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Marginal & Small Farmers require freedom and options not financial inclusion.

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Marginal and small farmers(M&S) especially in dryland areas have been the "target" of financial inclusion policy and practice since 1904 when the first Cooperative Society was registered in Gadag Taluk-Karnataka.. Since then several major steps have been taken to expand the network of financial institutions in order to "include" M & S farmers in to the country's financial sector; the major ones were: i) the nationalisation of Banks (1969) the launching of NABARD (1975); iii) of Regional Banks (1975-76); iv) of the SHG-Bank Linkage program (1992).Several micro finance schemes managed by these institutions targeting the S & M farmers were launched, starting with the Integrated Agricultural Development program in 19660-67 to the SGSY in 2000. These institutions especially the RRBs and SHGs and schemes provided micro finance (MF) as well as subsidies, no frills accounts, kisan credit cards etc. However the "MF" word was not used till the for Profit NBFCs gained momentum after 1999 ; they targeted "inclusion" of the poor not into the formal financial system of the country but more into the more efficient and extractive neo liberal globalised financial sector with consequences which have unfurled in the past few months. The features which characterise the neo liberal model are: investment from private and venture capitalist, quick growth, high profits, high costs (interest and salaries),IPOs and quick exits. Little concern is given to value creation and building skills of clients to use capital effectively; hence the impact on poverty mitigation is minimal.

In spite of these initiatives of Government to include the S & M farmers into the country's financial sector, studies show that the number of small loans provided by financial institutions for agriculture is declining steadily over the ears. The credit-deposit indicates an outflow of credit from the rural areas, the percentage of rural savings is less than urban and overall the growth in the agricultural sector has languished behind the services and manufacturing sectors. Though the government has taken several measures to increase credit flow to the rural sector (which is interpreted and restricted to agriculture) the demand does not seem to be improving.

Maybe its time to suggest that the focus on credit for "agriculture" should shift to "credit to families" living in rural areas. The major reason for this shift is the declining size of holdings, increasing risks generated by shifting to high cost inputs, declining quality of soils and fluctuating market prices. As a result, farming families especially S & M farmers in dryland areas have increased the number of income generating activities in their portfolio of livelihood activities- they now have livelihood strategies which comprise several activities. This has resulted in the need for credit for a variety of purposes including several non agricultural ones which are not provided by the regular schemes which focus on agriculture. There are other reasons like the standardised credit packages and asset units (3-5 cows, 20 plus 1 sheep) which may be considered "viable but which the family cannot manage , fixed repayment schedule (monthy /weekly) when rural incomes are lumpy and the same interest rates for all types of loans .

One reason for Government's policy to remain restricted to "credit for agriculture" is the data from surveys like the NSSO which show that about 60%-70% of the population are "farmers". The question asked is: "During the part year have you done agriculture for 30 days?" If the answer is "yes" the person is listed as a "farmer" even though he does other activities for the rest of the year. Besides other members of the family also take up activities which are often not related to agriculture. This needs to be changed. Loans need to be given to the rural family not for agriculture alone.

The position taken in this article is that the Self Help Affinity groups (SAGs) are the most appropriate institutions to provide the space, resources and skills required by a poor family to develop a livelihood strategy which enables it rise and remain above poverty. The SAGs proved space to invest in many diverse livelihood activities which comprise a family's livelihood strategy, they customise the size of loans and interest rates and cope with irregular cash flows of the family when repayment to Banks/MFIs is difficult since Banks/MFIs have a fixed schedule of repayment

What is a SAG? There are a few features which constitute the DNA of an SHG: i)The process starts by using PRA methods like wealth ranking so that people can identify the poor in the village; ii) The identified poor are given a short description about an SAG and requested to form groups; iii) The members self select themselves – the basis is affinity among members which is based on relations of mutual trust and support and cuts across caste and religions and activities; iv) the groups are given institutional capacity building- at least 12 modules; v) alongside they start regular meetings and savings; vi) they start a group common fund in which their savings go and later the loans from Banks – there is only one group account; vii) they start taking loans from the common fund; viii) after 6 months the SHG Bank Linkage program kicks in –one loan to the entire group allowing the group to decide on individual loans . Different from all so called JLGs where the Bank decides on each individual loan.

Let us give two profiles of the livelihood strategies of two members of Self Help Affinity groups in Myrada. which bring out the diversity in livelihood strategies .

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

(1) Kausar Banu			***(2) Nagarathnamma**		
1996	1,000	Trading	1997	2,000	Education
1996	3,000	Trading	1997	500	Education
1997	5,000	Trading	1997	2,000	Education
1997	500	Education	1998	4,000	LPG for home use
1997	5,000	Medical expenses	1998	5,000	Education
1997	300	Medical expenses	1998	5,000	Vehicle loan repayment
1998	4,000	Trading	1999	7,100	House repair

1998	5,000	Trading	1999	8,000	Vehicle loan repayment
1998	5,000	Trading	2000	8,000	Vehicle loan repayment
1999	5,000	Trading	2000	15,000	Vehicle loan repayment
1999	12,000	Trading	2000	325	To purchase SHG uniform
2000	25,000	To release house mortgage	2001	18,000	Business
2000	325	To purchase SHG uniform	2002	30,000	Vehicle repairs
2001	2,000	Education	2003	28,000	Vehicle loan repayment
2002	40,000	House purchase	2003	8,325	Sewing machine (SGSY)
2003	325	Household expenses	2004	2,300	LPG for home use
2003	8325	Sewing machine (SGSY)	2005	40,000	Vehicle repairs
2003	50,000	Agriculture land purchase	2005	1000	Jewellery loan
2004	2300	LPG for home use	2006	2,000	Jewellery loan
2005	58,000	To release agriculture land from mortgage	2007	62,000	Tempo purchase and gold
2005	6,000	House repair	2008	22,820	Tempo repair and insurance
2005	1,000	Jewellery loan	2009	11,000	Tempo repair
2006	2,000	Jewellery loan	2010	40,500	House repair and gold
2007	2,000	Gold			
2008	53,820	Cycle shop business and gold			
2009	Nil	-			
2010	500	Gold			
Total	**4,59,390**		Total	**3, 22,870**	
Note: Before SAG No Land – had mortgaged land which family had; After SAG 3 acres –released land and purchased. Installed irrigation. Continuing in SAG			Note: The family purchased a used tempo on loan; borrowed from the group to pay the loan in instalments and to repair and refurbish the vehicle. Note: Before SAG 2 ¾ acre dryland; after SAG 2 ¾ acre dryland, Continuing in SAG		

Kausar Banu: The major traditional activity of the family's livelihood strategy was trading; their land had been mortgaged before the SAG was formed for capital to do trading; later several loans were taken from the SAG for trading. As income from trading increased, the family reclaimed the mortgaged land and purchased land and dug a well. Income generating activities increased to 3 : i) trading ii) cycle shop iii) agriculture and long term investment education. They took only one small loan for household expenses. Finally loans were taken for gold and jewellery- a sign that it is now confident. The total investment was Rs 4.5 lacs.

Nagarathamma. The family owned dry land but decided not to invest in agriculture. Instead it opted to invest in a pre-owned Tempo. The SAG provided capital for maintenance. Alongside they gave priority to education. It also purchased gold Total investment in family livelihood strategy -Rs 3.2 lacs.

The SAG strategy gave the family the space and freedom to decide in what activities to invest, how much to invest and when. There was not imposed standardised product.

The criticism therefore that SAGs provide loans only for consumption is wrong. Further the data which gives the average loan size as Rs 4000 is misleading. The members of SAGs take a number of loans of different sizes as per their requirement. The total amount must be taken into consideration. Schemes like the IRDP and SGSY provide one or two loans amounting to approx Rs 50,000; this is insufficient. Even if the lending institutions have estimated that the asset is "viable" (3-5 cows or 20 plus 1 sheep) , the support services like veterinary care, fodder and water are not available often because the poor do not have access to these resources. The SAG helps to overcome even this hurdle by organised lobbying; SAGs and their federations have been able to change oppressive power relations . There was no subsidy attached; but the family only took loans when it was sure that it has all the support services required to make the loan productive and to earn an income.

The second reason why SAGs are appropriate is that they do not have fixed or standardised packages or products related to credit or assets. The different purposes of loans and of loans sizes taken by the two families brings this out clearly.

The third reason is that the repayment rates of a member in an SAG can be adjusted when unexpected problem arise. Yet the SAG is able to repay the Bank/MFI loans in time because of i) cash flow from other members and ii) savings and interest which accrues to the groups common fund. Has this eroded the groups common fund? There is no evidence that it has. The total common fund has increased Y o Y.

Interest rates. When the SAGs first emerged in Myrada's projects in 1984-5 as a result of the large Cooperative Societies breaking down since the poor were not benefiting from them, the practice was to apply differential interest rates. The rates for loans taken for health and food were very low (2%-5% per annum) while the rates for trading were high (15% to 25%). This was very similar to one of the features of sharia or Islamic Banking where the income to the investor is a share in profits. Unfortunately the demand for standardisation imposed by software changed this practice.

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