THE MYRADA EXPERIENCE

PUTTING INSTITUTIONS FIRST
EVEN IN MICRO FINANCE

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MYRADA

First Edition: January 26, 2001
Reprinted & Revised: January 2003

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Foreword

Demonising the moneylender is a hoary tradition. If love of money was the root of all evil as the saying goes, the moneylender was its horrendous practitioner. Hence it was, perhaps, that institutions had to come into being to lend money. For, institutions, being impersonal entities, were expected to be devoid of greed and the propensity to exploit distress. Banks and credit cooperatives emerged for this role. Nevertheless the private moneylender, cockroach-like continued to operate if not to flourish, especially among the less endowed and the poor. The reason? The risk factor was too daunting for the institutions. This risk aversion – some think it was selective in relation to the poor – distanced the institution from the prior. For the poor, one unkind source seemed to have been replaced by another only less so.

The discourse in this study centres on the poor for it recounts MYRADA's pursuit of its mission, which gives a prominent place for the upliftment of the poor.

Money doesn't grow on trees, the institutions said. It had to come from earning and savings of others and secured repayments were necessary to lend it out. The poor needed money and were more than willing to repay from out of their savings but they could give only a word of honour for due repayment. By definition the poor cannot have savings, the institutions felt. But somehow or other an unblemished moneylender had to be found to come to the aid of the poor. Government did try to step in with taxpayer money. It fearlessly trod into the risky territory of the private moneylender. Schemes were launched which bludgeoned and twisted arms in the banking system. The results were less than comforting to the poor. The human face of the schemes bore the territory's marks.

If the poor could but pool their savings and lend to each other would it not be a lending mechanism minus the stigma of the moneylender? The idea of the Self-help Affinity Groups was conceived and developed by MYRADA for this role. MYRADA's field experience during the last two decades has been witness to the advent of a refreshingly different lender for the poor. Creating groups of the poor for joint tasks is not easy or simple. MYRADA's work has been a saga of experiment and evaluation carried out steadfastly despite confusing crosscurrents. The credit for this marvellous effort belongs entirely to the author, Sri Aloysius Fernandez.

Successive chapters of the book take the reader through the logic, ramifications, linkages and results of the Self-help Affinity Group system. The two opening chapters give a splendid overview and the rest are rich in data and analysis.

Poor people are human beings with individuality – individuals incessantly at work, fighting against poverty. There is a limit up to which individual can carry on the fight on their own. They can cross that limit only if they can join with others, like-minded, poor people in the community, akin to themselves. This is the institutionalisation they need. such institutionalising goes from the base upwards (unlike a system based on forced savings). It goes even higher when groups of the poor link themselves into widening pools, by forming federations. The author emphasises this point with evocative coastal imagery. A poor man, or is it woman, is taught to fish and strides towards the river. Obstacles abound in the path, some of them placed by the non-poor, which the poor one cannot overcome single-handedly. The river becomes out of reach and skill becomes valueless. Not so if the poor go in a group.

To this fundamental dimension of the Self-help Affinity Group as an institution of the poor another gets added. Poor people belong to a vast and amorphous thing known as the unorganised sector. If they need to get into or get linked with, the organised sector they have to first institutionalise themselves. They have to form a body, which can reach into the savings and entrepreneurship of individual poor people and with that backing deal with the harsh organised world. Self-help Affinity Groups fill the bill as they have good knowledge of their members and can generate saving and other activity within their membership on a sustainable basis. They fit the role better than, for example, a trade union of the poor or anti-poverty corporate, which privatises poverty alleviation.

The MYRADA model of money lending rests on Self-help Affinity Groups and understandably enough, the groups cannot be wished into existence by a command from above as it were. Dedicated fieldwork, high motivation for assisting the poor, a commitment to confer comprehensive autonomy on the groups, an open-minded to course correction, and lastly a total absence of hurry, comprise the long list of requirements. The absence of even one or two of the elements is enough to bring discredit to the model. But all the elements together can build healthy Self-help Affinity Groups and a micro credit system, which can transform the countryside. It is not the system but the way groups are evolved that will protect micro credit from the obloquy sticking to the moneylender.

Laudable money lending however cannot remain as the sole preoccupation of the groups. There is more to life, even for the poor, than securing loans. MYRADA brought into play all its skills and experience, combined with essential humility and a respect for the common sense of the individual poor to start up and nurture the Self-help Affinity Groups. The groups were first inducted into a variety of proficiencies, which are the mundane requirements of money lending. Thereafter, the groups developed their own initiatives to pursue their aspirations and to deal with the forces impinging on them. Here too MYRADA gave training, especially to highlight the decision space they possessed and the way to exercise the total autonomy that they enjoyed over this space. This was real capacity building.

Such training is part of a large and wide programme on which MYRADA invests a major chunk of time and effort. Personnel from many NGOs and agencies as well as MYRADA's own people are exposed to the training courses. In this way the concept of the Self-help Affinity Groups has travelled wide in the country. Affinity groups and Self-Help Groups and combinations of the two have been formed by numerous NGOs. Micro credit thus seems in recent times to have acquired a place under the banking sun. As a corollary the poor and their poverty have come under the microscope. For instance, a three-way division has been made among the poor, to study results in the fine grain, and to address concerns about equitable distribution of credit benefits within the poor groups. The remediable has been distinguished from the inescapable among the causes of poverty. Nothing but good can come from such detailed research. One hopes for more such research, resulting in intelligent action for poverty – free land.

Concepts (such as institutional space owned by members), issues (such as the localisation of rules, functions and sanctions within the group), effects (for example the influence of resources – credit, natural resources, whatever – on the structure of the group) and so on, a hundred facets, have been analysed in the paper. Experience, judgement, time series statistics, evaluation reports of experts, and much more have been mustered in this presentation. A message that comes through it is that micro credit institutions of the poor promote the sustainable empowerment of poor people within the membership and even beyond the group.

The paper has been enriched by the passion with which Sri Fernandez has applied himself to the concerns of the poor. It is enlightening to read it.

M.A.S. Rajan
Chairman, MYRADA
Bangalore
January 2001

Foreword

Alleviation of poverty has been at the centre of development planning in India since achieving Independence fifty years ago. No doubt, substantial economic progress has been made during this period. The proportion of people living below the poverty line has come down, but remains unacceptably high. It was seen from the experience of the first three decades that the benefits of development had not percolated to the poorer sections of society. It was generally also realised that it would not do to view the poor in the aggregate; there was a wide spectrum of poverty and priority had to be given to mitigate the distress of the poorest segments. From around the mid 70's, growth-mediated poverty reduction was supplemented by measures designed to make a direct attack on poverty, such as self and wage employment programmes and provision of basic minimum needs. For the poorest of poor, special schemes were devised such as '*Antyodaya*', differential interest rate lending and the like. But these did not turn out to be as effective as one had hoped.

As studies have shown, a major reason for the lacklustre results of these Government programmes has been the failure to involve the local community design, implementation and monitoring. This is aggravated by the fact that such schemes invariably have a preset design rigidly applicable to the whole country. These apart, the poor had virtually no access to credit from either the banking or cooperative system. What was needed was a system which could be accommodated within the existing village environment, had the autonomy to take quick operational decisions and cater for the individual needs of the poor. It was in response to this need that the self-help groups or, as the author prefers to call, Affinity groups came into existence, mainly promoted by NGOs. These are groups held together by shared needs or interests and traditional social relations. In this effort, MYRADA has been a pioneer and has successfully promoted a large number of affinity groups in Andhra Pradesh, Karnataka, Tamilnadu and in other states of India and abroad.

As the author has explained, the MYRADA model is unique and has been evolved consciously from the concept that MYRADA's own role would be that of a support and resource NGO, assisting the affinity groups in their formative years through initial community mobilisation, training and guidance. MYRADA is clear that the affinity groups must be enabled to become self-sustaining where after MYRADA would withdraw. It is gratifying that the groups promoted by MYRADA are today mobilising savings of its members, attracting lines of credit from banks and extending credit on a sizeable scale and have begun to play a wider role in society.

MYRADA has always believed in a rigorous evaluation of its concepts and activities, internally as well as by outside agencies. In this book, based on three recent evaluation reports, the author looks at some areas of concern and critically examines how well the groups have been able to deal with them. Among these are – how far have affinity groups catered for the needs of the poorest sections of the society? Do these sections have a voice in the management of the groups? Has the economic and social status of the very poor improved over time? Has there been any improvement in the status of women? Has the role of the groups extended beyond providing credit? Has there been any empowerment of the weaker sections of society?

It is encouraging that the answers are positive. They endorse the robustness of the MYRADA approach. What is more, the importance of institutions stands out boldly. Institution building is arduous and demands perseverance. This is where NGOs eminently fit in. The importance of institutions in bringing about socio-economic upliftment of the poor needs to be re-emphasised, as there continues to be a lack of understanding of the concept of self-help groups in different quarters including the Government.

The success of MYRADA owes a great deal to the vision and dynamism of its Executive Director, Sri Aloysius P. Fernandez, who has authored this book. It is most appropriate that he was honoured with the award of Padmashri earlier this year. I take this opportunity to pay my personal tribute to him.

T.R.Satish Chandran
Board Member, MYRADA
Bangalore
January 2001

INTRODUCTION

The core of its Mission, which has driven MYRADA's interventions since 1983, is to foster the growth of institutions of the poor. This title, therefore, should be further qualified to read as: "Putting **Poor** People's Institutions First – Even in Micro finance". The content of this study flows from MYRADA's experience in the field since the mid-eighties. Examples of the various categories of people's institutions are the Self-help Affinity Groups (hereafter referred to as "Affinity Groups"), Watershed Management Associations, Village Water and Sanitation Committees, Federations, Village Forest Committees, School Betterment Committees, and several others. Each category of institution is structured differently; but they were not structured from above or as a priori. To add to this diversity, institutions within the same category do not follow standardised rules. Each one evolved largely because the intervention strategy provided institutional space that the members owned and because they were supported to develop their own mission, rules and functions. To a large extent the structure that evolved was conditioned by the functions of the institution and by the nature of the resource to be managed by each category of institution, be it credit or natural resources.

Studies, including this one, have also provided adequate evidence that the experience of governing these institutions was a major instrument of people's empowerment, which is a key objective in MYRADA's intervention strategy. Whether these institutions are expected to remain "forever" or whether they are appropriate instruments of empowerment at a particular stage in people's progress and will be re-engineered by people as they progress, or allowed to wither away, are issues which will emerge as MYRADA's experience progresses. This study hopes to provide some insights at this stage. It is an attempt to carry the process a small step forward.

There have been attempts to use credit provision as the dominant instrument in empowerment strategy. The South Asia Poverty Alleviation Programme implemented in six of the seven SAARC countries – including India – is an example. There is ample evidence to support the position that a strategy that is limited to the provision of credit is not an empowering instrument. At most it is a minimalist approach to empowerment. Even so, it is not credit per se, but the management of credit and the quality of governance of the institutions set up by people to manage credit, that empowers. And since the management of credit differs from model to model, it follows that the structure of the credit management model plays a critical role in empowerment. The findings of this study highlights the importance of institutional capacity building of the credit management groups as a basis for an empowerment strategy with the potential for sustainability.

The potential of credit as an empowering tool is reduced if the credit management process of savings, lending, and repayment is not developed by the group and controlled by it. If decision-making regarding loans is shifted outside the group as in a classical banking model, if rules and sanctions are imposed from outside, the potential for empowerment through credit management is diminished. If the accompanying organisational and financial systems are not adequately developed by the group, respected by all members, adapted to emerging situations and maintained by the members of each group, their control will gradually diminish. If the groups are used to implement the interveners programmes they will disappear when the programme ends. Further, credit is a double-edged tool. If provided in amounts that people's institutions cannot absorb it tends to weaken the degree of ownership by the members of the group; in turn this undermines the process of institution building and the potential for empowering the poor. The latter scenario is frequently found in projects supported by donors and Governments where disbursement targets are the driving force and where the people's groups are reduced to being another link in the delivery chain. It is for these reasons that projects vulnerable to pressure to disburse credit and to monitor progress, only by the amount of credit disbursed or savings mobilised, do not contribute to institution building.

This study attempts to throw light on the question whether credit management is a useful instrument for institutional building – an if it is – what are the features of credit management that contribute to this potential for institution building. Whether institution building leads to empowerment is a query that the study also throws light upon. The empowerment of the poor can be considered both within the group, as well as outside; this study documents findings in both areas.

Another concern that this study attempts to address is whether all the members of the Self-Help Groups are empowered or only a few. Translated, this query takes the popular form: Do the organisational processes that operate in a Self-help Affinity Groups ensure that the poorest members share in the benefits in an equitable manner?

This study analyses the number, size and purpose of loans which the "lower poor", "middle poor" and "upper poor" have accessed. It looks at the trend in savings to assess whether they are "forced" or "voluntary". It documents the number of "lower poor" who have held positions in the groups and the number of members who have been elected to the Panchayat Raj Institutions. It assesses the impact of groups on village life and the impact on gender relations in members' families. It also documents the degree of "economic" progress achieved by group members.

Finally, this study attempts to present a case that structural constraint in the institutional sphere that leads to and holds people in poverty are equally important as the constraints that restrict their political, economic and social space. The study focuses on MYRADA's experience which started in the early eighties (1984-87); it began by fostering alternate institutions of the poor, before attempting to change policy and the institutional framework of existing systems which tend to deprive the poor of opportunities and keep them un-empowered. MYRADA's experience confirms that once these alternate institutions are functioning, changes in policy and in operating systems of the official institutions are more easily achieved. MYRADA does not attempt to mainstream these alternate systems set up and managed by the poor; rather the strategy is to get official systems (the mainstream) to accept the alternate systems and to support them. Attempts to mainstream these alternate institutions rather than to change official policy and systems to accept these alternate institution in their own right could also result in disempowerment. Empowerment therefore is based on and grows out of people's own institutions; it is not bestowed on them by anyone or by any attempt to decentralise.

If the reader has the patience to go through the first few chapters she/he may find "food for thought" in the last five! The author is grateful to Shri Rajan and Shri Satishchandran for their foreword.

Chapter 1

THE INDIAN MODEL

With reference to models related to credit provision, which is the focus here, it needs to be stated clearly that Myrada is not a MFI (Micro Finance Institution); it does not hold the savings of Self Help Affinity Groups in its account nor does it advance loans. The reasons for this position is explained in detail in an article entitled "Is Micro Credit Heading Towards a Macro Mess" which is attached in Appendix 8 for ready reference. Unfortunately, the popular perception is that Myrada functions like an MFI; as a result, Financial Institutions with funds meant for micro-credit are curious when Myrada refuses to borrow from them and on-lend. The pressure on Institutions like SIDBI[1], HDFC[2] (1) and others to lend to intermediaries, particularly NGOs, (since they do not find direct lending a viable proposition) is significant. This is understandable, considering that funds to support micro credit programmes, amounting to an approximate sum of Rs. 820 crores, were lying unutilised with about six major FIs (both Government and Private) in June-July 2000.

The "SHG-BANK Linkage" model is today recognised as the model which is most appropriate to Indian conditions. It was launched without any fanfare by NABARD and the RBI in 1992 and celebrated its 10th anniversary in November 2002 when it became clear that it was a success and that about Rs.2000 crores had been advanced by Banks to Self-help groups all over the country. ***There were really two distinct paths that led to the present scenario.***

The first path began in 1984 when the first set of self help affinity groups emerged spontaneously when the larger co-operatives organised by MYRADA broke down due to conflict. These were not Savings and credit groups. MYRADA discovered that a degree of affinity existed among the members of these small groups who wanted to take up several initiatives as well as to return the money borrowed from the co-operative, but not to the co-operative; the suggestion that they should return it to the "group" that had approached Myrada was tentatively agreed to by the people. MYRADA built on this affinity (which was based on trust and mutual support and which was recognised as the major strength of the group) through a package of training modules which helped the groups to build their vision/mission, strategies to achieve it and appropriate financial and organisation systems and procedures to manage their institutions (SAGs) that they had set up. By 1986 MYRADA had formed about 300 groups and approached NABARD for an R & D grant to start a pilot experiment to assess whether the groups could function as genuine institutions with functions that went beyond savings and credit. MYRADA assumed that if the groups did function as genuine institutions, then a number of rules governing loans could be waived and the Banks could lend to groups directly. Based on its experience in the field, MYRADA took the lead in preparing training modules for the groups institutional capacity building and to help the groups to evolve appropriate financial systems and monitoring practices; MYRADA also developed software to collect and analyse data on the purposes and sizes of loans, repayment performance against purpose and size etc. so that it could answer the many questions raised by NABARD and the RBI.

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1 SIDBI – Small Industries Development Bank of India

2 HDFC – Housing Development Finance Corporation

The second path began with the several studies conducted by NABARD and MYRADA between 1989 and 1991 to assess whether the groups were indeed "bankable" and whether the transaction costs of this model were competitive. No doubt the influence of financial institutions tended to highlight the financial functions of the groups vis-à-vis their social initiatives. On MYRADA's part, it was realised that the ***management*** *of savings and credit (rather than the provision of credit) had emerged as a major factor in building the confidence and skills of group members; it also played a major role in motivating the group to meet regularly. These studies proved to NABARD and the RBI that the groups were indeed bankable. It is to the credit of NABARD and the RBI that these two major financial institutions took steps to change policy and to invest in training Bank officials so that the financial institutions could lend directly to groups (as distinct from lending to individuals in groups) after assessing the strength of the group as a institution. The SHG-Bank Linkage model which resulted from this initiative was launched in 1992. However unless MYRADA had played a crucial role between 1987 and 1990 in proving that the groups were bankable, this linkage would not have been possible. Finally it must be recorded that the SHG-Bank linkage strategy was attempted as a pilot in Indonesia in the mid 80s;but the pilot collapsed because the Banks found the transaction costs too high; this was because they continued to function traditionally advancing individual loans to members and applying all the usual Banking norms covering interest, purpose and repayment. In West Africa this linkage was not between the Bank and the groups but between the Bank and intermediaries which on-lent to groups. The direct linkage between Banks and SAGs and the changes in policy that this strategy required, together with provision of training are features of the Indian model.*

Myrada's role in micro-finance was (and continues to be) restricted to:

i) **Identifying Affinity Groups**, i. e., Groups whose members are linked together by a network of relationships which enables them to perform certain traditional, support functions. This affinity, which exists prior to any outside intervention, is based on a degree of mutual trust, reciprocity, functional support and homogeneity among the members and a degree of commitment to self reliance and voluntarism; the level of affinity may not be high but it was adequate to cope with traditional needs. It constitutes what could be called – traditional, social and institutional capital.

ii) **Strengthening the Groups institutional capacity** – The traditional social capital was not adequate to promote and manage new functions and responsibilities. It was therefore necessary to build new social and institutional capital (new and deeper relationships of trust and mutual support, a greater commitment to self reliance and voluntarism and necessary skills and systems for functional interaction and networks) to undertake new roles and responsibilities.

iii) **Training members to develop their confidence, attitudes and skills to manage not only financial resources** but to take the lead as change agents in society and in the home; these strengths were necessary to cope with the social and political barriers than obstructed the empowerment of the poor and of marginalised sectors like women.

iv) **Lobbying for policy change so that the official finance system** recognises the alternate systems of the poor in their own right and supports them, instead of imposing official and standardised rules in the name of mainstreaming people's institutions.

v) **Training Bankers** to assess whether the Groups are bankable institutions and to establish a long term link with them through a line of credit

vi) **Offering opportunities for members to acquire new productive skills.**

vii) **Linking the Affinity Groups with banks, markets, private sector enterprises** and among themselves **to form Federations** for on-going support to individual groups.

During 1984-85, Myrada made several studies related to the structural causes of rural poverty. Dependence on credit was identified as one of the major factors that resulted in the poor losing land, failing to build up capital and increasing their dependence on those who had regular and assured sources of income. The poor had limited access to credit from formal institutions- hardly 20% of credit actually disbursed came for the four official financing institutions, namely the Commercial Banks, Regional Rural Banks (RRBs), Co-operatives and Land Development Banks (LDB). The official institutions dispensing credit were subject to political decisions and pressures, lack of capital and initiative, inappropriate credit policies and norms and a general sense of decay. MYRADA also realised that it was not enough to teach the poor to fish when they could not reach the river. Their way was blocked by a host of hurdles mainly constructed by social and political forces which they could not overcome alone. The SAGs individually and in Federations provided them with the confidence, power and skills to negotiate these hurdles and to work out solutions adapted to each situation.

This writer was asked in the mid-eighties to start in India a clone of the Grameen Bank of Bangladesh. He pointed out that India had a vast network of Banks. Though in some States, Banks were (and still are) constantly in the red, particularly where they are overly politicised, in general, the banking system functions reasonably well. Priority sector lending is mandatory. The Regional Rural Banks (RRBs) which were instituted in 1975, together with the Co-operative Societies, were expected to spread the formal credit system in rural areas particularly among the poorer sectors. The RRBs in particular (which incidentally were instituted in 1975, two years before the well known Grameen Bank of Bangladesh), were expected to provide a delivery system with comparatively low transaction costs, which was flexible and "friendly" especially to the poor. These are features which in the popular mind characterise the Grameen Bank of Bangladesh. However, thanks to a combination of aggressive trade unionism and unbalanced socialism, the base of the RRBs was eroded. Yet their network was established and there was hope that a majority of these institutions could be revived.

What India needed was not another Bank; rather it needed a model which used the existing Banking network, but was adequately decentralised (designed and controlled by people), low cost and flexible enough to respond to the complexity of individual needs. This was the basis for the alternative credit system which Myrada had started promoting between 1984 and 1986 and which the Government and the Financial Institutions were invited to assess.[3] Myrada however insisted that <u>if this</u>

[3] For a detailed description of this model please refer to, "The MYRADA Experience in Savings and Credit" published in 1991 by this author.

alternate system was considered by Government to be adequate and appropriate to achieve the objective of providing credit to the poor, and could therefore be supported officially, it would not be "mainstreamed" by the financial institutions; "mainstreaming" as understood by official institutions meant that the alternate system had to accept and abide by the rules and procedures of the official system. On the contrary, if the Banks opted to finance these affinity groups, they would have to accept the rules designed by the groups and to work within the framework developed by the groups to manage their affairs.

Myrada's approach to credit is imbedded in its overall mission to build peoples institutions as instruments of empowerment. Myrada's Mission goes beyond promoting savings and credit, to empowerment of the poor. To achieve this broader objective, Myrada assumed -- on the basis of its early experience - that it was necessary to invest in building institutions of the poor whose structure and systems (organisational and financial) are designed by them, appropriate to the resource to be managed, and based on traditional and cultural norms and relationships. The assumption was that the structure of these appropriate institutions and their governance systems developed by the members would in turn foster the attitudes and skills required for sustained management, would build the ability to mobilise resources, to establish linkages and to initiate change. Together, these features form the basis of empowerment. Several impact studies have confirmed that this assumption is valid. **Myrada concluded that participation of the poor, therefore, would not lead directly to their empowerment; it would lead to building institutions and linkages. The experience gained in building these structures and networks and in maintaining them (which requires coping with vested interests which try to undermine institutions of the poor) in turn would empower the members.**

The credit management model that emerged in the late eighties, after several years of trial and error, was one with structural features different from those of the Grameen Bank or the model adopted by major MFIs which are all centralised and controlled by a Financial Institution. It was initially called the "Credit Management Group" approach by Myrada since the focus was on "management" as an empowering tool. When NABARD started supporting this initiative in 1987, the name of the model changed to "Self Help Groups". When the Government of India decided to officially accept this model in 1998-1999, MYRADA decided to change the name to "Self Help Affinity Groups" to highlight the critical importance of "affinity" as a binding force. Incidentally, affinity is not synonymous with 'similar activity'.

The differences between the groups formed by the Grameen Bank and the Self Help Affinity Group Model are several:
To begin with, the self-help group model started with identifying affinity groups. Since this affinity existed before the NGO intervened, there was no fixed number of members in a group; the number in each group rangeS from 15 to 22. **Secondly**, the SAGs were not primarily formed to provide credit, but to meet regularly to discuss their problems and their strategies to overcome them. **Thirdly**, when the members expressed the need for funds, they took the decision to save; as a result the groups' capital was built on savings. No promise was made that savings would leverage grants; on

the other hand the group was informed that if their performance was good, they would be linked to Banks to access loans; they would have to start to meet members credit needs by disbursing loans from their savings. **Fourthly**, all the decisions regarding savings and loans as well as initiatives to intervene in society are taken within the group. The individual loan applications do not have to be carried to a Bank. The group is free to loan for any purpose. Analysis of data indicates that in the first year a large number of loans were given for health, food, clothing and to release members from moneylenders to whom assets had been mortgaged – yet repayments exceeded 98%. The trend changed over the next two years towards "trading" and "asset" loans. **Fifthly**, the interest rates are decided by each group and they differ from group to group and from loan to loan. **Sixthly**, the interest earned does not leave the group; it is added to the group's capital from which loans are advanced **Seventhly,** members are free to leave the Group according to the rules worked out and agreed to by all. **And lastly**, the groups are linked to a Bank and organised into federations, leaving MYRADA the freedom to withdraw.

These are some of the features that distinguish the groups in this model from that of the Grameen Bank of Bangladesh. Myrada believes that these organisational features are critical to a credit management model for it to have the potential to be an effective instrument to promote empowerment. Instead of starting a clone of the Grameen Bank, the Government was requested to change the official Banking policy to make it more responsive to the requirements of credit and savings institutions like the self help affinity groups, set up by the people. It is to the credit of NABARD that it took up this challenge and supported the emergence of alternate credit systems both with grants from its R & D fund as well as in the major area of policy change.

When the pilot project initiated by NABARD and Myrada started in the mid-eighties (1987), the self help group model was adopted – **Myrada preferred to call it the Indian Model**. Later, in the early nineties NABARD called it the SHG-Bank Linkage Model. It was based on three pillars: the NGO, which identified the affinity group and trained it; NABARD which provided the NGO (Myrada in this case) with funds under its R&D programme to match the savings of the Credit Management Groups (the precursors of the Self Help Groups), and the Banks which would come into the picture if the pilot project succeeded; their role would be to extend a line of credit to the groups without asking for the purpose of the loan to individual members. NABARD agreed that in the pilot project the official norms which restricted loans to tangible assets and "unit costs" would not be imposed; that the groups could lend for any purpose including various types of "consumption", without any ceiling imposed by NABARD on the interest rates; that the groups could decide whether to be formally registered or not; in either case, they would have to abide by a set of norms which are required for any organisation to grow and survive. Myrada assisted each group to develop these norms. The groups started with regular savings, deposited in a group common fund from which they advanced loans and managed repayments for at least 6 months before the NABARD matching grant was extended. The Banks would lend directly to the group and not through an intermediary.

Each of these pillars had their respective comparative advantages. Myrada had experience in identifying affinity groups and in training them, NABARD had the funds to experiment and, above all, could influence policy throughout the rural banking sector; the Banks had the potential to provide credit in an on-going manner and the potential to acquire the expertise to assess whether each group was an institution could be considered as a sound investment opportunity. The affinity groups that are functioning well are those that have benefited from the comparative advantages of these pillars.

A study by NABARD compared the transaction costs of three models namely: direct lending to individuals (e.g. in the IRDP programme), lending to intermediary organisations which in turn lend to Groups and the SHG-Bank Linkage model where Banks lend directly to Groups. This NABARD study concludes that the overhead costs of the SHG-Bank model both to the borrower and lender are far less than in the others.[4] On its part Myrada divides the interventions required to set up functioning and bankable groups into three categories: In the first category falls those activities required to identify "AFFINITY" groups. This category of activities cannot sustain itself and needs to be subsidised fully. Myrada therefore decided that this set of activities would be led by an NGO. In the second category fall those activities required for training the group. The details of the modules required are described in Chapter 5. Once again this category of activities is not self-supporting. It has to be subsidised; but the degree of subsidy depends on each situation. Finally in the third category fall those activities necessary to establish a relationship of "borrower and lender" and a line to credit to the group. Myrada's experience indicates that this set of activities can become self-supporting provided the institution responsible is professionally managed and traditional Banking policies changed. Myrada restricted its interventions to the first two categories of interventions and left the financing to Banks, RRBs and to Sanghamithra (a Not for profit - Not for Loss Company which Myrada set up to lend directly to self help affinity groups). MYRADA also realised that the financial systems required for a MFI to operate effectively were not the same as those required by a professionally managed NGO to manage its affairs. Therefore it would be in the interest of all concerned to separate the organisations according to their functions.

This alternative credit management model also required a change in Bank policies; in this area NABARD took the lead. The changes required were the following:

- from lending to individuals - to extending a line of credit to the Affinity Groups
- from the requirement of defining the purpose of each loan in advance - to being informed of it after the group had lent to members
- from the regime of unit costs, fixed interest rates and schedules of repayment - to freedom to the Affinity Group to decide

4 Refer to the study in "Transaction Costs of Lending to the Rural Poor" by Dr V. Pugazhendhi of NABARD; published by the Foundation for Development Cooperation, Brisbane, Australia

- from restrictions on purpose (limited to income generating assets) - to the willingness to accept the decision of the Affinity Group which often opted to give loans for consumption e. g. education, food, release of property from moneylenders, etc.

The Affinity Groups challenged the prevailing fashion of "group" income generating projects, which were jointly managed and owned and which many Government sponsored credit programmes promoted, including the latest Swarna Jayanti Swarozgar Yojana. In its place, the affinity group demanded freedom to decide what type of loan to extend to each member from the common fund, which remains in the control of each group. The variety of loans that emerged was amazing; an example is given in Table 1.2 below. This variety provided additional evidence that the model promoted by Myrada had the potential not only to mobilise and manage financial capital but also to create adequate institutional space for the members to decide on every aspect of credit and savings management.

As an example of a profile of the content of the total common fund of the groups in Dharmapuri project (one of eleven projects managed by MYRADA) as well as of the purposes for which loans were disbursed, is provided below:

Table 1.1 Composition Of The Total Common Fund Of All 1143 Groups Of Dharmapuri Project

Total No. of Groups: 1143 (all women's' group)

Total No. of Members: 18,749 Date: As on 31-12-2001

Membership Fee	139,976.00
Savings	53,665,988.75
Fines	581,463.00
Others	671,289.00
Donation	155,297.00
Interest Collected from Loans	47,482,259.00
Bank Interest	1,059,618.00
Capital Mobilised from Government	2,168,164.00
Capital Mobilised from NABARD	20,000. 00
Loans from Bank/Sanghamithra (MFI)	35,141,800.00
Community Contribution	773,378.00
Repayment to Banks/Sanghamithra (-)	17,314,220.00
Refund (-)	391,552.00
Total	**124,153,460.75**

***NOTE**: This fund is not held in a consolidated manner; each Group's common fund remains in its control and in its own dedicated Bank account.*

The number of women's Groups is much larger than others since this project is primarily focuses on women.

The largest component of this fund (43%) has been mobilised from savings of each member. Next in size is the amount of interest that the groups earned on loans and which remained in their own accounts; it comprises (38%) percent of the common fund. Loans from Banks and Sanghamithra amount to 28% only of the common fund. The largest component of the common fund (81%), therefore, belongs to the groups. Fines indicate that the Groups are willing and able to impose sanctions, and that members are ready to accept them for dysfunctional behaviour. Members are fined for failure to repay loans in time, being late or absent for meetings without prior intimation, smoking in a group, disturbing meetings, not sending children to school after the group has decided that this is a duty of every member, etc. The ability to "fine" indicates a healthy institution. It is based on a realisation of the fact that rules are of no use unless they are enforced and that sanctions, particularly where the members have themselves elected to introduce them, are a major instrument of promoting self-discipline.

Table 1.2 Purposes of Loans advanced by the 1143 Groups in Dharmapuri Project as on 31-12-2001

ACTIVITY	NO. OF LOANS	AMOUNT LOANED (RS.)
Clothing	1,934	4,853,376
Education	2,629	6,753,705
Food	6,214	7,622,085
Health	4,966	9,623,460
Household Expenses	26,685	74,822,701
Socio-Religious	4,571	17,570,261
Repaid To Money Lenders	5,688	21,745,994
Crop Loans	29,273	96,462,727
Equipment (Agriculture)	28	413,000
Minor Irrigation	403	427,605
Land Development	1,006	2,323,515
Seeds	19	13,099
Bullocks	25	58,490
Cow/Buffalo	11,090	45,092,408
Poultry	42	108,840
Piggery	22	7,084
Sheep/Goat	1,054	1,630,638
Cottage Industries	511	3,469,480
Tailoring Machines	15	25,000
Petty Businesses	3,574	19,888,157
Sericulture	162	385,718
House Construction	5,870	19,379,064
House Electrification	677	65,481
House Repairs	1,576	5,702,048
House Purchase	23	118,700
Rent	12	15,250
TOTAL	**108,069**	**338,577,886**

If the groups are free to decide on the purpose of loans, the diversity that emerges is amazing. General trends of loans in Myrada indicate that in the first year the average number of loans for consumption is large (around 40% to 50% of total loans), while the total amount is comparatively small (around 20% - 25%). In the following years the number of loans for trading, release from moneylenders and for small assets tends to increase. The number of loans for larger assets (like milch cows) rises in the third year.

Most micro-credit models, which have been propagated by International and National Finance Institutions start by forming Groups, but continue to decide on the purpose of loans, on the rate of interest and schedule of repayments. They continue to keep records in the name of individuals, demand to know the ultimate purpose of the loan before they release the money and restrict loans only to asset creation or income generation. All critical decisions are taken outside the group. Briefly, they tend to use the group as a "tool" to implement their micro credit programmes and to ensure repayment. Myrada's experience indicates that these micro-credit models are structurally vulnerable to some of the common criticisms related to marginalisation of the weakest members of the Groups. The organisational demand of the Micro Finance Institution is to cover all its risks and administrative costs which are comparatively much higher than in the Myrada model, where the Banks lend directly to the Affinity Groups. MYRADA learned that if the poorer families are to join and remain in affinity groups, a few structural features should be incorporated, for example: a) there should be no policy restricting loans only to income generating assets, since the poorer sectors require loans for consumption at least in the initial stages; b) the group should be based on affinity among its members; the members should not be selected on the basis of criteria imposed by a particular "scheme"; c) all families should be considered potential borrowers and not only the "economically active" members; d)the mechanisms for lending and repayment should be flexible enough to suit individual situations and therefore they must be decided by each group; e) the interest rates should be flexible and decided by the group in each case.

Often SAGs are identified with savings and credit groups (S & C groups). There is a difference between the two. S & C groups, which have a rather long history, did not go beyond what their name signified. SAGs are basically civic institutions; the management of savings and credit is one of their functions though, in most cases, a major one. Hence, a major investment is required to build the institutional capacity of an SAG. If the SAG is considered to be bankable, it is because of the institutional strengths of the group, not because of the purpose of loans and their viability.

Myrada is concerned about the credit flow in the rural areas. It therefore seeks to ensure that at least 20% - 25% of the credit demand from the poorer sectors in its project areas is met through the Affinity Groups, which have emerged as appropriate institutions to manage savings and credit with a potential for stability. It attempts to encourage this credit flow, both through its own efforts as well as by networking at the District level with other NGOs, Commercial and Regional Rural Banks, and recently with District Co-operative Banks. It is conscious of the fact that private credit sources will continue to be required, as the formal institutions cannot cope with the credit demand, especially from the poor. Several surveys indicate that if about 20% to 25% of the credit can be provided by the affinity group network through direct linkages with formal credit institutions, the interest rates levied in the informal sector by private sources operating in the area decline, at times by over fifty percent.

Myrada does not project the Affinity Groups as institutions that will continue to be the only instrument that meets the credit needs of their members. The members are free to decide whether or not the roles and functions which the groups have promoted and supported are relevant at each stage of their personal growth. They are competent and free to change them or to leave the group or to disband the group if they decide that their investment in maintaining the group is no longer worthwhile. Several Groups, after 6 to 8 years have dissolved after clearing their dues to the Banks and deciding on how to disburse their savings and other group income. Individuals from these Groups have approached the Banks directly for larger loans or joined other private associations providing credit, to which, according to their own feedback during studies conducted by outside evaluators, they had no access prior to the credibility they acquired through their experience and progress as members in the affinity group.

The Myrada model, which seeks to use the official Banking network, was referred to in the World Development Report (1998-99) brought out by the World Bank.

Excerpt from World Development Report (1998-99) – pg. 125

"In rural Southern India an NGO called Myrada wants to put itself out of business in five years by forging links between bankers and the poor. To integrate its credit management Groups (*sanghas*) into the commercial banking system, it requires *'sangha'* members to assume responsibility for maintaining their own financial records, for forming and enforcing their own lending rules, and for participating in regional organisations (called apex bodies) run by elected '*Sangha'* representatives.

The apex bodies teach members how to resolve disputes, select and train new members, and negotiate with commercial bankers for progressively larger loans. Most important, the apex bodies take on long-term management of the '*sanghas*' when Myrada staff leave. Myrada is thus a temporary broker for bankers and the poor. Its objective is to help the poor become "bank-friendly", and the banks become more "poor friendly".

Myrada's most mature project, in Holalkere, involves 214 *'sanghas'* and about 4400 people. By mid 1996, three years after the apex bodies were granted full managerial oversight of the '*sanghas*', 81 *'sanghas'* were meeting without Myrada's supervision and were receiving loans directly from commercial banks. Perhaps more important, the *'sanghas'* are now role models for neighbouring villages, with at least three new ones having formed without any assistance from MYRADA".

The Report adds: "In Grameen Bank's Group Lending model, would-be borrowers first form Groups of five. Although the loans go to individuals, all group members understand that if any member defaults, none will receive subsequent loans. Myrada, a rural Indian NGO, employs a similar strategy **but goes a step further in seeking to establish self-sustaining links between Banks and the rural poor".**

Chapter 2

RATIONALE OF THIS STUDY

There are several criticisms levelled against micro finance models, many of them based on studies conducted by consultants to various international institutions financing micro finance initiatives. Two of these have found expression in a document brought out by The World Bank sponsored CGAP (Consultative Group to Assist the Poor) called "CGAP's Little Red Book on Micro Finance". The first is that **"the current micro credit models do not support the poorest"**. Proponents of these MFI's however argue that this is largely because of the requirement (often from donors) that they become self-sustaining. The second is that **"forced savings (required as a condition of a loan) do not teach people to save** -they are not really a savings service; their function is to increase the effective interest rate, and reduce the MFI's risk on its loan contracts. Given a real choice, clients typically prefer loans without forced savings". Myrada's experience indicates that there are models where savings are not "forced" by an external agent, where savings are not held or appropriated by the MFI but retained with the group, where savings teach people thrift and build a degree of confidence, self reliance and independence which increases their ability and willingness to take risks and to lobby for change. There are other criticisms, which are considered **more significant by NGOs**. The major ones are that the poorest members **in** the savings and credit Groups do not have equal access to credit and other benefits as the others, that the "poorest members, anyway, do not become members of these groups and that there is little impact on the "position" of marginal sectors including women in the home and in society as a result of group participation and membership

This Chapter and those that follow attempt to throw light on issues raised by these criticisms, as well as on others, in the context of the micro finance model promoted by MYRADA, which focuses on the critical role that is played by poor people's institutions whose members are linked together by a degree of affinity. These Chapters also seek to ascertain whether the poorest members in these institutions (Self-Help Affinity Groups) have a fair share of resources, whether they gain in confidence, have access to positions of power within the affinity group and in society, whether in the perceptions of the group their standard of living of each member has improved, whether the group has played a role as a change agent in society, whether the position in the household of women changes and finally whether financial institutions consider them as bankable institutions. In this context, they seek to throw light on the structural role that the mobilisation and management of savings play in the functioning of Affinity Groups, and how and why savings are mobilised and managed. The following Chapters extract findings on these issues from several studies conducted by national and international institutions as well as by MYRADA.

If the findings from these studies indicate that the SAG model of finance management (including the structure of the affinity groups, their functioning and governance and their linkage with financial institutions) has played a role in reducing significantly the constraints that are the major causes of the criticisms (related to forced savings and exclusion of the poorest) described above, then Myrada has some basis to conclude that the four pillars on which its micro finance strategy is based, possess a degree of validity and appropriateness and can continue to be vigorously promoted. The four pillars are:

1. The structural feature of **affinity** on which the group is formed and which binds the members together. This feature of affinity distinguishes these groups from others formed on the basis of common activity or prescribed membership criteria of groups which are often set up by intervenors with the primary objective of implementing the scheme or project through the group. This affinity among members exists before Myrada or any other NGO intervenes. The affinity group needs to be identified. This requires experience and skills which enable the intervenor to see and feel the local situation and to empathise with the community rather than to intervene with a package of practices or a scheme. Once identified, Myrada invests heavily in providing institutional capacity building inputs to help the affinity groups develop their own vision and a strategy to achieve it. Such groups may or may not agree to implement a specific project; when they do agree, they ensure that they review and, if needed, adapt the scheme and/or revise the implementation procedures prescribed to ensure their effective **participation and control** at every stage. This quality of leadership in mature groups was evident when Officials attempted to sell the SGSY scheme in 2000. The groups insisted on full control of the purpose of loans, questioned the relevance of the SGSY strategy to provide a similar activity to all members and proposed to amend the scheme in order to extend the full amount as a loan with a back-ended subsidy. Myrada arrived at the concept of "Affinity" after a long experiential search between 1985 and 1990. Myrada's analysis of the membership of these affinity groups indicates that in most groups the members come from various communities, castes and religions; there is however a degree of homogeneity in terms of income and often in occupation (like all are landless labourers); there are strong bonds based on mutual trust and support among the members and a degree of self reliance and voluntarism.

One of the happiest experiences this writer has had was when he happened to be present at a SAG meeting called by a Banker to propose the Swarna Jayanti Swarozgar Yojana to the group of 20 members. The group was about 4 years old and assessed as a "good" group. The Banker proposed that every member should take 3-4 milch animals (as this IG programme was selected as the most appropriate for the District –though it was a drought prone one). The members debated awhile. One pointed out that the water and fodder resources available could not cope with 80 animals. However the Banker kept persuading them and then played his best card:"You will get a subsidy of Rs.120,000!" The group fell silent. Finally one member spoke up: "Sir, we are grateful, but you can keep the subsidy since we will never be able to manage the cows; besides if we take 80 cows into the village it will create a problem among ourselves and with the others"". The silence of the others confirmed that they agreed with her. The group had built up its social and financial capital on its own, there was a strong commitment to self reliance as a result of the success the members had achieved through their own efforts; the strong affinity among the members was also evident to the Banker.

2. A micro finance model, which enables the group to control all decisions; no decision regarding purpose and size of loan, interest rate and schedule of repayment, is taken outside the group. This is a major departure from the popular credit model managed by MFI's. This is the major reason why the cost of managing the Myrada model diminishes rapidly as the groups' function on their own with a credit line from the Banks and management support from the Federations or Apex bodies. This allows Myrada to decrease its involvement with the groups from year to year and to withdraw from hundreds of groups every year and to promote new ones. The Banks prepare only one loan document. They do not know the purpose of each loan advanced to the members or the rate of interest levied. They learn to assess the institutional strengths of the group and as far as repayment potential in concerned to assess its cash flow. The transaction cost decreases by about 40% for the Bank and by about 60% for the borrower.

One case story randomly picked from many describe how the flexibility regarding the purpose of loans is critical for a group member to make the right choices; the control of the group over the decisions regarding the purpose and size allows for this flexibility.

Sundaramma from Holalkere is 38 years old; she lives with her husband and two children. They do not have any land; she and her husband work as agricultural labourers. They live in a rented house and opened a small provision store at the front of it. She is a member of a group which is 4 years old. She saved regularly during the first six months and then asked for a loan of Rs.5000 from the SAG to expand the provision store. After repaying the loan she took another of Rs.10,000 (Rs.5000 to expand the store and Rs.5000 to purchase a milking cow.) She repaid this loan and took another to purchase 6 sheep; the flock expanded to 12.She sold 7 for Rs 10,000 and invested the amount in a chit fund since she still owed money to the SAG and could not take another loan. When her turn came to get the chit, she purchased one house site and took 2 acres of coconut farm on lease for 1 year for Rs.5000. Her husband started selling tender coconuts. She took another loan of Rs.15,000 (Rs.5000for one milk buffalo, Rs.5000 to expand the provision store and Rs.5000 to purchase wholesale bakery items which her husband sells along with the coconuts.) The family now has assets worth Rs.1 lakh.

Examples spread across Myrada's projects where the groups have been able to advance loans to members for assets which could never have been advanced under IRDP or any other antipoverty scheme involving loans and subsidies. The following examples are extracted from the Annual Report of the MYRADA Krishi Vigyan Kendra, Talavadi:

- Purchase of one bullock at a time, (either to replace an existing animal or to build a pair at a more affordable pace) instead of a pair at the same time. Purchase of local cows for ploughing in drought prone areas.
- Purchase of second-hand irrigation pump and pipelines that are in good condition and at the same time, more affordable instead of a new one as most schemes require
- Purchasing only a few critical crop inputs instead of being compelled to take the full crop loan package offered by banks.
- Repaying old debts and regaining control over assets mortgaged to moneylenders
- Purchasing a calf and rearing it so that it grows while adapting to the home environment, instead of a full grown exotic cow or buffalo.

- Investing in off-farm businesses, starting small and experimentally and then gradually expanding. In response to a request for a loan to start a tea stall, the group broke up the loan request into several smaller amounts starting with purchase of what was required like cups, kettle, stove and later providing loans for a shed etc.
- Particular mention must be made of trading – with or without value addition – which no institution is ready to support. Over 20% of the loans are for trading.
- Taking land (or small plantations –like coconut) on lease for cultivation/harvesting or purchasing land for cultivation or house plots
- Treatment of animals, purchase of feed and fodder, improving the cattle/sheep shed, etc.
- Experimenting with new agricultural technologies on a small-scale (e.g. 'drum-kit' irrigation, vermin-composting, erosion control structures, etc.
- Investing in home improvement (e.g. construction of toilet, smoke free kitchen environment, planting of kitchen gardens, grain storage bins etc.)
- Not the last and also not the least, enabling people to meet their social obligations that are necessary to sustain community relationships, enabling them to purchase grain and subsist in a lean year, enabling them to enjoy an occasional pilgrimage or picnic, and enabling them to invest in education to build a future for themselves and their children.

3. A significant institutional capacity building input provided by Myrada, which focuses on building institutional and social capital adequate to cope with the new roles and functions adopted by the group: This study does not elaborate on this aspect but describes the capacity building modules briefly in Chapter 5 to highlight the total inadequacy of training provided under several Government sponsored micro credit programmes.

Myrada has published a Training Manual for capacity building of Affinity Groups, which is a combined effort of 30 staff, based on their experience in training over several years. This manual which lists 24 Modules, collapsible into 14 sessions and which focuses on building the institutional and social features of Affinity Groups as well as on their organisational and financial systems, is available on order. It has been translated into Hindi by Swa-Shakti; major parts of the Manual have been translated into Myanmarese by UNDP, into Basha Indonesia by an IFAD supported project and by UNDP- Bangladesh into Bengali. The translations have all been adapted to local conditions. NABARD has supported a major training programme for Bankers; these programmes are conducted by various organisations spread over the country. Myrada itself has trained over 5000 Bankers. However, Myrada's training courses focuses on Bankers who are involved in areas where there are major development programmes which have micro finance as a component. These programmes are supported by Multilaterals like IFAD and the World Bank and by State Governments like in Tamilnadu (Mahalir Thittam) and Karnataka (Sthri Shakti).

4. Constant and systematic efforts to change and adapt official policy to support (not dominate) the initiatives of the Affinity Groups. Traditional financial policy and practice does not recognise that Affinity Groups exist as institutions in their own right; the practice of requiring each group member to submit a separate application

for a loan and to keep records in the name of individuals is not easily given up by Bankers who have no experience in assessing institutions

NABARD has taken the lead in several States to call regular meetings of NGOs involved in the SAG Bank Linkage programme, Bankers and Government officials. These meetings have contributed significantly in identifying obstacles and removing them in order to make the linkage programme as effective and friendly as possible.

This study does not attempt to analyse the structure of the credit models established by major MFI's which have attracted the criticisms expressed in the CGAP publication. The criticisms, however, indicate that models where credit provision is the fulcrum are not effective instruments of empowerment. Myrada's experience and the findings from several studies referred to in the following Chapters, indicate that the **management of credit (rather than its provision) does have the potential to be an empowering tool. This shifts the focus of micro finance strategy from achieving targets of credit disbursement to the concern to promote appropriate institutions of the poor, controlled by people who have a much broader vision than access to credit.**

Based on the findings of several studies referred to in the following chapters, this study presumes to claim that for credit management to be an effective instrument of empowerment, it must first be a friendly and effective instrument for institution building of the Self Help Affinity Groups. It is only if finance management succeeds in fostering an institution which possesses all the features required for effective and sustained governance and empowerment of its members that it will avoid the dysfunctions that a model driven by provision of credit tends to create.

This study does not presume to promote the "ultimate model"; it seeks rather to extract learnings from Myrada's field experiences on which future strategy can be built. It is envisioned that these insights and learnings will help to support models which give priority to building appropriate institutions of the poor which avoid or at least reduce the weaknesses of popular Micro Finance models.

Chapter 3

SOURCES AND METHODOLOGY

SOURCES

The findings recorded here are drawn mainly from two studies: The first, of six affinity groups from two projects, namely Kamasamudram and Challakere, was led by Myrada and the second of 64 affinity groups was led by a Research Team from the Centre for Advanced Training in Agricultural and Rural Development (CATAD) attached to the University of Humboldt, Germany. The CATAD study was financially supported by German Agro Action (GAA). Reference is also made to a third study entitled "Social Intermediation Study" which covered seven affinity groups in MYRADA's Challakere Project. This study was led by a group of three consultants, commissioned by the Canadian International Development Agency (CIDA) and the Agha Khan Foundation (Canada).

METHODOLOGY

These three studies were conducted in a participatory manner where the Affinity Group members played a key role. The data was collected using a mix of participatory methodologies within a conceptual framework and with attention to transparency and a degree of systemisation to allow comparison; triangulations were used to arrive at greater accuracy These exercises were conducted over a period of time - ranging from six to 9 months - so that people involved became familiar with the process. All the Affinity Groups involved were mature groups; many had been involved in exercises of self-assessment.

THE MYRADA STUDY

[5]The Myrada study was conducted in six groups drawn from two projects namely Kamasamudram (supported by EZE, Germany) and Challakere (supported by German Agro Action) while the CATAD study was conducted in one project, namely Holalkere (supported by German Agro Action). The three projects are all in Karnataka, and are supervised by the same Programme Officer (Ms. Yasmin Master). All three projects have integrated strategies. Apart from promoting SAGs, they focus on dryland agriculture, watershed management, arid zone development, small-scale industries and on-farm activities, drinking water and sanitation, health and education. They have a major component of capacity building both for their community based organisations, as well as for members of the Panchayat at various levels. Training programmes are

5 The following staff of Kamasamudram Project were involved in the study: Mr. Rohan Mallick, Ms. Smitha Ramanathan, Mr. Nissar Ahmed, Mr. Chinnaswamy, Mr. Nithyananda Rao and Mr. Janardhana.
The following staff from Challakere Project were involved in the study: Mr. V. Yenjerappa, Mr. William, Mr. Prasad Murthy, Mr. Revegowda, Mr. Ashok Hagedal, Mr. T. S. Shankar and Mr. S. M. Patted.

conducted for Bankers, NGOs and Government officials both from within the project area and from outside, as well as for other institutions on request. Several innovative approaches in credit and watershed management including recharge of traditional water bodies have emerged in these projects.

The members of the six Self Help Affinity Groups analysed in the Myrada study were all categorised as "poor" without further sub-division at the time of forming the group. This assessment was done using PRA tools by the village in general together with the staff involved, and later by the group members themselves. No doubt there were differences in potential among the members, in terms of enterprise, skill and confidence; but these emerged later, as the Affinity Groups started functioning. Myrada conducted the study of these 6 Groups three years after they were formed. The Groups went through several participatory exercises focusing on wealth ranking and on change in economic and social status over a period of three to six months during the course of the study. The criteria for assessing "poverty" was left entirely to the choice of the members. Each group selected its own criteria. There was a striking similarity in the criteria selected by all the Groups. Myrada did not attempt to quantify these criteria which covered income, expenditure, health, education, perceived degree of vulnerability of assets and stability of income. Briefly Myrada adopted the participatory approach in identifying poverty criteria, even though this approach throws up social indicators, which tend to annoy several experts who find the attempts to provide weightage to them, biased and not adequately professional. After all, many of them also find the village reality "messy". The `World Development Report 2000' acknowledges these social dimensions when it stresses that the poverty mitigation strategy needs to promote opportunity, empowerment and security; but unfortunately the tables at the end of the Report continue to measure poverty entirely in terms of income. A serious attempt is required to create a poverty index that takes empowerment and security into account.

During the self-assessment exercise promoted in the Myrada study, the group members (who had been categorised as "poor" when the group was formed) further sub divided themselves into three categories, namely **"Upper poor", "middle poor" and "lower poor"**. They also went further and selected criteria against each of these three categories. They then assessed themselves against the criteria they selected at the time of joining the group and compared their status three years later at the time of this study. There is an element of "hindsight" in this exercise; but the assessment was done by members who had progressed significantly in their ability to assess themselves and who had developed a respect for transparency and good governance in their Groups. Myrada has faith in the ability and judgement of members of mature Affinity Groups. This faith is not blind; it is based on Myrada's experience of their management of affairs and of their governance of their institution over several years, of their involvement in the village and, in many cases, even beyond. Myrada is of the opinion that it is difficult to compete with the comparative advantage that people, who have had the benefit of managing their group affairs over several years, bring to bear on such assessments.

THE CATAD STUDY

The CATAD Team, which focused on "impact" as a component of monitoring progress during the life of a "project", selected 64 Affinity Groups, which had been functioning for one to five years. SAGs were selected through stratified random sampling in three age categories (1,3 & 5 years). Since the parameters were the same for all age categories it was possible to establish co-relations between the age of the SAGs and the achievement levels they had reached. (In comparison, Myrada's study selected six Groups functioning for three years, and assessed peoples perception of impact at the present time when compared to their status when the groups were formed). The methodology adopted in the CATAD study was the use of intensive structured interviews of group members and individuals. The poverty line was quantified and was based on income and consumption patterns. (For further details refer to the report: `NGO-Based Participatory Impact Monitoring of an Integrated Rural Development Project in Holalkere Taluk, Karnataka State, India' published by CATAD, Humboldt-University, Berlin).

SUMMARY OF FINDINGS OF BOTH THE STUDIES

Though there were certain difference in the approaches used by Myrada and CATAD, the trends in the findings are similar. In the Myrada study, 75% of the members were perceived by the group to have improved in socio-economic status after 3 years. A major percentage of those who were perceived not to have changed belonged to the "Lower poor" category. The CATAD study, which assessed change after 3 years and again after 5 years, indicates that 70% had improved in socio-economic status after 3 years and 86% after 5 years. It is reasonable to assume that given two years more, the Groups studied by Myrada would have achieved a similar level of performance (namely 85%) in the 5th year. Impact in areas related to holding positions of leadership in groups by the "lower poor" category, contesting in elections to Panchayat institutions by group members, initiatives taken by the groups to initiate change in the village and shifts in gender relations were assessed separately by the two major studies, with the third study (Social Intermediation) adding to the insights. These issues and the findings are described in detail in Chapter 12 "The Question of Empowerment".

There are however differences in the two approaches. The Myrada study intended to assess whether there was upward mobility particularly among the members who were categorised as the middle poor and lower poor. The CATAD study attempted to assess whether the members who were classified as "poor" when they joined the group, had crossed the poverty line. The CATAD study did not attempt to categorise the "poor" into the three levels as in the Myrada study. There are, therefore, several limitations in making comparisons between the findings from the various studies, though each study does present valid findings by itself. In general, however, the findings from the studies support each other. Attention has been drawn to the shortcomings, leaving the readers to make their own assessment.

Chapter 4

A FEW BELIEFS

Before proceeding with the analysis of the findings drawn from the studies, it is useful to recall and to reflect on some of the basic beliefs from which Myrada's model of Self Help Affinity Groups with a focus on institution building emerged and grew. These beliefs also form the rationale for the credit model based on the Self Help Affinity Groups, and their linkage to the Banking Institutions.

WHY FOCUS ON INSTITUTIONS?

Myrada believes that "**people's** institutions", which MYRADA describes as institutions whose **membership is based on affinity, whose functions, systems and activities** the members have taken **the lead** in developing or promoting and over which they have **control** in day-to-day operations, are the social building blocks of a thriving democracy. These institutions are supported to develop their own vision/mission, an appropriate strategy to achieve it and a culture of self-reliance, mutual trust and support. Such institutions have the potential to play a critical role in empowering the poor in a sustainable and progressive manner.

Myrada believes that it is not enough to teach the poor to fish when they cannot reach the river. On the way they meet with several obstacles, some physical, others social. Among the social obstacles are those presented by powerful families whose interests will be threatened if the poor person reaches the river. These powerful families also catch fish, in large quantities, and control the market. Further, they ask, "What right has this person to encroach on our traditional income sources?" The poor often fall short of money on their journey to the river; they need money to purchase food, to fulfil social obligations or when they fall ill. At such times, they are compelled to borrow at usurious rates, often from these very people who question and obstruct their access to the river. As a consequence they have to spend their entire life repaying the interest. When the capital cannot be repaid, they are bonded for life. As for the physical obstacles, drinking water is a good example. The poor very often have no access to safe drinking water, because they are excluded from using the wells controlled by the upper castes; as a result they fall ill and become too weak to reach the river. The poor soon realise that reaching the river alone, without the support of others bound together by affinity in an identifiable institution which is also their power base, is a hopeless task, even though they have been taught to fish.

Experience in the field provides adequate evidence that the poor need not only backward and forward linkages, but also **sideways linkages**. In other words the poor require the support of others whom they trust and among whom there are supportive and non-exploitative relations. They require this support in order to take a decision which involves a certain element of risk, or which, they perceive, will carry them into a situation which presents an opportunity but where they do not feel comfortable since they do not have the confidence, skills or back up resources required to make use of a potential opportunity. These sideways linkages, based on a degree of "affinity" existed among families especially in rural areas, before any outside intervention. People, in these affinity groups, relied on one another in daily life for support. This network of relationships became more evident in times of urgent need, of calamities in a family and even during festivals or celebrations. The members shared certain common features: for example, they lived on the same street or in the same small hamlet, they had a common ancestor or came from the same area, there was a degree of homogeneity in their livelihood occupation and income levels, they had a tradition of extending voluntary support and were confident of similar support from other members, they were willing to undertake new responsibilities without expecting any incentives from outside. Mutual trust was a dominant factor in this **network of relationships which is popularly described as "affinity".** The demands arising from living close together, sharing similar livelihood sources, like agricultural labour, which required group support, constantly reinforced the network of mutual trust and support.

MYRADA believes that finance even though managed by poor people, is critical but not enough to build a stable basis to support livelihoods and promote empowerment.. In order to reach the river they need to have adequate supporting services that **protect and promote their health** without which they cannot work or walk, that **improve their literacy** (without which they cannot read the signs showing the path to the river) that **build a power base large enough** to protect their rights and initiate change (hence the need to federate, to establish linkages and to be able to lobby according to accepted norms and within the law), that **reduce risk in investment on dryland agriculture** (hence the need for watershed management and new technological packages) and that **enhance the portfolio of off-farm livelihood options** (hence the need for technical training, for linkages with the private sector etc) . These are the reasons why MYRADA also promotes and invests in these supporting services

Though the members of the groups are bound together by a degree of affinity based on traditional roles and functions, with the introduction of new roles related to the management of savings, credit and the governance of their institutions as well as to their potential to become agents of change, these informal relationships among the members had to be strengthened and new ones had to be fostered to cope with new functions Simple systems developed by people were also required to ensure transparency and accountability. Members also had to acquire skills of promoting institutional growth and self-assessment over a period of time. MYRADA provided the groups with opportunities to develop these organisational skills, systems and culture. It expected that the process to equip the members with these skills, with the ability to manage the systems and to promote the groups organisational culture, and the gradual interiorisation of these features would in turn equip the members and create the space required so that the members would be able to decide on matters critical to their livelihood activities, to protect their interests and to build a stable basis for their growth and empowerment.

MYRADA believes that the groups require to set up their own monitoring systems to ensure that they functioned according to the standards which they had set for themselves. The idea of forming federations emerged during discussions with the SAGs. The SAGs however insisted that they would decide on the roles and functions of the Federations. There are over 200 such Federations in MYRADA's projects; in no case have the SAGs given them finance to manage or on-lend. Their functions are related to monitoring and audit of group activities, to resolving conflicts , to lobbying with Government and to protecting their interests. Monitoring of their financial performance is provided by the financial institutions which advanced the SAGs a line of credit. The SAGs could ask for support (on payment) from the Resource Centres which MYRADA leaves behind when it withdraws from project areas.

The experience from the field which strengthened these beliefs and proved that the assumptions made were valid, motivated MYRADA to promote groups of the poor, not to implement a programme or to negotiate a single obstacle but to be stable enough to ensure that obstacles when they arise are successfully surmounted. The basis for this stability is established by nurturing the group to develop an appropriate and adequate governance culture and systems which are the typical features of a well functioning institution. Briefly, Myrada describes institutions as groups, which have developed and interiorised the **following six features: Vision/Mission, Organisational Management Systems, Financial Management Systems, Linkages and an Organisational Culture of Monitoring and Learning.**

Annexure 2 (Building Institutions) further describes why Myrada focuses on institutions. The conceptual **framework** of a participatory methodology to equip Community Based groups to assess their institutional features is described in **Annexure 3**. The **criteria** to monitor Self Help Affinity Groups periodically, guidelines for financing them and criteria to assess these Groups to allow Myrada to withdraw are all described in **Annexure 4**.

INSTITUTIONS BASED ON AFFINITY

Between 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 systems. 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. They were informed that they had not taken the loans from Myrada; hence the issue of repayment to Myrada did not arise. "Why not repay to the 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".** 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 **relationship**s of trust, relations that were non-exploitative, on certain **social factors** like a degree of homogeneity (in income) 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 **activities undertaken together** (like basket weavers – though caste also had a role to play here). Interestingly no groups were formed on the basis of political party affiliations.

Levels of Trust between SAG Members[1]

"We measured trust between SAG members using two parameters:

1. The degree of unresolved conflict within the group; and
2. Whether the process of conflict resolution within the group tended to depend on the Groups own resources or whether it tended to be MYRADA staff centric.

We were able to correlate levels of trust within the group with three visible factors:

- Homogeneity of member's background within the group,
- Levels of familiarity between all the members before group formation; and
- The member's perception of the quality of leadership in the group".

(Taken from the Social Intermediation Study Page 18)

The affinity relationships that existed before the intervention of an outside agent were adequate to support traditional actions like mutual help in times of sickness or childcare. This complex of sideways linkages or relationships among the members bound them together as well as supported the roles and functions which they adopted. This complex web of relationships based on values and traditional practice was often referred to as " traditional institutional and social capital". With new functions emerging, this traditional capital had to be built up to cope with the demands of effective management, including the social role that the groups had to play, both to initiate change in order to protect and further their interests, as well as to establish linkages with supporting services and institutions. Myrada does not take the position that 'social capital' is static and can present an obstacle to change; rather, given adequate institutional and social space and capacity building support, it has the potential to provide a base on which institutions, with "social capital", adequate to cope with new roles, can be built. These institutions can be empowering, provided the structure and the rules, functions and the supporting systems are designed by the people and are **appropriate to the resource to be managed** and which can be adapted or changed in response to emerging situations and needs.

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1 Quoted from a study on "Social Intermediation" sponsored by CIDA and the Aga Khan Foundation, Canada (Page 18)

> The phrase "appropriate to the resource to be managed" has been used several times and needs explanation. A milk society after the AMUL model, for example, has an institutional structure which is appropriate to manage milk but is not appropriate to manage credit targeted to the poor. The milk society at the village level is large and heterogeneous. The large farmer who produces a surplus of 10 litres of milk and the small farmer who produces just half a litre are both members of the society. In this case, however the small farmer needs the big farmer; it is the latter's supply that makes the milk route viable. In the milk society it could be said that the small person sits on the back of the big one. A sufficiently large number of members is required in order to produce the quantity of milk which makes the route viable. In a credit society however, a heterogeneous structure will result in the big person exploiting the small. The functioning of the Co-operatives is ample evidence of this. The large farmers and powerful members sit on the backs of the small and the poor who depend on the powerful for loans and jobs. The self-help affinity groups managing credit therefore need to be homogenous; the members need to be of the same economic status and there should be no exploitative relationships among them. They also need to be small so that they promote effective participation of all. These principles hold true for other groups managing micro watersheds or village sanitation. In brief, unless the structure of the group is appropriate to the resource to be managed, the performance of the institution will constantly require intervention from without in order to achieve its objectives.

Though "social capital" is an appealing term, Myrada has hesitated to apply the term 'capital' to the complex of relationships among members of the Self Help Affinity Groups, mainly because the relationships that members of a group establish among themselves are not only motivated by material gain – which the word 'capital' popularly implies. These relationships in fact are motivated by a mix of social and material needs. Based on existing evidence, it is even 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 groups social needs, however, often tend to get priority. People meet 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 the 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 (in the common fund) or material progress. These are also indicators of a well functioning institution with a high quality of governance.

Myrada does not consider quick increases in household income as the only objective of its credit strategy. It has other and equally important objectives, namely empowerment of the members both as a group and gradually as individuals. Myrada's strategy is to use credit management as an instrument of institution building, which in turn lays the basis for empowerment. The pace and progress of the empowerment of individuals however differs from member to member. In some cases individual members leave the group after 4 to 5 years; they are able to hold their own in society, have confidence to forge and maintain linkages with other institutions and service providers and relate directly for larger loans with the Bank, which had extended a line of credit to the group. In other cases, they are accepted by traditional "chit fund" Groups. These members report that they themselves did not have the confidence to join these groups, neither were they invited to do so, prior to their membership and experience in the affinity group which gave them a degree of credibility.

The role of these affinity groups which function below the Grama Sabha is critical to the intervention strategy of Myrada. These groups provide the basis for the poor and the marginalised to express their opinions in the Grama Sabha. There is considerable support for the decentralisation policy promoted through the Panchayat Act; however Myrada's experience **indicates that decentralisation at most has the potential to create social spaces**. It does not follow that these spaces will be filled by the poor. For this to happen there must be a movement from below to promote institutions of the poor and intervention to build the capacity not only of individual members but more importantly of the groups and their federations. These institutions provide the poor with a sustained basis of empowerment. Decentralised authority both bureaucratic and political removes one hurdle to peoples' efforts to lobby and exert pressure for their rights, for it brings these authorities closer to the people; it is necessary to promote people's participation and empowerment but not enough.

The role of credit management in institution building and empowerment is further elaborated in Chapter 6.

MYRADA's experience also shows that the SAGs play a critical role in stabilising and monitoring watershed management institutions and in introducing new strategies based on self reliance and a degree of voluntarism, For example, it was the SAGs which introduced the strategy of converting all grants (for treatment of private lands to control and manage water and soil) into loans returnable to the watershed management association. For a more detailed description of the role of SAGs in watershed management refer to **Annexure 5**.

Before concluding this Chapter, it maybe useful to reflect briefly on the various types of groups being promoted under recent development programmes implemented by Government, some of which are supported by Multilateral and Bilateral Agencies. In most cases, the groups formed are viewed primarily as "implementers" of the programme with the added attraction that responsibility of the intervening agency can be off loaded onto the group (often without adequate institutional capacity building investment) in the name of "empowerment". The claim of some intervenors (including donors) that, "we are empowering the groups", often amounts to little more than shifting the monkey from their backs to the group. The "implementer" image of groups formed in this context is strengthened by the message often given explicitly by field staff: "if you want money, you must form a group and carry out a particular action to prove your good intentions". If the criteria for the selection of beneficiaries is pre-set by the project, it further strengthens the impression that the group composed only of "eligible" beneficiaries is viewed as an "implementer". The only linking factor between members is that they conform to the criteria set by the project to qualify as beneficiaries; there is no internal factor or binding force like affinity, linking the members, that existed prior to the intervention and which will continue (with new strengths and functions) after the project is over. Once formed, such groups are given little or no institutional capacity building to build their own vision and a strategy; on the contrary they are advanced funds often within a week of their formation. In some cases they are asked to save for a short period before a "matching" fund (often on a 1:5 basis) is provided.

These groups fit into the "delivery" mode in which most Government sponsored projects and schemes operate; they are the final link in the delivery chain and suffer from all the constraints imposed by the intervenor related to costs, systems, schedules, reports and programmes. Once people receive the benefits they expect from the project, there is little incentive to continue to invest in group development and institutional building.

The above approach in group formation based on "groups as implementers", often leads to problems in implementation. For example when the Women's Empowerment Project implemented by the Tamilnadu Women's Development Corporation and supported by IFAD began in Dharmapuri in the late 80s, Myrada formed groups on the basis of affinity. The project target was to reach 10, 000 "beneficiaries". Many members in the affinity groups, however, did not qualify for support under the criteria set by the project. As a result, Myrada had to organise over 18000 women into affinity groups of whom 10, 000 qualified as "beneficiaries" under the project. The others in the group availed of loans from their groups' common fund and from other sources mobilised by Myrada.

While Myrada realises that for practical reasons, groups will continue to be formed within the context of a "project", yet, to reduce the negative impact on institutional building that this project context imposes, it is important to ensure the following: **1**. groups need to be formed on the basis of affinity, not on the criteria for beneficiary selection –this requires a change in the traditional approach to costing of the community organisation component which is guided by the number of beneficiaries. **2**. At least six to eight months must be devoted to institutional capacity building before the group is asked to prepare plans for investment in infrastructure or to apply for loans or grants for individual assets. **3.** During this period a significant investment in capacity building is required; this should focus on helping the group to build a vision and a strategy which is not limited by the "project" on hand but by what the group envisages in the long term. Once again this requires a significant change from the present approach where, for example, interveners, after the ritual PRA exercises, ask the group to make a "watershed plan" (within the first two to three days after the initial visit) since the project proposed focuses on watershed development. Rather, several modules on capacity building are required to build the institutional strengths of the group and to support the group to work out a strategy to achieve its vision. The project on hand can then be viewed as one of the many interventions required to help the group to implement its vision. **4**. If the project envisages provision of credit, the group should be assessed on the basis of its institutional strengths (not on the viability of each individual loan) and a line of credit provided to the group, leaving the group to decide on the purpose of each loan, on the interest rates, repayment schedules and on sanctions for failing to conform to agreed schedules or accepted norms of social behaviour.

Besides the above category of groups formed in the context of a project, there is another category of groups organised in the context of extension services. This "group" approach to extension particularly in the area of agriculture is a step away from the traditional training and visit extension approach which tended to focus on individuals like "lead farmers". However, these extension groups are also viewed as "receivers of messages" with the added potential of providing opportunity for exchange and sharing. As practised, there is little investment in institutional capacity building; these groups differ significantly from the group strategy that Myrada promotes.

Myrada believes that after several years, the self help affinity group will be able to decide whether it should continue or whether it has served its purpose and can wither away, whether it has to re-engineer itself to take on new roles and functions or whether the present interests of the members require them to leave and join other institutions or establish linkages on their own. Myrada has never been claimed that each affinity group will continue "for ever". What it seeks to ensure, as far as possible, is to build the members confidence and skills to ensure the sustainability of the impact on the lives of individual members that resulted from participating effectively in the functioning of an affinity group. The continuation of the group itself depends on the decisions of the members. The needs and aspirations of each member change over time, and while some may decide to leave the affinity group, others may apply to join or the group itself may decide to dissolve; some members may decide to form or join other groups which are structurally more appropriate to support their growth like traditional chit fund groups formed to provide larger loans, or unions or networks to lobby for their social and political rights.

Chapter 5

INSTITUTIONAL CAPACITY BUILDING OF SELF-HELP AFFINITY GROUPS

The critical importance of institutional capacity building for Self-help Affinity Groups to function as institutions cannot be over-stressed. Myrada invests both time and resources in capacity building. This investment is essential for a group, in order for it to develop into a functioning institution with a vision, a sound governance structure and supporting systems. With the group undertaking new responsibilities like savings and credit, adequate investment is required to enable new relations among members and skills to develop and for affinity to grow. This group capacity building takes time. Unfortunately, many programmes which adopt group formation as their strategy tend to push groups into implementing programmes or receiving loans within a month of their formation.

Thought there is a provision for capacity building of groups in many Micro Credit schemes sponsored by Government and Financial Institutions, in practice this is given low priority. The reasons are many and range from lack of adequate financial provision in the budget of some projects and delay in grounding that cuts into preparation time, to a misreading of what is meant by training for capacity building of institutions. As a result training is often given lip service and, if provided, is restricted only to the leaders of groups or to several groups at one time, in what turns out to be a half day "mela" where the project is explained and the scheme inaugurated by a politician or official often at a major function, the costs of which are met from the training fund. How often is the excuse heard: "There is no time, the targets for disbursement of subsidies and loans must be met". But the truth is, there is no realisation what 'capacity building' really entails and little appreciation of the long-term empowerment potential of this investment. In many states the 'capacity building' input under the *Swarna Jayanthi Swarozgar Yojana* (SJSY), a Government sponsored anti-poverty scheme has been reduced to one day. Further, the members of several groups are called together for a training session. This reduces the agenda to an explanation of the scheme. There is no capacity building of the group. In most cases under SJSY only the Presidents and Secretaries of the Groups are invited for these one-day training sessions. This further widens the gap between these office bearers and the rest of the members.

Myrada has been able to invest heavily in capacity building of institutions both of people (like SAGs) as well as of intermediary organisations (like NGOs). This is mainly due to some of its partners who have identified this area as a priority and provided support. The approach of these organisations is to support the thrust to build people's institutions in all Myrada projects, as well as to help build other NGOs (and lately Financial Institutions like RRBs) to promote similar people's institutions. Interestingly, the major contribution towards building institutional and organisational capacity, first came in the mid eighties from Government related Organisations like the Canadian International Development Agency (CIDA), and Swiss Agency for Development and

Cooperation (SDC) and from Trusts like the Ford Foundation. Among the NGO partners, German Agro Action, Hope International Development Agency of Canada and NOVIB from the Netherlands, have played an important and strategic role in capacity building of Myrada, other NGOs and of people's institutions.

Considering the low priority given over-all to 'capacity building', an outline of the modules that Myrada considers essential is given below. "How to" conduct these modules, is described in detail together with exercises and games, in a 207 page manual brought out by thirty Myrada staff with several years of training experience. The Manual titled, *The MYRADA Experience – A Manual for the Capacity Building of Self Help Groups* is available on request. Relevant parts of it are already being translated and adapted in Myanmar, Indonesia and Bangladesh, in projects supported by IFAD and UNDP. It is also extensively used in the IFAD project, underway in the North Eastern States of India, and in parts of Orissa and Madhya Pradesh, in DANIDA and CARE projects. It has been translated into Hindi by the Swa Shakti programme of the Government of India. This Manual has to be continuously upgraded and adapted and Myrada encourages all those interested to do so. It can be used for capacity building not only of Self Help Groups but also for any community based organisations.

The 'Capacity Building' initiative for people's organisations consists of the following main modules.

1. **A Structural Analysis of Society:** The purpose of this module is to help participants to analyse the structure of society and to understand the relations between its various components. In the process, they are sensitised to their social and economic condition and to the constraints that they face in society. Participants are also urged to reflect on the opportunities available to them in their immediate environment that may help them to break out of the poverty trap. This module conveys the message, that it is not enough to teach people to fish when they are not even able to reach the river. They need to understand the nature of the obstructions and their mutually re-inforcing relationships preventing their access to the river.

2. **Analysis of Local Credit Sources:** The purpose of this module is to identify various credit sources accessible to the poor, analyse their advantages and disadvantages and hence, to deduce the need for an alternate source of credit. The concept of a Self-Help Affinity Group is also briefly introduced in this module.

3. **Self-help Affinity Group – The Concept:** The purpose of this module is firstly, to communicate the need for people to take a lead in development activities so that they have ownership of these activities. The management of credit is proposed as an activity in which they can take a lead provided they are willing to spend time in designing the structure and the rules and functions. Secondly, this module introduces the concept of a Self-help Affinity Group as an appropriate

structure to mange credit and to foster participation, institution building, governance skills and empowerment. This module describes the structure and functions of a group and explains the rationale behind the structure and functions.

4. **How a Meeting of a Community Based Organisation is conducted:** The aim of this module is to impart effective meeting skills to the participants to ensure effective participation of all members, to realise the need to record all decisions and to function in a transparent manner.

5. **Communication:** The purpose of this module is to help participants to communicate more effectively with each other as members of a group and to improve the quality of interaction between group members, external institutions and other people.

6. **Affinity:** Affinity is a network of relations – the basis that binds the group. It is what one can call social capital. This capital needs to be built up, as new roles and responsibilities, demanding a higher state of affinity or a larger social capital base, emerges in the group. To manage these effectively, affinity must be expressed through unity in action. The purpose of this module is to motivate participants to constantly strengthen the social capital base of their group.

7. **Vision Building:** A vision is a picture of an organisation in the long term. Every institution must possess a vision of its own, in order to direct its energies and bring about positive and sustained change. People also must be their own 'change agents'. This module is a small but concrete step towards equipping the group to develop a vision of its own and to commit itself to achieving it. It needs to be repeated periodically.

8. **Organisational Goals:** The purpose of this module is to facilitate participants to set goals for their own lives and for the group. During the process of this training module, participants are helped to develop a set of goals for the group, which are based on the vision developed by the group in the previous module.

9. **Planning, Resource Mobilisation, Implementation, Monitoring and Evaluation (PRIME):** The purpose of this module is to impart simple Planning, Resource Mobilisation, Implementation, Monitoring and Evaluation (PRIME) skills to group members. Participants are enabled to acquire PRIME skills to implement their group's goal or vision by hands-on experience of planning and implementing a small micro-project of their own selection.

10. **Rules and Regulations:** The aim of this module is to facilitate the effective functioning of the group by enabling all members to participate in developing rules and regulations, which are appropriate to the needs of the group.

11. **Responsibilities of the Group Members:** The purpose of this module is to generate awareness in the participants about their responsibilities towards the group.

12. **Bookkeeping and Auditing:** The aim of this module is to help members to acquire skills and insights, which will enable them to monitor and retain control over the group's finances even if they are not financially literate.

13. **Leadership:** The purpose of this module is to create awareness amongst participants on the need for leaders who 'generate' trust and respect, who have a vision and who encourage everybody's participation in the group. The module also communicates the importance of periodic rotation of leaders in a group.

14. **Conflict Resolution:** The purpose of this module is to generate awareness amongst the participants that conflict is natural in any group; that it will arise in the group and that it is possible to discuss conflict openly and to resolve it. Unresolved conflict may result in a situation where each person suspects the other and refuses to listen or to share. This module also attempts to develop basic conflict resolution skills in the participants. These skills will be further built up as the group gains experience in handling conflicts.

15. **Collective Decision Making:** The aim of this module is to communicate the importance of consensus or collective decision making to the participants and to equip them with the skills involved in arriving at consensus or collective decision in the group.

16. **Common Fund Management:** The aim of this module is to impart the skills of common fund and credit management to the group members. This is a critical input since the experience of developing the culture and systems required for governance of the common fund in a transparent and equitable manner is itself empowering. The continuous need to re-engineer these systems makes the experience of governance of the common fund an effective tool to sustain the process of institution building and empowerment.

17. **Self-Assessment:** The purpose of this module is to communicate the need for group members to periodically assess their group. During this module, participants are equipped with the basic skills and framework for assessing their group. Participants are encouraged to conduct a self-assessment exercise regularly. It is important to stress during the exercise that it is not only the ranking that is important, but also the process through which the ranking has been done. This process provides an opportunity for the members of the group to look inwards and to analyse their strengths, weaknesses and opportunities as a group.

18. **Group Graduation:** Every group must gradually decrease its dependence on the NGO/Intervener and eventually graduate into being a self-reliant and independent institution, while at the same time establishing supportive linkages with other organisations. The purpose of this module is to communicate to participants the need for a group to develop into a self-reliant institution and to help them to assess to what extent their group has been able to achieve this.

19. **Linkages with other Institutions:** The purpose of this module is to communicate to the participants that no institution can function and survive in isolation, and to help build the networking skills of the participants. This network adds to the power base which people require for support in order to clear the hurdles created by powerful vested interests.

20. **Building Credit Linkages:** The purpose of this module is to familiarise members with the terms, conditions and procedures involved in obtaining a loan from a financial institution like a bank, and to help them analyse whether or not they are eligible to avail of the loan. The design of this module is suitable for a group, particularly if it is planning to avail of a loan for the first time. The module also helps to build the group's confidence to approach the financial institution.

21. **Federations:** Federations should not be fostered for achieving the agenda of the NGO, such as taking over the NGO's role after withdrawal from a project. Instead, they should emerge in response to a push or a need from the primary Groups. The primary Groups should play a major role in settling the federations agenda. The purpose of this module is to create awareness among participants of the concept of a federation and to help the group to arrive at some clarity as regards its structure and functions.

22. **Credit Plus:** A group has the potential to provide space and support so that each of its members can identify and use opportunities for he/his empowerment, both in private and public life. The purpose of this module is to motivate participants to identify these opportunities and undertake activities other than savings and credit. These activities could be common actions through *shramdaan*, or taking up issues that affect society, or topics related to their lives like family planning and on the role(position) of women in the home and in society.

23. **Analysing Gender Relations in the Family and Community:** The purpose of this module is to make participants sensitive to the dynamics of gender relations in the family and the community. The module also discusses the differential access to and control of resources by men and women in the family and the community. Finally, the module emphasises on how women may come together to challenge existing gender equations which are harmful to them. This module has been designed for women members. It may need to be significantly altered to be of use to the male participants.

COSTS OF CAPACITY BUILDING

The funds provided to support one affinity group throughout the process of acquiring institutional features that can cope with its new and expanding roles and functions, vary from group to group and programme to programme. Since this investment has a medium to long-term objective, adequate priority is not easily given in projects that seek to achieve targets of disbursement quickly. Government sponsored micro credit programmes based on the group approach, have a very short-term vision. Given the frequent changes in Government, investment in anti-poverty programmes cannot help being driven by short-term objectives. The difference in the allocation of funds in various Government sponsored programmes for building institutional capacity of Self-help Groups, confirms this assessment.

Stri Shakti: (A Government of Karnataka Programme): Rs.600 per group. Duration of training: One year.

NABARD: (Government of India): Rs.1500 per group. Duration: One year

Swa Shakti: (Supported by the World Bank/IFAD in six states and implemented by the respective Women's Development Corporations): Rs.16,000 per group. Duration: 3 years. **Note:** Myrada played a role in the formulation of this project. However, the actual costs incurred differ from State to State and is often far less than budgeted for.

Myrada's strategy is often criticised for being "high cost" mainly because it insists on investing in quality in its approach to capacity building and recommending an annual audit of the Affinity Groups by Chartered Accountants. The perception of being "high cost" due to investment in 'capacity building' needs to be put in perspective. To invest about Rs.10,000 in training a group is reasonable. The investment in each member of an average group of 20, works out to Rs.500/-. Is this amount too high to invest in providing a life-oriented education that membership of an affinity group offers? Besides, group training and firming up linkages with other institutions is also empowering. This in turn helps to build the basis for sustainability of impact. Those who hold that an investment of Rs.500/- is too high, are perhaps influenced by an underlying cultural climate that allows people to be comfortable while taking a position that "any quality of technology and education – is good enough for the poor" (the implication being that there is no need to go for "the best" technology or capacity building inputs for the poor).

As for the importance given to audit, in reality it cuts costs by reducing the time taken by bankers to assess a group and by lessening the potential for conflict. It raises the confidence that bankers have in the group, thereby building a basis for a direct relationship of trust between the two institutions. Once bankers know that an Affinity Group has been audited, they tend to reduce their need for assurance from the NGO that the group is "good". Myrada's experience indicates that after the groups were audited in 1998 for the first time by Chartered Accountants, the number of groups that established linkages with Banks increased dramatically.

(From the Social Intermediation Study – Draft Page 2)

"Markers by which Myrada measures change, with respect to the social capital building in the groups MYRADA is working with (in this case, SHG members) include:

1. Whether each SHG has developed a vision of its own and has specific plans for its implementation.
2. Whether the rules and regulations of the SHG are framed by the members themselves, are understood and acceptable to all members; and are followed by all members.
3. Whether all members of the SHGs understand the issue being debated by the group, and the weaker members are also encouraged to participate.
4. Whether the representatives of the SHGs are changed regularly on a rotational basis so that all members are given a chance to develop leadership qualities, and a few members do not dominate the group.
5. The extent of development of networks between SHGs and other institutions.
6. The ability to mobilise resources from other agencies on their own.
7. The extent of contact between individual SHGs in the community.
8. Whether information on new programmes, Government policies and schemes is discussed in meetings.
9. The level of awareness and understanding of members on the procedures of access to new programmes of the Government and banks.
10. Whether there is an increase in numeracy levels in the group.
11. The ability of the SHG to plan for, and successfully implement a common action programme of their own.
12. The ability to mobilise the participation of non-members in these programmes.
13. The level of participation of SHG members in Grama Sabha meetings."

Chapter 6

MANAGEMENT OF CREDIT – AN INSTRUMENT IN INSTITUTION BUILDING AND EMPOWERMENT

Myrada's mission briefly is "**To build institutions of the Rural Poor**". Credit emerged in the early 90's (1983 – 1984), as one of the major tools around which a people's institution could be built. (Natural Resources within a watershed emerged as another tool in the mid-eighties). It was not credit delivery per se, **but the management of credit** that evolved as an appropriate tool for institution building. Myrada realised that the pattern (model) of credit management would play a major role in shaping the structure of the institution and consequently its potential for empowerment. The model needs to provide institutional space for people to decide and control the signposts in the process of credit management and in the governance of the institution. These signposts are: the membership and size of the group, decisions on the size and regularity of savings, on the purpose and size of the loan, on the interest, on the schedule of repayments, on sanctions. If the model provides adequate space for members to establish these signposts, studies indicate that it plays a major role in building people's confidence and skills to manage other functions that heir group may decide to take on. The model, therefore, cannot be pre-designed. It has to emerge from experiences of the people; it has to develop from below. The process involved in arriving at these decisions serve to build up the capacity of the members. Myrada's role is to foster the process through which the people could evolve the most appropriate institution to manage credit, which suits their needs, and conforms to their cultural features.

In most micro credit strategies on the other hand, the model is pre-established by the intervener. This tends to make the group part of the delivery mechanism, rather than an institution in its own right, which constantly generates its own rules and ensures that they are effectively implemented. The group that emerged as a result of the process that Myrada initiated and nurtured, consisted of members who are linked together by affinity and not by any criteria set up under an official scheme to target beneficiaries. All decisions related to membership, size of group, functions and responsibilities, sanctions for dysfunctional social behaviour, size and regularity of savings, purpose and size of loans, interest schedules of repayment and sanctions for default, are taken by the group. The Groups roles and functions also go beyond credit. This is why Myrada describes these Affinity Groups as "**Credit Plus Groups**". In contrast, most MFIs fix the rate of savings, decide on the purpose and size of loans (the practice is to design a "product"), to standardise the rate of interest, and the schedule of repayments. The popular practice is to fix a flat rate of interest and a weekly repayment schedule which effectively raises the cost of credit, particularly in the case of small traders who require finance weekly for the purchase of new stocks; these traders are forced to repay weekly to the MFIs, even though it is more to their benefit to repay in lump sum when the repayment period expires.

From an analysis of its experience and of the surrounding social and economic environment, Myrada realised in the early 80s that it was not enough to organise the poor. They need to be organised around an issue (like minimum wages) or a resource (like capital). Organising them around a resource, which Myrada chose to do, requires time, an institutional structure that is appropriate to the resource to be managed, and the potential for this structure to evolve into an abiding institution, which can survive on its own terms, without having to be 'mainstreamed'. **A strategy which aims at mainstreaming people's institutions is disempowering, as it seeks to impose the systems of the mainstream on people's initiatives.**

In the mid-eighties, the resource identified by Myrada was 'capital'. Other organisations chose to fight for higher wages through unionisation, or for land distribution to the landless. Myrada's choice of credit does not mean that these alternatives were not appropriate. Any choice that excludes others does reveal a bias. But an intervener is free to select an entry point which it considers strategic to break the poverty cycle, and then move to motivate people to restructure other critical areas relating to land and wages. Myrada adopted this approach. It assumed that if credit institutions were formed and controlled by people, if they provide for members immediate consumption and income generating needs, (which surveys showed were the major cause of dependency and exploitative relationships) and if other inputs related to capacity building were provided, people would move to initiate changes in wages, and land use and ownership, as their confidence and independence increased. Initiatives taken in these areas by mature SAGs proved that this assumption was valid.

When it emerged from Myrada's studies that:

- over 80% of credit availed by the poor came from non-official sources, at high interest rates – ranging from 5% to 10% per month and often included interest in kind, like priority ploughing of the lenders fields, running of errands, etc.;
- that unpaid debt was the major cause of landlessness and marginalisation;
- that in such a situation the poor could never accumulate adequate capital to make any investments in the future and would be forced to live in a state of acute dependency .

Myrada decided to focus on making credit accessible to the poor, **but on their own terms and conditions,** and to use credit as a tool to build people's institutions. Since people needed it and were accustomed to it, credit emerged as a "friendly" tool to build their skills of management, their independence and their self-confidence.

Myrada has consistently fostered an integrated programme. Credit provision is only one of the pillars of its over-all strategy. However, in every sector, the focus has been on "management" of the resource involved. The other major areas where management patterns were fostered include watershed management (to increase productivity in agriculture, biomass and forestry in a sustainable manner); management of the habitat including housing, water and sanitation, and of off-farm initiatives in collaboration mainly with the private sector. One example is the collaboration with Titan Watches involving about 300 poor women who have formed their own private company. These initiatives focus not only on the outcomes and impact on livelihoods, but more importantly, on the process, which fosters people's ownership of their institutions. Myrada is aware that credit alone will not suffice, however, because the poor depended for credit on private sources at usurious rates,[1] the lack of credit supply was a major cause of their increasing marginalisation, vulnerability and endemic poverty. Intervening in the area of credit was therefore selected as an entry point which could provide the opportunity to break the poverty cycle.

An analysis of the trend in the lending pattern of members in Affinity Groups shows that after the initial period where their priority is to take loans for consumption (which they would otherwise have availed of from private sources), people borrow to release their lands and trees (like tamarind) from moneylenders, to invest in agriculture, in land development and even to purchase land; loans for trading comprise a large part of the portfolio. There is ample evidence that the decrease in dependence on moneylenders has lowered the interest rate all around, and that people are in a better position to lobby for their rights, once their immediate and urgent needs are met through the Affinity Groups, as their dependence on moneylenders (who also happen to be the large farmers who require labour and can "bond" the poor by extending loans)) decreases.

SHOULD LOANS BE RESTRICTED TO ASSET CREATION?

All Government credit schemes, as well as the major micro credit programmes run by major NGOs restrict loans only to assets, excluding land. Loans for consumption (including health and education), for trading, release of assets from moneylenders, for purchase and development of land are not allowed. This is another feature of other micro credit models which is open to criticism. Myrada's studies indicate that the restriction of loans to large movable income generating assets like cross-bred cows, tends to have an unintended impact in terms of impoverishing and marginalizing the poor, who are not able to manage large assets in the initial stages, particularly where supporting services like veterinary care is of poor quality. Myrada promotes a policy of providing such major assets without any subsidy; the SAGs do not factor subsidy in their financial dealings but prefer flexibility. MYRADA promotes a policy that gives priority to "subsidise" the support system (like veterinary care) rather than the asset (cows/buffaloes) and a strategy that ensures that the support system (like veterinary care) is effective before providing the asset. In most schemes sponsored by the Government, however, the practice is just the reverse.

Myrada's analysis of the trend in the lending patterns of a Self-help Affinity Groups in its projects show that, in the first year, the number of loans for consumption is large – often upto 50% of the total loans, though the total amount borrowed for consumption is relatively small – around 20%. This indicates that even though the loan amount needed for consumption is small, it is a priority for people. However, during the next

[1] Surveys revealed that there are only three official sources of credit in the rural areas responding to less than 20% of credit demand, while there were 9 private sources providing the rest.

two years, the number of consumption loans decreases, while loans for trading and small businesses increase. After the second year, the number of loans for larger assets including animals, housing, implements, land development and larger businesses, tends to grow. This clearly indicates that the poor need to grow in confidence and to build a few supporting linkages before investing in larger assets. Unfortunately, many official anti-poverty programmes start (and end) by offering people larger assets, which they are unable to manage and maintain in the initial stages.

Myrada's study of a Government sponsored micro credit scheme in Dharmapuri District, which provided loans only for income generating assets (excluding land), indicated that returns from loans did not come entirely from the income generated through the assets for which the loans were given. **In fact, one study showed that over 60% of repayments on asset loans, came from sources other than the income generated by the asset.** The poor have several small and seasonal income generating activities including labour, which generate a seasonal cash flow which they use to repay their loans. If this is the case, argued Myrada, why waste effort and time on assessing viability and fixing unit costs of each individual loan; and more, why deprive the poor of loans for consumption, when it is these loans from private sources that lead them into greater poverty and dependence? Rather than assess each individual loan, it is more appropriate to assess the institutional strengths of the group and to advance a loan to the Group, which would then decide to whom, for what purpose and the amount to lend to its members. In short, the decisions covering the rate and regularity of savings, on the purpose and size of loans and repayments are left entirely to the group. The bank receives repayments according to the schedules agreed to by the Bank and the Self-help Affinity Groups. It is the cash flow of the group that is assessed as a critical factor rather than the viability of each loan.

Chapter 7

THE ROLE OF BANKS AND FEDERATIONS OF AFFINITY GROUPS

Critical to the SAG model of credit management is the role of the Banking system. Once the SAGs reach the stage where their credibility as institutions is established,, the Banks have been authorised to extend a line of credit to each SAG even though it is not a formally registered body provided it functions like one – namely it has an identity, it has rules and regulations and abides by then, it maintains adequate books, it changes its leadership regularly and it conducts its business to the satisfaction of all its members. The SAG model is based on a linkage between two institutions – the Affinity Group and the local Bank (or Cooperative Society). When after several studies, NABARD and the RBI were satisfied that the SAGs were "bankable"; the SAG BANK Linkage Programme was launched in 1992 without any fanfare. When the 10th anniversary was celebrated in Nov 2000 by NABARD, approximately Rs 2000 Crores had been advanced by the Banks to SAGs all over the country. This makes the SAG Bank Linkages Model the largest micro finance programme in the world.

To build this relationship between the SAG and the Bank, every member of the Affinity Group (not only the leaders or representatives) is encouraged in rotation to visit the Bank to conduct business. When asked to list the benefits they have derived from being group members, high on the list is their experience in dealing directly with Banks. The members claim that this experience of interacting with the Bank, gives them confidence and skills to deal with other institutions and Government officials. The members also state that, on their own, they would never have established any contact with the Bank. On the bank's part, lending to Affinity Groups helps to achieve their priority sector targets at highly reduced risks (since the recovery is over 97%, compared to the average recovery rate of 30% - 60% for anti-poverty programmes) and at reduced transactional costs.

A study conducted by NABARD in 1989 showed that this model brought down transaction costs of the Banks, by about 30% to 40%. The Bank's work was reduced to servicing one loan to the group instead of individual loans. This model also reduced the costs to the borrowers, by about 60% to 70%. However, it also required, that the group should be nurtured to grow and function as an institution. **Adopting this model, without adequate investment in capacity building of the group has led to disastrous results. Linking with SAGs, while continuing to function according to traditional systems which includes relating to each individual member in terms of loan applications and standardised lending practices, does not reduce transaction costs as some Banks in India and abroad (particularly the BRI in Indonesia) discovered. The Bank needs to lend to the SAG as an institution and to learn to asses the SAG according to institutional parameters, if its transaction costs are to decline.**

The interventions required to foster an alternate strategy through Affinity Groups, could be grouped into three broad categories:

1. Identifying Affinity Groups
2. Building their institutional capacity – this includes training and exposure, management of savings and credit, as well as building skills and confidence to become agents of change,
3. Extending a line of credit to them.

The first category – **identifying Affinity groups** – is not self-financing. It requires experience of interacting with village people in an informal way and with empathy. Though it may not involve more time or money than a similar effort to extend the Bank's clientele, most Bankers do not spend time in the field, and, if they do, their visit is made according to their time and convenience. Moreover the Bankers usually take the lead in directing operations during their field visit. Bankers (with exceptions) are not equipped with the skills and the empathy required to be able to identify affinity groups since their entire approach to banking has built up walls between them and people rather than empathy. This is also true of some individual staff of NGOs who behave in such a manner that the villager cannot empathise with them; the village views them as "benefactors carrying a package of schemes". As mentioned earlier, the category of interventions, to identify and form affinity groups, is not self-financing; it has to be subsidised to some extent. However many Banks have now taken the position that visiting the field, identifying affinity groups and meeting them regularly is part of the core responsibilities of the Bank. By 2002, there were over 35 RRBs whose staff were actively involved in forming SAGs. The pilot experiment began with the Cauvery Grameena Bank in 1995 in the Mysore District. MYRADA which has several major projects in that District took the initiative to invite senior NABARD staff to meet with the staff of Cauvery Grameena Bank in order to launch this pilot scheme which has spread to several other RRBs. However, initially MYRADA had to support the CGB with two motor cycles for their staff and other small interventions (training of Bank staff, introduction to the village and follow-up visits) for the pilot to take off. NABARD then initiated a support programme for RRBs which adopted this model.

In MYRADA's Dharmapuri Project part of which was in collaboration with the Tamilnadu Women Development Corporation and funded by IFAD, Rome, special units comprising Government technical and revenue staff were set up to support the SAGs, particularly the income generation activities. These units together with the local Banker visited the SAGs to provide support services. They were expected to provide a package of services at the doorstep. Within a few months, it was obvious that one of these units was successful in responding to people's needs while another was not. Both units, however, had "committed" officials who insisted that they had visited the villages together. On enquiry it emerged that the successful unit had attended the SAG meetings on the day and at the time they were scheduled to be held –usually in the morning before 10 a.m. or after 6 p.m. The unit members had listened throughout the meeting without asking any questions. At the end they explained the programme and promised to return for a full discussion after the SAGs members had the chance to discuss their participation. The other unit which was not achieving much, had visited the village at its own time –usually around 12 noon, called for a meeting and explained the "schemes". It was clear that the SAG members who were working did not attend these meetings – which in any case were the meetings of the unit rather than of the people. Similar examples indicate the need to empathise with people not just in the matter of "feelings" but with their schedules and their requirements. It is this ability to empathise that is the first step in identifying members linked by a degree of affinity.

The second category – **building institutional capacity** – is expensive. MYRADA conducts some sessions in the village, where the group members arrange for their own food; this helps to reduce these costs. The training modules described in Chapter 5 require over 30 days of training and exposure. There is no doubt that this category of interventions has to be subsidised. Depending on the experience of the NGO and the demonstration impact of successful SAGs in the area (which reduces the time required to train the SAG) the cost of training a new SAG ranges from Rs 5000 to Rs 10,000. Myrada strongly promotes subsidising these costs, rather than the traditional practice of subsidising the asset like a cow or sheep which is still being promoted in all Government anti poverty schemes even though the success of the SAG approach where there are no subsidies has provided ample evidence that the poor do not need subsidies to manage a successful programme; they need support services and the freedom to choose the asset. The training inputs in this category of interventions form part of an informal education programme which is also empowering. **However, it must be stressed that training alone does not build institutional capacity. It needs to be accompanied by the SAGs initiative to save regularly, to lend, to repay, to become involved in social change in the home and the village, to manage its affairs in a transparent manner and to build the skills and confidence of each member. This experience itself is empowering.**

In the mid nineties after the Linkage programme was launched, most of the Banks stated that they were unable to provide financial support for training and looked to NABARD for support. Initially NABARD obliged, but several leaders in the field pointed out that if the SAG Bank Linkage programme is considered to be a core activity by the Bank, it should be able to allocate funds for training the SAGs from its profits. A few progressive Banks are now funding the training component, but the provision is still inadequate.

The third category of interventions – **extending credit** – is restricted to assessing the group which requires 2 to 3 visits to the SAG by the Banker and extending a line of credit to it. This activity has the potential to be self-financing. Sanghamithra, a not-for-profit MFI, sponsored by MYRADA, and registered under the Company's act has been able to break even in 2 years by restricting its intervention only to the third category.

As stated earlier, the Banks have a critical role to play in the Indian model. Given the extensive rural network that the Banks have established, it would have been a waste of resources not to involve them in credit provision. Though the Banks have by and large respected the well-functioning groups as independent institutions and accepted the management systems that the Groups have evolved, certain financial systems, however, are required for the Banks to establish a linkage. The minimum required from the SAG is that accounts books have to be maintained, updated and reconciled with the Banks statement regularly and annual audits conducted. Myrada's Affinity Groups have taken a further step; they have engaged several Chartered Accountants to audit their accounts since 1998, and have paid for this audit. This adds to the confidence that Banks need in order to establish a long-term relationship with the Groups. After the audit there was a significant increase in the number of linkages promoted by Banks with affinity groups.

MYRADA realised in the early 1990s that policy change initiated by the RBI and NABARD was essential but not enough. The officials of banks needed to be trained to assess the Self-help Affinity Groups as institutions, but further, a whole change in their mind-set and approach is required. Myrada designed training modules for this purpose and trained over 4000 Bankers during the last 9 years; all trainings are conducted on its project sites. The question Bankers need to ask is: Is it good business to invest in this institution? They no longer need to assess each individual loan according to traditional norms.

While the SAG Bank Linkage model reduces the transaction costs and time **before** the loan to the group is advanced, it is necessary to ensure that data on the purpose of loans to members sanctioned by the group and the repayment performance on each loan is recorded and analysed. This helps to keep tack of the progress of the group, to identify trends in lending (whether for example there is a shift from consumption loans towards trading and income generation, whether there is growth in the size of loans etc.), to identify patterns in lending (in certain areas loans for a particular income generating asset may be popular; for example, if some members of several groups in an area take loans for poultry it indicates that there must be some comparative advantage for this investment which can be built on to add value). MYRADA prepared software in the late eighties to collect and assess SAG data so that these trends could be analysed and appropriate interventions initiated. Case studies to assess the impact on livelihoods and empowerment resulting from loans taken are also required as a basis for learning and formulation of future policy. In traditional anti- poverty schemes which were based on loans and subsidies, the Banks efforts after extending loans were mainly if not entirely restricted to ensuring repayment. No further analysis was considered necessary. Unfortunately very few institutions involved in micro finance take the additional effort to monitor these trends after loans are extended and to evolve strategies to support or add value to the initiatives of SAG members.

The SAG-Bank Linkage model does have its limitations in countries or areas where the Banks do not function effectively or where their network in the rural areas is small or where NGOs are few or have no experience in forming and training SAGs. There are states in India for example where the Banks do not function effectively due to reasons both internal to Banks and external like the lack of security. MYRADA, through the IFAD supported North East Project has promoted about 1000 SAGs in Ukhrul District of Manipur mainly because the Mothers Union (Shanao Long) took the initiative to train their members and to support them in a planned manner; but the Banking network in the

District is weak. There are Countries where SAGs are thriving but which lack the Banking network. For example the UNDP invited MYRADA to promote SAGs in North Myanmar and provided opportunities for its staff to be trained. Over 1000 SAGs are functioning in Myanmar but they have no support from the Banks which have no presence in the rural areas and little in the towns.

In parts of India where the SAG movement has spread rapidly, the Banks have not been able to cope with the growth of the Affinity Groups in many areas. Besides, the present trend in the banking policy is not to expand the network of branches, but to amalgamate – which really means, closing down some unviable branches; this makes it difficult for SAGs to interact with branches far away. Banking policy is also moving towards larger loans for purposes which have hitherto been excluded from the portfolio of RRBs. Though direct loans to Affinity Groups are more profitable when compared to lending under the regular anti-poverty scheme, since the rate of recovery is comparatively higher, yet, when compared to loans for transport, tractors and other large assets (for which RRBs are now allowed to lend), they are not, since the transaction costs are much less in the latter category, and the recovery rate is comparatively good.. The pressure on Banks, therefore to lend to Affinity Groups will decrease as their portfolio changes and expands and as the pressures to restructure and abide by financial norms grows. Given these trends which are expected to grow, MYRADA envisages that Commercial Banks will decrease their exposure to SAGs over the next five years and RRBs probably will follow the same path, though their commitment may extend for a longer period. Myrada therefore, decided to set up a Micro Finance Institution (MFI) to on-lend directly to Affinity Groups. Its objective is to cover the Affinity Groups not yet linked to Banks, as well as, to introduce an element of competition. This MFI, named **Sanghamithra** started operating in April 2000. MYRADA believes that MFIs also should remain comparatively small with a turn over of about Rs.25 crores. It will therefore promote several independent Sanghamithra's (let a hundred Sanghamithra's bloom!) over the next few years, and an Asset management Company that will have several functions including over-all co-ordination of these Sanghamithra's.

Trends in Growth of Service Providers

Though Banks remain the major institutional source of small credit, the share of Small Borrowers Accounts (SBA), having outstanding of less than Rs.25,000/- in the total credit outstanding of the banks, had declined from 23.1% in 1990 to 7.9% in 2000.

Loans and Advances	1994	2000
Priority Sector Accounts of Public Sector Banks (No. of A/c)	346 lakh	274 lakh
% of Rural Advances of Scheduled Commercial banks	13.90%	10.60%
% of Agricultural Advances of Scheduled Commercial Banks	15.30% (1991)	9.90%
No. of Agricultural Accounts of Scheduled Commercial Banks	2.5 crore	2.02 crore
Loan Accounts < Rs.25,000 of Scheduled Commercial Banks (No. of A/c)	558 lakh	393 lakh
% of Small Loans to Total Loan Amount	18.30%	7.90%

Table 1: Trends in Rural and Microbanking after Reforms (Source: RBI Monthly Bulletins)

The number of senior officials of Commercial Banks who are committed personally and are supported by Bank policy to become visible intervenors in the social sector is increasing. The trend however seems to be to give priority to education, children in distress, sanitation and over-all to infrastructure like school buildings and equipment or medical supplies. While there is no doubt that these sectors are crying out for support, Banks should also focus on their core sector which is investment, and in this context, on credit provision to the poor. This requires that Banks go beyond credit provision to providing support services which helps the poor to use credit productively and to obtain an adequate margin of profit to enable loan repayment and further investment after meeting consumption needs. Therefore Banks would add strength to their core mission if they could promote investment in adding value to local products, in establishing linkages with nearby markets, in maintaining a panel of experienced people who could be sent to the field where their expertise is required; they should be paid for their services by the Banks and assessed on their output.

THE ROLE OF FEDERATIONS

Myrada has a strategy for withdrawal from the groups. It is based on two pillars:

1. To link the Bank with the group and to ensure that this linkage continues
2. To encourage the groups to form Federations.

Myrada does not decide the rules and functions of the Federations. It does not transfer its responsibilities to the Federations. It supports the groups to decide who will federate and what the functions of the Federation will be. Though Myrada withdraws from direct relationship with the Groups, it is open to members visiting its offices in the area, if they decide to do so. The concept and functioning of Federations promoted by the Groups in Myrada is described in **Annexure 6.**

There are over 100 Federations functioning in Myrada's projects as on December 2000. **This approach allows Myrada to withdraw from the Groups, leaving them to be** guided primarily by the **Federations and financed by the Banks**. Some of the common responsibilities which the Groups have asked the Federations to perform are as follows:

- Collecting monthly data regarding savings, loans and repayments, as well as over-all reports of credit plus activities.
- Recommending Affinity Groups to Banks for a line of credit.
- Organising functions to encourage and reward outstanding groups.
- Helping to resolve conflict within the groups
- Identifying the training needs of Groups and its members.
- Motivating groups to pay for the audit by Chartered Accountants.
- Lobbying with Government for various schemes, particularly to support old people and widows.
- Forming new Affinity Groups in the area, in response to demand from poor families.
- Training new Affinity Groups in the area (several Federations have taken on this role; one in Kadiri project has earned over Rs.3000 during 1999-2000 by providing this service).

It is significant that none of the Federations set up by the Affinity Groups has been given the function of managing finances and on-lending to groups. The groups prefer to deal directly with Banks and on occasions like a disaster (when a house burns down) to support one another directly rather than to promote Federations, which function like Micro Finance Institutions. This is in sharp contrast to the programmes sponsored by major donors and Government, where the practice of interveners is to form Federations to which groups repay loans and which function like Micro Finance Institutions. Myrada's experience is that such Federations put together from "above", mainly to meet the needs of the intervener, are vulnerable to political manipulations.

Chapter 8

SAGs AND LINKAGES – WILL THEY CONTINUE AFTER MYRADA WITHDRAWS?

Will the Affinity Groups, the Federations and the linkages with Banks continue after Myrada withdraws its support services and moves to adjoining villages or new areas?

Myrada has withdrawn from Affinity Groups in several projects. This withdrawal began in an organised manner in 1997 – 1998. Reports and studies of groups from which the support has been withdrawn, indicate the following:

In projects which started in the early 1980s, where the Groups were largely formed to implement activities, and the members of the groups were selected, not only on the basis of affinity, but because they fitted the criteria of the targeted "beneficiaries", (e.g. they must have children below a certain age since the programme was based on sponsorship), about 50% of the groups are working well, 20% are rated medium, while 30% have dissolved. This scenario is typical of the projects started in the early and mid 1980s, particularly those supported by donors, where the beneficiaries had to conform to pre-established criteria. Besides, at that time, Myrada's training package for institutional capacity building was evolving through trials in the field.

By the time projects like Dharmapuri (which started with the support of PLAN International an organisation with a focus on children) were launched in the late 1980s, Myrada had evolved a clear strategy for identifying, forming and training affinity groups and had sufficient trained staff to start a new project. The Groups in these projects, as a result, have a much higher rate of success of standing on their own, even after Myrada's withdrawal. In projects like Holalkere supported by the German Agro Action, out of the 40 groups phased out in 1995-96, 35 continue to mobilise loans from the Banks; the other five have had some internal problems. The Federations have helped to resolve these problems in three of these five groups, and the process is underway in the others. A similar situation exists in the Kamasamudram project supported by EZE, and in Kadiri and Huthur supported by NOVIB. Studies of groups formed during the past ten years from which MYRADA has withdrawn, indicate that on an average 10% to 12% of the groups decline in performance or collapse after Myrada withdraws. MYRADA has published a study based on an analysis of "failed" groups to learn the reasons for their collapse.

Reports from "phased out" groups also indicate that several members who have gained confidence and skills, and above all, respect in the village and with institutions like Banks, have decided to opt out from the Affinity Groups, and to borrow larger loans directly from the Banks. Sometimes, they also join or set up traditional 'chit funds', where interest rates are higher, but loan amounts are larger than what the Affinity Groups are willing to extend. Besides, they are relieved of the obligation to attend weekly meetings, and to maintain financial systems which the affinity groups require.

These members also affirm strongly that it was their experience of saving and managing credit in the group that gave them the confidence and skills to become involved in other credit schemes and that the success of the group in functioning as a reliable institution raised their individual credibility which in turn enabled them to join the 'chit funds' and to avail of loans from the Banks.

As far as linkages with Banks are concerned, there is no doubt that Bankers in the initial period were encouraged to lend to groups because they perceived that Myrada would support them in regular repayments. Bankers, however, have continued to extend a line of credit to groups from which Myrada has withdrawn. This confidence is based on their previous performances and on the audit of the group conducted by chartered accountants. The pressure on Banks, particularly the RRBs, to lend to this priority sector has contributed to this continuity in credit provision. There are several groups, in the phased out areas of Chitradurga and Mysore Districts, which have been linked to the Banks as a result of the Federations initiatives.

It must however be recorded that in several areas, particularly in the more remote parts of the States where MYRADA works, several Bank branches failed to take the initiative to link with the SAGs; many Branches have also reduced their investment in SAGs after MYRADA's withdrawal, In order to exert a level of legitimate and sustained pressure, MYRADA encourages Sanghamithra to start its operations in such areas. Sanghamithra lends to SAGs only when the latter find it difficult to establish a linkage with the local Bank. The response from the local Bank branches to Sanghamithra's presence has been impressive. MYRADA has experienced this situation particularly in Dharmapuri District of Tamilnadu and in Mysore and Chamarajnagar Districts of Karnataka.

Will the Federations Survive? The strength of the Federations depends on the strength of the Affinity Groups at the base. Many Federations have proved to be effective and are actively promoted by the Affinity Groups. Others continue to require support from Myrada in order to survive. During the next three years Myrada will continue to learn from the experiences of the Federations that have emerged. Several questions remain unanswered. These questions were raised in a Myrada workshop, where the participants reflected on the experiences of several Federations. The findings of this workshop are recorded in **Annexure 6**.

In conclusion, it needs to be reiterated that the Self-help Affinity Groups perform a critical role at the first stage, in the efforts of the poor to break out of the poverty cycle. The poor need sideways linkages to have the confidence to take the first step. The affinity group provides these linkages. As the group's capital (both social and financial) grows in strength and the income levels of the members rise, their dependence on the 'well-to-do' for loans and for labour diminishes. Their linkages with Banks and their coming together in Federations provides them with a broader base for empowerment and sustainability. The groups can sustain their linkages and Federations effectively only if they are genuine people's institutions, functioning in their own right and progressing at their own pace.

Myrada, however, does not view these affinity groups as an end in themselves. They are not the final output of the process, and do not need to be sustained at all costs. They will re-engineer themselves (as many have done) and will take on new functions. Some members will withdraw completely, others will remain in the group to meet their social needs but will find other sources of credit, which are more suited to their current level of demand. The Myrada model does not require the groups to exist permanently since Myrada itself is not an MFI. It does not lend to the groups, nor does it survive on the interest earned. This stand has to do with Myrada's basic belief that it can be effective in promoting self-reliant institutions of the poor, only if it withdraws from areas, leaving behind a network of institutions.

This approach is in contrast to the strategy of NGO/MFI Credit Models, where constant (and often rapid) growth is considered an essential feature of credit intervention, particularly since the NGO/MFIs depend on the savings mobilised from the groups for their (low cost) capital and on the interest earned from lending to the groups for their survival. In such a scenario, there is no incentive to establish linkages with Banking Institutions.. Consequently, there is no reason for NGO/MFIs to initiate and lobby for change in the Banking system to make it adopt a policy and practice that enables it to relate in a more friendly and effective manner with people's groups as institutions in their own right. **This scenario is typical of NGOs/MFIs operating in Bangladesh and those promoted by CGAP**.

In the Myrada model the linkage with Banks is a structural feature. This is why Myrada lobbied with the Banking system (between 1986 and 1991) to change its policy and practice to relate directly with unregistered groups and supported its case with extensive data, which was computerised and analysed to answer any questions that the Financial Institutions raised. The ability of groups to forge and maintain this linkage, builds the basis for a sustainable relation with the Banks allowing Myrada to withdraw. This model provides people with the experience of forging linkages with other institutions – an experience, which in itself is an empowering one. When asked what they value as a result of their membership in an affinity group, the members usually identify their ability to interact with the Bank as an experience that they find most fulfilling and empowering. It is the responsibility of the bankers to build a lasting relationship with the SAGs on this basis.

Chapter 9

MFI PRACTICES THAT ATTRACT CRITICISM

We can now return to the issues relating to Micro Finance in several countries as summarised in the CGAP study, and which others, who have analysed micro finance initiatives, have raised. It must be noted that most of these studies have analysed Micro Finance Institutions which extend loans to individuals in groups and **not** to groups per se. Even if these individual borrowers are members of a group, the loans are given to the individual and the final decision to lend (or not) is taken outside the group. The SAG model, as pointed out earlier, does not fall in this category. **The findings from the studies described below indicate that this model which has been promoted over the past 16 years by Myrada has, to a considerable extent, avoided the criticisms levelled against the "banking model' adopted by MFIs, which has been supported extensively by some International Financial Institutions and to which several of the criticisms are relevant.**

FORCED SAVINGS OF FORCED INVESTMENTS?

A distinction needs to be made between "forcing" people to save, and "forcing" them to invest their savings in the MFI's account. In most parts of India, it is not necessary to force people to save. People have the habit of periodic savings. Savings are usually converted into assets that could be pledged for credit when the need arises mainly because there is no place to keep cash safely. Traditionally a little cash saved up, was kept in a hidden cavity in the household. The fall in the quality of paper used for small denomination notes (and the increasing incidence of fire) made storing in such places a risky affair. With increasing consumerism, there is also a growing tendency to use surplus immediately. When opportunities for "keeping" or investing savings which are considered safe and easy to access, are provided, people readily use them. What Myrada promoted was the habit of thrift based on regular savings (this sought to change the trend towards consumerism) and a safe place to store cash. In the SAG, small amounts of cash to meet urgent needs, that arise between meetings, are kept in safe boxes and the rest loaned out or deposited in the Banks. The habit of thrift nurtured by regular savings and the confidence that the savings are safe, gives people a stake in the future, and motivates them to improve their lives. Each group owns and manages its own savings, which form part of the group's common fund. These savings are not transferred to the MFI.

Most MFI models, however, "force" the group members to invest their savings in the MFI. Savings actually play the role of a "guarantee" (even though it is generally denied) while providing the MFI with low cost funds to re-invest. It is this practice of appropriating the members' savings that attracts criticism as it raises the effective interest rate and ties the group to the particular MFI which holds the group's savings. In Myrada's model, the group members are free to save either in the group's common fund or in any institution in which they have confidence. The CATAD study quoted later in this chapter provides adequate

evidence of this freedom of choice in the SAGs. In the Myrada model, the guarantee provided to the lending institution is not based on savings or assets; **it is primarily the "social capital" of the group** and next, the group's performance on which the group's credibility is assessed. This "social capital" is made up of a complex of relations of trust and mutual support, the features of homogeneity and a culture of voluntarism and self reliance; together these form the basis of its institutional strength. The record of the group's performance in credit management and in undertaking interventions for social change, builds confidence in the group's ability to manage its affairs effectively.

Fundamental to this strategy is Myrada's belief that development interventions need to be based on and controlled by people's strengths, not by their needs. The group derives its strength from its "social capital" and performance. The "needs analysis" approach, which dominated intervention strategy in the 1980s, was abandoned. The first self help groups were formed by people in 1985, not to save, but to build institutions, to which the people could repay the loans taken from their cooperative society which had collapsed. The members soon found that the groups also provided space for them to identify their problems and to find solutions within their capacity to implement. Among the problems identified by the members, several were related to the urgent need for cash to meet consumption loans. Myrada took the stand that, if they had to build on their strengths, they would have to meet their consumption requirements from their own savings. What amazed Myrada staff in the early eighties was that, the poor were willing to save in cash in order to meet these urgent needs. Myrada recognised this as a strength that could be built upon. Some families had saved in the past and converted their savings into small household assets, which were relatively safe and which served as an insurance to meet unexpected needs for cash. Interactions with these families and with the groups revealed that people required a system that could support savings in cash; a system which was transparent, over which they had control, and which was readily accessible. They recognised that affinity groups provided an opportunity that had the potential to meet these requirements.

There are areas in our country like the North East, where Myrada is supporting a major development programme, where the habit of savings is not traditional. However, after visits to Myrada projects in the South, women from the Ukhrul District of Manipur launched a drive to motivate people to save. The dominant message of this drive is: **INCOME minus SAVINGS = EXPENDITURE**. Many people (including the project staff in the North East), are initially surprised at this equation, since they have lived by another, namely: INCOME minus EXPENDITURE = SAVINGS. This resulted in their savings, being zero. Their drive in the Ukhrul was launched in February – March 2000. Within 7 months, over 325 Self Help Groups have been formed and they have mobilised substantial savings. This notable achievement was supported by the Tanghkul Naga Mothers Union (Shenao Long) in the Ukhrul District of Manipur.

In the Myrada model, the Affinity Group first saves and then lends from its own savings for over a year, before loans from outside are availed of. This introduces the element of "scarcity" of resources during the early period. In such a situation, a culture is created in which decisions are taken with far greater care, than when the full amount (including a subsidy in Government schemes) is lent to the members for income generating assets at the very beginning or a few days after the group is formed; this is often the case in Government sponsored programmes. This experience of managing "scarce" resources (which also happen to be their own) gives the members an insight into the level of performance required for good management.

Savings also introduce the element of "risk", since the group uses its own savings to lend. Groups are far more concerned about managing their own funds, than funds from outside. In one case, when the Affinity Group maintained two accounts – one with their own savings and the other for funds from a donor – it was found that the group levied higher service charges for loans from their own funds, and managed this account far better, than the account with donor funds.

The criticisms related to savings, that Myrada faced in the late 80's, did not refer to "forced" savings. There were development Consultants who argued, "How can people save, when they cannot afford to meet their "essential/basic needs"? Myrada explained that the habit of savings was essential to build people's vision of their future. It was possible to save at least Re.1 every week. People, even those below the Poverty Line, did buy some '*paan*' or a few '*beedies*', or even a peg of the local brew. These are not essential needs. The question put to people was whether they were willing to give up these little expenditures in order to invest in their future? Once, during a field visit with a Consultant, when this discussion was initiated with a marginal farmer who owned 3 acres of dry land, the farmer smoked three *beedies* during the discussion. He may have been under stress, answering what he probably considered unnecessary queries and coping with invasion of his privacy; but it was pointed out, he could surely have saved the price of two *beedies* at least.

Other criticisms related to forced savings, also do not apply to the Myrada model. First, Myrada did not fix the amount to be saved. This resulted in each group taking its own decision as regards the amount to be saved; groups often change the amount during periods of stress. A general pattern, however, did emerge. Initially savings were low, but increased to stabilise around Rs.10 per week and once again declined. The reasons for this trend are discussed below. Secondly, the savings are kept in the Group's account; they are not transferred to Myrada. The criticism that they reduce the MFIs risk, therefore, has no basis in this model. Even when the Groups are linked directly to the Banks, the savings are not seized by the Bank or used as collateral. Further, the Banks lend far more than the amount that the group maintains in its account. Once the member places the savings in the group, she/he gives up some of her/his rights; but she/he can also gain some. For example, in every group, a member can borrow more than she/he has saved, provided the group feels that there is a genuine need and that the member can be relied upon.

This system, while building on people's strengths to mobilise savings, also provides an opportunity for "self-education" resulting from the experience of managing finance, since decisions regarding loans, interest, repayment and sanctions for dysfunctional behaviour are taken within the group. Since the Groups start by lending from their savings, the pattern of ownership and management of the groups' common fund is well established before credit from outside is availed of. This is why Myrada supports only one account in each group, into which all the savings as well as loans from outside are credited. The management of this fund presents an opportunity for self-education through the process of discussion, decision-making, action to implement decisions and, reflection.

To summarise, the Affinity groups introduce the habit of regular savings in cash, however small, and a system to manage them which is transparent, within the control of members and which provides a large number of options for use. This model is self-educating and empowering, provided adequate investment is made to build the Groups institutional capacity. The CGAP's assumption that "clients prefer loans without forced savings", is based on the model that there is an MFI present, and wanting to provide loans, on condition that members save and invest their savings in the MFI. In such a situation, the rules and regulations of the MFI are imposed on the Groups in a uniform manner. The criticisms related to savings, therefore, refer to a model where savings are deposited with the MFI under coercion, often latent, but nevertheless effective. . In the Myrada model, this is not the case.

CATAD STUDY – THE TREND IN SAVINGS

The participatory impact study conducted by CATAD (Centre for Advanced Training in Agricultural and Rural Development) in Myrada's Holalkere Project (supported by German Agro Action), where the management of savings of 64 Affinity Groups was analysed provided the following insights:

An analysis of data published in the study entitled "NGO-Based Participatory Impact Monitoring of an Integrated Rural Development Project in Holalkere Taluk, India" shows: **Quote:** ... *that the average savings of affinity group members increase in accordance with the age of the group ... the total average savings more than double from the first to the third year – from Rs.425 to Rs.975 per month; afterwards, savings rise by another 15% to Rs.1,125/- a month (see table below). The increase in savings from the first to the third year is exclusively due to an increase in savings in kind. In contrast, the following period is characterised by a plateau in savings in kind and a doubling of financial savings" Unquote (pgs 108-109).*

Table 9.1: Pattern of Savings in Holalkere Project (pg 109)

	Age of Affinity Groups		
	≤ 1 year	**= 3 years**	**≥ 5 years**
Average monthly savings in kind	Rs.250	Rs.800	Rs.750
Average monthly financial savings	Rs.175	Rs.175	Rs.375
Total average monthly savings	**Rs.425**	**Rs.975**	**Rs.1125**

Quote: "The average (related to income) share of savings (financial savings and savings in kind) per household significantly increases from 28%(one year old groups) to over 32% (two years old) to 39% (three years old). Here, the savings of a specific household are set in relation to its income. This results in the household's specific share of savings. Then on the percentages obtained from all households, an average is drawn. This makes sure that every household's decision – and not the volume decided upon – is weighed equally. **Unquote.** (Pg 109)

THE CATAD REPORT CONTINUES:

Quote: *... A closer look at the financial savings of the group members shows that when it comes to financial savings, for many members the group is the starting point (see table 9.2 below): (pg 110)*

Table 9.2: Number of Members Savings Outside the Group

	Age of Affinity Groups		
	= 3 years	**= 3 years**	**≥ 5 years**
Percentage of members saving financially outside the group	40%	65%	81%

While 40% of the members of one-year old groups have financial savings in other institutions, for 60% of the members in the one year old groups, the group is the only place to deposit financial savings in the first year. Two years later, 65% of the group members are connected with other financial institutions. And after five years, more than 80% - save in other institutions. **Unquote**.

THE STUDY GOES FURTHER:

Quote: ... Volume of savings in the group:

When comparing the volume of financial savings in the group to the volume of financial savings in other institutions, the savings in the group become relatively less and less important to members over time. (Refer table 9.3; pg 110)

Table 9.3: Volume of Savings in the group

	Age of Affinity Groups		
	≤ 1 year	**= 3 years**	**≥ 5 years**
Group savings (volume)	35%	22%	11%
Financial savings outside the group (volume)	65%	78%	81%

In the first year, 35% of the savings volume is deposited in the group, but only 22% in three-year old Groups; this decreases to 11% in five-year old groups.

The contribution to the common fund also decreases in absolute numbers. In the one-year-old groups a member contributes an average of about Rs.60 a month to the common fund, the members of the three-year-old and older groups, on an average, stop saving more than the minimum savings requirement. **Unquote**.

Reports from other Myrada projects confirm that there is a plateau in savings in cash, in the group after 3 to 4 years. The main reason given by several Groups for this "plateau" was that the Groups were not offering interest on savings, which members could get from investing in Banks and Post Offices. Other groups stated that the present amount in the common fund was adequate to meet with consumption needs, for trading and for other small income generating initiatives. Further, Financial Institutions began to lend larger amounts to the group. Hence they did not feel the need to increase their common fund with their own savings at the present time. Many groups, however, who wanted to increase their common fund, took the decision to provide various types of incentives, including interest on savings. **Annexure 7** gives examples of how affinity groups worked out the interest rate, which they decided to pay to the members; the diversity and sophistication in their approach is amazing.

The above findings indicate that in the model promoted by Myrada, which invests in building institutions in the early years, people are willing to save regularly, provided they are free to set up their own system to keep their savings safe, to have access to them when required, and to change the amount of regular savings to suit their needs and the changing situations. The habit of saving however is consistently encouraged as a result of regular (usually weekly) savings. Further, people are free to invest these savings in any institution. An element of competition is introduced here, which the group has to cope with if it wants to attract savings to increase its common fund.

Feed Back From Members Who Have Left The Group

Apart from getting loans, a place to save is seen as a major benefit by many ex-clients. Around 50% said that they started to save only after joining the SAG and that even after leaving the group they continued to save in Banks or with individuals in the village. One lady is using the contacts she made with Bank Officials during her tenure in an SAG to get individual loans from the Bank. For many of the more well to do ex-clients, the status associated with being part of a group was important. (Here status was described as the recognition derived from being part of a group with a significant identity in the larger community).

(Source: Social Intermediation Study – Draft Page 34)

Chapter 10

AFFINITY GROUPS AND THE POOREST

The CGAP report, as well as a few studies, have recorded two criticisms of the formation and functioning of MFIs:

1. The poorest are left out of the savings and credit groups.
2. The poorest members of credit groups do not have equal access to credit and other benefits, as compared to the 'better off' members of the group.

The insights drawn from the 'Myrada study of six Self-help Affinity Groups' address two queries:

1. Who are the poorest in the village? Are they included in the SAGs?
2. Are groups biased against the poorest members in the SAGs?

The first question is dealt with in the following paragraphs. Chapter 11 addresses the second.

WHO ARE THE POOREST IN THE VILLAGE

The entry phase in all Myrada projects (including the two projects from which Affinity Groups were selected for the study referred to here) is dedicated to building up rapport with the poorer sections in each village. This is done through regular meetings with people, usually in groups as well as through motivating people to organise *shramadaan*, which they often carry out in groups. This helps the staff to get a "feel" of people's response, and of the degree of "affinity" among people in the village, particularly among the poorer families. Where some degree of affinity among a few poor families is identified, the group is formed comprising all people who share this affinity. The objective is to build institutions on the basis of affinity, not to provide credit.

Often several affinity groups emerge in one village. During the first three months, the groups settle down to conduct regular meetings and are exposed to one or two training modules. During this period, **each group identifies the poorest in the village, and a check is run to find out whether they are left out from the groups. In the first round of analysis, those identified as the poorest, are largely the chronically sick, the infirm, the aged and single mothers with young children and no regular income.** Generally, a few of these people are included in the Affinity groups but many are left out. Those left out, are approached individually by selected group members and staff. If they are old, pensions are arranged; if infirm, efforts are made to bring in specialised services; if chronically sick and unable to join affinity groups, they are given special medical attention. Where physical infirmity or old age prevents people from joining the group, those who are willing, are offered grants to invest in an income generating occupation of their choice. This category of people cannot cope with the requirements of credit management. Expecting them to join the group, or to mobilise loans from Banks or other sources, would be inappropriate. The Affinity groups are encouraged to continue providing traditional support for this category as well as to lobby with the Government for pensions and other safety net facilities and to raise local resources to support them. To target the SAG strategy on the grounds that it does not include these poorest families is to fall into the ideological trap of requiring one medicine for all ailments.

There is a second category of families identified as the poorest, usually as a result of the second round of analysis– after the group has decided on the approach to adopt to meet the needs of the first category described above. These families are identified through a wealth ranking exercise. This category generally comprises landless labourers, including those who have less than one acre of dry land. Since Myrada's projects are located in drought prone areas, dryland agriculture is a high-risk investment. However, when wealth-ranking exercises are held in the group, it is MYRADA's experience that not all landless families are identified as poorest. Several landless families have members working as skilled labourers, like masons; others are involved in petty business and trading. Some near landless have three or four tamarind trees. There is often a debate about whether these families are the poorest. In general however, the landless and the near landless who have no regular income source, are categorised as poorest. The main reason for this categorisation is based on people's perception of the vulnerability of the livelihood sources of these families. The demand for labour is not regular. Besides, their employment depends on the willingness of the contractor, or of large farmers to hire them. Similarly, even families, whose income should place them in the "Upper Poor" bracket, are often categorised as "Middle Poor", since their income source is not stable. **Lack of stability in income, therefore, is a major factor in people's perception of poverty.** (Reference to these three categories – Upper, Middle and Lower Poor is made later in this chapter.)

In recent years, Myrada attempts to promote as many Affinity groups in one village as can emerge. In general, in the larger villages, this approach tends to cover about 30% of the poorer (referred to above as the second category) families in a village during the first two years. As others observe that families, in conditions similar to theirs, are progressing as a result of forming affinity groups, they request to join existing groups or form their own. After 2 to 3 years about 50%-60% of these families in a large village are organised into Affinity groups. In smaller villages, the percentage of the poorer families of the second category in affinity groups often rises to 80%.

Myrada has to cope with the difference between the academic and the official definition of poverty on one hand and the perspectives of people regarding who are the poor and poorest on the other. MYRADA believes that for development strategy to be effective, it needs to arise from the perceptions of people, and be relevant at all times to the situation at the micro level. Studies that have gained academic recognition hold that the landless generally belong to the poorest category. Our analysis of 'people's perspectives indicates that, over half the landless who are members of affinity groups, are not considered by people to belong to the poorest category. The official poverty line (for a family of five) in the three states where Myrada has major interventions, is defined as annual income below Rs.12,960 in Andhra Pradesh, Rs.15,300 in Karnataka and Rs.16,140 in Tamil Nadu. The scheme launched by the Government called the, "*Swarnajayanti Gram Swarozgar Yojana*" (which adopts some components of the SAG strategy) calls for a monthly income of Rs.2000 as an objective to be achieved. Implicitly this raises the official poverty line to an annual income of Rs.24,000; this is far above the poverty lines established for all the States. There are differences between criteria used officially to define a "poverty line", and people's perceptions of poverty; the latter is more related to "hunger", rather than to 'calorie intake' as perceived by the Government and on which the official poverty line is based. Participatory exercises in wealth ranking also indicate that there are several differences between what poor people consider as **priority needs** and what national and international organisations promoting development consider as **basic needs**..

For example, hundreds of participatory exercises conducted by Myrada indicate that people in South India consider the following to be **priority** needs: a pucca house (around 200-260 sq.ft.); two regular daily meals (the hunger line); ability to purchase clothes at festival time without taking loans; ability to carry out certain social and religious obligations (this is not considered by development organisations as a basic need, but the people give it priority). The need for clothes in everyday life can be met by one or two pairs of old clothes; but for certain social and religious events, purchasing of new clothes is considered essential. This may seem like a fine distinction, but it is important from the perspective of the family. It must also be understood that for many poor families (particularly in the case of women and children), the only opportunity they have to get a new set of clothes, is on these important social and religious occasions. They often use these clothes for the rest of the year.

For a strategic approach to the eradication of mitigation of poverty to succeed, there is adequate evidence that people's perspectives of poverty need to be the guiding force. In other words, development strategists need to ask: "How do people we are working with assess that a family is poor?" As is evident from a summary of the responses from people given below, people's assessment of "who is poor" is conditioned not only by income, but also by the expenditure incurred by the family. While certain social and religious ceremonies are considered to be basic needs, addiction to liquor is not; it lowers the family's credibility, besides other families feel that liquor addicts have sufficient income and do not need support. Many members of affinity groups are given support, like food for a few days, when they do not have work, or in times of illness; but the group hesitates to give loans to women members, if their husbands are regular drunkards, unless the group is confident that the women have control over the use of the loan. **This makes the issue of gender relations in the home a major concern; this is addressed in the credit plus strategy that the MYRADA's SAGs adopt.**

PEOPLE'S CRITERIA FOR CATEGORISING THE POOR

People do not set the criteria to define "poverty"; instead they set criteria to describe the 'poor'. Their spontaneous response is based on feelings and perceptions. When it emerged during the wealth ranking exercises that they perceived differences among members in the group, they were asked to identify criteria that they could use to categorise themselves into three groups namely: Upper Poor, Middle Poor and Lower Poor.

The following are the main criteria that they identified to categorise the families into three groups:

Lower Poor

Criteria Related To Income Sources: The family –

- Has a single livelihood source, usually labour that is also irregular.
- Has no control over livelihood sources.
- Possesses no or low quality livestock
- Borrows for daily needs when there is no work, or takes regular credit from shopkeepers.
- Has a member in an affinity group who frequently borrows for consumption and manages to repay when they get work.

Criteria Related To Expenditure

The people identified criteria related to expenditure as equally important as criteria related to income. They explained that some families which have a relatively secure income base, also have a high proportion of essential expenditure due to several members who are old or chronically ill or because of a large household. Such families were characterised as "lower poor"; most were members of SAGs. Other families have a high level of non-essential expenditure due to alcohol consumption or gambling or what the community considers unnecessary expenditure on clothes and consequently, a high level of indebtedness with no savings in cash and little in kind. These families are not willing to make any sacrifice by cutting down on non-essential expenditure. Some of these families were identified as belonging to this category of lower poor though their income sources were more secure than others in this category, but were not found to be eligible to become members of the affinity groups. Even where Myrada adopts a saturation approach in the village many of the families who are not members of the groups belong to this category. The existing affinity groups are not willing to include them, and in many cases, they are not willing to form their own groups. Some of them state that they want grants and subsidies and are not willing to save or take a loan. (They argue that this has been their experience in Government sponsored programmes, and this is what they expect.) MYRADA does not insist that SAGs should include these families; they do not have a bond of affinity with the other members in the group and as a result are not willing to abide by institutional norms and practices. Myrada considers criticism that they are left out to be unjustified.

There are however, other reasons why some poor families do not join groups. These reasons have a bearing on the functioning of the affinity group rather than on its structure. Examples are:

- They are migrant workers and cannot attend meetings regularly.
- The timing of the meeting is not suitable.
- They cannot afford the time required to attend meetings and training sessions.

Interestingly, some families from this category ask to join the groups, after seeing the progress made by others in the group. There are however, still a few families who find it difficult to cope with the demands of the group to attend meetings and training sessions because of their work schedules and migration. Groups have made adjustments in several such cases as regards the timing of the meeting and training sessions, so that families who go away for work can attend; but migration remains a problem. In some cases, families who have not been able to join groups due to seasonal migration have benefited from other programmes of Myrada like watershed programmes, housing, schooling for children, and training in technical skills for boys/girls who have dropped out of school. (*Myrada has constructed over twenty two thousand 'pucca' houses over the past 13 years; many from this group have benefited. They contributed in labour, but not in cash.*) However, they have not been able to avail of credit as they are not members of SAGs. Since migration among women is far less than among men, in such areas where migration is a regular practice, mostly women's groups have been formed.

Some visible signs of 'Lower Poor' category identified by the people: The family:

- Does not own stable/'pucca' house; lives in a hut on rented lend.
- Does not have a homestead around the house. Possesses minimum assets (kitchen utensils).
- Members are prone to frequent sickness
- Takes only one meal a day
- Does not celebrate festivals
- Does not send children to school

In the following chapter where the savings and lending pattern of six affinity groups has been analysed, it will be observed that members of the 'Lower Poor' category in the groups have not been marginalised in terms of credit availability. Further, they have held positions of authority in the groups. No bias against them emerges from the study conducted for the six groups from two project areas – Kamasamudram and Challakere.

Middle Poor

Criteria related to Income Sources: The family:

- Has two sources of income (usually two family members are involved as daily labourers or a combination of agriculture on land and labour)
- Owns or leases in 1-2 acres of dryland.
- Has sources of income which are seasonally regular, but not assured, and subject to fluctuations, with periods where expenditure for basic needs is higher than income
- Has no feeling of security over livelihood sources.

Is constantly worried about meeting daily needs in the short term

Criteria related to Expenditure: The family –

- ❑ Celebrates festivals by taking loans from the affinity group (previously from money lenders).

  Has periods (usually three to four months in a year) when expenditure is higher than income

The over-all expenditure of this category of 'poor' is higher than income; but in certain periods when income is more than expenditure, savings are possible and invested in the group. The existence of affinity groups providing loans at lower interest rates becomes crucial to families in this category, as they live on continued borrowings.

Some visible signs of 'Middle Poor' category: The family –

- ➢ Owns a hut and also the land on which it stands on.
- ➢ Has several children; some going to school but not regularly.
- ➢ Has assets like kitchen utensils
- ➢ Is trusted by others in the village
- ➢ Has learned to deal with officials after joining the group.

Once again in this category there are broadly two groups as in the "Lower Poor" category, namely – those who are unwilling to make efforts for their betterment; and those who after seeing the success of other groups, join a group or form a new one. Women in this category tend to form their own groups even if the men are unwilling or unable. Often, these women are harassed by men, who want to influence the groups decisions and to divert the loan to meet their own consumption needs. Several groups of women have had to face opposition from men when they wanted to form their own group; many have taken steps to ensure that this harassment stops.

Upper Poor

Criteria related to Income Sources: The family –

- ❖ Possesses an assured income from agriculture; it owns a small plot with protective irrigation, or 2-3 acres of good dry land owned or leased on a semi-permanent basis.
- ❖ Runs a grocery store, rice mill or similar income generating initiative even if seasonal
- ❖ Has a daily wage earner who is a skilled worker or lower rung employee in a private company
- ❖ Possess a crossbred cow or several sheep.

Criteria related to Expenditure

- ❑ Over all, income exceeds expenditure, though for short periods, loans are required to meet both expected and unexpected needs.

Some visible signs of 'Upper Poor' category: The family –

- ➢ Owns a 'pucca' house and small homestead
- ➢ Has good mental and physical health

- Possesses assets, like utensils and basic furniture
- Gives priority to educating children
- Celebrates festivals and other social obligations without taking loans
- Has savings in the group and in the bank
- Enjoys the confidence of others in the village.
- Can deal with confidence with officials (Bank, Government)

Poverty Criteria Identified By Group Members

During wealth ranking exercises and group discussions conducted with the six affinity groups in the MYRADA study, the members were asked what criteria they would use to identify the poor. An analysis of the criteria indicates that they generally gave top priority to physiological needs like a 'pucca' house, adequate daily food and clothes particularly for festivals and certain social occasions (women gave priority to this last criterion). Criteria related to the Basic Human Needs approach gets second priority. Examples are education, illiteracy and medical care. People did not identify indicators included in the Basic Needs approach like stunting (height for age), underweight (weight for age) and wasting (weight for height) as indicators for poverty. They identified a third set of criteria which included family disputes, laziness, old age, temporary poverty due to loss of business and poor rainfall. These criteria generally do not find a place in development theory.

Is the criticism that there is a bias against the poorer families in the SAGs valid? The answer will emerge with a greater degree of clarity after the analysis of the data from the MYRADA study; this data is analysed in the following Chapter (Chapter 11). For the present, in response to the criticism that the poorer families are excluded from SAGs, it is adequate to indicate that MYRADA gives weightage to people's perceptions of who is poor and why they are poor. The members in the affinity groups offer membership to those who fulfil the minimum required criteria to join. No institution can survive if it does not have criteria for membership. It must be noted that poor people who are not in these groups, do not have to face a social or economic barrier that prevents them from joining. They do not have to relate with the rich and powerful, but to people in groups who are also poor. They are free to join them or to form groups of their own. The only requirement by the Affinity Group is that they show tangible signs (not just expressions of intent) of their willingness to climb the ladder of self-progress. These visible signs are: giving up or reducing non-essential expenditure; meeting at a time convenient to them; adopting a formal approach during meetings; and utilising opportunities to upgrade skills. It must be noted that credit is only one of the interventions in MYRADA's group approach. If some families cannot join groups because of genuine reasons which relate to their livelihood needs, they are given other opportunities like provision for housing, schooling of children, training of young people in marketable skills. These assets and opportunities in turn lay the basis for their progress and increases their potential to become group members.

Chapter 11

ARE AFFINITY GROUPS BIASED AGAINST THE POOREST MEMBERS?

METHODOLOGY OF THE MYRADA STUDY

Do the members of the Affinity Groups in the "Lower Poor" category have equitable access to credit? Does their participation in the Affinity Groups empower them? The MYRADA study attempts to answer these queries.

Of the six Self-help Affinity Groups studied by Myrada, three belong to Kamasamudram Project and three to Challakere; both of which are in Karnataka state. Their performance over three years was analysed. All of them were assessed to be 'average' in terms of their institutional strengths. All the members in each group were identified as 'poor' when they joined the group three years prior to this study. For the purpose of this study, each group was asked to further categorise their members into three groups, since the term 'poor' covered a broad spectrum. Using participatory methods, particularly wealth ranking and focus group discussions, each group divided its members into 'lower poor', 'middle poor' and 'upper poor', according to the criteria they selected and agreed to. These criteria have been described in the previous chapter. They also decided to record, whether in their perception, members had progressed or not, over the past three years – i.e., whether the members had moved upwards or downwards in this categorisation. To do this, they assessed their status as it was 3 years back, and categorised themselves into three groups based on the same criteria. They then compared their present status with the past. The entire exercise was conducted twice within a gap of three months. The final product was the result of comparisons and triangulations. It must be noted that the difference in the findings between the two exercises was insignificant.

It is granted that there was an element of hindsight in this exercise, particularly when people applied the criteria to categorise their status three years in the past. But, the assessment was done by members who had progressed significantly in their ability to assess requests for loans and the level of sanctions to be imposed, and to initiate actions for change. They had also developed a respect for transparency and good governance in their groups. Myrada has faith in the ability and judgement of the groups. This faith is not blind, but based on the performance of the group over several years. Myrada is of the opinion that it is difficult to compete with the comparative advantage that people, who have built their own institutions and managed their own affairs over several years, bring to bear on such self-assessments. Had the groups not succeeded in acquiring the ability to identify their strengths and weaknesses, and taken steps to cope with the latter, they would have collapsed. By surviving and growing in terms of resources, skills, confidence and linkages these groups have established their credibility.

The Myrada study covered two major areas:

A. The number and size of loans availed by members

Data regarding the following **three significant indicators** was collected for analysis:

1. The average **number** of loans per member. Did the lower poor category access fewer loans than the others?
2. The average **size** of a loan per member. If the size of the loans taken by the lower poor are generally smaller than those taken by the other two categories, the assumption is that it is not due to bias but that the absorption capacity of the lower poor and their ability to manage larger loans is less in comparison to the other two.
3. The average **amount** borrowed by each member. If the average amount borrowed by the lower poor member is the same or greater than that borrowed by the others, then the assumption is that the lower poor need more frequent loans though in smaller amounts; this will indicate that there is no bias against the lower poor members.

The above data was collected for all the three categories, namely 'upper poor', 'middle poor' and 'lower poor'. This analysis helps to clarify the issue regarding the marginalisation of the poorest members in the group[1]

B. The purpose of loans

For a more balanced picture to emerge, the purpose of loans availed by members belonging to different categories in the 6 groups in the two project areas was also studied. These were again classified as consumption loans (which include loans for health and education) and income generation loans, for comparative analysis.

THE NUMBER AND SIZE OF LOANS

KAMASAMUDRAM PROJECT

All three groups selected are women's groups. They are just over three years old and have been assessed as 'average', as far as their institutional strengths are concerned.

Table 11.1 Rani Abbakka Affinity Group

	No. of Members	Total No. of Loans Taken	Average No. of Loans per Member	Total Amount Borrowed	Average Amount per Member	Average Size of Loans
Lower	5	30	6	23295	4659	776
Middle	4	19	5	39483	9870	2078
Upper	5	31	6	35356	7271	1172

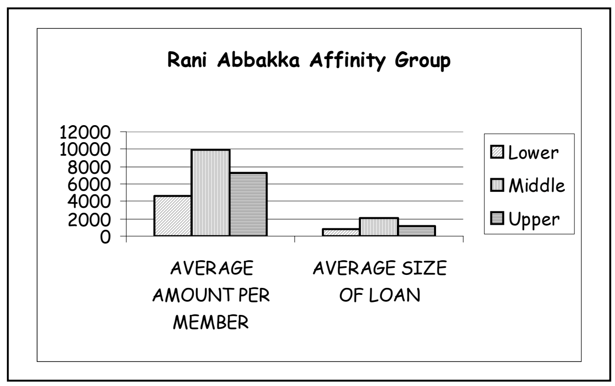
1 The following staff of Kamasamudram Project were involved in the study: Mr.Rohan Mallick, Ms.Smitha Ramanathan, Mr.Nissar Ahmed, Mr.Chinnaswamy, Mr.Nithyananda Rao and Mr.Janardhana.

Table 11.2 Shanthi Affinity Group

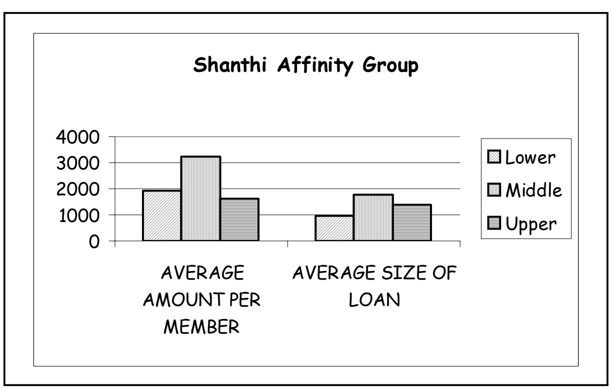
	No. of Members	Total No. of Loans Taken	Average No. of Loans per Member	Total Amount Borrowed	Average Amount per Member	Average Size of Loans
Lower	3	6	2	5800	1933	966
Middle	6	11	2	19460	3243	1769
Upper	6	7	1	9632	1605	1376

Table 11.3 Nethravathi Affinity Group

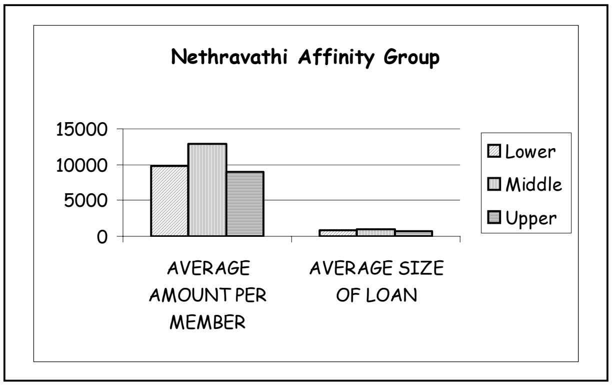
	No. of Members	Total No. of Loans Taken	Average No. of Loans per Member	Total Amount Borrowed	Average Amount per Member	Average Size of Loans
Lower	1	12	12	9800	9800	816
Middle	5	67	13	64175	12835	957
Upper	7	81	12	62452	8921	771



As regards size of loans: In the Rani Abbakka group (Table 11.1) as well as in the Shanthi Group (Table 11.2) the average size of loan per member is smaller in the "lower poor" category when compared to the other two. In the Nethravathi group (Table 11.3) however, the average size of loans in the "lower poor" category is higher than the average size in the "upper poor" category, though lower than the "middle poor" category. A conclusion can be drawn that the over-all capacity of the lower poor to take the higher risks involved in larger individual loans is smaller than the capacity of the other two categories. The reasons the poor give are that they are not sure of supporting facilities including markets, that they do not have the skills and time required to manage a large asset.



As regards the average amount: In the Rani Abbakka group, the average amount of the loan per member is smaller in the "lower poor" category than in the other two. In the Shanthi group as well as in the Nethravathi group, however, the average amount in the lower category is higher than that of the "upper poor", but lower than that of the "middle poor". This does indicate that the lower poor are accessing more frequent loans than the “upper poor” in two groups out of three.



As regards the average number of loans: In the Rani Abbakka group the average number of loans in the “lower poor” and the “upper poor” categories is the same and higher than in the middle poor. In the Shanthi group the average number of loans in the “lower and middle poor” categories is the same and higher than that of the upper poor. In the Nethravathi group the average number of loans is the same in the lower and upper poor categories, but lower than that of the “middle poor”. This does indicate that there is no bias against the “lower poor” in terms of the average number of loans.

Inference from the analysis of Kamasamudram Project:
The opportunity to avail loans is more or less the same for all the categories of members. No discrimination or bias against the “lower poor” category emerges in the number of loans or even in the average amount of loan given per member. The average size of loans, however tends to be smaller in the “lower poor” category, indicating that these families generally hesitate to take risks involved in availing larger loans.

CHALLAKERE PROJECT

Of the three groups analysed, two are women’s groups and one (Shankaraswamy) is a mixed group. All three groups are about 3 years old and have been assessed as “average”, as far as their institutional strengths are concerned.

11.4 Akkamahadevi Affinity Group

	No. of Members	Total No. of Loans Taken	Average No. of Loans per Member	Total Amount Borrowed	Average Amount per Member	Average Size of Loans
Lower	12	28	2	110883	9240	3960
Middle	8	27	3	159443	19930	5905
Upper						

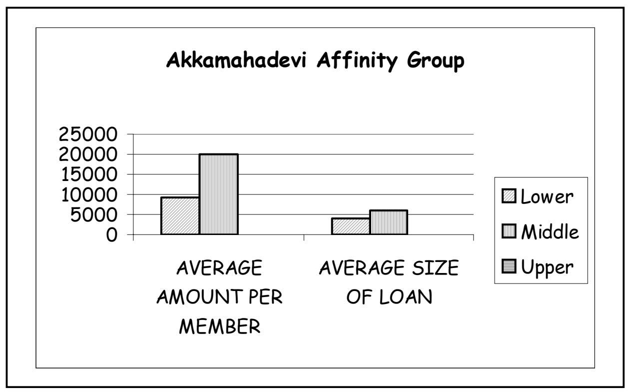
11.5 Shankaraswamy Affinity Group

	No. of Members	Total No. of Loans Taken	Average No. of Loans per Member	Total Amount Borrowed	Average Amount per Member	Average Size of Loans
Lower	9	33	4	130824	14536	3964
Middle	8	31	4	96639	12079	3117
Upper	6	19	3	95750	15958	5039

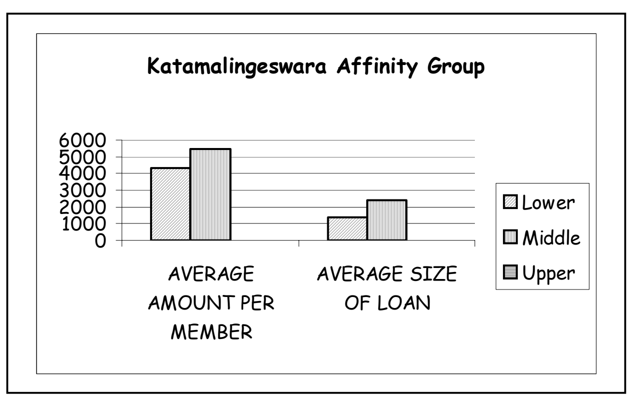
11.6 Katamalingeswara Affinity Group

	No. of Members	Total No. of Loans Taken	Average No. of Loans per Member	Total Amount Borrowed	Average Amount per Member	Average Size of Loans
Lower	16	50	3	69600	4350	1392
Middle	4	9	2	21850	5462	2427
Upper						

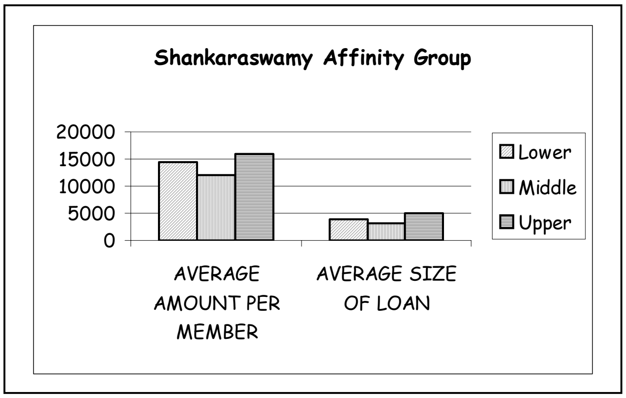
As regards the average size of loans: In the Akkamahadevi group as well as in the Katamalingeswara group, the average size of loans in the "lower poor" category is smaller than in the "middle poor" category. There are no families in the "upper poor" category in these two groups. In the Shankaraswamy group, the average size of loan in the "lower poor" category is lower than that of the "upper poor" category, but higher than the "middle poor" category. The conclusion drawn is similar to that from the three groups of Kamasamudram project, namely that the lower poor do not have the same risk taking capacity as families in the other two categories. The reasons for this are the same as those given by the lower poor in the Kamasamudram project.



As regards the average amount of loans: In the Akkamahadevi group as well as in the Katamalingeswara group, the average amount in the "lower poor" category is smaller than in the "middle poor" category. There is no "upper poor" category in these two groups. In the Shankaraswamy group the average amount in the "lower poor" category is lower than that of the "upper poor" category but



higher than that of the middle poor category. This does indicate that in the first two groups there is a bias against the lower poor. The Shankaraswamy group however this bias is mitigated to some extent.



As regards the average number of loans: In the Shankaraswamy group as well as in the Katamalingeswara groups the average number of loans per member in the "lower" category is the highest, while it is lower than the average number in the "middle poor" category of the Akkamahadevi group where there is no "upper poor" category. This does indicate that the poor who require more frequent loans have access to them in the SAGs.

<u>**Inference from the Analysis of Challakere Project**</u>**:**
As compared to the Kamasamudram Project, Challakere groups have a dominance of "lower poor", in terms of number of members. The average amount of loan taken per member, and also average size of a loan, tends to be lower for the "lower poor" category as compared to the "middle" or "upper poor" category. (Except in the case of Shankaraswamy group). This tends to reinforce the inference from the other project that even though no restriction is made in the groups for providing loans to the "lower poor" category, these families hesitate in some areas to borrow larger amounts because of the risks involved in repaying. However, as far as the average number of loans in concerned, two groups (Shankaraswamy and Katamalingeswara) do not show any bias against the "lower poor".

CONCLUSION

Overall there is adequate evidence to conclude that the "lower poor" category, or the poorest members of the Self-help Affinity Group are not marginalized in terms of access to loans; though they are unwilling or unable to take larger loans. However, the situation differs from group to group. In some affinity groups analysed above, the absorption capacity as well as the confidence of the lower poor to borrow is higher than in the other categories. In others it is lower or equal. There are several reasons for this diversity and the limitations of this study do not permit an analysis of their relative impact. The capacity and confidence of the poor to use larger loans is a major factor that influences their decisions. However, the effectiveness of the interventions required to build this capacity which is related to the institutional strengths of the groups, also depends to a considerable extent on the capability of staff conducting the training and the overall culture of the Project team. This differs from project to project and also from staff to staff. Other reasons include the difference in opportunities available in the area and in the infrastructure and facilities available to access these opportunities.

What emerges, however, is that, if adequate investment is made in the capacity building of groups, so that they manage their affairs well and share the vision and mission of Myrada, particularly to support the poorest, then, the biases against the poorest in terms of access to credit are considerably reduced.

THE PURPOSE OF LOANS

The purpose of loans needs to be analysed alongside the number of loans taken by the three categories, for a more balanced picture to emerge. The upper poor have been left out, as there is a clear bias towards income generating loans among the families in this category as expected.

KAMASAMUDRAM

Table 11.7. Purpose of Loans

	Consum-ption	Infra-structure	Agri-culture	Animal Husbandry	Farm Equipment	Business
Rani Abbakka Affinity Group						
Lower	23	3	4			
Middle	6	2	6	3	2	
Shanthi Affinity Group						
Lower	5			1		
Middle	3		6			2
Nethravathi Affinity Group						
Lower	2	1	8	1		
Middle	13	1	48	5		

Note: Columns 1 and 2 are included under consumption loans and the rest are categorised under Income Generation Loans

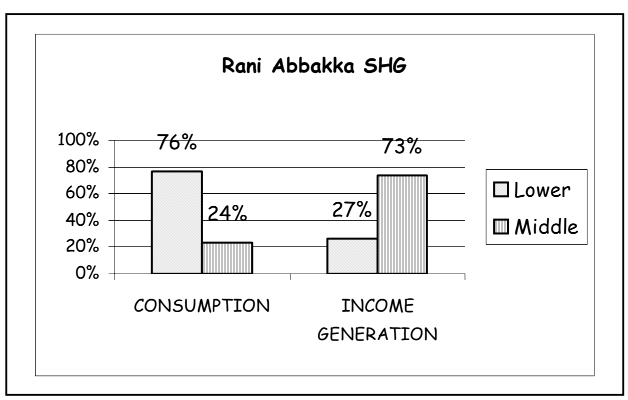
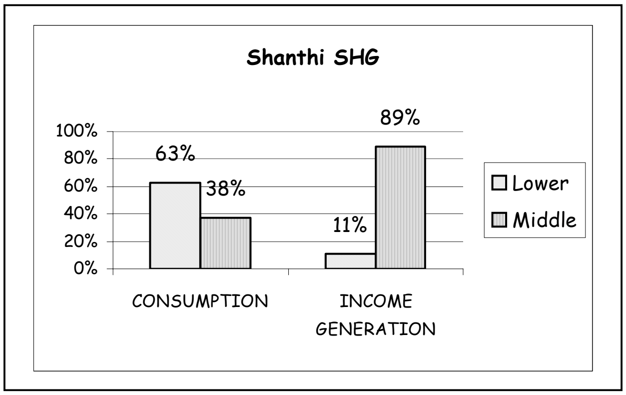


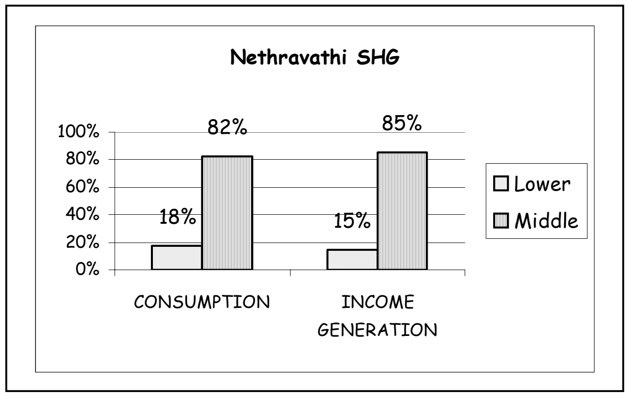
Table 11.7 indicates that in the Rani Abbakka Group, the "lower poor" category took 26 consumption loans (including 3 for infrastructure, namely house repairs) and only 4 income generating (IG) loans, all for agriculture. Whereas, the "middle poor" category took only 8 consumption loans (including 2 for house repairs) but 11 IG loans (6 for agriculture, 3 for animal husbandry

and 2 for "others" which includes a bullock cart and purchase of land which could be considered as income generating assets).



In the Shanthi Group the "lower poor" took 5 consumption loans and 1 IG loan, while the "middle poor" took 3 consumption loans and 8 IG loans.

In the Nethravathi group the pattern differs – the "lower poor" category took a larger number of loans for income generation (9), when compared to consumption (3) but much less than the "middle poor" category which took 14 loans for consumption and 53 loans for income generation.

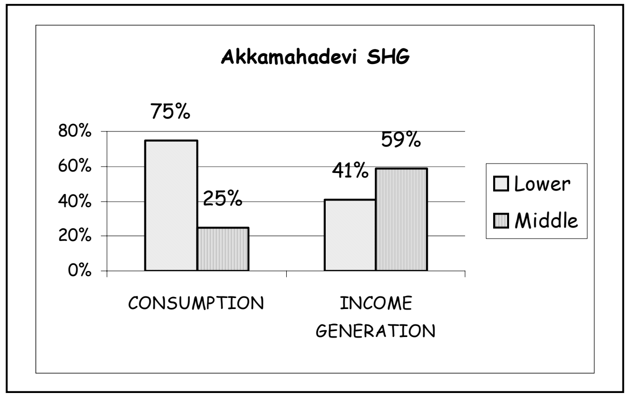


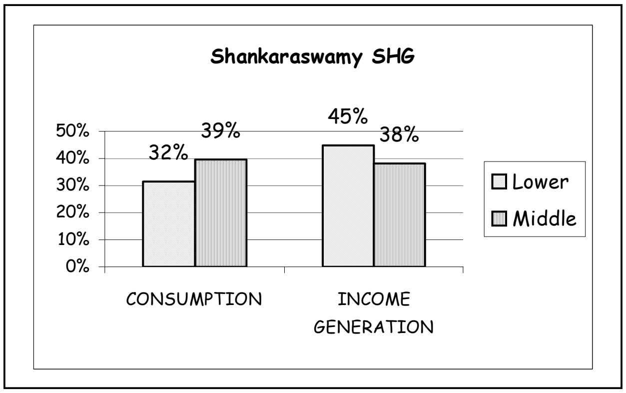
CHALLAKERE PROJECT

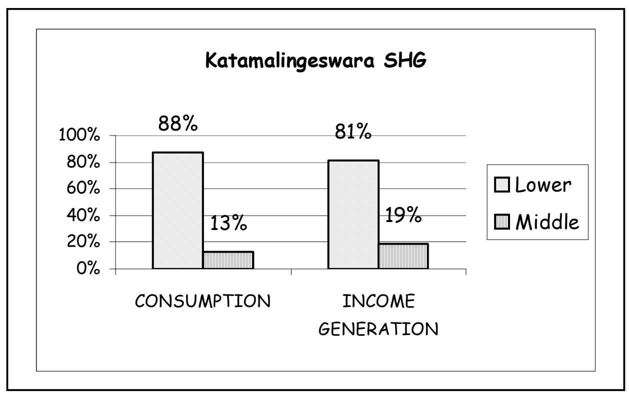
Table 11.8 Purpose of Loans

	Consum-ption	Education	Infra-structure	Agri-culture	Animal Husbandry	Business	Skills
Sri Akkamahadevi SHG							
Lower	3	3	6	4	4	6	2
Middle	1	1	2	19	4		
Upper							
Sri Shankaraswamy SHG							
Lower	12			16	3	2	
Middle	15			13		5	
Upper	6	5		8			
Sri Katamalingeswara SHG							
Lower	21	5	2	4	16	2	
Middle	3	1		2		2	1
Upper							

Table 11.8 indicates that the "lower poor" category in the Akkamahadevi group took 12 loans for consumption (3 loans for health/food, 3 for education and 6 for infrastructure), and a total of 14 loans for income generation and 2 for skill development. This indicates a good spread. In the Shankaraswamy group the "lower poor" category took 12 consumption loans and 21 loans for income generation. While in the third – Katamalingeswara group, the lower poor category has taken 28 loans for consumption and 22 loans for income generation – this also indicates a reasonably good spread, though the number of consumption loans is proportionately large. The "middle poor" category has taken only 4 loans for consumption in Akkamahadevi Group, but 23 for income generating investments. In the Shankaraswamy Group the "middle poor" category has taken 15 loans for consumption and 18 for income generation programmes. In the Katamalingeswara group, the "middle poor" category has taken a larger number of loans for IG programmes than for consumption.







CONCLUSION

In general the survey indicates that those in the "lower poor" category take a proportionately larger number of loans for consumption, namely for food, education, health, social and religious ceremonies and to redeem tamarind trees and lands from moneylenders. All these are not strictly speaking consumption loans. For example, education loans could be considered a long-term productive investment and redeeming mortgaged lands and tamarind trees pledged to moneylenders, increases their productive or livelihood base.

The group records show that, even though the "lower poor" category availed of a larger number of consumption loans, the recovery rate in all groups is over 96%. In most micro finance programmes loans are restricted to income generating assets only. Consumption loans are expressly excluded on the grounds that they are not productive and hence cannot be repaid. Myrada's studies showed that this assumption is invalid since consumption loans are repaid from several small sources of income. Infact a Myrada study of loans (under Government sponsored schemes) for productive assets like cows and sheep where the recovery was over 75%, showed that over 60% of the repayments on these productive assets did not come from the income derived from these assets but from the cash flow which originated from other sources including labour. Further, if consumption loans which the family cannot avoid are not allowed, the families will borrow from private moneylenders whose interest rates are usurious; experience shows that they spend several years and even a life time repaying only the interest on these loans. Disallowing loans for consumption creates a bias against the "lower poor" poor category since it limits the level of access to credit on the part of the members in the "lower poor" category whose priority, at least during the first years, is to meet consumption needs.

In the Myrada model, the affinity groups took the decision to lend for consumption loans. They reasoned that members would be forced to take these loans from private moneylenders at higher rates of interest. This in turn would leave them in a constant state of debt and increasingly vulnerable. The groups showed the confidence to lend for consumption needs since they have grown as an institution with a mission and with sound financial practices and organisational features.

On Myrada's part, a study was conducted in Dharmapuri District to assess the source of repayment. Asset loans on which recovery was over 75% were selected for analysis. It was discovered that over 60% of the repaid amount came from sources other than the asset for which the loan was taken. This was because group members had several small and seasonal sources of income, including manual labour, from which they repaid their loans. This confirmed Myrada's position that the groups are aware of the implications of their decisions and are confident of ensuring that their rules are observed by all the members, irrespective of the purpose of the loan.

However, as the data indicates, though the "lower poor" category in general tends to give priority to consumption loans, there are some groups in which the lower poor category takes a proportionately larger number of loans fro income generating activities when compared to consumption loans. This confirms Myrada's stand that a uniform and standardised system imposed by the MFI will not provide adequate space for the group members to grow. The situation in the country differs widely from village to village, and the degree of response of people when they come into contact with outside influences is diverse. Uniform trends therefore cannot be expected, and hence an all-encompassing standardised policy is inappropriate. The Myrada model provides the greatest degree of freedom and flexibility to cope with this diversity.

Chapter 12

THE QUESTION OF EMPOWERMENT

The major objectives of supporting poor people to build institutions is to provide them with an opportunity and the space to develop a vision and mission, to grow in confidence and skills to maintain organisational management systems, to establish the linkages required for an institution to function effectively and with a degree of sustainability and to become agents for social change. In this process, the members of the Self-help Affinity Groups build new relationships within the group and with society. Together, these objectives comprise what MYRADA describes as a "strategy for empowerment". This in turn, has a positive impact on changing gender relationships in the home and in society. Institutions, by themselves, do not empower. In fact they have the potential to dis-empower if their structure is inappropriate and the systems outdated and ineffective. They also disempower if the official organisational and financial management systems are imposed on them and standardised. Myrada holds the position that these groups should not be 'mainstreamed' by the official Financial Institutions; on the contrary these official institutions should recognise the SAGs and respect their systems provided they were transparent and adequate. Mainstreaming is dis-empowering when the mainstream imposes its system and culture. Genuine 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.

As far as relationships in the home are concerned, this study focuses on gender relations.

The assumption is that if the status in the home of a woman SAG member, hitherto conditioned by relations with her husband and other men folk, has improved, then her membership in the group must be partly (if not entirely) responsible for it. As far as impact on society is concerned, it is assumed that if the individual member's credibility rises with his/her being a member of the group, which is respected for its performance by others in the village, their membership in the group does have the potential to change the traditional perceptions of society towards the poorer families most of whom are from the lower caste or social strata. All these changes are described by the word **"empowerment"**. The perceptions of society need to change along with the growth in self-confidence and the increasing involvement of the poor sectors in society. If, on the contrary, the gap increases, society tends to react negatively to initiatives of the poor; this gives rise to unhealthy tension and often to open conflict. In this chapter, an attempt is made to analyse whether people's institutions, namely the affinity groups, were instrumental in empowering the poor. Emphasis here is particularly on poor women and their empowerment in the group, at home, in society and among other institutions.

In order to analyse whether becoming members of an affinity group, empowers the poor in society, this chapter uses six indicators:

1. Members belonging to 'lower poor' category hold positions in affinity groups.

2. Members of affinity groups (who are from the poorer sectors) elected to 'Panchayat' Institutions.
3. Examples of the impact of affinity groups on village life
4. A change in gender relations, which is identifiable.
5. The number of affinity groups considered to be "bankable" by Financial Institutions.
6. An increase in self-confidence, which can be assessed.

Each of these indicators is discussed in the following paragraphs.

1. MEMBERS BELONGING TO THE 'LOWER POOR' CATEGORY HOLDING POSITIONS IN AFFINITY GROUPS

If the poorest members hold positions of authority in the groups it is an indicator that the group's functioning has contributed to the empowerment of the weakest within the group. This indicator, however limited, is tangible enough to point towards an empowerment process that the institution building strategy fosters.

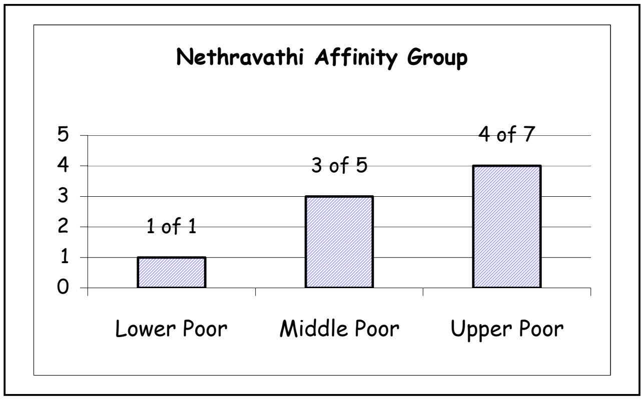
In all affinity groups fostered by Myrada, there are two representatives appointed by the members. They are the signatories of cheques and other documents. They are supposed to be changed every year, though this does not happen in all groups in the initial years.

Kamasamudram Project:

The following tables give the list of representatives in the 3 groups over 4 years, and the category to which they belong. The three categories (Upper poor, Middle poor and Lower poor), and the criteria to place members in them, are the same as those used earlier to assess whether the poorest in the groups had access to loans.

Table 12.1 Nethravathi Affinity Group Representatives during 4 years

Name and Year			Category
Rathnamma	:	Year - 1	Lower Poor
Parvathamma	:	Year - 1	Upper Poor
Chandramma	:	Year – 2	Middle Poor
Sarasamma	:	Year – 2	Upper Poor
Kamalamma	:	Year – 3	Upper Poor
Shobhamma	:	Year – 3	Middle Poor
Muniyamma	:	Year – 4	Middle Poor
Hittamma	:	Year – 4	Upper Poor



In Nethravathi Group in four years, there were 4 representatives from the 'upper poor' category (out of 7), 3 from the 'middle poor' (out of 5) and one from the 'lower poor' category. **It is to be noted that, in this group, there is only one member who falls in the lower category, and she was given first preference.**

Table 12.2 Rani Abbakka Affinity Group Representatives during 4 years

Name and Year			Category
Venkatalakshamma	:	Year - 1	Middle Poor
Ramakka	:	Year - 1	Upper Poor
Papamma	:	Year – 2	Lower Poor
Salamma	:	Year – 2	Upper Poor
Meeramma	:	Year – 3	Upper Poor
Shakuntalamma	:	Year – 3	Lower Poor
M.Kumari	:	Year – 4	Middle Poor
Sheelamma	:	Year – 4	Middle Poor

In the Rani Abbakka Group in the past four years, there were three representatives from the 'upper poor' category (out of 5), 3 from the 'middle poor' category (out of 4) and 2 from the 'lower poor' category (out of 5). Though the lower poor were given opportunities, there was a bias against them proportionately.

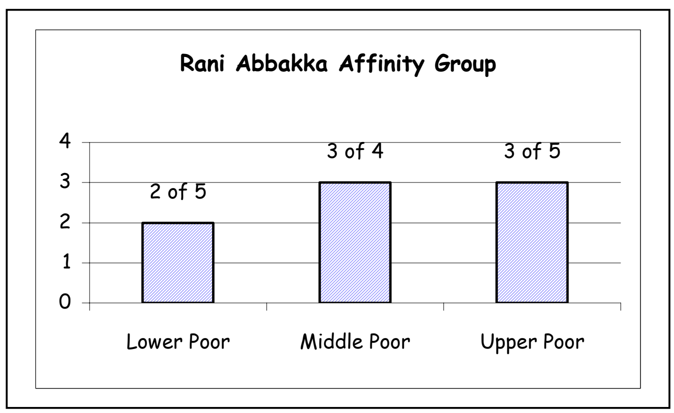
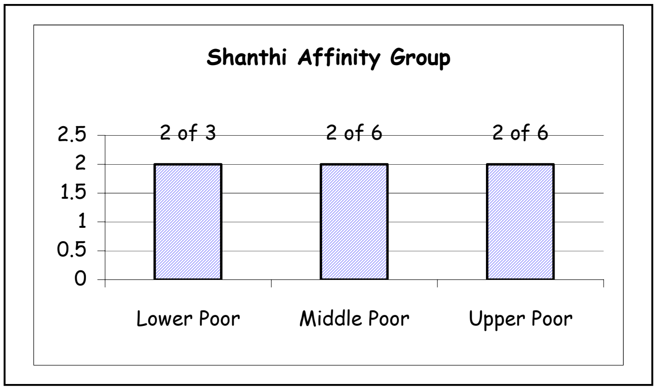


Table 12.3 Shanthi Affinity Group Representatives during 4 years

Name and Year			Category
Munirathnamma	:	Year – 1 & 2	Upper Poor
Shanthamma	:	Year – 1 & 2	Middle Poor
Raziyaji	:	Year – 3	Upper Poor
Rathnamma	:	Year – 3	Middle Poor

Shamsun	:	Year – 4	Lower Poor
Motijan	:	Year – 4	Lower Poor



In the Shanthi Self-help Affinity Groups, elections were held every year, but the same representatives were elected twice. As a result, there were only six representatives during the four years – 2 from each category. However the lower poor category were elected only in the fourth year.

Challakere Project:

The following three tables give a list of representatives in the three affinity groups over the past 4 years. The 3 categories (Upper Poor, Middle Poor and Lower Poor), and the criteria to assess them, are the same as those used earlier, to assess whether the poorest had access to loans.

Table 12.4 Akkamahadevi Affinity Group Representatives during 4 years

Name and Year			**Category**
Dakshayanamma	:	Year - 1	Middle Poor
Gangamma	:	Year - 1	Lower Poor
Nagaveni	:	Year – 2	Lower Poor
Gowramma	:	Year – 2	Lower Poor
Veeramma	:	Year – 3	Middle Poor
Umadevi	:	Year – 3	Middle Poor
Nagarathnamma	:	Year – 4	Middle Poor
Vanajakshamma	:	Year – 4	Lower Poor

In the Akkamahadevi group there are no members in the Upper poor category. Representatives are equally divided between the middle and lower poor categories, though their respective percentage differs (4 out of 12 in the middle category and 4 out of 8 in the upper)

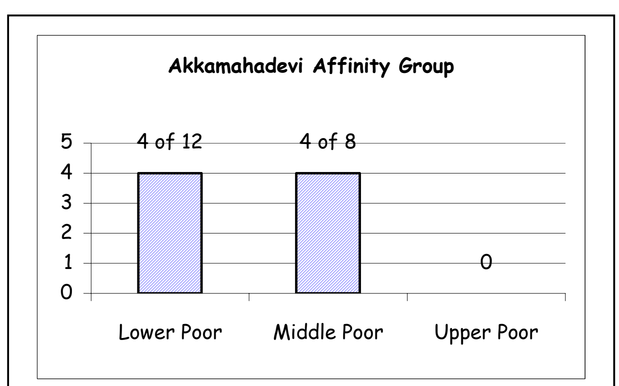
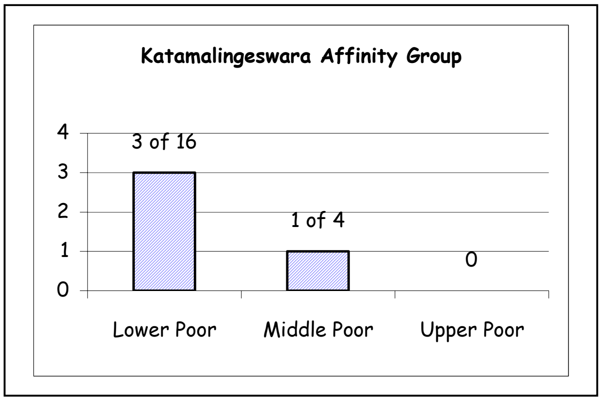


Table 12.5 Katamalingeswara Affinity Group representatives in the past 4 years

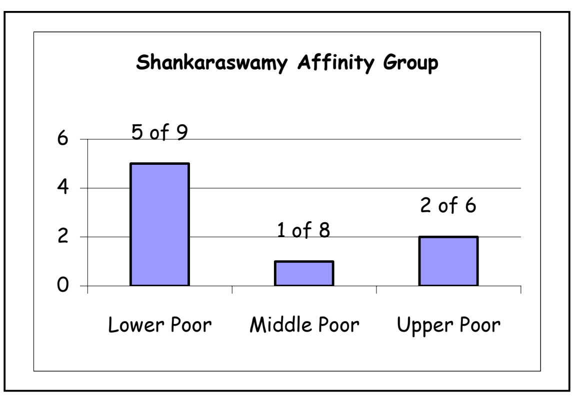
Name and Year			Category
Katamma	:	Years – 1, 2 & 3	Lower Poor
Channabasamma	:	Years – 1, 2 & 3	Middle Poor
Sharadamma	:	Year – 4	Lower Poor
Katamma	:	Year – 4	Lower Poor



The Katamalingeswara group did not change its representatives for three years. Also there are no members in the 'upper poor' category. The 'lower poor' have been given proportionately fewer opportunities than the 'middle poor' group to function as representatives.

Table 12.6 Shankaraswamy Affinity Group representatives during 4 years

Name and Year			Category
Anasuyamma	:	Year - 1	Middle Poor
Thippamma	:	Year - 1	Lower Poor
Thippeswamy	:	Year – 2	Lower Poor
Nagamma	:	Year – 2	Lower Poor
Chandranna	:	Year – 3	Upper Poor
Nagaraja	:	Year – 3	Upper Poor
Shantamma	:	Year – 4	Lower Poor
Anasuyamma	:	Year – 4	Lower Poor



The members in the lower category have clearly dominated in the Shankaraswamy group. They held positions five times, compared to twice by the 'upper poor' and once by the 'middle poor'. Lower poor -5 out of 9, Middle poor -1 out of 8,Upper Poor -2 out of 6)

Conclusion: There are clear indicators that the 'lower poor' category is not marginalised when candidates are selected for positions of authority in the groups, though they have not been given preference during the first years in some groups and their representation has not been proportionate to their respective numbers in other groups.

2. MEMBERS OF AFFINITY GROUPS ELECTED TO 'PANCHAYAT INSTITUTIONS'

A second indicator of the 'empowerment' of poor is whether affinity group members get elected to the 'Gram Panchayat'. If the members selected by the group win the elections and get elected to the Panchayat, it indicates that the group has grown in confidence and has also empowered these individuals. Further, it indicates that the whole village has begun to respect the group as an institution, and will support the candidates it puts up. Several of those interviewed in the village after the elections indicated that they had voted for the group member because she/he was a member of a group which was functioning well and which they respected.

An independent study conducted by a group of IRMA (Institute of Rural Management, Anand) students in MYRADA"sTalavadi Project showed that better off families (mainly of upper castes) in the village, had begun to respect the Self-help Affinity Groups, because they had helped their members to grow in terms of increased incomes and livelihood sources, as well as in their concern for the welfare of each other and of the village. The groups had taken the lead to mobilise the entire village, to undertake several programmes like sanitation, and to ensure that cleanliness was maintained.

A significant number of Self-help Affinity Group members have been elected to the Gram Panchayat. This was the case in previous elections, as well as in the latest round of elections that were held early in the year 2000. **Approximately 200 members of Affinity Groups in MYRADA projects have been elected to their respective 'Gram Panchayats' in the elections of 2000.**

The following tables give the number of group members elected in the two project areas – Challakere and Kamasamudram- in which all the six SAGs studied here are located. The candidates who contested and who were elected, are from all the groups in the two project areas and not only from the six groups analysed in this study.

Table 12.7. Number Of Members Contesting Elections And Elected

	Total	Male	Female
Challakere			
Members contesting	33	10	23
Members elected	25	7	18
Kamasamudram			
Members contesting	15	7	8
Members elected	5	2	3

It could be asked whether members would have contested, if they were not members of the groups. The only tangible evidence that they would not have contested had they not had the group experience, is that all of them emphasised that they would not have ventured to stand for elections if they were not members of groups; in fact, they pointed out, they had not even thought of this possibility before they joined the group. During the group meetings, however, the members realised that they should have some of their members represented in the Gram Panchayat to lobby for their interests. This issue was also discussed in the meeting of the Federations. It was only after this process, that the groups selected the candidates and promised their support. All the candidates interviewed individually by Myrada staff clearly stated that they gained the confidence to contest because of their experience in the management of group affairs and because they were supported by the members.

Local Government Structure

SAG member's interaction with the 'Gram Panchayat' had increased after joining the group for two reasons: Firstly, many SAGs were co-ordinating and implementing infrastructural programmes in the community, which were funded by the Gram Panchayat. This increased the interaction of SAG members with the Panchayat. Secondly, a larger number of women (in their capacity as representatives of the federation) were attending Grama Sabha meetings than before. This increase in the number of women attending the meeting may be attributed to both the confidence derived from having a reputed institutional backing and an increase in confidence to interact in 'formal' settings.

(Social Intermediation Study – Page 23 of the Draft)

3. IMPACT OF AFFINITY GROUPS ON VILLAGE LIFE

A third indicator is the degree or level of impact the Group has on village life. This indicator must be viewed in the context of the status of members of the group in society, before the group was formed. These affinity groups are formed of the poor, marginalised and generally lower castes. For them to have influence in the village, to act and to be accepted as 'agents of change' is not viewed as a "traditional" role. In fact, any such initiative on their part would be viewed normally as a sign of "arrogance". If therefore, the group has gained respect because of it's functioning both as an institution and of the social roles that it has performed, it further supports the position that an institution that functions well, is a powerful instrument of 'empowerment'.

The CATAD study ("NGO-Based Participatory Impact Monitoring of an Integrated Rural Development Project in Holalkere Taluk, Karnataka State, India"), which covered 64 Self-help Affinity Groups, selected three indicators to assess the impact of the group on village life. It admits that all three indicators have limitations, but the findings from each indicator tend to support one another. (Pages 127 and 128)

Quote"

1. The percentage of groups who have been approached at least once by other groups in the village to help solve socially related problems:
   - Data indicates that in the first year 25% of Groups were approached to resolve social problems, in the third and fifth years 50% of the groups were approached to perform this social role.

2. The percentage of groups in charge of maintaining at least two village infrastructure assets.
   - Data indicates that in the first year 30% of groups are involved, in the third year 65% and in the fifth year 90% are involved in maintaining at least two village infrastructure assets.

3. The percentage of groups having elected members to at least two local bodies.
   - Data indicates that the percentage of groups with members in elected bodies was 10% in the first year, 25% in the third and 55% in the fifth year. **Unquote**

Case Study – 1 (Dharmapuri Project)

Conflict Resolution

Some years ago during a field visit to the Dharmapuri Project, the Myrada staff passed a group of masons engaged in building an arch over a footpath through the fields and about two hundred yards from the main road. On enquiry the masons revealed that the arch was a donation in thanksgiving from a devotee of the village temple who lived in the city. The masons also asked whether Myrada could help to build a pucca road through the arch connecting the main road to the village which was about a kilometre away. The meeting in the village with the self-help affinity group revealed a vibrant and self-confident group that had managed the affairs of the group admirably. When asked to identify a priority for the village, the members identified the need for a road from the highway to the village, just as the masons did earlier. "We need money" they said, "for this road". "Why not start with '*shramadaan*?" we countered. This started a discussion. It finally emerged that the problem was not the lack of money, but the lack of cooperation among the villagers who would have to give up some portion of their lands, to align the road. On the return to the main road, the issue was discussed again with the masons who agreed that money was not the main problem but the lack of cooperation. They were asked for a solution. They replied: "there is no single individual who can solve this issue; but there is one group that can resolve this problem – it is the group you have just visited; that group is respected by all".

Case Study – 2 (Challakere Project)

Lowering the Price of Kerosene in Nayakanahalli

Nayakanahatti is a large village with 1600 households and a semi-urban ambience. Many families living in this village have migrated to Nayakanahatti from other villages in search of work in neighbouring arecanut plantations or to set up small stalls during the many fairs, which are held in this temple town.

Nayakanahatti has a total of 20 SAGs with around 400 members, which means that one in four households in the village has a family member who is a member of an SAG. All 20 SAGs are organised into an *Indira Mahila Kendra* (IMK), which acts as an interface between Government Departments and all the SAGs in the village.

The local fair price shop owner in Nayakanahatti would frequently harass people by not supplying kerosene (used as fuel for lighting and sometimes cooking) on time. An SAG member brought up this issue at the monthly IMK meeting, where other SAG representatives and Government functionaries were present. At the meeting, she discovered that not only did she have a right to get the quota of kerosene, but that she was supposed to be getting it at the Government control price of Rs.3.35 per litre as opposed to Rs.3.60 per litre, which the fair price owner had been charging.

At the meeting, all representatives of the SAGs in the village decided to approach the Tahsildar to sort out the issue. The Tahsildar issued a letter to the fair price shop owner, asking him to supply kerosene to people at the right price and on time. For a while there was no problem with kerosene supplies and prices in the village.

A few months later the owner of the fair price shop reverted to his old ways, (of selling his stock on the black market) and kerosene was scarce and available only at a high price.

The matter was brought up again in the IMK meeting and the SAG members took a decision to organise a combined protest outside the fair price shop. Once again the price of kerosene was lowered. (The need for constant vigil which a well established SAG can provide is critical ; a one time demonstration is not enough).

Source: Social Intermediation Study (Draft)

4. GENDER RELATIONS – Evidence of Changes

A fourth indicator of empowerment, particularly of women, is the change in gender relations in favour of women. In women's groups, the issue of gender (understood as gender relations) is a major one.

The CATAD study which covered 64 groups in Holalkere project, attempted to assess whether membership in an affinity group has an impact on gender relations in the home between husband and wife. **Three areas of decision-making in the family were analysed:**

1. **Decisions on the purpose of loans**
2. **Decisions on the adoption of household infrastructure**
3. **Decisions on the household purchases.**

The following are the results of the CATAD study: (Pages 117, 118)

Quote

Table 12.8 Decisions regarding purpose of loans by members of 64 groups in Holalkere project

Age of groups	**≤ 1 year**	**= 3 years**	**≥ 5 years**
The decision is dominated by the husband	30%	13%	12%
The decision is made jointly	51%	53%	42%
The decision is dominated by the wife	19%	34%	46%

Table 12.9 Decisions regarding adoption of household infrastructure by members of 64 groups in Holalkere project

Age of groups	**≤ 1 year**	**= 3 years**	**≥ 5 years**
The decision is dominated by the husband	36%	4%	7%
The decision is made jointly	48%	58%	41%
The decision is dominated by the wife	16%	39%	52%

Table 12.10 Decisions regarding household purchases by members of 64 groups in Holalkere project

Age of groups	**≤ 1 year**	**= 3 years**	**≥ 5 years**
The decision is dominated by the husband	26%	17%	14%
The decision is made jointly	55%	35%	58%
The decision is dominated by the wife	19%	48%	28%

Unquote

Conclusion

In general, the number of decisions made exclusively by the husband decreases significantly over the years. The highest shift from husband's decision making to wife's decision making is seen in the issues related to household infrastructure. This kind of change is least noted in decisions related to household purchases.

What emerges from discussions with families is that a joint decision in issues related to the household is most acceptable; disagreement can be managed in a way that relationships are strengthened without leading to conflict.

Initially when Myrada staff began organising women's Self-help Affinity Groups, there were reactions from men, who tried to prevent women from attending meetings, often resorting to the use of force. But gradually this changed, as men realised that the women were able to access loans. Many women's groups continued to have problems with men demanding to attend their meetings. When this was refused, they were found lingering around the meeting place to overhear the conversation. This behaviour was strongly objected to, and fines were imposed on some men.

Changes in attitudes in favour of the girl child are also evident. In many groups, resolutions have been taken by the members to ensure that their daughters attend school regularly, and that they will be treated equally as the sons. Fines have been imposed on those who have not conformed to these decisions.

The Shankaraswamy group in Challakere project, which is one among the six analysed in the Myrada study is a mixed group. There are 12 men and 11 women in the group. It is significant to note that, in the past four years, **there were only 3 male representatives as against 5 female representatives of the group** (refer table 12.6). In a society, where a reservation policy is required for women to find a place in elected bodies, this is a commendable achievement.

The Social Intermediation Study which covered seven SAGs in MYRADA's Challakere Project was conducted by a group of three outside consultants commissioned by The Canadian International Development Agency (CIDA) and the Aga Khan Foundation (Canada). This study also records several case stories of changes from traditional women's roles. Three case stories are given below:

(Source: 'The Social Intermediation Study' pg. 27 of Draft)

Quote:

"Increased Participation of Women in the 'Formal' Sphere"

Many non-members mentioned that, seeing poor women going to banks and attending meetings was unheard of before SAGs were formed. It was also unusual to see women attend and participate in Grama Sabha meetings. One community leader, whose wife was also a Panchayat member, said that, his wife rarely speaks in Panchayat meetings as the Panchayat has a predominantly male membership. He was questioned the purpose of the 33% reservation for women in the Panchayat, if women were not empowered to participate effectively in the meeting. The focus group was being conducted in a room where all were men and we were accompanied by a woman SAG member who was sitting on a chair next to us and who (though suitably deferential to an elderly upper class male gathering) was quite vocal about her views. The leader was of the opinion that if more women were given an opportunity of a 'separate space' in form of an SAG, IMK and Federation, to talk and express themselves, then soon they would be enabled to hold their own in an ambience which is not exclusively female, but, on the contrary, often predominantly male and upper class. Unquote

Increase in the Number of Women taking up Non-traditional Activities

Quote:Examples that were widely quoted by community members in a few villages, as changes in gender roles in their community, were that of women in one village have been trained to drive auto rickshaws, were now plying in the village. Eleven women in the same village were trained as drivers of four-wheeler vehicles (one of them is now employed by MYRADA), and several more had been trained by the KSRTC (Karnataka State Road Transport Corporation) as conductors for local buses. Many women had also been trained as masons, and could be seen making cement bricks outside their homes. The initiative for this training had come from Myrada. SAG members, however, had identified potential trainees. It was clearly evident, that all women who had finally gone for training, were from more marginalised households, who were willing to rock the boat of conventionality in order to earn a decent living. However, these examples of women taking up non-traditional vocations were widely discussed in the larger community, as instances of change in gender roles due to the formation of SAGs. Unquote

Changes in Attitudes of Men towards Women taking up 'Non-Domestic' Roles and the Increased Work Burden on Women:

Quote: "Most SAG members of women's group said that their husbands and families no longer 'complain', if they are late in returning from a meeting or training programme. Instead, they are encouraged to go out on SAG related work. Their families, who in the beginning hesitated in allowing them to travel far from the village on training programmes, or to Government Departments, now have become very supportive.

However, a few women members who had left the groups in the initial stages, were said to have done so, due to lack of support from family members to attend meetings and go out on SAG related work.

In one community, a community leader (also a woman) mentioned that men allow women to go out, because they are getting loans and other benefits for the family and not for any other reasons.

However, members said that they must themselves take care of household responsibilities like cooking, etc., before coming to a meeting. They had learnt to cope with this; by working longer hours on the days that they had to go out on SAG related work. However, most members also seemed to feel that, the exposure and power they derived through being part of a group, more than made up for the extra work involved.

There was however, a difference of opinion at this point, between better off members and women living on the edge. Women with many small children, or the daily wage earners, sometimes felt the burden of extra work created by the SAG to be cumbersome.

Men in a few communities, where women were traditionally less mobile, seemed reluctant to admit that women were going out more often after joining the SAG, as this seemed to symbolise wanton behaviour. However, in the same communities, the women themselves admitted freely, to going out of the village more frequently than before on SAG related work. **Unquote**

***The SAG Leverage Study, conducted by Mr.Hemachandran from PLAN International during March – September 2000-* also records several instances of how women in SAGs took initiatives which traditionally they would hesitate to consider. One example will have to suffice:**

Quote

Huchamma Women's SAG, MYRADA Kollegal Hill Area Development Project

"Myrada staff gave the initial orientation on SAGs to the women in the village. Three women from the village – Kausalamma, Bhagyamma and Puttamma took the initiative and visited each house to convince and provide motivation to form the SAG. The SAG was started on March 15, 1995 with a total of 27 members. Later, y members left the SAG (3 members left the village and the other 4 left due to a lack of interest).

Initial Hurdles: During the initial six months, the SAG faced several problems. Some men from SAG households gave good encouragement and support, while in other households, the men objected and created problems for women SAG members. Rich people also created problems and tried to discourage the poor from forming SAGs. As a result, the SAG could not function effectively for about 6 months.

However, some of the women persisted and along with other supportive men, pursued and convinced other men. Many times, they used to leave their homes individually, without combing their hair or dressing properly so that their husbands would not question them, to undergo training and for group meetings. They would meet outside the village where they dressed properly and leave for the training centre or for meetings.

In one case, when Kausalamma's husband (who is educated up to 10th standard) objected to her taking the responsibility of maintaining the groups books of accounts because it would eat into the time devoted to the family's agricultural work, the other women persuaded him and worked on his land free. Seeing their interest, he finally agreed. This is an example of how the members could overcome domestic problems through collective effort". **Unquote**

Why focus on Women's Groups?

MYRADA is often asked why the focus in its projects is mainly on women's groups. This focus emerged when MYRADA discovered that as soon as men in the SAGs increased their income, they spent most of the increase on themselves. They shifted their consumption pattern from beedis to cigarettes for example. On the other hand it emerged that women spent their increased income on their household requirements especially for their children. There were also other reasons which strengthened this focus. A summary of these reasons is given below; it is an extract from a study made by a student M. Osborne from Kassel University, Germany on why some SAGs failed.

Quote:

One of the most fundamental changes was the decision to focus (almost) exclusively on women's groups. The objective of this investigation was to assess a diverse range of defunct groups that included some male-only groups. The main reasons given for the focus on women are to encourage their equity and empowerment. Nevertheless, what are the differences between men's groups and women's groups that make focusing on women-only groups worthwhile? Using the SHG model as our guide we can see the following: Firstly the needs of women are broader than merely the need for credit and finance. "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 SHG meeting is a godsend" (Fernandez, 2001). Secondly, women's groups – because they have traditionally faced more exclusion from the cash economy – have greater need of a common fund. Thirdly, women's traditional roles have been geared more towards inter-dependence, which the SHG needs in order to function. Furthermore, the near vacuum of female village institutions not only highlights the need for one but also suggests the comparative ease of its establishment. In contrast, men have clearly defined traditional roles in public relations and village politics. These relationships cannot simply be excluded by the formation of an equity-oriented SHG as they will continue to play a role bringing either conflicts or allegiances into the group. Furthermore, men have traditionally controlled all economic issues like trade, property and money. The SHG disrupts known cash flows and can often be regarded as a drain on existing inadequate funds rather than as a method of accumulation and emancipation from moneylenders. Men are also in a better position than women to exploit the SHG common fund in purely self-interested behaviour, by being freer to decide to migrate after taking a loan, for example. Both these problems can have destructive effects in the running of any men's group. The adjustment to focus exclusively on women has, in turn, had consequences. In some cases, despite the education and training given to the women within the SHG, their husband's misunderstandings over the concept have distorted and damaged groups. This will be discussed more in the case studies. **Unquote**.

5. GROUPS CONSIDERED AS BANKABLE BY FINANCIAL INSTITUTIONS

In general, Bankers are not comfortable with informal groups of the poor. They find it difficult to accept that the SAG –Bank Linkage strategy requires that they advance loans to the group as an institution and not to individuals in a so-called group. They have no experience in assessing an institution. All Government anti-poverty schemes involving credit require the banks to deal with individuals. If however, they consider groups as sound investment opportunities, and prefer to assess the institutional strengths of the group before advancing a loan rather than to assess the purpose of each individual loan to a member, this is another indicator that the profile and credibility of institutions of the poor has risen significantly.

The Self-help Affinity Group model requires that Bankers learn how to assess the Self-help groups as an institution. They require training to do this. There were also several administrative hurdles which had to be cleared. For example, there were problems in opening Bank accounts in the name of groups, since they were not registered. The groups however refused to be registered, since, in their opinion, registration would make them vulnerable to the whims of petty officials. Myrada pointed out that the groups functioned like registered bodies. They had an identity, they met regularly, kept records and accounts, audited their financial transactions, and changed their representatives regularly. In fact, all the Government sponsored institutions managing credit, like Cooperative Societies, though registered, did not function with the same degree of accountability.

There are signs that this change in Banking policy and practice is taking place. About 4500 groups in Myrada's projects have established direct links with banks and receive a line of credit. Many of them have received over 2 loans. However, progress is still slow. Myrada alone has at least another 2000 groups that are eligible for direct finance. To cope with this need, Myrada has promoted a not-for-profit Micro Finance Institution called "Sanghamithra", registered as a company. 'Sanghamithra' is advancing loans directly to affinity groups. This also introduces an element of competition, which has an impact on the interest rates of other informal lending institutions, and improves financial services from all intervening institutions.

Table 12.11 Details of Bank Linkages with MYRADA Groups as on September 2002

Financial Institutions	No. Of Groups Linked	Amount Loaned (in Rs. Millions)
Commercial Banks	1,211	63,925,700
Cooperative Banks	77	1,957,000
Cooperative Societies	26	525,320
Private Banks	207	8,176,700
Regional Rural Banks	1,696	76,140,247
Sanghamithra	1,087	45,229,000
Scheduled Banks	3	215,000
Government Schemes	252	21,054,008
TOTAL		**217,222,975**

With NABARD's assistance, Myrada has trained over 4000 bankers in assessing affinity groups as institutions, in order to decide whether they can invest in them. NABARD's studies have shown clearly, that the transaction costs in the Myrada model are far less to the borrower as well as to the lending institution, as compared to the other existing models. However, this model requires that the bankers relate directly with the Self-help Affinity Groups. Unfortunately, many banks have taken a shorter (and easier) route. They have lent to the NGOs who on-lend to the groups. This has lowered the costs of banks, but requires the NGOs to function as MFIs. This requirement raises several questions, related both to the NGOs culture, as well as to the operating systems and their registration. But these issues have been raised elsewhere. (Refer **Annexure 8 "Is micro credit leading to a macro mess?"**).

6. INCREASE IN SELF CONFIDENCE

Did participation in the group increase member's self confidence?
The "Social Intermediation Study" provides some insights that are quoted below:

Source: Social Intermediation Study – Page 25-26 (Draft)
*Quote: "**Confidence to Access Mainstream Institutions:***

- ***Learning To Sign*** *– Many members said that they had learnt to sign after joining the group. Although this might seem like a minor achievement to us, to SAG members it seemed to be a way of gaining acceptance in the 'mainstream', and a source of pride. Many members spoke of how they were previously ashamed to conduct bank transactions, as they had to use thumb impressions in place of signing. Only after learning to sign were they comfortable going to a bank. This realisation may be attributed to an increased exposure through the group to the requirements of the 'mainstream'.*

- ***Confidence To Approach A Bank*** *– Many members mentioned that, only after joining the SAG, they had gained the confidence of conducting bank transactions on their own, and approaching Bank officials for a loan. This increased confidence may be attributed partly to MYRADA's efforts at promoting bank linkages in all its projects, by providing both SAG members and bank officials with training on SAG-Bank linkages.*

- ***Confidence To Speak To Visitors And Government Officials*** *– Many members said that, after joining the SAG they had frequent exposure to visitors. Representatives of SAGs linked to the IMK (Indira Mahila Kendra), had frequent interaction with public offices, and are now able to seek out and approach Government officials on their own. Here, there was a noticeable difference between SAGs who were linked with Departments through the IMK, and those, where there was no IMK. As it is not always possible for Government officials to target individual groups, the forum for SAG-Government Department interaction at an institutional level on a regular basis, has largely been at the federation level or the IMK.*

- ***Learning Communication Skills Required To Deal With The 'Mainstream'*** *– Several members, mentioned about their ability to frame an agenda, talk, argue and hold their own in a meeting or a formal setting, and be attentive to what others are saying. They attributed this, to the skills they had acquired after joining the group. Many also said that, they had learnt the 'appropriate' language for dealing with officials, i.e., using the plural instead of the singular when addressing another person, using 'mainstream' language rather than the local dialect when talking to outsiders, etc. These skills may be attributed to an increased exposure to participation in formal settings, and exposure to interacting with visitors and Government officials through the group.*

- ***Awareness of Rights and Procedures*** *– Many SAG members mentioned that it was only after exposure to mainstream institutions and officials, that they acquired greater awareness of their rights in the welfare system, and of the procedures and requirements of negotiating the bureaucratic maze. This increased awareness may also be attributed to the willingness of the 'mainstream', to target SAG members for awareness generation, and the efforts of Myrada staff to educate the SAG members on their rights. Many less aware members of the Groups have also* *benefited from the experience of the more exposed members who already had access to information and contacts before joining the group.*

- ***Confidence To Start New SAGs And Provide Support To Existing Groups*** *– Many ex-members expressed a wish to start a group on their own sub-community. Some had already formed groups in their localities on their own initiative. Many group members also act as community trainers for the new groups in the area.*

  Through the federation, many representatives of the affinity groups provide support to new groups, and also help in the process of conflict resolution in the groups. Members attributed this ability to capacity building programmes conducted by Myrada and to the experience in group processes gained in the SAG." **Unquote**.

Chapter 13

CHANGE IN MEMBERS ECONOMIC STATUS AS A RESULT OF GROUP MEMBERSHIP

In the final analysis, it is essential to find out whether the members have improved their economic status, i.e., whether they are in a better position than before to meet their basic livelihood needs.

The Myrada study indicates that after three years of functioning, significant number of members of affinity groups have risen in their status as perceived by the members themselves. The percentage ranges from 93% in some groups to 66% in others after three years. The CATAD study indicates that 25% of the members rose above the poverty line in the first year; this percentage rose to 70% in the third year and to 86% in the fifth year. The trends in both studies, therefore, are similar.

The tables below, taken from the Myrada study, provide a comparison between the members' assessment of their status while joining the group, and after three years.

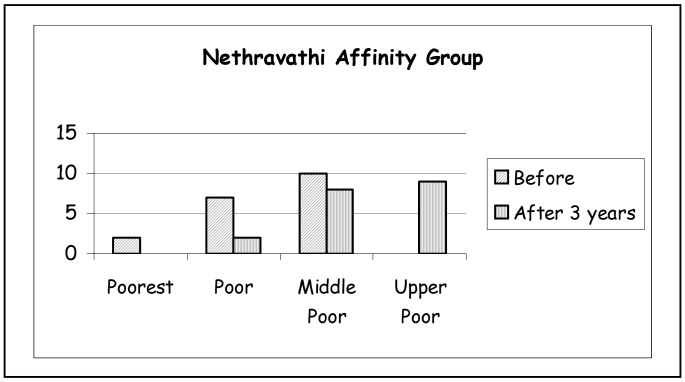
The members divided themselves into three categories: Upper poor, Middle poor and Lower poor. They then assessed their status when they joined the group, and compared it with their perception of their status three years later, at the time of this study. Some groups, however, went one step further, and divided the 'lower poor' category into two, namely 'Lower Poor' and 'Lower Poorest'. The outcome of this exercise is presented in the following paragraphs.

Kamasamudram Project

Table 13.1 Shift In Economic Status Of Members Of Nethravathi Mahila Sangha, Hunkaldurga

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
1.	Ratnamma	Poorest	Poor
2.	Devamma	Poorest	Poor
3.	Menasamma	Poor	Middle
4.	Rangamma	Poor	Middle
5.	B.Rajamma	Poor	Middle
6.	Sakamma	Poor	Middle
7.	C. Muniyamma	Poor	Middle
8.	K. Muniyamma	Poor	Middle
9.	G. Rajamma	Poor	Upper
10.	Munivenkatamma	Middle	Upper
11.	Thimmakka	Middle	Upper

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
12.	Hittamma	Middle	Upper
13.	Parvathamma	Middle	Upper
14.	Shobhamma	Middle	Middle
15.	S.Kamalamma	Middle	Upper
16.	Sarasamma	Middle	Upper
17.	Akkamma	Middle	Upper
18.	Chandramma	Middle	Middle
19.	R. Muniyamma	Middle	Upper

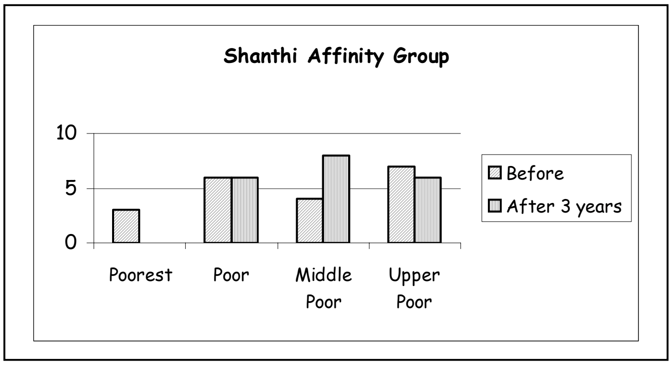


There has been no change in the status of only two members belonging to the 'middle poor' category. For all the rest, their status has risen after joining the group. There has been a rise in the economic status in all cases of the 'lower poorest' category. In one case, there is a jump from the 'lower poor' to the 'upper poor' category.

Table 13.2 Shift in Economic Status of members of Shanthi Mahila Sangha, Boodikote

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
1.	Motijan	Poorest	Poor
2.	S. Muniraathnamma	Poorest	Poor
3.	Akkamma	Poorest	Poor
4.	Shamshu	Poor	Poor
5.	Gowramma	Poor	Middle
6.	Khurshid	Poor	Poor
7.	D. Munirathnamma	Poor	Poor
8.	Rangamma	Poor	Middle
9.	Nagamma	Poor	Middle
10.	Jayamma	Middle	Middle
11.	Shanthamma	Middle	Middle
12.	Seethamma	Middle	Middle
13.	Byramma	Middle	Upper
14.	Kanthamma	Upper	Upper
15.	Subbamma	Upper	Upper
16.	Hemavathi	Upper	Middle

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
17.	Raziaji	Upper	Upper
18.	Anjanamma	Upper	Middle
19.	R. Munirathnamma	Upper	Upper
20.	Amaramma	Upper	Upper

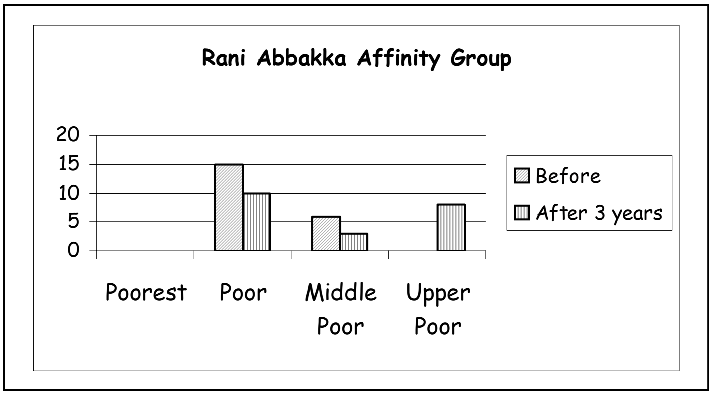


The three members in the poorest category have all moved upwards to the 'poor' category. Among the six in the poor category three have risen to the middle. Of the 4 in the middle category the status of three remains unchanged while one has risen. Two from the upper category have fallen to the middle. This is due to transient or temporary poverty due to death of an earning member and loss in business.

Table 13.3 Shift in Economic Status of members of Rani Abbakka Mahila Sangha, Bommaganahalli

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
1.	C.Shanthamma	Poor	Poor
2.	Salamma	Poor	Upper
3.	Shanthamma	Poor	Poor
4.	Sarasamma	Poor	Middle
5.	Venkatamma S.	Poor	Upper
6.	Shakunthalamma	Poor	Poor
7.	Nanjamma	Poor	Poor
8.	Gunamma	Poor	Poor
9.	Narayanamma	Poor	Poor
10.	Munirathnamma	Poor	Upper
11.	Tayamma	Poor	Poor
12.	Muniyamma	Poor	Poor
13.	M.Manjamma	Poor	Poor
14.	Sujathamma	Poor	Middle
15.	Papamma	Poor	Poor
16.	Manjula	Middle	Middle
17.	Meeramma	Middle	Upper
18.	Parvathamma	Middle	Upper
19.	D. Venkatamma	Middle	Upper

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
20.	V. Shanthamma	Middle	Upper
21.	Ramakka	Middle	Upper



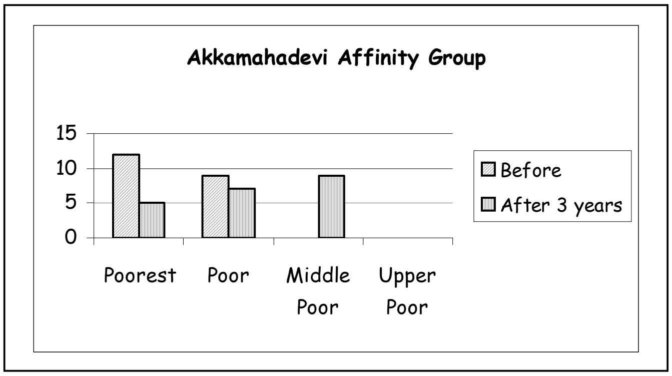
This group did not categorise anyone in the 'poorest' category. Out of the 15 categorised as 'poor', there is no change in the status of 10, while two of them have moved to 'middle poor' category and 3 jumped to the 'upper poor' category. All the members classified as belonging to the 'middle poor' have moved to 'upper poor' category except one.

Challakere Project

Table 13.4 Shift in Economic Status of Members of Sri Akkamahadevi Sangha, N.Gowripura

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
1.	Basamma	Poorest	Poorest
2.	Shanthamma	Poorest	Poorest
3.	Nagaveni	Poorest	Poorest
4.	Puttamma	Poorest	Poorest
5.	T.Nirmalamma	Poorest	Poorest
6.	Dakshayanamma	Poorest	Poor
7.	Parvathamma	Poorest	Poor
8.	Gowramma	Poorest	Poor
9.	Vijayamma	Poorest	Poor
10.	Premalatha	Poorest	Poor
11.	Gurusiddamma	Poorest	Poor
12.	Veeramma	Poor	Poor
13.	Thippamma	Poor	Middle
14.	Shivaleelamma	Poor	Middle
15.	Nagarathnamma	Poor	Middle
16.	Umadevi	Poor	Middle
17.	H.Nirmalamma	Poorest	Middle
18.	Kamalamma	Poor	Middle
19.	Vanajakshamma	Poor	Middle

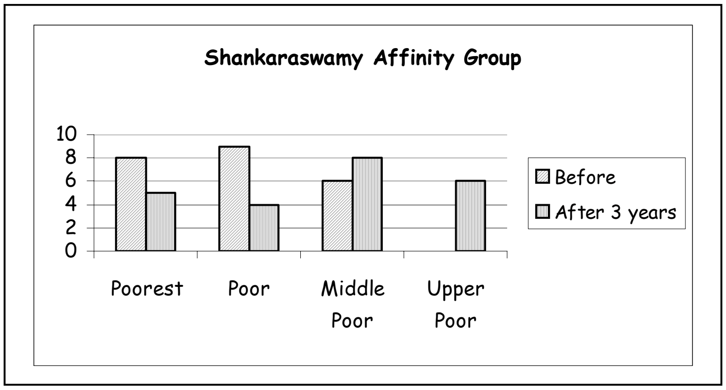
Sl.No.	Name	CATEGORY	
		Before	3 Years Later
20.	Hemalatha	Poor	Middle
21.	Gangamma	Poor	Middle



Of the 11 categorised as 'poorest', 6 have risen in status to 'poor' and 5 have remained where they were before. Of the 10 categorised as 'poor' 9 have risen in status to 'middle poor' category.

Table 13.5 Shift in Economic Status of members of Shri Shankaraswamy Sangha, Gajjuganahalli

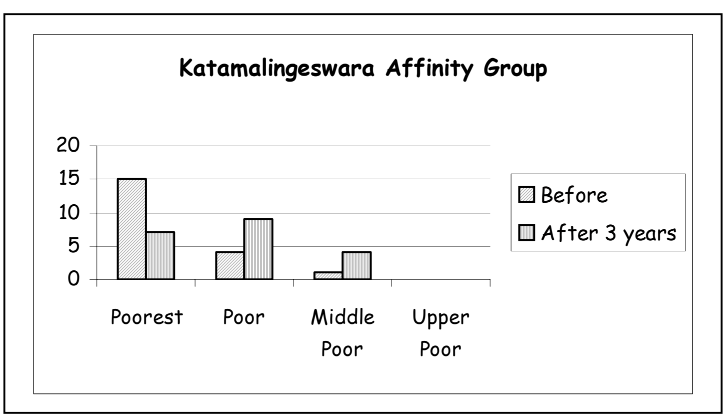
Sl.No.	Name	CATEGORY	
		Before	3 Years Later
1.	Neelamma	Poorest	Poorest
2.	Dodda Suraiah	Poorest	Poorest
3.	Ole Raja	Poorest	Poorest
4.	Susheelamma	Poorest	Poorest
5.	Shantakka	Poorest	Poorest
6.	Thippakka	Poorest	Poor
7.	Rajanna	Poorest	Poor
8.	Nagamma	Poor	Poor
9.	Anasuyakka	Poor	Poor
10.	B. Thippeswamy	Poorest	Middle
11.	Surepapaiah	Poor	Middle
12.	Bhopalaiah	Poor	Middle
13.	Nallajavuraiah	Poor	Middle
14.	Thippeswamy	Poor	Middle
15.	Sannakka	Poor	Middle
16.	Dadamma	Poor	Middle
17.	Anasuyamma	Poor	Middle
18.	Chandranna	Middle	Upper
19.	Boraiah	Middle	Upper
20.	K. Nagaraja	Middle	Upper
21.	Mallikarjuna	Middle	Upper
22.	G.O. Nagaraja	Middle	Upper
23.	Obaiah	Middle	Upper



Of the 7 categorised as 'poorest', 2 have risen in status and 5 have not. Of the 10 categorised as 'poor', 8 have risen in status to 'middle poor' category. The entire 'middle poor' category has moved upwards. Once again as in the previous group, in this area too, the poorest do not seem to find ready opportunities for livelihoods.

Table 13.6 Shift In Economic Status Of Members Of Sri Katamalingeswara SHG, Jogihatty

Sl.No.	Name	CATEGORY	
		Before	3 Years Later
1.	Katamma	Poorest	Poorest
2.	Sannakka	Poorest	Poorest
3.	Bheemakka	Poorest	Poorest
4.	Govindamma	Poorest	Poorest
5.	Balamma	Poorest	Poorest
6.	Marakka	Poorest	Poorest
7.	Erakka	Poorest	Poorest
8.	Sharadamma	Poorest	Poor
9.	Govindamma	Poorest	Poor
10.	D. Nagamma	Poorest	Poor
11.	Sannakka	Poorest	Poor
12.	Kamalamma	Poorest	Poor
13.	Gangamma	Poorest	Poor
14.	Doddakka	Poorest	Poor
15.	N. Katamma	Poorest	Middle
16.	Balamma	Poor	Poor
17.	K. Nagamma	Poor	Poor
18.	Puttakka	Poor	Middle
19.	Balakka	Poor	Middle
20.	Channabasamma	Middle	Middle



Of the 15 categorised as 'poorest', 7 have remained without any change while 8 have risen in status, of whom one has jumped to the 'middle poor' category. Of the 4 categorised as 'poor', 2 have risen to 'middle poor' category. Though over 50% of the poorest have risen in economic status, in general, the situation as regards the poorest is similar to the above two groups.

CONCLUSION

Table 13.7 Shift in the Economic Status of members in Kamasamudram and Challakere over 3 years

	Kamasamudram Groups	Challakere Groups
% of the **poorest** undergone change in economic status (upwards)	100%	51%
% of the **poor** undergone change in economic status (upwards)	54%	77%
% of the **middle poor** undergone change in economic status (upwards)	70%	67%

The above table based on Myrada's study gives a picture of the shift in the economic status of the members after joining the groups. Such a change, in all probability would not have been possible, without their joining the SAGs. The CATAD study indicates that 25% of the members of the Self-help groups rose above the poverty line in the first year; this percentage rose to 70% in the third year and to 86% in the fifth. The analysis from both the studies indicate a similar trend. Based on the trend after 3 years, if the members of Kamasamudram and Challakere groups are assessed in their 5th year, it is reasonable to predict that the results will be similar to those in the CATAD study.

Summing up – while three years is too short a period to affirm with confidence that these families will sustain their progress, there is adequate evidence that their membership in the groups has had an impact on their economic status in this short duration.

Chapter 14

CONCLUSION

Micro Finance has emerged as the latest instrument in poverty alleviation. The last two National budgets highlighted its role while International Financial Institutions have supported it for several years. Though this recognition by the Government has given the Micro Finance sector a status, it has not changed the content of the main anti-poverty programmes of the Government. In other words the Government has not incorporated any lessons from the micro finance experience into its anti-poverty programmes. The SJSY (Swarna Jayanthi Swarozgar Yojana), which has the praise worthy intention of integrating all these programmes, still continue to subsidise the asset and to exclude loans for consumption or purchase of assets like land. Though some provision for capacity building has been made, the focus on the ground continues to be restricted only to provision of credit and the pressure to disburse in order to meet targets even if this pressure weakens the people's institutions in the process.

The high profile given to micro finance has resulted in a mushrooming of micro finance institutions during the past three years. However, the legal and formal institutional regulatory framework has not coped with its requirements either because it is still considered to be comparatively small to merit the time and effort required, or because there is an opinion that intervention at this time may be misinterpreted as an attempt to suffocate a rapidly expanding sector. As a result, there are several types of players in the field of micro finance. In the first category are the NBFCs which are also involved in micro finance. These NBFCs are equity capitalised limited liability companies registered under the RBI Act Section 45. They are, by nature, '**for-profit**' companies. These NBFCs work within the existing legal and institutional framework, though a few amendments are required in existing laws to make them entirely comfortable. In the second category are those institutions registered under the Societies Act, which have micro finance as one of their objectives. These are by nature '**not for profit**' institutions and, when managed by NGOs, often tend not to give adequate weight to indicators which ensure the health of a financial institution. There are even Trusts which are functioning as micro finance institutions. These are perhaps the furthest away from the existing legal framework. Some Regional Rural Banks are actively promoting groups with the intention of extending loans to them. NABARD and MYRADA promoted the first pilot experiment with the Cauvery Grameen Bank in Mysore District in 1997. Several RRBs have followed with similar programmes since then with varying degrees of success.

MYRADA promoted a 'not for profit' institution named Sanghamithra, incorporated under the Companies Act of 1956 (Section 25) and obtained exemption under Sections 12A and 80G of the Income Tax Act. This initiative was taken because it was clear that the Banking system could not keep up with the rapidly expanding number of self-help groups. Besides, a spot of competition helps to improve services and maintain a good standard all around. Sanghamithra which started operations in April 2000, lends directly to self-help groups; its extension network is based on officers who are mobile; they attend group meetings and are establishing kiosks where they are available at fixed times. MYRADA decided to promote Sanghamithra because it took the stand that micro finance management requires systems and a culture different from that of an NGO, no matter how professionally it is managed. A Micro Finance Institution has to be constantly aware of the internal organisational need to break even after providing for all eventualities. Sanghamithra is managed by professionals with considerable experience in banking and operates separately from MYRADA though it must be admitted that MYRADA invested time and resources to set it up during the initial period.

There are two issues that are of current concern, which must be referred to here before concluding. One is the fashion to call any group a self-help group and the other is to limit Micro Finance to the lending and recovery cycle.

MYRADA fostered small homogenous groups in the mid eighties, provided training in institutional capacity building, motivated them to save and supported them to evolve their own rules to manage these savings. This is not a brief or an inexpensive process. It takes considerable inputs to build the capacity of these small groups so that they grow into genuine institutions with a vision and a strategy supported by appropriate systems. In the initial years these were called Credit Management Groups, with the stress on the word "Management". This stress was deliberate since MYRADA's focus was to use the "management of credit" as a tool to build people's institutions, to encourage them to network and to become agents of change and thereby to empower the poor in a sustainable way. With the Research and Development grant from NABARD in 1987, the name was changed to Self-help Groups. This NABARD grant was used by MYRADA to train these groups, to match their savings (since their capital did not grow in keeping with their capacity to manage and invest) and to set up a computerised database to analyse the lending and recovery patterns. This name continued till 1998 when the Self-help group strategy was adopted by the Government and became "official". The result of this "official" recognition is that, any group is being labelled with the tag 'self-help group'. Many such groups were formed and given loans with subsidies within a week of their formation. Capacity building is reduced to a farce of a day's training and limited to lecture on "the scheme". MYRADA then decided to add the word "Affinity". Today the groups promoted by MYRADA and those which have asked for capacity building support, are called "Self-help Affinity Groups" or " SAGs" .

The pressure to limit the functions of micro finance institutions to the cycle of lending and recovery and to disburse as fast as possible arises from the organisational demand to break even. There is no time or resource provided for capacity building. The strategy of group lending is adopted since it provides some degree of mutual guarantee, reduces the transaction costs of both the borrower and lender and, with Government programmes, shifts the responsibility from the Government system to the group. The group becomes an escape hatch when the pressure to recover grows. There is no serious effort to empower the poor through institutional capacity building so that they can play a wider role in society, which in turn serves to protect their interests. In short, there is no realisation that poverty is conditioned by relationships of power, which can either liberate or oppress the poor. These relationships will liberate the poor only if they ensure access to and control of the resources on which their livelihoods depend. It is not enough to teach people to fish, when they cannot reach the river due to a web of oppressive and restricting relationships. The pressure to disburse, emphasises the weakness of these models to empower the poor

These models also do not encourage the MFI to disengage from the groups. The MFI needs the groups in order to survive, since they depend on the savings of the groups (which they mobilise at rates of 6 – 8% and lend at 24 – 36%) and on the interest earned from their loans to meet their overheads. It therefore tends to create a relationship of dependence rather than one that empowers. . If savings of groups are mobilised by the MFI, the group is not free to access other sources. Studies conducted by MYRADA indicate that credit provision is a double-edged instrument. It has to be provided in amounts that are related to the capacity of people's institutions to manage effectively without undermining the culture of self-reliance and sound investment. If provided in amounts that are large and beyond the groups' capacity to invest, credit undermines the strength of their institutions and this in turn weakens the potential for empowerment.

MYRADA will continue to pursue its mission of "Building People's Institutions". It will continue to use the management of credit or of natural resources as an instrument to build the capacity of institutions of the poor. The findings of the studies analysed here indicate that the credit management model promoted by MYRADA does provide space for empowerment of the poor since it focuses on building institutions. The essential features of this model are: a structure built on affinity and on people's strengths, which allows the members to be in full control of decisions relating to finance management and which promotes initiatives for change in society and for establishing linkages. This model requires adequate investment in institutional capacity building. The findings from these studies indicate that where credit management is used as an instrument to build institutions, it reduces to a considerable extent the marginalisation of the poor and poorest members both within the groups as well as in society. Credit management rather than credit provision has the potential to be an instrument for institution building which in turn lays the basis for empowerment.

DETAILS OF MYRADA SELF HELP AFFINITY GROUPS AS ON 30-09-2002

Sl. No.	Project	Men	Women	Mixed	Youth	No.of Groups	No. of Members	Total Common Fund	Total Savings out of the C.Fund	Total No. of Loans	Total Loan Amount	Total Interest
1	Myrada/ Plan H.D.Kote Project	87	1484	20		1,591	26,501	111,174,644.45	40,144,622.50	149,889	231,738,888.00	19,163,320.00
2	Myrada/ Plan Madakasira Project	35	371	83		489	8,421	75,721,569.00	15,062,744.00	53,240	116,095,060.00	4,940,961.00
3	Myrada Kamasamudram Project	2	220	2		224	4,414	27,333,910.75	7,770,981.00	38,644	39,742,123.00	4,283,131.00
4	Myrada Kadiri Project		351			351	4,607	11,386,494.00	4,290,162.00	89,380	36,986,445.00	1,668,855.00
5	Myrada Chitradurga Project	16	671	45		732	12,463	51,757,640.15	9,620,097.75	73,603	147,670,821.00	16,143,037.90
6	Myrada Gulbarga Project	51	273	3		327	5,354	14,422,998.83	7,873,531.00	31,401	38,473,180.00	5,599,103.00
7	Myrada Chincholi Project	22	103			125	1,943	6,928,411.00	2,551,073.00	13,370	7,956,537.00	2,196,648.00
8	Myrada Kollegal H.A.D. Project	7	287	2		296	4,666	12,588,346.45	9,350,642.00	19,629	54,830,768.00	6,537,912.00
9	Myrada Talavadi Project	73	330	5		408	6,240	16,008,855.00	9,123,029.00	15,421	52,157,868.00	6,135,107.00
10	Myrada Germalam Project	63	98	6		167	2,422	7,493,334.30	2,991,992.75	15,376	17,322,659.00	2,103,792.85
11	Myrada/ Plan Dharmapuri Project		1512			1,512	21,525	148,254,337.00	73,700,099.00	117,932	404,712,863.00	40,527,194.00
12	Myrada CIDOW Project ##	57	94	32		183	2,217	9,346,348.00	2,964,818.00	9,637	19,082,874.00	1,231,385.00
13	Myrada Kattery Project	13	153			166	2,801	12,706,868.80	6,425,125.00	7,853	31,645,459.00	3,481,000.80
14	Myrada Kudligi Project, Bellary	33	115		3	151	2,209	2,195,274.00	1,660,049.00	3,182	4,402,137.00	172,395.00
15	Myrada Western Ghats Project	2	46			48	673	2,340,350.00	975,547.00	192	629,200.00	445,865.00
	TOTAL	**461**	**6108**	**198**	**3**	**6,770**	**106,456**	**509,659,381.73**	**194,504,513.00**	**638,749**	**1,203,446,882.00**	**114,629,707.55**

These groups in CIDOW are formed by MYRADA and other partner NGOs

The Common Fund of **Rs.509,659,381.73**/- includes a sum of **Rs.219,549,975/-** which has been lent to the Groups by other Financial Institutions (Banks, RRBs, NBFCs, etc.)

BUILDING INSTITUTIONS

Aloysius P. Fernandez
January 1999
(Rural Management Systems – Paper 31)

PART - 1

1. The Core of MYRADA's Mission:
The core of MYRADA's Mission is enshrined in the first 5 lines of the Mission statement that was first pulled together in 1984-85. This part of the Mission statement has remained unchanged since it was conceived. Subsequent parts of the Mission statement, however, have been marginally revised. The core of MYRADA's Mission is contained in the following lines:

"To foster a process of on-going change in favour of the rural poor in a way in which this process can be sustained by them through building and managing appropriate and innovative local level institutions rooted in values of justice, equity and mutual support".

2. The Key Words: The key words are APPROPRIATE INSTITUTIONS.
This Paper will reflect on the content and significance of these key words.

2.1. Institutions: Why does MYRADA focus on fostering INSTITUTIONS of the POOR?

First, because from MYRADA's experience with poverty alleviation programmes, it became clear that these programmes were conceived and delivered in a package to people. They did not respond to a specific situation and were not flexible enough to cope with the diversity of needs of the poor. Where the Government brought in peoples organisations (and NGOs) as "partners", it was clear that these bodies were used to implement programmes; they quickly became "contractors"; they were the last link in the delivery chain. No investment was made in helping these bodies to develop their own vision and mission and to take ownership and control of these programmes. The result was that the impact of these interventions was limited and usually faded out after the project was over. Sustainability, which requires a long-term perspective, did not enter into the picture.

Second, because MYRADA believes that functioning institutions (established by people) at the village, form one of the major pillars of a healthy and sustainable democracy. These are the civic institutions at the base. MYRADA's experience indicates that "participation", which like God is interpreted differently by each one depending on his or her needs and biases, is necessary but not enough; <u>it must lead to institution building</u>. Participation is a <u>means</u> to build an appropriate institution with a vision and mission of its own; it is also an <u>end</u> in itself, since people are empowered in the process. MYRADA believes that if participation does not foster these institutions it can make people vulnerable to manipulation by intervenors who promoted participation so that they in fact can conform to their own agenda, and pursue their own objectives and interests. Participation like religion easily becomes the "opium" used by development intervenors. Implementers who are under pressure to implement a project within the budgeted period and to show quick results, and others who hold positions of power in society and whose primary intention is to remain in power have all used participation to justify their own ends.

Third, because MYRADA's experience in rural areas provides sufficient evidence that a "people's institution" which is structurally appropriate to the resource to be managed, (be it credit, forests or milk) provides an instrument through which people can acquire, increase and sustain ownership of any investment from outside (e.g. the project). It is necessary therefore, to foster "appropriate" institutions as will be explained later in this paper. This is why effective participation is so critical; it questions the tendency to standardise and to overload every institution. Evidence also indicates that the sense of ownership derived from an "appropriate institution" provides the basis for SUSTAINABILITY of the objectives of the intervention which are increases in productivity and in equity. "Appropriate" Institutions without a vision/mission also quickly fade out. To achieve sustainability of impact, requires that appropriate institutions develop their own vision and a mission strong enough to promote the other essential features required for an institution to survive and grow namely: organisational and financial accountability, learning, financial management and linkages.

Fourth, because equity is one of the core objectives that MYRADA seeks to pursue. MYRADA believes that in a society where class divisions (and conflicts) are sharpening, in many cases supported by a configuration with caste relationships, and where the official system (service, credit) is unable to reach the poor and when it does, is often inappropriate, it is necessary to foster institutions of the poor over which they have control and which in turn provide space for their growth and a basis to network and link up with other institutions in a sustainable manner. Hence MYRADA's interventions start by directly focusing on the poor particularly in the rural areas where caste and class work in synergy (particularly at the middle levels) to confirm relationships which are exploitative. For the poor to change this set of relationships they must first build a base - this base is an institution which they feel is their own. MYRADA is often challenged: Are the Panchayat Institutions not enough to achieve this objective of equity? MYRADA's, analysis indicates that the systems introduced by the Panchayat Raj Act continue to reflect the relations that dominate in society; they do not change them; in most cases the Panchayat Raj leaders do not have any interest or vision to change them. The Panchayat Raj institutions do not provide space for the poor to participate effectively in decision making; it is because of this that MYRADA endeavours to foster institutions of the poor, which will empower them sufficiently to participate in Panchayat Raj institutions. The election of over 600 members of the Self Help Groups promoted by MYRADA to Panchayat Bodies is one indicator of the success of this strategy.

At the same time, MYRADA endeavours to transfer its vision and Mission to the Panchayat Raj institutions in its projects areas particularly with regard to concern for the poor and marginalised. Proponents of the strategy to give importance to "civil society" as a key component of a democratic society, need to keep in mind that society is conditioned by vested interests which resent any initiative for social transformation. The efforts of politicians to weaken institutions, the dominance of patriarchal attitudes and customs in civic institutions and the nexus between classes that dominate the various spheres of life - economic, political social and religious - provide adequate evidence that for equity to be achieved it is necessary to intervene directly to build institutions of the poor. The proponents of "community organisation" a strategy that relates to groups where the entire village in a body, decides plans and implements programmes also need to take into account that decentralisation of power does not automatically promote equity; rather it could strengthen inequitable relationships at the village/local level, and has done so repeatedly.

2.2. Types of Institutions: MYRADA fosters several types of institutions. The Self Help Groups focus on the poor; the watershed associations and Joint Forestry Management Committees have representatives from all groups with interests in the watershed or forest; however even in this case, the poor are first organised into SHGs so that they have a power base which can support their effective participation at village and watershed level meetings. The SHGs also provide a credit source which the poor can easily access; this, as will be later discussed, helps to decrease their dependence on the more powerful families who dominate village institutions. There are also Apex bodies which function according to the requirements of the SHGs that constitute them and not according to MYRADA's requirements; the number of SHGs in an apex is determined by the SHGs themselves; they are in effect controlled by their constituent SHGs; no Apex Body has been permitted by the SHGs to channel loans received from other sources or to operate as a micro-credit organisation.

The following table gives a consolidated list of institutions within MYRADA's projects. MYRADA has also trained other organisations to form SHGs, Watershed Associations, Forest Management Committees and Apex Bodies. Prominent among these organisations are the UP Land Development Corporation, UNDP Myanmar, PADEK in Cambodia, several Regional Rural Banks, and over three thousand Bankers from all over the country, Women's Development Corporations in several states and hundreds of NGOs. Besides MYRADA has also deputed its senior staff to the Mewat Development Agency in Haryana, to one Zilla Parishad (Belgaum) and to the Karnataka Women's Development Corporation. They are all involved in fostering people's institutions of various types. In Uttara and Dakshin Kannada Districts MYRADA staff who are posted permanently in the area have trained Joint Forest Management Committees on a regular basis over the past several years.

To add:
MYRADA has fostered several types of CBIs in all its projects. The following CBIs are the primary partners of MYRADA. (Status as on June 30, 2002)

Self-help Affinity Groups	6766
Federations of Self-help Affinity Groups	265
Watershed Institutions	430
Federations of Watershed Institutions	3
Village Development Committees/ Councils	32
School Betterment Committees/ Parent Teacher Associations	381
Village Water and Sanitation Committees	81
Farmers Associations	2
Children's Clubs	531
Village Forest Committees	487
Natural Resource Management Centres	8
Resource Centres	14
Other *	149
Total	**9,149**

* Others include Street level and Stand post committees; Programme Implementation Associations, Project Health Committees, Youth clubs, Drama Clubs, Study groups, etc. This list does not include institutions formed in projects where MYRADA has deputed staff or where our staff is providing support on a long-term basis in India and abroad.

2.3. What is an Institution?

In MYRADA the words "group", "institution" and "organisation" are often used interchangeably. However, there is a difference. MYRADA holds the position that a "group" is a gathering at one end of the spectrum, while an institution is an entity with particular features at the other end. The "organisation" comes in between. A group, is often a temporary gathering to achieve a particular purpose; it can develop (and does on occasions) into an organisation which has rules and regulations and defined functions; in most cases, however, these rules and functions are largely imposed from outside. An organisation develops into an institution when its members have full ownership of the body; where they have interiorised to a large extent the culture and systems that they (or others) have established. This is more easily achieved when the members have an active and effective say in drawing up the rules and regulations, in setting the agenda and building the culture that enables them to perform the functions that they choose. When the rules are drawn up by outsiders, the organisation can interiorise them adequately provided adequate training is provided to help it to develop its own vision and mission, and above all if the original rules are open to modification, addition and rejection; in most cases this is not the case.

An institution has a stable pattern of behaviour. Sanctions for deviant behaviour are not imposed from without, but are self imposed and accepted by all as necessary for the health and growth of the body. Conflict resolution is primarily the institution's responsibility. There is no tension between a members rights and responsibilities; both are given equal weight and respected; in some crisis situations, responsibilities easily take precedence over rights. An institution has a culture for self assessment and change, it does not need to be "restructured" from outside; in the case of an organisation, the initiative to start a process of self-assessment usually comes from outside. Finally an "organisation" can function within a "totalitarian regime"; an institution can function only in a genuine democracy. An institution, therefore, grows over a period; it requires at least two to three years before a group begins to develop clear signs of an institution. It is also quite possible for a functioning institution to loose its culture and undermine its systems through external or internal causes. An institution therefore requires both time to develop as well as constant commitment of all its members to remain healthy. In short, it must develop its own vision, its own financial and organisational management systems, it own learning mechanisms and the confidence required to link up with others to protect its identity and independence.

2.4. Affinity: The Mission Statement does not contain the word "affinity" to describe people's institutions. This is because MYRADA fosters a variety of institutions, all of which do not require to be based on affinity, though there has to be a degree of mutual support among members. <u>It is the institutions at the lowest level that need to be based on a high degree of affinity among the members</u>. MYRADA also promotes institutions at a higher level like apex bodies and watershed associations. <u>It is</u>, however, <u>the Self Help Groups which are peoples institution's at the lowest level</u>. They are the base institutions in MYRADA's strategy for social transformation. The Mission statement uses the word "<u>mutual trust</u>" to describe the institutions that MYRADA's fosters. This "mutual trust" is required by all types of institutions; in the self help groups, however, it refers to "affinity". Affinity is based on mutual trust. It however goes beyond to include the complex set of relationships that exist among the members of a group and which is today referred to as "social capital".

<u>Affinity exists even before any intervenor enters the scene</u>. Identifying affinity, however, is no easy matter. It requires that intervenors unload the package they often carry - a package of predetermined criteria to select "beneficiaries", ideologies that tend to be absolutist and biases. The pressure to spend money and the growing trend to form village groups quickly and to invest them with funds to implement programmes must be resisted; such groupings tend to become the last link in the delivery chain; their members have little sense of affinity and ownership. Affinity will not be a major feature of a group if it is formed primarily to lobby for a particular objective or to implement any activity. The members may have one objective that is common to all, but there may also be several situations where their interests are in conflict. For example, all the people in the village may have a common objective to get a water system; here their interests coincide; but

they may also be a set of oppressive relations based on money lending and labour; affinity cannot be based on these relationships.

Affinity is based on a set of inter-relationships among group members; mutual trust is perhaps the main source of these relationships. But there are also several other binding inter-relationships of support and inter-dependence as well as the systems that govern their activity and the culture that they develop; this set of relationships could be described as the SHGs "social capital" which provides the basis of its sustainability and the guarantee for any loans given to the SHG. These institutions give the poor space to grow in confidence and skills. This is turn helps them to reach out to forge links with other institutions, both formal and informal. Affinity can be strengthened by group perception of common threats from outside. It can be weakened if individual aspirations conflict with the groups common good.

The efforts to identify affinity groups often meet with several obstacles that arise from the way in which development programmes are conceived. It has become the fashion to base programmes or "schemes" on groups. People are brought together on the basis of criteria established by an external agency like an NGO or Government. These seldom develop into sustainable institutions. Further, the tendency in development programmes is to start by focusing on an activity rather than to identify a group whose members are willing to work together and to support each other. Such groups end up by being implementers of Government or NGO programmes; they collapse after the project is over (or often once the funds are disbursed).

While affinity is a necessary feature for sustainability, it is not adequate to achieve this objective. Taking off from this "affinity", the group needs to develop its own vision, organisational and financial accountability, learning mechanisms and linkages - all of which it interiorises over a period of time. The group - which develops the features of an institution - is in turn able to extend and sustain linkages with other institutions both formal and informal. It is able to do so because it gives the members a social identity; several studies have shown that once the group is able to mobilise people for common actions and to cope with emerging threats, it is respected by others in the village for its achievement based on its own efforts; it projects an image of a responsible institution with which others can deal.

Once they take off, the poor continue to need these institutions so that the objective of sustainability of the impact of investment can be achieved. As the group acquires an identity, it also attracts attention from other sectors of the village, some of whom suspect that their interests may be threatened if this group survives and grows in confidence. The group needs to be able to cope with these threats. MYRADA therefore does not focus only on identifying an affinity group. It realises that sustained effort is required for institution building if the impact is to be long lasting.

2.5. Appropriate Institutions:

The Mission statement further qualifies institutions by the word "APPROPRIATE".

Most institutions formed initially for single purposes suffer from over-load over a period of time. It is a common assumption that an institution in the rural area can be saddled will several responsibilities all of which it can implement effectively. MYRADA's experience indicates that this assumption is wrong. Milk societies at the village level have to collect a certain quantity of milk in order to make the milk route viable. To achieve this target, it has to include in its membership both rich and poor farmers who have dairy animals. The rich farmers have several animals; they make the route viable. In fact the small farmer with one or two animals rides on the back of the richer farmer. Both rich and poor are required to make the institution (milk societies) viable. However, if these societies are given the responsibility of managing credit, the richer (and more powerful families) will syphon off the major part and use credit to increase their control over the poor, as is common in Cooperative Societies. If credit is the resource to be managed, therefore, the appropriate institution cannot be one where rich and poor are members; it will have to be an institution where only the poor have membership, and which they own. If they do not own these institutions and instead have to conform to rules and regulations of the official financial systems, they will continue to be exploited. The SHGs are institutions of the poor; experience has shown that they are also the appropriate institutions to manage credit.

In the case of watershed management, a single institution is not adequate or appropriate. MYRADA's experience indicates that in a micro watershed of about 70 - 100 families, the initial intervention required is to form SHGs of the poor. Representatives from these SHGs as well as from other groups come together to form Watershed Associations. These Associations form *ad hoc* committees which, take the initiative to involve all concerned in every stage of the programme. The SHGs are in a position to lobby for the poorer sectors and to ensure that they have a share in the benefits of the investment.

A similar situation prevails in the case of Joint Forestry management Committees. The poor may attend meetings of the Committees but have little say in the proceedings. On the other hand it is the poor who depend on the forest for their livelihoods. MYRADA's strategy is to organise the poor into SHGs so that they are gradually able to play an effective role in the affairs of the Joint Forestry Management Committees. MYRADA's experience in forestry programmes in the Western Ghats indicates that the Joint Forestry Committees have captured some contracts, which formerly went to contractors, but the poor have hardly benefitted. Yet, it must be remembered that it is the poor who are primarily affected by forest closure which is being implemented in similar forestry projects.

The Joint Forestry Management Committee therefore may be appropriate institution to transfer power to the village but it is not an appropriate instrument to ensure that the poor share in the benefits.

FRAMEWORK OF A PARTICIPATORY METHODOLOGY TO ASSESS SELF-HELP AFFINITY GROUPS AND OTHER COMMNUNITY BASED ORGANISATIONS

Aloysius P. Fernandez
January 2000
(**Rural Management Systems – Paper 33)**

Summary:
To what extent do Community Based Institutions (CBIs) – whether they be Panchayats created by the Government, Self Help Groups (SHGs) formed by NGOs or Solidarity Groups that emerge on their own – exhibit characteristics that distinguish them as institutions as against a collection of individuals?

This paper attempts to:

i. Outline the six critical distinguishing characteristics of a functioning institution.
ii. Elaborate on a process through which CBIs can be assessed against the above characteristics.
iii. Stress that this process of assessment is not to grade or rate the CBIs but to enhance the CBIs own skills of assessment and understanding of the need to periodically assess itself so that every decision it takes is viewed from the perspective of its organisational learning, health and sustainability.

PART 1

Assessment of Community Based Institutions has drawn the attention of development practitioners in recent times. Several approaches are being tested and different methods used. Among the latter, those that have drawn most attention are methods, which have focused on participatory methods of CBI assessment, even though the hurdle of quantifying the data has not been satisfactorily overcome.

The focus on assessment of CBIs arose from the increasing importance given to the objective of sustainability of impact and empowerment. The underlying assumption is that people's institutions at the base contribute significantly to sustainability of impact of interventions as well as to the strength of civil society within the broader framework of promoting self help, self reliance and democracy. This assumption has been tested by several studies undertaken by International, National and Local Organisations and found to be valid. There is adequate evidence that institutions of the poor when facilitated to evolve into vibrant institutions play a critical role in fostering empowerment of the poor and marginalised in a sustainable manner.

This paper describes a participatory method to assess village institutions; it does not claim to be comprehensive, neither does it have any pretensions of being the best. It is part of an on-going search. It does not offer any method to quantify data, though this can be attempted. It presents a "friendly tool" that can and has been used by extension staff with experience in promoting participatory strategies in development. Given that MYRADA and other NGOs have formed thousands of CBIs, assessment of CBIs need to be made rapidly and by a large number of staff. I have called this approach Rapid Appraisal of Institutions (RAI).

Though this paper is primarily intended to help staff assess the CBIs, it must be pointed out that CBIs, like living organisms, are constantly changing. Assessing them in a one shot manner is useful but not adequate. The ultimate objective is to increase the capacity of the CBI to assess itself so that every decision it takes is viewed from the perspective of its organisational health and sustainability. The capacity for self-assessment is, indeed, one indicator of the CBIs strengths. The questions listed below, therefore, are also intended to build up the capacity of the CBI to assess itself. These questions must not (repeat not) be handled by the staff in the traditional interview mode even though it may be participatory – namely within a focus group. These are not questions, which require answers immediately from the group, but should be used to guide the discussion. Each question, therefore, should be strategically presented and not necessarily in the order given below. The objective is to enable the CBI to assess itself very broadly at the end of each set of questions. Briefly, the very exercise of assessment, even though led by outsiders, must be handled in such a way that it helps to train the members of the CBIs to assess their own institution. The assessment must be carried out in a participatory manner. This requires that the facilitators, staff and people (members of CBI) be involved at every stage beginning with the planning required for the exercise. There are several reasons for promoting this level of participation; one of them is that participatory methods have emerged as the most appropriate instruments of communicating skills – in this case the skills of assessment – to the members of the CBIs.

How To Conduct This Exercise:

The CBI should be broken down into two or three small groups and each sub-group "interviewed" by two or three staff members.

The staff who handle this exercise need to have experience in working with group's. At least 3 to 4 years of experience is required to handle this exercise. The assessments of each sub-group can then be discussed in a general meeting where the entire CBI is present as well as a few other concerned invitees from the village. Triangulation, where views are divergent, can be attempted. Consensus can then be reached where possible, and where not, clearly documented.

- CBI to divide itself into small groups of 5 to 8 members.

- Each sub-group to debate on all questions listed in the following pages. If possible, provide one or two facilitators for each sub-group who have understood and can clearly explain each question.

- Each small group makes a presentation of its responses to the key questions.

- Similar and dissimilar responses to be noted – where views differ, if they cannot be reconciled, they should atleast be probed.

- Others who know the CBI can also be asked to contribute their own assessments.

- Record the process and the outputs where they can periodically be accessed and reviewed by the CBI.

The staff who are involved with the assessment exercise as well as others who have interacted with these CBIs can, on their own, assess the CBIs. The output of the two assessments can be compared for deeper insights to emerge. It is accepted that all assessments will have underlying subjective biases. Efforts to identify and share them openly are required.

It is also possible to quantify the output though there are limitations to this endeavour. This paper will not cover the attempts to quantify the output. The need for quantification and how to go about it can be discussed in the preliminary workshops that must be held at the beginning of the assessment.

Theoretical Framework:
This paper suggests that the CBIs assess themselves or be assessed against two sets of indicators:

1. One set covers the six organisational features, which are normally identified as critical to the structure and functioning of any organisation or institution. **This paper and the exercise it offers refer only to this first set of indicators**.

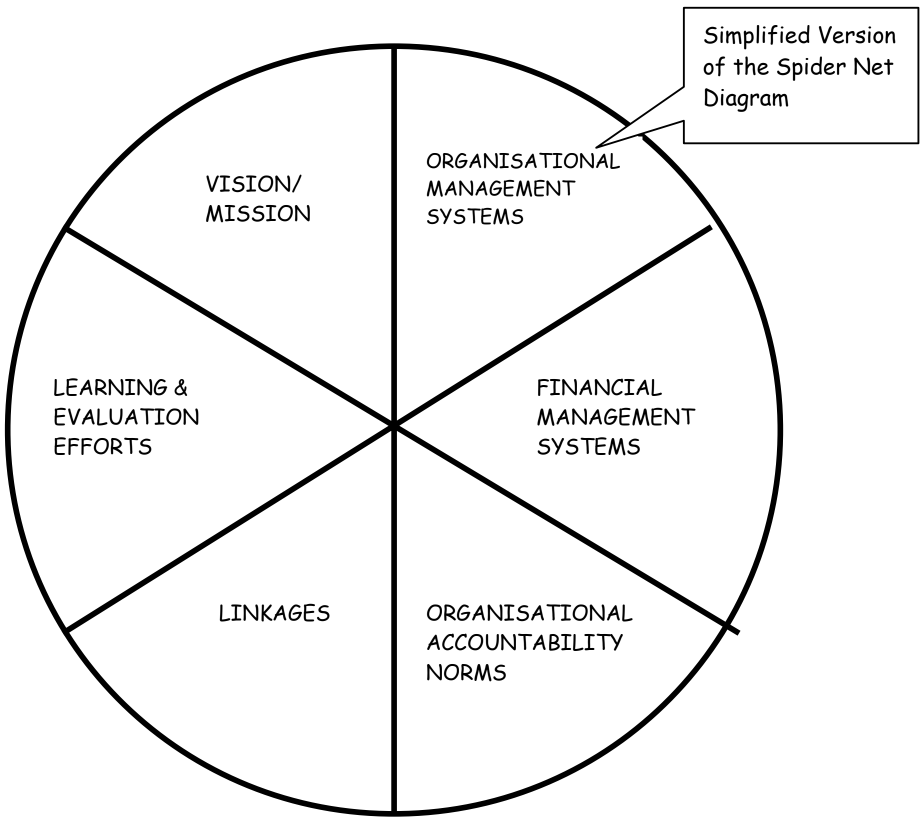
2. The second set of indicators helps in assessing whether these CBIs are implementing the objectives of the Project. While in a well managed project, the CBIs will be supported to develop their own Vision and Mission, they also need to share the major features of the Projects Vision/Mission since at the field level they take the initiative to plan, implement and manage the Project's interventions. For example, the Project may seek to strengthen all or some of the concerns related to sustainable development, namely, a) maintaining an explicit pro-poor focus; b) promoting affirmative action to address gender injustices and inequities; c) assuring responsive, accountable and transparent governance; d) securing environmentally sustainable development, and e) generating sustainable sources of income in the non-farm sector. The second exercise suggested could enquire whether the CBIs fostered by the NGO are

promoting these objectives of the Project. This facet has not been explored in this paper.

PART 2

The first set of indicators against which the CBI is assessed comprises the six organisational features, which are accepted commonly as critical to the health of any organisation.

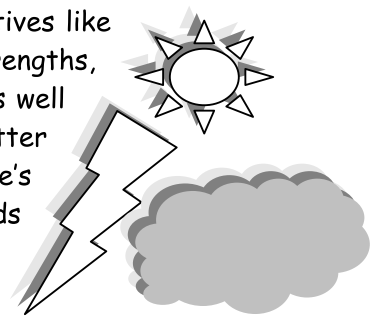
MAJOR FEATURES OF AN ORGANISATION



1. <u>Vision</u>:

Vision is a mental picture of the institution and its potential impact in the future. It is what an institution hopes will happen both to itself and to its members if its dreams are realised. A set of values forms the basis and guiding norms of an institution's vision. Beliefs and values produce and sustain institutions; this set of values drives the institution to intervene strategically in order to fulfil its vision; it also ensures that the interests of the institution are kept above those of its individual members. This is particularly true of an institution, which sees itself as a change agent in society. True the interests of the institution and those of its members are closely inter-linked, but in an institution devoted to change, the interests of its members cannot override those of the institution. It must be noted that an institution is based both on a system of beliefs and values, as well as systems that support its functions and programmes.

Every institution needs to develop a vision of its own it is to be an institution in its own right in keeping with its name. Vision building is not a one-shot exercise; it requires time and involves a series of exposures and modules; vision is a critical feature of all types of CBIs and particularly of CBIs, which have social objectives like the ones fostered by MYRADA. It is also built on people's strengths, which can be directed towards fulfilling their livelihood needs as well as their social needs like reduction of work and drudgery, better transport, health and drinking water. It grows as people's confidence increases and as people's sense of ownership extends beyond their immediate assets like a house and fields and local institutions to include natural resources related with the environment and other institutions. It is nurtured by and in turn nurtures certain core values, which help to reinforce the vision when periodically recalled and reflected on.



The questions related to vision building which form the framework for focus group discussions on the basis of which the members of a CBI can assess themselves and in turn be assessed are the following: (Group = Community Based Institution.)

1. Why did the members join the group? (individual motivation of 3 or 4 for taking group membership)
2. Why are they continuing to be members?
3. Can they describe one achievement of the group of which they are proud?
4. How do they think the group was able to achieve this? List the strengths of the group in this context.
5. In five years time what would they like their group to be? (Ensure that the answers do not list activities – or what to do.)
6. How do they want to see this village or community in 10 years time? (Ensure that the output is not a list of activities; once again it is what they would like the community/village to be, not to do.)
7. What are the present activities of the group to achieve the vision of the group and the vision they have of the village?
8. What are their future plans to achieve the vision of their group and the vision of their village?
9. When the public (other villagers) talks about their group, what do they expect the public to say the group stands for? (Guide the discussion towards eliciting the core values of the group – or atleast those values subscribed to by most members. (Would they like people to see their group as one which supports the poor, women, children's education, environment, water/sanitation, self help and progress, women's issues?)

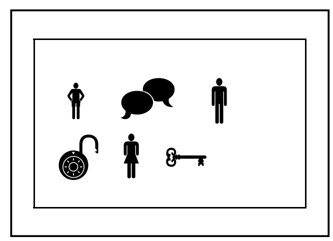
10. What is the members' self-assessment in terms of the CBIs and Village vision, and in terms of the strategy to implement this vision? Has the vision influenced their thinking, discussions and actions? Can they give examples? (Scale: excellent, good, not so good, weak). The group should agree on 3 indicators to back up its assessment and list them.

2. <u>Organisational Management</u>:

Organisational systems, which support the functions of an institution, are as critical to its health as beliefs and values.

The questions can be divided into the following main sub-sectors:

2.1. Several questions relating to <u>group formation</u>. These questions are important to understand the structure of the group. For example, if a leader was chosen first and she or he was asked to form a group, the chances are that the leader will continue to dominate the group. If the leader in such a group also has to take on several responsibilities (like Manager, Chairman, Secretary and Accountant) then he/she tends to dominate. Such a situation could well lead to new relationships of dependence between the leader and the other members. If people from several villages are grouped together mainly to reduce the time and trouble required to visit smaller group's in several villages, several may be left out who cannot or do not want to join the large group. In MYRADA's projects, groups are formed on the basis of affinity among the members. Affinity is based on **mutual trust** and could arise from several factors; e.g. same caste or community, same place of origin, activity, livelihood source, religion or economic status. The network exists before MYRADA intervenes. The role of the NGO is to build on these relationships and to help the members to develop new ones to support the new responsibilities and roles of the CBI. Groups are not formed on the basis of criteria determined by the "scheme" or the intervenor.



The questions relating to this sub-set which form the framework for focus group discussions are the following:

1. When was the group formed?
2. Who or at whose initiative was the group formed? NGO, Government or local person?
3. How did this initiator go about forming the group?
4. How many members does the group have (group size)?
5. How were the members identified and selected (criteria)?
6. How did they actually become members, given the above criteria?
7. Why did they join the group? (List responses from the members and categorise them.)

8. (a) What is the group's self-assessment of the level of members participation in the group formation process (scale: excellent, good, not so good, weak)? The group should agree on three indicators and come to a consensus on each.
(b) What is the group's assessment of its sense of ownership of the CBI (scale as above; list three indicators to back up its assessment)?

2.2. The second sub-set of questions relates to group Rules and Regulations (R&R). It is important to note here that though some CBIs are set up by Government Departments and have to abide by certain R&R, there is no ban on the CBI formulating additional rules to cover new responsibilities. In fact, even if the Government prepares a set of R&R, the group should review them and change/adapt them according to the group's vision and roles. It is, therefore, useful to know whether the CBIs have modified or added to its rules. Since sanctions are critical for the continued health of any organisation, questions regarding the inclusion of sanctions in the R&R and who enforces them, are important for organisational health. If, for example, sanctions exist but they have to be enforced by the village leader (who is not a member of the group), then the group needs to build up its own organisational strength and credibility to enforce its rules if it is to survive and grow.

The questions under this sub-set which form the framework for focus group discussions are the following:

1. Are there written rules and regulations (R&R)?
2. Have all the members seen them in writing/print?
3. Who made them? When?
4. How often, in their opinion, should R&R be discussed in the group?
5. Have any training sessions been held in R&R for all the members? For office bearers only?
6. Can the group mention three R&R?
7. Does R&R include any sanctions? Should sanctions be included? If yes, why? Have they been enforced to your knowledge? If so, by whom?
8. Was R&R revised? Give one example.
9. List three major problems experienced by the CBI.
10. How did they arise? Were R&R the cause of any of these problems?
11. What is the group's self assessment of the members' observance of the R&R. (Are they adequate? Do they need change? Who will change them? Do they cause more conflict or reduce it?)
12. What is the group's self-assessment of the members' observance of the R&R? (Do all respect and follow the R&R? What happens if some do not? Do all respect sanctions?)

2.3. The third sub-set of questions relates to Group Meetings. These are helpful to assess features related to dependence and exclusion. For example, if we find that the average attendance is low (below 60%) then it is quite possible that the regular absentees do not want to be in this particular CBI. The assumption that they are not interested in attending meetings and getting involved (in other words that they are lazy or disinterested) needs to be tested. If a decision is taken that there should be only one CBI in the area (a group of villages), then it is quite possible that several families which belong to a small group will be left out and in most cases they will turn out to be the poorer families in the area. It is also useful to make the CBI members aware that the date, time, place of the meeting as well as the agenda should be decided by the group and adhered to. Group's that leave these decisions to their leader usually tend to be dominated by the leader's agenda.

The questions under this sub-set which form the framework for focus group discussions are the following:

1. Who calls the meeting – who fixes the date, time and place?
2. What is the frequency of meetings?
3. Is the date, time and venue of the meeting fixed? Or do they change?
4. Is there an attendance register? Is it maintained? By whom?
5. What is the average attendance at group meetings?
6. Is there a minutes book? Is it maintained? By whom?
7. Is there an Account Book? Is it maintained? By whom?
8. Is there a Bank Account? Who operates it?
9. Who actually/physically holds these books? Where are they kept?
10. Is there a written agenda for every meeting? Who sets the agenda?
11. What are three important items that are regularly on the agenda?
12. How does the group ensure that decisions taken in the group have the approval of the majority and are known to all the members?
13. List the "office bearers" and indicate what roles they actually perform.
14. How does the group assess the level of participation during meetings (good, not so good, weak)? Why? Give three indicators.

2.4. The fourth sub-set relates to <u>Capacity Building</u>, including learning of CBIs. Here the focus is on finding out if there was training for all the members of the CBI as a group or at least for a critical mass as a group. The focus on group training is critical is critical here. This section does not focus on training for individuals in CBIs or for individuals in several CBIs who manage the same or similar functions, e.g. all bookkeepers or technical hands. Training as a group is important for the group to build a vision, to develop its own R&R, for organisational accountability and learning (which will be discussed below).

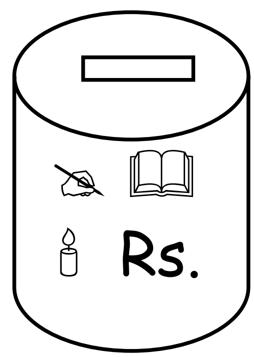
The questions under this sub-set which form the framework for focus group discussions are the following:

1. Has any training been provided to all the members as a group?

2. What were the modules? (Name them). How long did each module last? Where was the training conducted? (Village, Training Centre).
3. Did the members find the training useful? Give two examples of why they found it useful.
4. Have the members as a group visited any other group or project? Which one?
5. Has the group made any changes (additions/subtractions) to R&R? (This was discussed earlier, but bears repetition in the context of Capacity Building).
6. Is there a policy to train members to take over responsibilities in the group?
7. When were office bearers/representatives/cheque signatories last changed? How many times have they been changed since inception of the group?
8. Have audits and reports been discussed in group meetings?
    a. Have follow up actions been taken to address audit recommendations?
    b. Are reports/feedback and assessments made by Project Management (Project Officers, M&E officers) or consultants shared with the CBI?
    c. Does the group take follow up action on recommendations made? List three.
9. List the official responsibilities performed by the group officials/ representatives.
10. How does the group ensure that each of these official duties/responsibilities are shared or rotated among different members?
11. Describe three major lessons/innovations/ideas which the group learned/ implemented during the past six months.

3. <u>Financial Management</u>:

The questions under this section are the following:



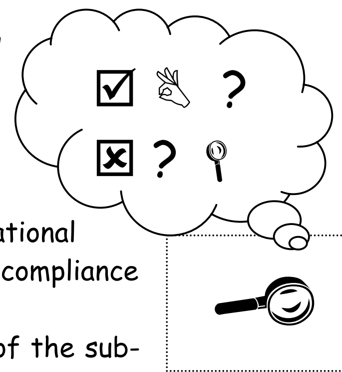
1. Are the Books of Accounts properly maintained and updated?
2. Are the members concerned to know what is the total common fund? Who are the defaulters? Can they give the total common fund and list the regular defaulters.
3. What are the sources of income of the CBI? For what purposes? Is it clear to all?
4. How are decisions made regarding expenditure? What is the process of decision making? What are the supporting documents (minutes, plans, estimates, bids, vouchers, etc.)? Does the group maintain regular expenditure vouchers?
5. Have any problems arisen during the last six months regarding management of cash or inputs? Describe them. How were they sorted out?
6. Where is the cash kept?
7. Does the group apply any sanctions for mismanagement? Who enforces it?
8. What are R&R relating to financial management? Can the members list 3 major ones.
9. What is the group's self-assessment of the process of financial management? (Scale: excellent, good, not so good, weak). List three reasons for assessment.

4. <u>Organisational Accountability</u>:

Regular change of leadership is important. Other concerns relate to whether the reports and assessments made of the project have been fed back to the CBI, whether the compliance audit reports of the CBI are placed before a body either outside (Government) or within (members).

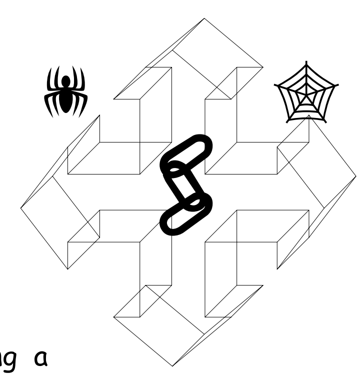
The questions under this section are the following:

1. How has the group changed the leaders (representatives)? Did the former leadership appoint them?
2. What are the group's criteria for selecting leaders (representatives)? List them. Were they observed? If not, why?
3. Does the group ensure that compliance audits are carried out yearly?
4. Does R&R include issues related to organisational accountability, e.g. need to present reports and compliance audit reports to members.
5. Are management committee members or leaders of the sub-groups, related by bonds of blood and/or marriage?
6. How frequently does the Village organisation require the sub-committees to submit their financial reports and compliance audit reports to the higher authority (V.O. Government) and to all members?
7. If not, are there plans to submit them?
8. Is there any practice of applying sanctions? Who enforces them?
9. What benefits do the following get from the CBI; President, Vice-President, Secretary, Accountant, members?
10. Does the CBI ensure that benefits (loans or facilities) are shared so that the weakest also participate in decision-making, get a fair share of resources and access to facilities? How? Give two examples of the weakest/poorest in the group, who have progressed and who have held positions in the group.
11. What is the group's self-assessment of the level of its performance? List three reasons for the assessment.



5. <u>Linkages</u>:

Supportive linkages among CBIs within every village and with CBIs/Institutions outside are a critical factor for sustainability and empowerment.

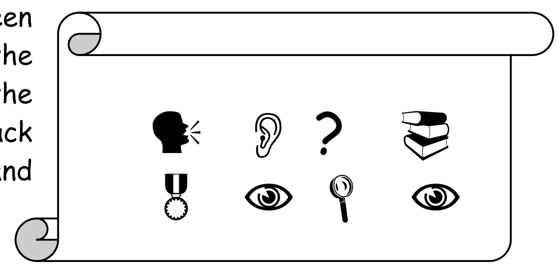


In this section, exercises can also be conducted to ascertain the perceptions of each CBI with regard to other CBIs in the village. Perceptions regarding "empathy" and "importance" of respective CBIs are important indicators for intervenors who are formulating a strategy that works towards achieving a level of synergy among CBIs at the village level. The PRA exercise of the Venn or Chapatti Diagram can be used to ascertain relative importance of CBIs and the relationships among them.

The questions under this section, which provides the framework for focus group discussions, are the following:

1. Number and types of CBIs in the village [formed by the project, other NGOs, by people (on their own – both old, i.e. traditional and more recent ones) by Government, etc.]
2. What are the major functions of traditional CBIs? List two or three.
3. Can the group rank all the CBIs in order of importance – in the groups' perception?
4. How does the CBI "empathise" with other CBIs in the village? Does it have any programme collaboration with another CBI? Describe one such action? (Venn diagram can be used to ascertain relationships).
5. Is this CBI linked to formal institutions such as banks, NGOs, Government and private institutions? How?
6. Is there any competition among CBIs? Between which ones in particular. In what way? Describe two examples. In the group's opinion, is this competition "good" or "bad" for the members?
7. Do other institutions in the area know about this CBI?
8. With whom does the group wish to establish linkages? Has it made some effort to do so?

6. <u>Learning / Evaluation</u>:



Questions relating to this feature have been included in the above five sections whenever the group is asked to assess itself and whenever the group is asked whether and how it uses feedback from audit (financial and systems) reports and regular management responses related to monitoring progress. However, a few questions can help the group to focus on the need not only to be open to suggestions and to new ideas but also to pro-actively take initiatives to learn from other experiences and new areas of income generating and livelihood opportunities. The group also needs to realise that time spent on analysing and reflecting on its experiences is an important input in the process of growth.

The intervening agency, however, must also be a "learning organisation" it is to share this commitment and concern with the CBI it fosters.

1. Has the group made any effort to exchange experiences with other CBIs in the village? If yes, describe one such interaction.
2. Has the group interacted with institutions outside the village? If so, list them. What are the results of this interaction? List one.

3. Does the group assess the capacity of each member periodically and plan to provide opportunity to each one to increase in livelihood skills as well as in confidence and ability to negotiate with others particularly with middlemen? Give examples.
4. Have the members made any efforts to increase their literacy and numeracy skills?
5. Have the members taken any initiative or have they supported any initiative to start and manage a reading room in the village, or any other regular system and structure for dissemination of information?

To Conclude:

As already indicated a system to ascribe numerical values to the responses is possible but has not yet been worked out in detail in MYRADA. However, quantifying the data and giving the CBI a 'grade' or a 'rating' is not the primary purpose of this exercise. What are important are the responses themselves, what they reveal about the CBIs to the members themselves, how they can help to transform the CBI from its present level of functioning, and what guidance they can provide to the project staff on how they can support the CBI to acquire and sustain the characteristics of a mature and functioning institution.

Aloysius P. Fernandez
January 2000
Bangalore

Appendix:

MYRADA has fostered several types of CBIs in all its projects. The following CBIs are the primary partners of MYRADA. (Status as on June 30, 2000)

Self Help Affinity Groups	4,131
Watershed Development Associations	183
Federations of SHAGs	117
Village Development Committees/Councils	55
School Betterment Committees/ Parent Teacher Associations	624
Village Water & Sanitation Committees	59
Farmers Associations	6
Children's Clubs	487
Village Forest Committees	388
Village Health Committees	11
Others ∗	21
Total	**6,082**

∗ Others include Street level and Stand post committees; Programme Implementing Associations, Project Health Committees, Youth Clubs, etc. This list does not include institutions formed in projects where MYRADA has deputed staff or where our staff is providing support on a long term basis in India and abroad.

GUIDELINES FOR WORKING WITH SELF HELP GROUPS

December 1998

(Rural Management Systems – Paper 30)

This paper is not typical of the papers that are usually brought out under the RMS Series. However, it is not completely atypical either. While it is not a document of experiences, it does constitute a body of guidelines that have evolved over the past five years through experiences related to the growth and development of self-help groups in whose formation and functioning MYRADA has had a major role to play. In that sense, it is in continuity with RMS paper 15 (Characteristics that can describe a sangha as "good") and RMS Paper 17 (Guidelines for the financial management of MYRADA CMGs). It has drawn from some of MYRADA's earlier published papers and documents and has been written in direct response to the various issues raised and needs expressed - as described below - by bankers, NGO staff, government officers, and other such people whom MYRADA has been fortunate in interacting with, and who share an interest and commitment towards the well-being of self-help groups. The contents of this paper summarise the collective efforts of MYRADA staff and of the SHG members themselves in developing these guidelines. It is divided into several segments, each addressing a specific area of concern. Each segment has been separately numbered so that it is complete in itself and can stand on its own.

The papers that constitute this document have been earlier brought out in various forms by various MYRADA Projects and circulated to interested persons through training programmes and as reading material. Unfortunately, they have sometimes been appropriated by persons who have used them to generate texts of their own, without acknowledging MYRADA. We are happy if our documents are of use to people; that is why we share them as widely as we can. However, if they are to be reproduced in any form, we would appreciate that MYRADA be acknowledged.

SELF HELP GROUP GRADING CRITERIA

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
1.	Vision, Mission, and Goals	Discussed and established in the SHG with the participation of all members Written down and easily available on request (may also be displayed pronimently in the community hall) Known to all members Members make efforts to see that all their actions are in consonance with their Vision, Mission, and Goals	Discussed and established in the SHG with the participation of around 75% or more members Written down but may or may not be displayed or easilty available. Not all members are familiar with it. SHG activities are not consciously aimed at achieving the Vision and Goals	May be discussed, but not well established and written down. Even if established, and written down, it is more due to the effort made by staff. Less than 50% of the members are familiar with it. Only the representative may know what it is. Aligning SHG activities with the Vision and Goals is absent.	Not discussed and not established. Some group members may be aware that other SHGs are engaged in this process, but even this knowledge does not interest them to do the same in their own SHG. Even if staff initiate discussions, participation by members is poor.	Discussions with members Discussions with Project Staff Minutes Book Vision, Mission, and Goal Statement, if any available for reference.	
2.	Size of SHG	15 to 20 members	21 to 30 members	31 to 35 members	36 and more members	Admission Book Attendance Book Minutes Book	Small sized groups function more efficiently. Meetings & training programmes also become easier. For bank linkages also, size has to be less than 20.

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
3.	Economic status of members • Newer SHGs (0 to 3 years) • Older SHGs (over 3 years)	 All members are poor, from the lowest economic stratum of the village More than 80% of the members show improved economic status. Few continue as poor but none are poorest	 A mixture of better off and poor members. Poorest are few in number More than 50% of the members show improved economic status. Some are poor, some continue to be poorest	 Better off members are more in number. Few are poor and none are poorest Less than 50% of the members show improved economic status. Status of many poor and poorest members unchanged.	 All members are from the better off sections of the village Hardly any improvement in the economic status of members since the time they formed the SHG	 Interactions with members Observations Interactions with members Observations Reports and case studies	There is no distinct cut-off period from when a new group becomes an older group. However, as the group matures, more and more members must be better-off than when they first started. To assess this becomes easier if baseline data on members is collected when the SHG is new.
4.	Meetings • Frequency • Time and place	Weekly meetings Regularly held Fixed day, time, & place; known to all and followed	Fortnightly Regularly held Fixed day, time, & place. Known but not well maintained	Fortnightly or weekly but not so regularly held Fixed day, time, & place. Not clear to all and not kept	Monthly meetings Not very regularly conducted These details may be fixed or not. Not many know or care	Attendance Book Minutes Book Minutes Book Discussions with members	More than frequency, regularity should be given weightage Fixed meeting days & times are important indicators of discipline
5.	Attendance of members at meetings	Average attendance 95% or more per meeting. Absence only with prior intimation	Average attendance around 75% or more. Absence with and without intimation. Explanations maybe given later	Average attendance around 60%. No system of prior intimation. No explanations asked or given	Average attendance below 60%. No system of prior intimation. No explanations asked or given	Attendance Book Minutes Book Discussions with members	

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
6.	Participation of members in decision making	Issues fully understood by all members. Decisions fully collective by all members	Issues understood by representatives/ promoters and some members, who also influence decisions	Understanding of issues and decision taking limited to representatives and one or two members. Staff also influence decisions	High dependence on Promoter and/ or on Staff to take all decisions	This has to be assessed through discussions with members. Minutes Book to be referred to identify issues.	
7.	Participation of members in responsibility sharing	All members regularly rotate and share responsibilities. Representatives & cheque signatories changed each year	Cheque signatories & representatives not changed for 2 years. Responsibilities for other tasks rotated among same few members	Cheque signatories & representatives not changed for more than 2 years. Same people take responsibility for other tasks also, or depend on Promoter & Staff	No change in cheque signatories or repre-sentatives since inception. High dependence on Promoter and/or Staff even to initiate other tasks that involve responsibilities.	Minutes Book Interactions with members	The age of the SHG should be taken into account in making this assessment.
8.	Rules and Regulations	Exist. Known to all. Understood by all. Followed by all. Penalties enforced. for breaking rules.	Exist. Known to most. Understood by most. Not fully followed. Penalties enforced in some but not all cases.	Exist. Not many members are aware, since rules are not followed and there are no penalties for violating them.	Only Promoter and Staff say that they exist. Members do not know of them. So the question of following them and enforcing penalties never arises.	A separate Book <u>or</u> the first part of Minutes Book <u>or</u> rules recorded in Minutes as and when framed. Discussions with members Ledger, to check if fines are collected	Discussions with members are important in making this assessment, since many SHGs may not have written down the rules but make them, follow them, and enforce penalties.

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
9.	Savings	SHG fixes a minimum (but not maximum) amount to be saved by each member each month. More than 95% members comply by saving atleast the minimum stipulated amount per month Usually atleast Rs.40/- per member per month	SHG fixes a minimum amount to be saved per member per month. Compliance is around 75%. Some save less than the minimum specified; some do not save each month. Usually atleast Rs.240/- per member per year	All members are aware that they have to save, but no minimum amount fixed. Only around 60% of the members actually save some money each month Average of around Rs.120/- per member per year	All members know about savings, since that is the starting point of the SHG. But less than 60% of the members actually save some money each month. Average of less than Rs.120/- per member per year	Individual Pass Books Savings Ledger	Regularity with which members are making savings can be given more weightage than the amount saved. (Ability to save is present - to a greater or lesser extent - in all members. Capacity to save may have seasonal variations, hence, average savings can be calculated over the year. As members mature, willingness to save may depend on the perceived benefits of saving in the SHG as against saving elsewhere or in non-cash forms)
10.	Sanctioning of Loans	Loan requests are debated in SHG meetings; details are known to all members. All members get a fair chance to borrow. Productive investments are emphasised more.	Loan requests are brought to SHG meetings and discussed. All members get a fair chance to borrow. Productive investments are preferred but not encouraged.	Loan requests are made to Promoters and Staff. Though brought to the SHG, approval depends more on Promoter/ Staff, who may insist on productive loans even if other needs are critical.	Loan requests are routinely decided by Promoters/Staff. Some members get more favoured than others who are also in need. Members are indifferent to loan purposes of borrowers.	Minutes Book Loan Ledgers Discussions with members	Age of SHG is also to be considered in this assessment. "Non-productive" needs are often critical and may lead the poor into the clutches of the moneylender.

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
		Repayment terms and conditions are properly recorded.	Repayment terms and conditions are made but not properly recorded.	Repayment terms and conditions are made but not recorded.	Repayment terms are clear neither to the SHG nor to the borrowers.		Hence, their approval in the SHG is not bad, but an SHG which only lends for such purposes is indicative of either inactive members or better-off people.
11.	Loan Repayments	More than 95% repayment against demand and in accordance with pre-established terms. Rescheduling of repay-ment time only under extreme circumstances.	75% or more against demand and in accordance with pre-established terms. Repayment schedules changed without adequate reason.	60% to less than 75%. Not much evident effort to improve recovery.	Below 60%. