate by all means. - No involvement of VOs or people's institutions as trainers; in fact no VOs/Peoples Institutions have any role to play. Govt (NRLM) used SHG members as trainers in a few areas; Myrada which started this model several years ago found that these SHG trainers need regular upgrading and assessment to be effective. The 71 CMRCs promoted by Myrada use SHGs members as trainers but their skills are upgraded by Myrada periodically. -No recognition of (unable to cope with) great diversity in needs related to purpose size and repayment schedule of loans; hence standardisation of size of loans and repayment period. No concern for purpose of loan beyond collecting data on purpose before advancing the loan; analysis showed that the actual use of the loan differed from purpose originally stated. Banks do not provide credit to SHGs; they provide credit to NBFC/MFIs which on lend to individuals **Comments**: NBFC/MFIs achieved success in becoming profitable; this was used by International Institutions as evidence of the success of the second wave – no more grants required. Profiteering (maximising profits) not profit is the driver. - Focus on providing credit only, not to build capital (human, institutional) at the bottom of the pyramid. This model leads to extraction of capital from the bottom of the pyramid which is used to subsidise rapid expansion of NBFC/MFI, to pay high salaries to its staff, write off bad loans.
***2*. Drivers: i) <u>Nabard and NGOs/VOs.</u>** <u>Nabard spread the concept of SHGs and selected VOs to form and train them ; it</u> provided grants for ICB training, lobbied Banks to lend directly to SHGs (even though unregistered) and removed hurdles. -- Nabard conducted regular meetings at State and National levels with Govt. Banks, NGOs, SHG members to remove hurdles in SHG-Bank Linkage program. <u>ii)**BANKS**</u> under Linkage Prog. (started in 1992) provided one bulk loan directly to SHGs**.** No subsidies for the asset (as in IRDP) or for interest rates (as in NRLM). **<u>iii)SHGs</u>** were the major drivers over the "last mile". They decided at meetings whether or not to give loans to individuals and on size and purpose of loans and managed repayments. They also supported training in ICB for empowerment and management skills. They were the facebook of the 80s and 90s	**2. Drivers**: **i)Private NBFCs**--No ICB Training, no savings or group common fund); NBFC/MFIs lend directly to individuals in so-called groups (SHGs, JLS) -- no subsidies provided by NBFC/MFIs **<u>ii)Government of India Programs (SGSY/NRLM)</u>** They did not lend leaving this to Banks as in the first wave but they provided subsidies (for asset under SGSY and for interest under NRLM). --Both SGSY and NRLM promoted their own version of SHGs controlled by Govt and as part of Govt. delivery system. **iii)<u>State Govt. promoted Financial Institutions</u>** (ex. Andhra Pradesh) filled the space created by declining number of direct loans to SHGs from Banks **<u>iv)Banks</u>** prefer to lend to State Finance

	Institutions and NBC/MFIs rather than directly to SHGs. Banks cut down on direct loans to SHGs as the repayment performance declined.
3. Training and activities for *Institutional capacity building* (ICB) of SHGs– The objective of ICB training was to build SHGs as institutions to manage savings and loans to promote livelihoods and to foster change –to enable SHGs to function as the last mile. **Grants** for ICB training were provided by NABARD, Private donors and State Govts starting with Tamil Nadu under an IFAD program in late 1980s. NGOs/VOs were selected to implement Training till 2000-. Training comprised 14 modules over one-two years during which decisions related to regular and voluntary savings and small loans from common fund are used as training exercises. Each SHG was trained separately or at most 2 SHGs together. -- Habit of regular savings was cultivated as part of training for sustainability of institutions. -- If members asked for small loans, SHGs decided to take from common fund. Multiple loans are controlled by SHG. The management of savings, credit and repayment strengthened the institution;it was part of the training. Banks came in with one loan to a SHG after 6- 8 months. **Comments:** Funds for Training in ICB are declining. NABARD no longer gives importance to b building institutions through ICB and a group common fund; over all since SHGs have been reduced to financial intermediaries, the dominant model breaks them up into individuals since loans are given to individuals; they are no longer considered to be instruments of empowerment, or institutions of the poor where they have the space to set their agenda.	**3.Training and activities for ICB of SHGs:** **i)State sponsored Training** :, GOI programs like SGSY provided Rs 10,000 per group. There was no clear concept of the objective of training or the modules. In most cases training was reduced to a one day affair for hundreds of participants or to large gatherings addressed by politicians and officers. NLRM conducted training thru its own institutions at State level but in most States the trainers were inexperienced. Pilot experiments using SHG members as trainers was a step forward to reduce costs, but Myrada's experience which adopted this model since 2000 shows that they need regular back up and upgrading without which the quality of their training declines Besides the NRLM concept of SHGs was that they were part of the Government delivery system –which of course the SHG Trainers did not challenge. They did not foster a critical awareness and the culture of empowering SHGs to set their agenda; they were happy to promote the Govt's agenda. Hence SHGs were no longer peoples' institutions with the freedom to decide and intervene with a larger agenda of their own. -No effort to build a group common fund and to manage it (to lend from it and to mobilise repayment) as part of training before Bank steps in. **ii)NBFC/MFIs**: No investment in ICB training by NBFC/MFI. They find it too long and expensive; no group common fund is built up; - Loans given to individuals directly by NBFC/MFI after a month (or less) of formation. Clients are grouped together only for convenience to disburse loans and collect repayments **Comments:** Training (ICB) of SHGs has to be left to VOs/NGOs as SHGs are part of civil society institutions. If Govt staff train SHGs they reduce them to instruments of Govt.
1. **Location: Largely in rural areas** where NGOs had already promoted development programs (like agriculture, watershed development, animal husbandry, artisans etc.) and peoples institutions. Credit provision was embedded in these development programs and institutions; it was not a"credit only" strategy; the noise about "financial inclusion" today gives the impression that credit alone suffices to raise the poor above the poverty line. In the 1980s we described the objective as "mainstreaming" the poor, which indicated a strategy broader than credit provision.	**4. Location**: NBFCs/MFIs work largely in Cities, towns and peri-urban areas where VOs do not have supporting development initiatives or peoples institutions to optimise the use of credit, open new livelihood opportunities and empower poor people. As a result the majority of loans are used for purchase of jewellery, household goods, for health and education and for urgent needs. These "consumption" loans are repaid by income from other sources; many families for example are engaged in the service sector.

A breakdown of loans given by SHGs promoted by Myrada related to purpose and size is given in Chapter 5 of Part 2.	**Comment**: Many criticise the large part of the loan portfolio which is taken for consumption; I am not so sure, since aspirations are rising daily and have to be met. But the lack of investment in strengthening peoples institutions that can tackle issues related to corruption, exploitation and gender imbalance while at the same time catering largely to consumption, reduces Micro finance to a palliative. If Marx were around he would probably have said that **micro credit (second wave) is the opium of the people.**
5. Selection process of SHG members: **SHGs formed thru self-selection based on relations of mutual trust and support or affinity.** PRA exercises are conducted by VOs to identify poor; all families in the village participate. Once identified, the poor self-select the members of their group on the basis of affinity (relations of mutual trust and support) which existed and is a traditional strength. All members are in same economic category (poor) unlike PACS. ICB training builds on this affinity to enable the group to acquire confidence and appropriate skills to take on new responsibilities(finance management, change in oppressive power relations and in taking up social issues)	**5. Selection process of clients:: Client acquisition mainly through agents/ brokers. Some groups formed by capturing some better off members of SHGs resulting in breaking of SHGs;** NBFC/MFIs focus on aggressive and fast expansion of clients through setting targets for NBFC/MFI field workers and providing them with incentives resulting in weak groups. These targets are often achieved through selecting "Agents" who form a "group" and who control all financial activities and keep records and accounts which Govt & NBFCs require Agents are supported by local powerful people. The Agent also considers herself a semi government employee and often demands salary from the Govt. or commission from the NBFC/MF as is happening in Tamil Nadu.
2. Meetings: Who conducts? regularity, timing, location duration and Agenda **Who conducts meeting? SHG office bearers**. Usually Chairperson is changed for every meeting; participation of all is encouraged; this is the role of the trainer --Regularity**:** Weekly or fortnightly – as group decides. But analysis shows that strong SHGs meet weekly. Loans are not necessarily on agenda of every weekly meeting; repayments are accepted whenever member comes forward to repay; but other issues (social/domestic) are discussed regularly. --Duration: Only one SHG meets at time for 2 to 3 hours. --Location- in a common place acceptable to all --Agenda- Song/prayers, attendance, each member contributes to the agenda; they bring up issues related to health, drinking water problems, domestic violence, caste conflicts, problems with Panchayat and PACS. Follow up action decided. --Collection of savings - -decision on size and purpose of loans to individual members and assessment of repayment performance -- Defaulters handled by SHGs and decisions taken on strategy for recovery.	**6.Meetings:** **Who conducts meeting? In NBFC/MFI sponsored groups, the Staff of NBFC/MFI conduct he meetings** **--** Regularity and timing - as MBFC /MFI decides; --Location: common place .Usually many groups come to same location and NBFC/MFI staff meets one after the other. --Duration: less than half an hour for each group. --Staff of NBFC/MFI attend all meetings since they conduct them --Agenda. Mainly on extending loans and collecting repayments with extra attention to defaulters; staff of NBFC often go to homes of defaulters to "shame" them. Obligation to repay is mainly on the individual client (and NBFC/Staff) not on group. --Size of loans is standardised – so no role for group to decide. -- Purpose of loan –often differs from what the client states to the NBFC/MFI staff and what loan is actually used for. --No social issues discussed or even identified. **In Govt. sponsored programs** (**NRLM**) there is more flexibility. In general, these programs adopt the model of the first wave except for meeting weekly. In most States the groups meet once a month mainly to get loans and make repayments.

