MYRADA

Rural Management Systems Series
Paper – 44

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The History and Spread of
The Self Help Affinity Group (SHG or SAG) Movement In India

The Role Played by IFAD

Paper presented at the Asia Micro Finance Forum

Beijing Workshop March 21-23, 2006

(Modified)

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The History and Spread of The Self Help Affinity Group (SHG or SAG) Movement In India

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This paper traces the origin and progress of the SHG movement in India from 1985 till March 2006 and on the role NGOs, NABARD, Banks, IFAD & Government (listed in order of entry) played in promoting the SHG movement in India since 1985. Since this paper has been written on request from IFAD[1], it focuses more extensively on IFAD's role. It includes official data from the NABARD on the SHG-Bank Linkage Programme which started in 1992 as this is perhaps the only reliable source on the progress of the SHG movement; this data understandably focuses on financial management and loans for livelihoods while the SHG movement is equally an instrument for empowerment of the poor and marginalized sectors. Though many case studies on the role that SHGs of the poor have played in initiating change in social, political and economic relations are available. Unfortunately, to do justice to this dimension would make this paper too long. In a way the strength of numbers which dominates the financial sector lies in their perceived objectiveness and definitely on their brevity – this partly explains why the financial dimension of the SHG movement gets reported more extensively. This paper does NOT refer to the recent origin and growth of Micro Finance Institutions in India which includes NGO-MFIs, Companies, Trusts, Registered Societies, etc. – this is another story.

1. The Early Years: Self-help Affinity Groups first emerged in Myrada in 1985. In 1986-87 there were about 300 SHGs in Myrada's projects. Many had emerged from the break down of large co-operatives that Myrada had organised[2]. In areas where the Cooperatives broke down, several members approached Myrada with the request to revive the credit system. They usually came in groups of 15-20. When reminded about the loans they had taken from the Cooperative, they offered to return them to Myrada but not to the Cooperative which, in their experience, was dominated by a few. Myrada staff suggested that they return the money to themselves – in other words to the members who had come in a group to present their case to Myrada. After some hesitation they decided to sit together. Myrada staff

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1 IFAD – The International Fund for Agricultural Development is a specialized agency of the United Nations and is based in Rome. It extends loans at extremely concessional rates and supports projects in marginal, upland, dryland, remote and neglected areas. As on March 01, 2006 it has supported 19 projects in India. Currently, 7 are in progress and one is to be signed shortly.

2 Others emerged when people were motivated to perform a common activity like building a protective trench around their fields or desilting a tank –in such cases, when left to organise themselves, the formed groups based on affinity among the members

realised that they would need training on how to organise a meeting, to set an agenda, to keep minutes, etc. Efforts were made to train the members in a systematic way. On analysis, it emerged that the members were linked together by a degree of affinity which was based on relations of trust and support; they were also homogeneous in terms of income and often of occupation (like agricultural labourers) but not necessarily. Caste and creed played a role, but in several groups affinity relations and economic homogeneity were stronger; as a result several groups had different caste and creeds.

From the time the first SHGs emerged in 1985 in some of Myrada's[3] projects to the inclusion of the SHG strategy in the Annual Plan Document of the Government of India in 2001 (and subsequently in every annual Plan thereafter) as an important component in the overall thrust to mitigate poverty, several important steps were taken by NABARD, RBI and leading NGOs as well as by multilateral agencies, particularly by IFAD. This period of 20 years, can broadly be divided into two phases:

2. Phase 1 from 1987 to 1992: This phase is largely left out from all studies made in the recent past. Dyring this phase, the focus of NABARD was on supporting NGO initiatives to promote SHGs and on analysing their potential and performance,. The year 1987 is important since it was the year when NABARD (in response to a proposal from Myrada submitted in 1986) first put funds into the SHG (SAG)[4] movement. In 1987 NABARD (based on Myrada's experience in promoting SHGs since 1985), and thanks to the initiative of the then Chairman, Shri P.R. Nayak, provided Myrada with a grant of Rs.1 million to enable it to invest resources to identify affinity groups, to build their capacity and to match their savings after a period of 3-6 months. Based on the feedback of this initiative NABARD launched an Action Research Project in 1989 in which similar grants were provided to other NGOs. Based on an analysis of this action research, and due to the efforts of NABARD Chairmen and Senior management, the Reserve bank of India accepted in 1990 the SHG strategy as an alternate credit model and NABARD came out with guidelines (in 1991) to support and give a framework to a strategy which would allow Banks to lend directly to SHGs. Based on these

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[3] MYRADA is a large NGO with 487 staff working directly with 1.5 million poor; "Building poor people's institutions" is its short mission statement; it manages 15 major projects in three Indian States and has major involvements in 3 others where it has deputed staff to Government or conducts regular training and visits; its major activities are promoting self help affinity groups, watershed, water and wasteland management, forestry, community management of sanitation and drinking water, housing and habitat, improvement of primary school education, technical skills for school dropouts, micro enterprise generation, preventative health care, a major HIV/AIDs prevention programme; it started an MFI called Sanghamithra which lends exclusively and directly to SHGs; besides, it is involved with bilateral and multilateral organisations in Myanmar, Cambodia, Indonesia, East Timor, Vietnam and Bangladesh largely in promoting the self help group strategy and participatory approaches to natural resources management; website: www.myrada.org)

[4] When these affinity groups emerged in MYRADA projects in 1984, largely as a result of the cooperative societies organised by MYRADA, in its rehabilitation projects breaking down, they were called Credit Management Groups. The focus was on the management of credit rather than on its provision. When MYRADA entered into an agreement with NABARD to launch the R&D initiative related to these groups – NABARD provided MYRADA Rs.1 million in 1987 for this purpose – the name was changed to Self-Help Groups. However, MYRADA continued to stress that the members should be linked by affinity (mutual trust and support) and not because they were eligible beneficiaries. After 1999 when MYRADA realised that SHGs were being promoted without any concern for affinity and with little or no training to build their institutional capacity, MYRADA changed the name of the groups it promoted to **Self-help Affinity Groups or SAGs**. In this document the term SAGs will be used throughout, except where it refers to "SHG-Bank Linkage Programme" of NABARD and in quotations.

initial experiences the SHG-Bank Linkage Programme was launched in 1992. This is the second phase, which is described below. Ever since then NABARD on the basis of its extensive network of officers has promoted and monitored the SHG programme, provided funds for capacity building and innovations and helped to change policy to create an enabling environment for it to grow.

This paper will not focus on Phase l since IFAD was not involved in the SHG strategy at that time. However, a parallel development materialised during this period which involved IFAD. When the Women's Empowerment Project, an IFAD supported Project, implemented through the Tamil Nadu Women's Development Corporation was grounded around 1990, Myrada was asked to play a lead role in Dharmapuri District. This project with modifications in the original design introduced the SHG model in a State sponsored programme. The Indian Bank also took the decision to extend credit to the groups even before the SHG Bank Linkage was launched. As a result, this project was the first to incorporate the SHG strategy in a major State supported project. This experience also contributed to the initiatives taken by NABARD to shape policy related to micro finance models which resulted in the SHG-Bank Linkage Programme that was launched with a pilot project in 1992.

3. Phase II from 1992 onwards: In 1992 NABARD launched the SHG-Bank Linkage programme. This started with a 2-year Pilot project to link 500 SHGs which is referred to in subsequent literature as the Pilot Project. It was indeed the Pilot of the SHG-Bank Linkage programme, but not of the SHG movement. with which NABARD became involved in 1987. Without this investment in 1987, the SHG movement would not have had official recognition and ownership. The SHG Bank Linkage Programme took some years to take off, but has galloped along since 1999 thanks to unstinting support from the Reserve Bank of India, Governments of India and of several States, notably Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka and supported strongly by thousands of NGOs and the banking sector, as well as by Multilateral Agencies notably IFAD. This paper focuses on the progress of the SHG movement as reported by official documents which, understandably, highlight the SHG-Bank Linkage programme.

Though it is difficult to verify, reports indicate that (in March 2006) there are about three million SHGs in India. Of these, about 1.6 million are linked to Banks. Since the NABARD (National Bank for Agriculture and Rural Development) report which provides data on the SHG Bank Linkage programme is an official publication into which NABARD has invested much work and care, it will be used as a reliable source of information with the following clarifications. The NABARD report provides information only on the 1.6 million SHGs/SAGs linked to banks. Its data covers cases only where re-finance is asked for by the Banks. In many cases where Banks are flush with funds or can mobilise funds at lower rates of interest, this refinance may not be asked for. Understandably, it focuses on financial management of SHGs.

However the SHGs are also an instrument of empowerment of the poor and marginalized sectors. They have proved to be an effective instrument to change oppressive relationships in the home (gender and tradition related) and in society - especially to change those relations arising from caste, class and political power which have made it difficult for the poor to build a sustainable base for their livelihoods and to grow in a holistic manner. It is because of this social impact that Myrada has pointed out that the SHG movement does not focus on the provision of credit; rather it focuses on the **management** of savings and credit. It is the experience of managing finance (savings and credit) which gives the poor the confidence and skills to initiate and manage change in society. The SHG movement arises from the belief that it is not enough to teach people to fish when they cannot reach the river; there are hurdles (class, caste and political) in their way which the SHGs have proved capable of overcoming. NABARD has also financed case studies which focus on these social issues and the change that SHGs have been able to initiate.

3.1 The SHG-Bank Linkage Programme: This Programme which is the major component of the SHG movement on which official data is available started in 1992; it gives a reliable overview of the progress of the SHG movement in India. One can assume that the majority of the well functioning SHGs have been advanced loans by the banks**;** however, this may not be the case in parts of the country where the Banks have been slow to initiate this linkage**.**

By March 2005, the SHG-Bank Linkage programme has provided credit to 1,618,456 SHGs with a membership of over 24 million poor families or about 120 million poor people **making it the largest micro finance initiative in the world**. There are, however, many more SHGs in India than those to which banks have advanced loans. Many Banks have lent to SHGs but not asked for NABARD's refinance; hence these linkages are not reflected in NABARD's data. Many of the SHGs which are functioning well, have not approached Banks for their own reasons – some, for example, have adequate savings and grants provided by NGOs to meet their requirements. In some areas Banks are located too far away from the SHGs. A number of SHGs are still too young to access Bank loans while others are functioning poorly and are not eligible. Hence the number of SHGs is greater than that reported in the NABARD document; Reports indicate that they number around 3 million including the good, average and the bad.

The following tables provide data on the SHG-Bank Linkage Programme, Source**: NABARD's Annual Report on the "Progress of SHG-Bank Linkage in India (2004-2005**)"
Table 1. SHG Coverage-All India

❖	Cumulative number of SHGs financed by banks upto March 2005 (since 1992-93)	1,618,456
❖	Number of poor families who have accessed bank credit upto March 2005 (since 1992-93)	24.3 million
❖	Estimated Number of poor people assisted upto March 2005 (since 1992-93)	121.5 million

Table 2: Bank Loans-Amount in IRs

❖	Cumulative bank loans disbursed to SHGs upto March 2005 since 1992	More than Rs.68 billion
❖	On-time repayment reported by participating banks	Over 95 percent

Table 3: Outreach during the year 2004-2005: This helps to provide a clearer picture of what level of outreach (in terms of forming new SHGs and financing them) can be achieved in a year.

❖	Number of new SHGs formed by formal agencies during 2004-05	352,575
❖	Number of new SHGs formed by NGOs during 2004-05	716,122

❖	Number of new SHGs financed by banks during 2004-05	539,365
❖	Number of existing SHGs provided repeat finance by banks during 2004-05	258,092
❖	Number of poor families accessing bank credit Including repeat finance during 2004-05	11.2 million
❖	Estimated number of poor people covered during 2004-05	56 million

90 percent SHGs comprised only women members

Table 4:
Amount of Loans disbursed by Banks to SHGs during 2004-2005

❖	Bank loans disbursed to new SHGs during 2004-05	Rs. 17,266 million
❖	Repeat loans disbursed by banks to existing SHGs during 2004-05	Rs. 12,676 million
❖	Increase in credit flow to SHGs over the previous year	61%

Table 5: The following Table however shows that the Linkage Programme really gained momentum during the past five years. From 1992 to 2001 the progress was slow

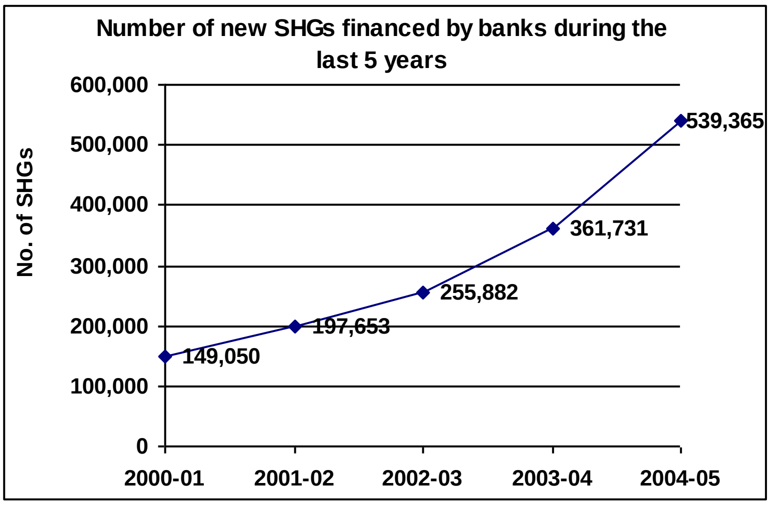
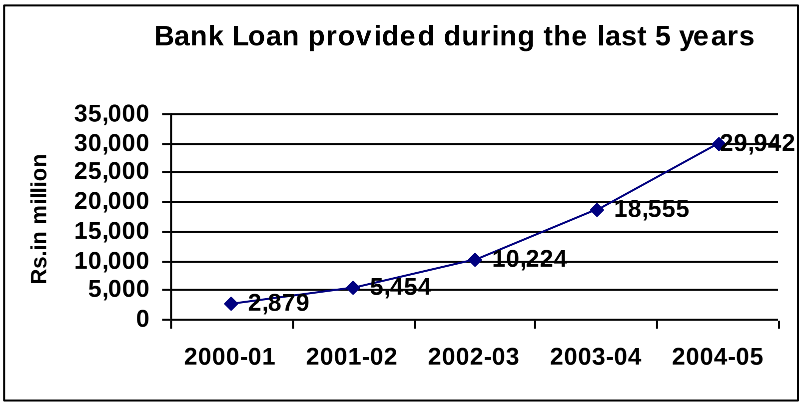


Table: 6



Note: The above table does not project a true picture of the total credit that has been loaned by SHGs to its members for two reasons: a) The common fund of each SHG from which loans are given to members includes not only loans given by Banks but also the savings, interest earned etc. To illustrate:

A break down of the total common fund (as on Dec 31,2005) - of the 9715 SHGs in Myrada's projects – gives the following picture: total common fund- Rs 1126 million, of which Rs 513 million is savings and Rs 485 million is the interest earned by the SHGs on lending, the remaining Rs 128 million consists of Bank loans, fines and contributions and b) many Banks which have extended loans to SHGs have not claimed refinance from NABARD; many Banks were flush with funds and could access funds at cheaper rates. Therefore the total credit from SHGs to its members will be far higher than the total amount lent by Banks to SHGs.

4. The SHG Contribution to Agriculture/On-Farm Credit: The largest number of loans given by SHGs to its members is for agriculture and on farm related activities[5]. **A survey of IFAD's projects where the SHG strategy is adopted indicates that these loans for agriculture do not find a place in the reports on these projects which IFAD management/evaluators produce. These reports provide data only on the amount budgeted for agriculture in the annual plans and budgets and on the amount spent. There is no data o the loans given by SHGs for agriculture, since this is not a budget line expenditure. In fact an analysis of the purposes of loans given by SHGs in several IFAD supported projects in India indicates that the number (and amount) of loans given by SHGs for agriculture is several times higher than what is budgeted for agriculture under a line item in the annual Plans.**

It may be useful to compare the SHG contribution in this sector with the over-all performance of Government programmes promoting agricultural credit through the formal sector (Banks and Cooperatives) other than through the SHGs. The 59th round of the NSS Survey reveals that only 27% of the total number of farming households took credit from the Formal Sector (Banks and Cooperatives)-this does not include the SHG route. The NABARD reports (Table 6) indicate that between 2000 and 2005, Bank loans to SHGs increased from Rs.2,879 million to Rs.29,942 million. The table indicates an increase of around 90% year on year for the first three years, 82% in 2003-2004 over the previous year and 61% in 2004-2005. This compares very favourably with the annual increase of credit from the formal sector to the agricultural sector which is around 15% year on year (with the exception of 2004-2005 where it jumped to 32% due to Government pressure). The macro picture also creates cause for concern. For example recent surveys have shown that the capital formation in agriculture as a proportion of total growth in capital formation has fallen from 9.4% in 2003-2004 to 8% in 2004-2005. Both the public sector (which contributes around 30%)and the private sector (which contributes around 70%) seem to be reluctant to invest in agriculture.

As for the latest National Annual Plan, (2006-07) there is a budgeted increase of Rs.9000 million for the Ministry of Agriculture and Rs 210 million for the Ministry of Agro and Rural Industries About 90% of these budgeted amounts go towards revenue expenditure (running costs). The Annual Plan seems to continue to place its bets on reducing interest rates as a major contribution to the farmers. (Short term rural credit up to Rs.300,000 will now be provided at 7%). This is more a political statement than an answer to the real situation on the ground. It has long been proved that farmers are willing to pay up to 15%

[5] An analysis of the purposes of loans given by the SHGs to their members in Myrada's projects shows that 42% of the total number of loans are invested in agriculture related activities (including purchase of inputs, land development, repaying high cost loans to money lenders and redemption of mortgaged assets mainly land and trees) and 20% for non-farm activities like trading, cottage industries and petty businesses. The remaining loans go for essential needs for which they would have borrowed from private moneylenders at exorbitant interest rates; these essential needs include food, education, housing, health and sanitation (mainly toilets). Unfortunately the break down of purposes of loans given by SHGs which are linked to Banks in the country is not available.

interest instead of the high interest rates levied by moneylenders (over 50%). What they need however is ready access to credit and to quality inputs; they need assurance that the prices that they will get for produce will cover costs and give them a reasonable profit (in fact the opposite has happened, for example - the price of cotton has fallen by over 30% during the past 5 years in Maharashtra while cost of inputs has doubled) and an effective procurement/marketing system and working Cooperatives and financial institutions. In fact it may be a better strategy to do away with short term credit for agriculture especially in dry land areas where there are two good crops in five years; all agricultural credit should be repayable over 3-5 years; the pressure on farmers to repay both interest and capital within a year is what causes distress; paying interest alone would not be a problem.

This clearly shows that the SHG channel records the highest growth rate among all initiatives that seek to make credit available to farmers for agriculture and related livelihood activities. Given that the SHG members are all poor (may not be the poorest …but that is another story), it is clear that the contribution of the SHG model to the poor farming community for agriculture and related livelihood activities has been the highest among all such vehicles which comprise the strategy to reduce poverty.

5. The Major Reasons Which Contributed to the Rapid Spread of the SHG Movement are the following:

- <u>There are thousands of promoting institutions involved</u> – Government, Banks and NGOs – not just one or two institutions with ambitions to grow large. For example in 2004-05 there were **573** Banks (Commercial Banks, Regional Rural Banks and Cooperative Banks) lending to SHGs through **41,323 Bank Branches**. Many of them are also promoting SHGs. Further there were **4323 NGOs** and other agencies involved in training and mentoring SHGs. This massive network of institutions supports the SHG movement each in its own way. (This large number of diverse institutions also had its weakness which will be mentioned below).

- <u>There is large investment in the capacity building of SHGs</u>: This investment comes from Private NGO Donors, Multilateral Agencies like IFAD and some Bilateral Agencies, from NABARD, SIDBI and State Governments. Capacity building is largely done through NGOs. The main role of the NGOs is to identify affinity groups and build their institutional capacity. Identifying affinity groups requires close rapport with the village. It is normally done by first using participatory methods through which people identify the poor, conducting a short session to explain the meaning and need for affinity as the basis for group formation and then leaving the poor who are identified to form their own groups. Affinity exists before the NGO enters; it is the NGOs role to identify it and to build on it, not to destroy it as is being done by some Government programmes which provide subsidies at different rates to Scheduled Castes and Scheduled tribes even though they may be in one SHG and by some MFIs which break up good SHGs into Joint Liability Groups or extend loans to individual members in a SHG – without a consultative process with the groups. Once an affinity group has been identified, a major training programme is scheduled which includes at least 23 modules spread over 1-1/2 years. The modules are given in the footnote[6].

[6] The Capacity building modules include: 1. A structural analysis of Society; 2. Analysis of Local Credit Sources; 3. Self-help Affinity Groups – A concept; 4. How a meeting of the Community Based Organisation is conducted; 5. Communication; 6. Affinity; 7. Vision Building; 8. Organisational Goals; 9. Planning Resource Mobilisation, Implementation, Monitoring & Evaluation (PRIME); 10.

- Training and Exposure for Bankers was provided: Hitherto Bankers were accustomed to assess proposals submitted by individuals under anti poverty schemes like the Integrated Rural Development Programme (which incidentally could claim to be the first micro finance programme since it started in 1980; this was relatively easy since the unit costs and project profiles for each activity or asset were standardised. Now they had to be trained to assess SHGs as institutions. This training was supported extensively by NABARD.

- Acceptance of an alternative model instead of mainstreaming: The official system accepted an alternate model (namely the rules and regulations adopted by each SHG related to size and purpose of loans, interest and repayment schedule) without imposing its own practices and standardising the SHGs functions. The official system provided guidelines and a framework but did not attempt to standardise SHG functions (for example that loans should only be for assets) or impose its own norms and procedures related to interest rates and repayments schedules. This acceptance of an alternate model is a crucial feature of the SHG model. For example a) RBI changed policy to allow the Banks to lend to SHGs even though they were not registered, provided they functioned well. (Incidentally, SHGs refused to be registered since they claimed that they would be vulnerable to the machinations of a petty government official); b) Banks were allowed to lend to SHGs without asking for the purpose for which the SHG would on lend to its members. This data had to be collected later, after the SHG had met and taken these decisions. This is a distinguishing feature of the SHG model and cuts down on the transaction costs of Banks which are largely incurred on writing up each individual loan proposal, carrying it to a Bank, assessing it, etc. Other group based micro finance models lend to individuals in groups; they adopt the joint liability model with local variations, but all loans applications are in the name of individual members which are finally approved by the Bank branch. In the SHG model all decisions regarding purpose and size of loans, interest and duration of loan are taken within the SHG. This requires that SHGs function well and that they are assessed as institutions before loans are given[7].

- Regular feedback was obtained by NABARD: Based on this feedback new procedures and policies were introduced by RBI and NABARD; similarly, several in depth analyses and process documentation studies were made by these institutions. **The SHG programme is perhaps the only one which has been fortunate to have the sustained support of a government financial institution namely NABARD over a period of 20 years**. NABARD made every effort at National, State and District levels to collect feedback, analyse progress, remove hurdles, provide funds for training, and persuade Banks to increase their coverage. It also made efforts to extend the programme to the more neglected and remote parts of the country. NABARD achieved this through its wide network of offices and field level officials who took up the challenge.

Rules and Regulations; 11. Responsibilities of Group Members; 12. Book-keeping and Auditing; 13. Leadership; 14. Conflict Resolution; 15. Collective Decision Making; 16. Common Fund Management; 17. Self-Assessment; 18. Group graduation. 19. Linkages with other Institutions; 20. Building Credit Linkages; 21. Federations; 22. Credit Plus; and 23 Analysing Gender Relations in the Family and Community.

[7] A list of criteria to assess SHGs as institutions was prepared by Myrada early in 1990 as a result of experience gained in the IFAD sponsored project in Tamilnadu; it was shared extensively through Rural Management Systems Paper No 15. NABARD prepared a list of criteria based on this and from others.

- Several state governments followed up and continued the SHG programme after the initial IFAD supported Project ended. This is mainly due to IFADs concern to involve local Governments in the design and implementation and to foster local ownership throughout the project period.. IFAD's contribution which played a major role in many of these projects will be described in greater detail later in this paper. Tamil Nadu, Maharashtra and Andhra Pradesh are good examples.

- The Central Government sponsored **SGSY** Programme which was well designed but poorly implemented provided about Rs 10,000 for capacity building of each SHG. Myrada's experience indicates that it costs between Rs.8,000 to Rs.12,000 to train and mentor each SHG depending on the location of the SHG and experience of the NGO. This includes training and mentoring for at least 2 years. Mentoring involves visits of NGO staff to SHG meetings and regular guidance.

- In spite of pressure from international financing institutions (both private and multilateral) to adopt micro finance models in vogue in other countries which replicated the banking system and focused on credit provision, <u>Indian Financial Institutions and most NGOs persevered with the SHG model which gave the SHGs a broader role than management of credit</u>. This perseverance, in spite of criticism from major Institutes with experience in South America and elsewhere, is one reason why the SHG model spread. There are several reasons given (explicitly and implicitly) by multilateral organisations including the World Bank, why the SHG model has not been accepted by them. The reasons given for this lack of acceptance include the following: The SHG model did not conform to the Grameen Bank Model which the World Bank supports strongly; it does not draw a clear line between social and economic matters; it is not managed professionally by NGOs; it is not sustainable as a financial model, it mixes up subsidies and loans, financial analysts did not feel comfortable with unregistered groups managing credit, SHGs only provide loans for consumption smoothing not for income generation etc.

  It must also be pointed out that the SHG model started in India without any support from major Financial institutions based abroad who therefore could not take ownership. The Micro Credit Summit consistently refused to recognise the SHG programme in India and to in- corporate the SHG members in its portfolio of achievements. Interestingly, last year when the Micro Credit Summit realised that it would not be able to achieve its target of reaching 100 million beneficiaries, it decided to add the Indian SHG membership to its portfolio. It then wrote to several Indian institutions asking them to be partners. It is the initiative of Indian NGOs supported by NABARD and the RBI that helped to promote this Indian model. Many, especially among the NGOs and the Banks, took it up as a challenge to promote the SHG model and resisted the pressure to accept models and systems which would have to be imposed on all the SHGs, thus restricting their freedom and their potential to become instruments of change. Apart from IFAD which has a policy to recognise local initiatives and to build on them, the only other institution based abroad which supported the SHG Bank Linkage Model in the early years was the Foundation for Development Cooperation based in Brisbane Australia. This Foundation devoted a large part of its limited resources to persuade Indian Banks and other institutions to realise the significance of this model.

- SHGs have the potential to sustain themselves financially and organisationally: Experience proves that SHGs can sustain themselves after the initial investment required to build their institutional capacity. It must be noted that SHGs are not primarily financial institutions or financial intermediaries as commonly understood though they are often reduced to this function. Yet they have proved to be capable of managing savings, credit risk and default. The roles of the SHGs, NGOs and MFIs/FIs involved are often confused. To clarify these roles, Myrada has projected the following scenario for several years. The process of SHG formation requires activities that can be divided broadly into three groups: i) identification of an affinity group. This requires experienced NGO staff and does not pay for itself; ii) institutional capacity building; this requires several training models; 23 have been listed which can be done in 14 sessions. This training has to be subsidised; it costs between Rs 5000-Rs 10,000 per group. This investment in capacity building (training in management and livelihood skills, basic numeracy) must be made by various institutions initially as grants. Non-formal education must go beyond just literacy if it is to provide a basis for livelihoods. IFAD to its credit has included this investment in all its projects in India (and in some other countries like Indonesia) since 1995; and iii) – the “loaning activity” which includes visits to the SHG, assessment, etc. The cost of this activity can be covered by the MFI/FI within 3-4 years. In Sanghamithra’s case (a not-for-profit MFI set up by Myrada), it took three years. The first two sets of activities must be handled by an NGO or a good promoting institution; the third by the MFI/FI. After breaking even, Sanghamithra invests its surpluses in the first and second set of activities. A MFI which is Not- For Profit is more easily able to make this investment. With this support from the MFI/FI and the Apex institutions that the SHGs promote, SHGs have survived long after a particular project ended.

To conclude this part, it is useful to record that Myrada insists that MFIs/FIs should extend credit to SHGs only in the context of over all development (livelihoods, support services, natural resource management) which could be spearheaded in the area by an NGO or by Government. Providing credit in remote areas where the economy is stagnant or based on barter will not achieve much. In fact Myrada which is now well know for its major investment in watershed management covering over 200,000 has of drylands, went into watershed management in a major way only when it realised that the SHG members were borrowing for dryland agriculture. Therefore it was Myrada’s responsibility ~~is~~ to lessen the risk of their investment through its projects in watershed management. The same holds true for Myrada’s thrust to establish marketing and communication links. It is to the credit of IFAD that it includes in its project design a major investment in natural resource management including watershed management as well as marketing and input linkages.

6. Features which weakened the SHG Movement

There are also certain features which have undermined the strength and effectiveness of this initiative to promote the SHG movement; as a result there are several areas where there has been good growth in the number of SHGs but their quality is poor and many are collapsing as a result: the major features which have weakened the movement are the following:

- <u>Government recognition of an initiative</u> (and its mainstreaming as part of official policy) is often pursued by NGOs as an indicator of success, <u>but it is always double edged</u>. On one hand it provides the thrust required to expand the initiative rapidly, on the other it is vulnerable to the usual Government pattern of management namely, high (and often unrealistic targets), predetermined criteria to identify beneficiaries and form them into groups without assessing the affinity among the members, and, perhaps more significantly, the pattern of Government programmes which (since they do not offer subsidies for some castes even though the family may be poor and a member of the SHG and further provide different subsidies for castes and tribes) tend to further separate each caste or community (like Scheduled Castes-SCs from Scheduled Tribes- STs) even though many SHGs comprise members from these groups since they do have a degree of affinity which cuts across caste/community and religious borders.

For example this writer had the opportunity to meet with a SHG which had both SCs and STs as members; they were united by a degree of affinity which cut across caste and community. The Government officer who was also present offered to provide subsidies if the group took a loan. However, since the subsidy for the SCs was different from that of the STs, he asked them to break up the SHG into two groups (SCs and STs). They refused.

- Unfortunately even where adequate sums were budgeted for capacity building, the Government Departments implementing the programme used these funds, not for training SHGs but for other purposes (like organising large gatherings with a political agenda, or funding infrastructure of training institutions which did little work). Funds for capacity build of the whole SHG were often used for training only the SHG leaders and not the whole SHG. As a result the institutional capacity of the whole group did not improve. The gap between the leaders and other also tended to increase which is not a healthy development.

- Assessment of the performance of SHGs is critical for the growth of an institution. In fact the centrally sponsored SGSY programme made provision for this, but the follow up required to identify~~ing~~ who should do this assessment and the methodology to do it was not undertaken. As a result in no State was this assessment taken up. The criteria used to assess the performance of SHGs were prepared by several NGOs; the assessment format was vetted and published by NABARD. But the administration did not seem to have a clue how to go about it.[8]

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[8] The major criteria were the following:

- The SHGs had an name and recorded membership;
- They changed their leaders regularly;
- Books - (minutes of meeting and accounts) were maintained and audited;
- They fostered the habit of saving (by giving up some non essential consumption expenditure) and adding the amount weekly to the groups common fund,
- They lent from their savings for at least 6 months prior to receiving a Bank loan;
- They received adequate institutional capacity building training and mentoring;
- The common fund of each SHG was analysed to ascertain whether it comprised regular savings and whether loans were given regularly (the amount of interest was used as an indicator), whether fines were levied for dysfunctional behaviour (this related to discipline in participating in meetings and in finance management); evidence of fines was taken as a positive sign that discipline was given importance.
- Apart from these financial indicators, the SHGs were also assessed whether they had taken action to foster change to promote better gender relations, whether they had given priority to education, especially of the girl child, whether they had taken action to reduce wasteful expenditure especially by their husbands, whether they had mobilised to promote equity and whether they had lobbied Government and the Panchayat Raj Institutions for better services and more transparent management.

Unfortunately in several programmes launched by the Central Government and some of the States, these criteria were not applied before Banks were asked to give loans.

- The target approach adopted by government to form SHGs and to provide them with subsidies/grants is accompanied by a serious lack of understanding of the importance of investing in institutional capacity building of people's institutions which takes time and is undermined by grants. It includes identifying an affinity group, providing training to the whole group and finally mentoring it over 2 years. In many Government driven programmes, this period of formation and strengthening is cut short or totally left out since the targets in terms of numbers and disbursement of grants have to be achieved. As a result groups are formed without any participation of people to identify the poor and those linked by affinity and in many cases grants and subsidies from Government are given to these groups within a month of their formation. (*For example under the Stree Shakti programme, (a Karnataka State sponsored programme based on SHGs) there were many cases where a grant of Rs 5000/- was given to each group formed under this programme without adequate training or assessment. In fact the design of this programme in the late 1990s which included a grant component went contrary to all the previous experience gathered over 10 years which showed clearly that SHGs did not need grants; on the contrary the rush to give them grants weakened the groups which people formed in many cases for the sole purpose of receiving this grant; experience showed that they disband or seldom meet thereafter. Provision of grants in the SHG programme is driven more by political imperatives than by any concern for genuine development of the poor. NABARD has repeatedly expressed its reservations about providing grants.*

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

- The practice of the bureaucracy to use the SHGs to implement state sponsored programmes; this flows from the culture that these SHGs are the final link in the delivery chain and not institutions with a mission and programme of their own. (*One state sponsored programme announced that it has promoted about 50,000 SHGs; field visits showed that they had little or no capacity training and were nothing more that Government outlets for the public distribution system).*

- The reluctance of some Banks in some parts of the country to adopt the linkage programme wholeheartedly, coupled with poor Banking infrastructure and performance in some states. Some States in the North, some central states and most of the States in the east of the country fall in this category. (*However NABARD has made serious and sustained efforts to correct this balance; this has also been helped by IFAD launching projects in these areas like Assam, Manipur and Meghalaya in the North East, Uttaranchal and Haryana in the North, and Jharkhand, Chattisgarh, Orissa and Madhya Pradesh in Central India –all these projects include SHG promotion, training and mentoring in their design*)

- As the SHG movement spread, promoting institutions had different interpretations of the organisational structure and functions of a self help group. The SHG concept is also mixed up with previous groups under Goverment programmes formed on the basis on common activity or on the basis of all members being self employed which allowed Government programmes to provide them with subsidies and loans for their income generating activity. The SHG group concept is also not distinguished from the Joint Liability Groups where loans are given separately to each members but the liability to repay is shared. There are also the Grameen Bank Groups where loans are given to individuals with the group applying pressure for repayments. What Myrada originally meant by a Self Help Group will be described below. Although it obviously represents a bias, this concept seems to be spreading more integrally though slowly than the numerical spread of the SHGs. Evidence for this is the large number of requests being received by Myrada from various parts of India and abroad from NGOs, Banks and Government staff to share the concept of a self-help affinity group. The Self Help affinity group strategy is now integrated in development programmes in Sri Lanka, Bangladesh, Myanmar, Indonesia, Cambodia and Timor Leste with the support of several local NGOs as well as IFAD, UNOPS and UNDP.

- Since the major drive to promote SHGs came from financial institutions, their function was largely viewed as financial provision and management; this tended to downplay the major role they have played (or have the potential to play) in empowerment of the poor and marginalized sectors. Though this did not inhibit the spread of the SHG movement, it surely gave it a bias towards financial functions which tended to distort the concept. IFAD in its Supervision Missions emphasises the SHGs potential for empowerment.

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

- The unhealthy competition among States to claim the highest number of SHGs without any concern for quality, led to a rapid increase in forming SHGs; many were formed by Gram Panchayat Secretaries who had no idea of what an SHG is, groups were formed on the basis of external criteria (not affinity) and provided matching funds and even loans within the first month with little or no institutional capacity building. As a result many SHGs collapsed which led to a certain hesitation on the side of promoting agencies to pursue the programme.

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

7. IFAD's Role in Promoting the SHG Movement in India: IFAD's first project where the SHG strategy was promoted was in Tamilnadu; it started in 1990. When the IFAD project started in Dharmapuri District of Tamilnadu where Myrada was already involved in 200 villages the SHG movement had not gained momentum. NGOs and Bankers were still under training and many Bankers were sceptical. IFAD's project in Tamilnadu played a critical role at this time. IFAD invested in training and mentoring of SHGs, in other words in building their institutional capacity which was a new dimension in project design. A sum of Rs 8000-Rs 10,000 was spent for each SHG. NABARD's initiative to persuade Bankers to adopt this model drew several lessons from Dharmapuri which provided a field experience to convince Bankers that this may not be another "scheme". In fact the first training for Bankers organised and funded by NABARD was held in the Myrada training Centre in Dharmapuri. This project of IFAD therefore helped to mainstream the SHG strategy in a State sponsored Programme. After the Tamilnadu project proved to be a success, IFAD expanded into other States. More on some of these projects below. Briefly it could be said t**hat IFAD's role has been to:**

- Mainstream the SHG strategy in State sponsored programmes
- Spread the SHG strategy in pockets to several States between 1990 and 1997 (Tamil Nadu, Maharashtra, three States in the North East, Haryana and six States through the Swa Shakti Programme which was designed originally by IFAD; these pockets provided a basis for the expansion of the movement in surrounding areas.)
- Promote SHG strategy not only as an instrument of credit provision but also (and often with more emphasis) as an instrument of empowerment and social/political and economic change; several case studies are available that assess this impact.
- Make Government aware of the need to invest in the Institutional Capacity Building of SHGs (and not only in skills training) including the ability of make periodical self assessments
- Carry the SHG movement to remote areas in Manipur and the autonomous districts of Assam (Karbi Anglong and NC Hills), Kalahandi District in Orissa, to the State of Uttaranchal in the Himalayas and to Districts in the States of Chattisgarh and Jharkhand with large tribal populations.

A brief description is given below of the major projects supported by IFAD which incorporated the SHG strategy. (*Once again, the reports from which this data has been taken focus on the financial aspect. However these projects have also conducted several case studies which bring out the change that the SHGs promoted in the home (gender relations) and in society (in traditional relations which marginalized sectors of the population); these case studies are not reported here due to their length, but can be accessed from IFAD, MYRADA and NABARD).*

- The IFAD supported project in Tamilnadu implemented by the Women's Development Corporation began in January 1990 and ended in 1998. It was the first project which mainstreamed the SHG strategy in State sponsored Programmes. The State contributed about 30% to the project cost and set up District level technical support teams. The Indian Bank provided the credit to the SHGs. The Indian bank was the first bank in the country to undertake this linkage on a project scale. NGOs were engaged in all the Districts to provide training and mentoring to SHGs, to help them to link with the local Bank branch and to provide support for livelihood activities with the support of the Government technical support teams. The SHGs provided the institutional framework for empowerment of marginalized and poor women and for their livelihood support. The project which started in Dharmapuri District where Myrada was the NGO involved, spread to five Districts. More significantly the Tamilnadu Government continued to finance a similar project called Mahalir Thittam in 31 Districts after the IFAD project ended in 1998. Ten thousand eight hundred and fifty (10,850) SHGs were promoted, trained and mentored under the IFAD supported project and two hundred and eighty five thousand (285,000) SHG were promoted under the follow up project called Mahalir Thittam financed by the State and several banks. This is a good example of how s strategy triggered by IFAD became mainstreamed in State programmes and expanded on the strength of its success.

- The next major project supported by IFAD with an SHG component, was the Maharashtra Rural Credit Programme covering 12 Districts and 906 villages; it was implemented by MAVIM (Mahila Arthik Vikas Mahamandal -The Women's Development Corporation of the State). It began in January 1994 and ended in 2002. The State Government contributed its share of about 30% of costs. Over 5000 SHGs were formed and trained in this project with the help of NGOs. SHG members totalled 65080. The savings amounted to Rs.81 million, and the Banks lent a total of Rs.185 million under the SHG Bank Linkage programme. After the IFAD project ended, the SHG strategy for women's empowerment and livelihood support was incorporated in programmes supported by the State with its own resources as well as with resources from the Government of India and NABARD; examples are Swayam Siddha (a Government of India programme). Special Component Plan for Scheduled Castes (State sponsored) and the NABARD Add-On programme. This is another good example where the SHG strategy mainstreamed in an IFAD supported project, was up-scaled successfully.

- The third project was the one in Haryana where community based institutions were weak and NGO strength very limited. The project was implemented by the MEWAT development Agency. It started in 1995 and closed in 2005. There was much opposition to the SHG strategy initially. However, once again IFAD's perseverance paid off. On request from IFAD/Government of Haryana, Myrada deputed just one staff to do the training and support of NGOs; he stayed in the area for seven years. As on January 2006, 1965 SHGs have been promoted with 27181 members in 470 villages; their total savings are Rs 47 million. Total Interest earned by SHGs on loans to members is Rs 21 million. Banks have provided loans amounting to Rs 41 million which together constitute about 80% of the total project outlay, The number of loans taken by SHG members is 29526 for a total amount of Rs.213 million. This works out to an average of Rs.7,222 per loan.

- The fourth project moved to the States where the SHG movement had made little or no headway. The project covered six Districts in three states in the Northeast namely Assam (The autonomous Districts of Karbi Anglong and NC Hills), Manipur (Ukhrul and Senapati Districts) and Meghalaya (Tura and West Khasi Districts). The project started in 1999 and will close in Sept 2006. It was a Herculean task to identify NGOs and to train them to form and mentor SHGs, and Natural Resource Management Groups. But the North East Council (which coordinated and managed the project), IFAD and the Project and Government Staff in Shillong and in the six Districts and above all the NGOs involved persisted throughout (There was a two year lull mid-way, due to a collapse in over-all management which could be attributed to middle age, but the foundations were good and the Project overcame this crisis). As a result the project has made major breakthroughs in these remote areas. There were cases where the SHGs protected the staff from threats coming from underground movements. Given the difficulties this project had to surmount, it could be rated as the most successful of the projects supported by IFAD. Today there are 2839 SHGs (of which there are 1052 in Maghalaya, 752 in the two autonomous Districts of Assam which are a graveyard of projects, and 1035 in Manipur). The SHGs have an total savings of Rs 16 million (this is an achievement is in an area where the people had no savings habit); the Banks have advanced Rs 29 million as loans (there are some Districts which have only one Bank Branch, and banking is not a common habit - this is a remarkable achievement.). The SHG component was also supported by NABARD's District Offices and some major Banks, particularly SBI and the RRBs.

- In the mid nineties, IFAD promoted a project covering six states which came to be known as the Swa-Shakti Project. This was subsequently taken over by the World Bank, but IFAD's design remained. As a result SHGs were promoted in UP, Bihar, Gujarat, Karnataka, Madhya Pradesh and Haryana. These provided a base from which the movement spread in these States.

- In 2001 IFAD promoted projects in Jharkhand and Chattisgarh with large tribal populations. The project ends in 2009. So far with the assistance of NGOs, 291 SHGs have been formed in Jharkhand and 436 in Chattisgarh (of which 62 are men's groups). This project has built a sound basis for the SHG movement to spread in these two States

- From 2003 IFAD also approved new projects in Orissa, Uttaranchal Pradesh, Meghalaya, Maharasthra and Madhya Pradesh; a major component is the establishment and strengthening of SHGs.

8. What does MYRADA understand by Self Help Affinity Groups?

The different interpretations of what a SHG is, was identified earlier in this paper as one of the reasons why the movement is weak in several areas. With apologies for the bias, let us dwell briefly on what Myrada understood by an SHG when they emerged in 1985 (and thereafter as they developed).

As mentioned above, Myrada believes that it is not enough to teach the poor to fish when they cannot reach the river. Their path is blocked by several hurdles thrown up by caste, class and power exercised by the local elite. They have to borrow money to survive on the way and then spend years repaying; as a result they do not reach the river; they cannot read the directions to the river and do not find opportunities to work unless the economy is growing in the countryside. Finally, when they reach the river, the fishing rights are already monopolised by others and even if they are allowed to fish in small areas, they cannot sell their catch except to contractors. Therefore they need to have the skills, the confidence, the resources and the "power" to overcome these hurdles. Well functioning SHGs and their associations provide them with this power as well as with the confidence and skills to manage conflict which usually arises as they meet with vested groups which have dominated and controlled the social, economic and political domains for years. The provision of credit through the SHG alone will not suffice to overcome these hurdles.

Besides credit, the NGO/Government/Private Sector need to invest in the infrastructure required, they need to reduce the risk involved in taking credit, to provide the linkages for inputs and markets and to provide new skills. For example when Myrada realised that the majority of the SHG members took loans for investment in dryland agriculture, Myrada invested in watershed management, soil improvement and provided technical support and market linkages which helped to lower the risk of crop failure, increase productivity and stabilise income.

The history of how SHGs emerged may shed some light on Myrada's understanding of what SHGs areBetween 1983 and 1985 several of the Co-operative Societies started by Myrada with over 100 members broke up because of lack of confidence in the leadership and poor management. Members met Myrada staff in small groups; they expressed their willingness to repay their loans to Myrada, but not to the Co-operative Society, which was a large and heterogeneous group and dominated by one or two individuals. We informed them that they had not taken the loans from Myrada; hence the issue of repayment to Myrada did not arise. We asked: "Why not repay to the small group of people assembled here?" They agreed. The large Co-operative broke down into several small groups and the group members repaid their loans to whichever group they chose to join. Thus was born the first set of **"Self Help Affinity Groups".**[9] On analysis, Myrada realised that there was a strong feeling of **"affinity**" which linked the members of each of these small groups together. This affinity was based mainly on **relationships** of trust, relations that were non-exploitative, on certain **social features** (like a degree of homogeneity among the members, of voluntarism and self reliance and willingness to support one another in need), on certain **structural features** like a common origin (blood or ancestral village) or the same livelihood base (all daily wage earners, landless or marginal farmers, even though from different castes, religions or communities), on **gender bonds** (all women, or all men, though about 5% of the groups were mixed). In a few cases they were based on **similar activities undertaken by each member** (like basket weavers – though caste also had a role to play here; a large group of families undertaking a similar activity like basket weaving often decided to break up into smaller groups of 10-15 on the basis of affinity). Interestingly no groups were formed on the basis of political party affiliations. Briefly, the affinity groups were unpolished diamonds hidden under stones; we just happened to kick these stones aside by accident; all that we can be credited for is that we stopped to look, to learn, to identify people's strengths or the potential of the diamond and then to build on them.

> In 2001 the SHG strategy was accepted by the Government of India as a major programme to mitigate poverty; funds were allocated in the Budget; targets were set and groups promoted by Government all over the country often without adequate capacity building. **It was then that Myrada changed the name to Self Help Affinity Groups or SAGs;** this distinction helps to focus on the affinity required to bind the members as well as to distinguish between genuine self help groups and those groups that were formed under pressure to achieve targets, which were given grants a few days after formation with little or no investment in institutional capacity building and whose membership is based on external criteria rather than on affinity.

It is important to note that the affinity relationships existed before the intervention of an outside agent like Myrada; they were adequate to support traditional actions like mutual help in times of sickness or childcare. However, with new functions emerging in the self help affinity groups, this traditional capital had to be built up to cope with the demands of effective financial and organisational management, as well as with the social role that the

[9] Subsequently MYRADA identifies affinity groups through the following process: It conducts PRA exercises like wealth ranking which helps people to identify who are the poor and poorest in the village; then sessions are held with this group to explain to them what affinity means; they are then requested to form groups on their own based on affinity among members.

groups required to play, for example, to initiate change in society and in the home, to protect and further their interests, as well as to establish linkages with supporting services and institutions.

Based on existing evidence, it is fair to say that in an affinity group, which has been fostered along the lines advocated by Myrada, the motivation of the members in the initial stage is equally divided between the perceived fulfilment of social needs and the expectation of material gain. In the case of women's self help groups, social needs, however, often tend to get priority. Women need space in our traditional rural societies to meet freely, to share concerns, to express a sense of togetherness and fellowship. Women in particular, need a place to call their own, as they are unable to meet (like men) at the village corner or around a shop. As spots that traditionally provided women with a level of security and privacy have become scarce -like water points some distance from the village – the privacy and security of an affinity group meeting is a godsend. This is why women's affinity groups take a strong stand against men trying to interrupt their meetings. It is interesting to note that when other villagers are asked to express their opinion of a women's self help group, their assessments focus more on the social habits developed by the members, rather than on their material progress. The most appreciated qualities of the groups include their regular meetings, the ability of members to manage their affairs in an organised and transparent manner, to take collective decisions, to impose and accept sanctions for dysfunctional behaviour and to take the lead in improving their surroundings; these are the features that others appreciate, far more than their capital (which they build up by savings which are deposited in the groups' common fund) or material progress. These are also indicators of a well functioning institution.

> Institutions, by themselves, do not empower. In fact they have the potential to disempower if their structure is inappropriate, if they are used as implementers of programmes designed by others, if they are forced to follow the timetable and agenda of the project managers, and if their systems are inflexible and unresponsive to emerging situations (threats and/or opportunities). They disempower if the official organisational and financial management systems are imposed on them and standardised. Myrada holds the position that peoples groups should not be 'mainstreamed' by the official institutions; on the contrary the official institutions should recognise the emerging groups and respect their systems provided they are transparent and adequate. Mainstreaming is disempowering when the mainstream imposes its system and culture. Genuine people's institutions provide the space within which the poor can build up their confidence and skills to establish relationships with other institutions on an equal footing.

9. How Does All This Theory Unfold Actually On The Ground?

Let us take just the example of one project (of the 16 Projects managed by Myrada) in Tamil Nadu; this is the first Project of IFAD which incorporated SHGs; it began in 1990. An analysis of the data collected from all the 1816 SAGs promoted in this project area may help to throw light on how SHG actually manage finance and how this lays the basis for empowerment. The project which covers 350 villages is involved in promoting and financing several sectors including the management of natural resources, housing and sanitation, management of village schools, health programmes, children's rights and education, micro enterprises, agriculture and animal husbandry. Several types of people's institutions are promoted including School Management Committees, Watershed Management Associations, Children's Clubs, Companies to manage micro enterprises; however here the focus is only on the SAGs which form the base institution; they are participatory institutions and not representative ones like some of the others.

Myrada Dharmapuri Project - SHG Information as on December 31, 2003
Let us start with an analysis of the common fund of these 1816 SAGs.

Table 7

Group Details	
Total No. of Groups	1,816
Total No. of Members	28,522
Frequency of Meeting	
Weekly	1,730
Fortnightly	6
Monthly	80

Composition of Common Fund of 1816 SHGs (Indian Rupees)

Table 8

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

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

The highlighted items only will be commented on:
In keeping with the thrust towards self reliance, the SAGs have mobilised Rs. 73 million through their **savings** out of a total common fund of Rs. 174 million (approx 41 %). **Interest** on loans remains with the respective SAGs; it is not taken away by Myrada; it amounts to Rs. 53 million which is 30% of the total fund. When Banks or Sanghamithra lend to an SAG, the SAG is free to levy its own interest rate on each loan to the member; it is usually slightly higher and differs, depending on the profit that the SAG anticipates from each loan taken by a member; the difference, if any, remains with the SAG. Together the savings and interest amount to 71% of the SAG’s common fund. This shows that they rely primarily on their own resources; in turn this increases their ownership of the common fund and improves the management of financial transactions. **Fines** are levied not only for delays in repayment, but also for dysfunctional behaviour related to standards of behaviour that each SAG adopts. For example some men’s groups have decided that no one will smoke during meetings – I asked why, assuming that it had to do with cancer…their reply startled me: No one smokes alone,

they offer "beedies" to all around them, this disturbs the meeting! Some women's SAGs have decided that if any men disturb their meeting or ill treat their wives, they will be fined; others have resolved to ensure that the girl child of every member goes to school; if she is given other tasks by the family, the latter is fined; punctuality in arriving for meetings and the discipline of informing the group when a member cannot attend are common norms -- if broken fines are levied. Fines therefore are more an indication of a good group which imposes penalties on dysfunctional behaviour which is accepted by the member concerned since he/she realises that his/her behaviour has undermined the group's strength and cohesion. Fines are imposed as well as accepted.

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

Table 9

ACTIVITY	NO. OF LOANS	AMOUNT LOANED	AMOUNT RECOVERED	BALANCE
CLOTHING	3773	7,727,499	2,575,093	5,152,406
EDUCATION	4149	7,958,400	5,588,572	2,369,828
FOOD	10384	13,940,541	10,603,924	3,336,617
HEALTH	13591	15,140,980	9,831,549	5,309,431
HOUSEHOLD EXP.	36443	49,167,696	36,655,169	12,512,527
HOUSE PURCHASE	86	305,450	190,000	115,450
REPAID TO MONEYLENDERS	6290	29,113,188	22,487,014	6,626,174
SOCIO RELIGIOUS	5421	19,030,490	13,327,275	5,703,215
CROP LOAN	36222	150,166,276	91,649,711	58,516,565
EQUIPMENT (AGRI)	56	1,022,150	658,250	363,900
IRRIGATION	438	579,605	375,920	203,685
LAND DEVELOPMENT	1256	5,179,450	3,641,006	1,538,444
BULLOCK	25	58,490	58,490	0
COW/BUFFALO	13290	62,484,569	43,056,607	19,427,962
POULTRY	73	877,540	660,940	216,600
PIGGERY	22	7,084	7,084	0
SHEEP/GOAT	1204	3,211,703	2,157,364	1,054,339
COTTAGE INDUSTRY	566	3,745,280	2,605,100	1,140,180
PETTY BUSINESS/ TRADING	4224	30,881,602	20,497,761	10,383,841
SERICULTURE	210	981,445	617,834	363,611
HOUSE CONSTRUCTION	6850	26,695,079	18,629,987	8,065,092
HOUSE ELEC'FICATION	702	90,981	61,445	29,536
HOUSE REPAIRS	1826	5,786,029	2,418,210	3,367,819
RENT	12	15,250	15,250	0
TAILORING MACHINE	15	25,000	25,000	0
TOTAL	**147,128**	**434,191,777**	**288,394,555**	**145,797,222**

1. Each SAG has a group common fund. The major feature of the common fund is that it is the concrete expression of our ideology of people's participation in decision-making. The practice of Bankers to say: "You cannot take loans for this, only for that", forces people to be dishonest. In SAGs, loans are given for Clothing, Food and Health which Bankers disallow.

Most finance experts consider these purposes to be consumption loans and discourage them; they do not earn any profit, hence how can they be repaid. Myrada's studies, however, indicate the following:

i. The number of loans for clothing, food, health and social religious purposes is comparatively high in the first two years, at times reaching 40% of the total (though the amount is not as large-usually around 20%). Myrada's study of the trend in loans given by SHGs in its projects indicates that the number of loans taken for food, clothing and health declines from the third year. This is because all Myrada projects provide support for all round development in the area including better infrastructure, linkages, management practices and inputs which help the portfolio of livelihood options to grow. As a result, people have been able to address their consumption needs from their incomes; credit alone is not adequate. The people always took loans for consumption, to tide over days when they needed food but did not get work, to meet with urgent health needs, etc. If the SAGs, after becoming operational, do not provide these loans they would approach moneylenders who charge exorbitant rates of interest; this would leave them in perpetual debt, as they would never be able to repay the capital. The SAGs also agree to give loans to members in order to repay moneylenders from whom previous loans at high interest rates had been taken

ii. A study of loans for assets given by SAGs in a Government-NGO sponsored programme where the repayment was over 75% showed that 60% of the repayments did not come from the asset but from other small livelihood sources like wage labour; therefore the insistence that people take loans for a "viable" unit of say 20 plus 1 sheep did not ensure that repayments came from the asset; the people gave importance to manageability – 2 or 3 sheep rather than a flock was considered manageable while they went about other business. Therefore even the so-called asset loans which have been promoted as viable units by financial institutions were not the source of the entire repayments.

iii. The flexible pattern of managing repayment also makes the entire transaction more transparent and manageable; for example some members borrow to buy an animal which is fattened and sold after 6 to 8 months. In such cases, the SAG does not require repayments to start in instalments immediately after the loan is taken, but requires that the loan be returned in one instalment (sometimes with a comparatively higher interest) after the animal is sold; if the borrower is required to pay instalments a week after the loan is taken he/she would have to borrow from elsewhere in case there is inadequate cash flow to cope with repayments.

iv. A large number of loans are given for cottage industries, petty business and trading. These loans are accessed quickly and in amounts that they require from the SAG which is often far less than Banks are willing to provide even under a sanctioned scheme. Timeliness is also a critical factor; loans from Banks take time.

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

10. Does the SHG Strategy Support the Global Effort to Meet the Eight Millennium Development Goals (MDGs)

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

The SHGs provide not only credit but also linkages, information and skills required to strengthen and diversify the livelihood base of the poor. The first MDG seeks to eradicate extreme hunger and poverty. Most of the SAG members have been able to ensure adequate food for 12 months after 3 – 4 years in a well functioning SAG. However, the income generating activities that the SHG enables them to undertake are largely part -time and help to add supplementary income and to tide over urgent consumption needs without getting bonded to money lending families. Many SHG members however want to go further. They need larger sums of credit and much more support than the SHGs can provide. They require technology, electricity, skills, a regular flow of credit, stable markets in order that their income generating activity which is usually off-farm becomes a full time occupation. This is the next step. Myrada's approach is to identify patterns among loan purposes. The assumption is that when people are free to borrow for any purpose, and to decide on the size of the loan, members of the SHGs opt for activities which they know they can manage and for which there is a market; the other members of the SAGs also assess these important indicators before agreeing to the loan. Further, patterns of similar purposes indicate some comparative advantage that a particular area has over others. Myrada (and the CMRCs[10] with increasing frequency) (Perhaps it is too late and/or too painful to do it now, but a section on the sustainability of SHGs and the CMRCs would be very interesting. And to compare it with the unsustainable group-approach as project delivery tool (so much used in China…) invite the members from each of the SAGs who have taken loans for similar purposes and arrange for training to upgrade their skills as well as for new technologies and larger loans. Not all of them take the next step, as not all the SAG members want to become full-time entrepreneurs. Even if they go in for larger enterprises, these members return to their own SHGs for support. They may form associations to purchase or transport their finished goods in bulk, as some have done; but they cling to their membership of their SAGs as they have a degree of affinity with the members.

[10] CMRC - Community Managed Resource Centre. One Resource Centre supports 100-150 CBOs, including SAGs and Watershed Associations which pay a monthly fee for membership, as well as for all services rendered. Membership is open to CBOs formed by any NGO or institutions but they are assessed by the Management Committee of the RCs before they are accepted; they are also rated annually. Each RC has its own Management Committee comprising representatives from the CBOs, an office with a computer, an RC Manager and Community Resource Persons. IFAD supported the first CMRCs under a NGO-ECP Grant; these CMRCs have since achieved financial sustainability.

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

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

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