	The Agenda in Govt. programs does not provide space or encouragement to trigger social change or to question existing practices. Before long, funds are misused and/or controlled by a powerful group.
7. Savings: <u>Voluntary Savings</u>: SHGs set up by NGOs in 1980s and those that emerged after the SHG-Bank Linkage program took off in 1992 started with Voluntary savings; amount of saving was decided by each group; the objective was to cultivate a habit of regular savings. Savings were placed in the group common fund. -- Studies show that group members increase the amount of savings in the common fund gradually over a few years and that after 3-4 years individual members open personal accounts with their savings in the Bank; they gained confidence in dealing with the Banks as SHG members, since they interacted with the Bank officers regularly when they deposited/withdrew money in the Banks on rotation.	**7. Savings:** No habit of savings cultivated by NBFC/MFIs through regular savings mobilised and no group common fund . -- Loans extended to individuals within a month of contact or group formation.. --Grameen Bank which is adopted as a model by many did not start with savings but introduced compulsory savings in early 1990s (2.5% of the loan amount was withheld and locked in for 3 years) and later voluntary savings. Interest on savings deposited with GB was 9%. Loans were advanced by GB at 20 plus%. By 2000, Grameen was largely recycling to clients their own savings. --Group members are not provided with the opportunity to cultivate relationships with the Banks – which was one of the objectives of the SHG-Bank Linkage program promoted in the first wave; this was considered a first step before they could deal with Banks directly., which experience shows they did.
8. Source of credit: Major source was Banks under SHG Bank Linkage Prog. which started in 1992; one bulk loan credited to group common fund**;** --no subsidies for assets as in SGSY or for interest as in NRLM. **Grants**: VOs and some private donors provided grants to the SHGs common fund on the basis of performance.	**8.Source of credit:** **--**Loans provided by <u>NBFCs/MFIs to individuals;</u> usually standardised in size for all purposes. -No subsidies **Grants/subsidies** Govt. sponsored program provided subsidies for assets as in SGSY or for interest as in NRLM.
9. Loan model: SHG-BANK Linkage model extended one loan from Bank to the group common fund but only after 6 to 8 months of ICB training which included management of savings, loans and repayments as well as other social activities.. The SHG decides purpose and size of loans to individuals, gives importance to utilisation of credit as agreed in the SHG meeting - Loans sizes were not standardised even for the same purpose. **<u>Purpose of loan</u>:** The SHGs were free to advance loans for any purpose and size.Hence the members need not lie at the meetings. Analysis of loan portfolio of individual members of SHGs shows a wide variety of purposes of loans and sizes The VOs who formed the SHGs functioned like Business Facilitators (BFs) but did not get any commission and did not handle loans/repayments. --The SHG members –in rotation –travel to the Bank to deposit savings and to withdraw loans - usually two at a time. **Comments:**. RRBs which were a major source of credit under the SHG-Bank Linkage program have amalgamated into larger institutions which make small loans unviable. I do not expect RRBs to lend less than Rs 10 lakhs in future unless they are free to raise interest rates up to 26% for small loans as allowed by RBI for NBFC/MFIs.	**9. Loan model:** NBFC/MFIs lend directly to individuals who are brought together in a so-called group. The major shift in the second wave was from extending one bulk loan to the SHG (as in the first wave) to lending to individuals. Loans are given often within a week of forming the group. -Loan sizes are standardised by the NBFC/MFI and in Govt. Programs. Every client gets the same amount whatever the purpose may be. This also eases documentation and fits into standard software packages that are taken off the shelf. **<u>Purpose of loan</u>** is recorded on basis of statement given by clients to Staff before loans are disbursed. This gives room for difference between this statement and actual use. When clients are asked before a loan is extended to state the purpose, thy tend to give a reply which they know the lender expects –hence no client will say that they are taking loan to buy earrings which they often end up doing. They know the lender wants them to borrow for income generating activities and will humour them by saying so when asked in advance.

	Comments: Banks are increasingly reluctant to lend directly to SHGs because NPAs have increased and pressure from top management to promote the SHG-Bank Linkage prog. has declined
10. Repayment: model: Key driver is that all members have a social and economic stake in the group. Social, because of relations of affinity and economic, because of the group common fund in which all have invested. The group repays from common fund if cash flow problem arises when the member has a genuine reason for delaying repayment of part or full amount. Amount due to Bank is repaid in full even though SHG may have to dip into the group common fund to tide over a temporary shortfall. **This is genuine joint liability** -- Repayments collected at SHG Meetings and delivered by members (in rotation) to Bank **--**The SHGs, where they are strong, play a role in ensuring that loan is spent for the purpose stated. Since SHGs give loans for all purposes (consumption and livelihoods),there is no need for the member to give false information which they often do when the insistence is on livelihood purposes only. The SHGs are aware of the total income of the family and based on this are willing (or not) to lend for "consumption" purposes. As I said, the SHGs were the face book of the 80s and 90s. However if the SHG is weak this oversight is weak.	**10. Repayment model** : Key driver is Individual liability and NBFC/MFI staff; the group is supposed to exert pressure, but in reality seldom does. Hence the sad picture of 4-5 staff of different NBFC/MFI (who have extended loans to one client) camping in front of the houses of defaulters to "shame them." In the final analysis, Staff of NBFC/MFIs take responsibility since in most cases the over dues are deducted from their salaries and allowances. --So-called Joint Liability Groups have no social basis (affinity) as most of the groups do not self-select their members but are put together by NBFC/MFI. Also these group have no common economic base like group common fund in which all have a stake. -Grameen Bank(GB): had adopted joint liability initially through Solidarity groups which emerged from the people; but GB soon discarded solidarity groups and moved towards individual liability; the reason given: Why should "good members "suffer if some members do not repay. Also the threat that these good members will approach other NBFC/MFIs played a role in this shift. GB always gave loans to individuals even when solidarity groups functioned. The GB Bank Manager made decisions on hundreds of small loans! --Some NBFC/MFIs which operate in cities and towns use e -transfers to credit loans directly to individual clients; in others where the Banks are not easily accessible, the staff collect the repayment amount from the SHG members and carry it to the Bank. These features reduce the cost to client
11. Group common Fund: consists of members regular savings, loans from Banks which are credited to Common fund not to individuals, interest on loans to members (SHGs add 2%-4% to Banks interest rate), fines, contributions/grants, interest on SB account of group common fund. In well-run SHGs these amount to about 40 % of total Common Fund (Loans from Banks are excluded). This is the SHG's net owned fund -Loans to individual members are given from this Common fund after group decides at its meeting. --Analysis of data over 15 years from Myrada promoted SHGs shows that the group common fund increased Y-O-Y, even though the group takes liability for recovery and sometimes has to dip into the common fund when one member cannot repay on time to meet schedule of repayments; this is recovered from the member later.	**11.Group Common Fund.** No such fund is promoted by NBFC/MFIs or by GOI sponsored programs like SGSY or NRLM. --NBFC/MFI/Govt. Programs extend loans directly to individuals – not to the group common fund. --Both the social basis of affinity as well as the economic basis of the common fund in which all members have a stake are lacking. Hence the members have weak social ties and no economic stake in the group. As a result group pressure to manage repayments from defaulters is weak or non- existent.

12. Interest rates on loans from Bank to SHG up to the year 2000 averaged between 9% - 11%. SHGs added 2% to 4% . Total interest on individual members loans -about 13% to 15%. **Comments**: Interest rates are given far more importance as causes of stress than they deserve. The real reasons for farmer's stress are inability to repay the capital for several years due to repeated droughts and the growing gap between input costs which are rising and prices of products which are not rising proportionately, together with loss of face when loans from relatives cannot be repaid	**12.Interest rates***:* RBI has allowed margins (between cost of credit and interest rate on loan) of up to 12% and an overall cap of 26% interest ; most NBFC/MFIs have taken this liberty to levy rates of 26%. This is difficult to justify in rural areas since a single rural livelihood activity does not earn sufficient income to cover this cost of credit and provide a reasonable and regular income. The family in fact undertakes several (4 to5) activities but (as per RBI norms) can avail of formal credit from only two sources. Hence relatives and private lenders fill the gap at high cost. **Comment:**It may be advisable to offer a bundle of 4 to 5 activities managed by the family to the Bank for a loan, rather than to rely on the so-called viability of one loan.
13. Concept of Self Help: In this context self-help does not mean that the poor have to pull themselves out of poverty with their own resources. It means freedom to set up their own institutions (like SHGs or Producer Companys/Cooperatives) and to set their agenda; SELF HELP = OWNERSHIP+MANAGEMENT The pressure to mainstream SHGs (follow the loan management practices of Banks) was avoided thanks to Dr. C. Rangarajan (Gov.RBI) who allowed Banks to advance a bulk loan to unregistered SHGs. This gave the SHG the freedom to manage their livelihood requirements and thus strengthen their independence. A survey conducted by Myrada showed that not one SHG wanted to be registered since they felt it would restrict their freedom and make them vulnerable to harassment by some petty official. However they assured Banks that they would maintain records of meetings, decisions, accounts etc. Hence SHGs could select any purpose and provide loans of any size even for the same purpose. They coped with diversity. For example one member asks for Rs. 15,000 to purchase a buffalo (in early 2000) while another asks for Rs 25,000 to purchase a buffalo of the same quality/milk production. The first has sold a buffalo and hence requires less for the new one. Few members can manage 20 plus 1 sheep which is the viable unit prescribed by NABARD; they can manage only 2. SHG is free to lend accordingly. No Banker has the discretion to differentiate. Both have to take the same size loan for a buffalo and the same number of sheep. Several members take loans to repay high cost loans taken earlier from money lenders. The Banks would surely not sanction these.	**13. Concept of self-help:** The thinking that the poor should (and could) finance their way out of poverty was the underlying ideology of the second wave. This appealed to the international financial institutions who took pride in publishing that they had commercialised micro finance and hence there would be no further need to keep pumping in grants to eradicate poverty which would be relegated to the museum.(ACCION,CGAP) Donor fatigue also played its part. As a result profits were maximised (a shift from making profit by Banks of the first wave to profiteering in the second wave). --Profits also are used by the NBFC/MFI to expand and to pay high salaries and dividends in case of public issue. Donors saw this as an ideal strategy. -- SELF HELP=HIGH PROFITS FOR NBFC/MFIs which did not need grants or further subsidies to be sustainable. -- No initiative to empower the SHG towards self-help thru supporting SHGs to build up a common fund, thru management training, thru confidence building to initiate change in society. Hence the features of self-help of the first wave SHGs were no longer supported. -- In this model, resources are extracted from the bottom of the pyramid, seldom created there. There are examples of a few women who created small businesses, but they already had some experience of the business before they got a loan. The SHG model was geared to people who had no self-confidence to start an enterprise except what their family had been involved in; they had to break through traditional constraints, cope with lack of family support and enter spaces which were hitherto controlled by powerful people and vested interests.

14.Control over excessive and multiple borrowing: In the first wave this control was exercised by the SHGs. They knew each family, its income and debts. They knew if the purpose for which a loan was extended would earn an adequate income and if it would compete with other similar initiatives in the village thereby reducing everyone's income. Hence no SHG extended several loans for shops. As said earlier -the SHG was the last mile. They were really the Facebook of the 80s and 90s. --Today the term the "last mile" usually refers to one way extension of credit (technology can play the major role here). But as described earlier, in order for credit to be utilised to support livelihoods, several other inputs are required. These inputs can only be provided by an institution set up and managed by the people who have a stake in it, which can respond to the diversity in purposes and sizes of loan requirements, which can take decisions in a short time, which do not need to standardise sizes and limit purposes, which has close interaction with the local families and community – what I call "Know your people and community (KYCC) ". **Comment**: **Technology is critical for an institution to function transparently and competitively but Technology cannot create institutions.**	**14. Control over excessive and multiple borrowing:** Credit Bureaux are expected to generate information to help exercise control over multiple lending. But they do not have data on SHG loans and do not capture loans from relatives, friends and money lenders or from informal lending institutions which are increasing in number. --NBFC-MFIs provide only small loans. The average size according to data provided by AKMI (An apex body of All Karnataka Micro finance Institutions) is around Rs 20,000.This is not adequate given their needs; hence they resort to multiple lending -- Agents have emerged who have many ways to circumvent Credit Bureaux. For example, Agents access loans on behalf of several women. Each loan amount is Rs 10,000 but the agent gives them only a small part. However the KYC data which the Credit Bureaux capture is in the name of each of the borrowers for a loan of Rs 10,000.The agent then disappears, leaving the others to face the pressure to repay. The emergence of the agent especially in the north is a major factor. The objectives of the Credit Bureaux are achieved but in a limited way. **Comment**: The Credit Bureaux need to conduct far more field surveys than they do as soon as they capture the first signs of potential problems – Sa-Dhan is moving in this direction. Cannot the Credit Bureaux outsource some of these surveys to State Associations which are functioning well like AKMI? .

There is one major difference between the SHGs formed prior to 2000 and those afterwards which I have not included in the above. Those formed before 2000 had the confidence to trigger change in the social sphere (I have given several examples in Part 2 Chapter 3 like Change in Gender relations) and to influence change in the political sphere. As regards the latter, I have given an example of how the SHGs in the Myrada projects organised to put up and elect their candidates in the Gram Panchayat elections in the mid-nineties. To recall, in two projects (Chitradurga and Kamaamudram) 78 members of SHGs were elected. I did not have details from other projects where SHG members also stood for elections. Besides when leading politicians from the party in power in Karnataka attacked Myrada in the mid-90s, it was the 18,000 SHGs in Myrada projects that decided to go against this party in the State elections. I have referred to this experience in Part 2 Chapter 3 . There are several examples where genuine SHGs which still exist in some pockets took a stand in certain areas in Maharashtra where some local politicians, in an attempt to gain publicity, had started inciting SHGs not to return loans. Unfortunately for them the SHGs decided to call the politicians bluff. Similar experiences did not emerge with the groups formed after 2000. In fact some eminent economists expected the groups which received loans from NBFC-MFIs in Andhra Pradesh (all belonging to the post 2000 model), to rise up against the Governments action in 2010 to curb NBFC-MFI activities albeit on disputed grounds. Nothing like this happened. Obviously the groups did not have any stake which they considered worthwile

fighting for. The lesson we learnt is that micro finance will always have to cope with political pressure to waive loans; this has happened in the past and will continue to happen. The only countervailing pressure that can cope with political interference has come from strong SHGs since they have a stake in the program. They are linked by relations of affinity and have a common group fund in which all have invested. They own the institution which controls the last mile.

Where do we go from here? I believe that the SHGs of the first wave and the strategy adopted in the 80s and 90s will revive, because the role of institutions in development and progress is being increasingly appreciated. As far as credit institutions are concerned, SHGs of the first wave are similar in some ways to the Vishis of Gujarat, Bishis of Maharashtra and Chit funds in Tamil Nadu - all are based on peoples strengths; all required a trigger. These people's institutions however are usually not of the poor who are the members of the SHGs. They do provide a service by enabling their members to access a lump sum when they require it. In the case of SHGs their inherent strengths include their affinity, traditional habit of savings, willingness to give up some consumption good in order to save. The Voluntary Organisations (VOs) have built on these strengths through ICB, since the SHGs were taking on new responsibilities which required new skills. What is however required is a supportive environment which takes into account the following: i) Government programs like NRLM should avoid promoting and training SHGs; they reduce them to cogs in the delivery system. SHGs are civil society institutions .The most appropriate institutions to promote them are the Voluntary Organisations or NGOs not the Govt. My advice to Govt. is " Leave them alone"; ii) adequate funds need to be allocated for training in Institutional Capacity Building so that the SHGs are able to develop their own agenda; iii) Voluntary Organisations should be encouraged to promote and train SHGs in States where strong SHGs of the first wave have not emerged; iv) continuation of the SHG Bank Linkage program where one bulk loan is given to the SHG; this could co-exist with the NRLM strategy of subsidising interest which can be credited directly to the borrowers account under DBT mechanism; v) Support the building up of second level institutions like Producer Companies/Cooperatives in a much bigger way than at present.

Bangaluru

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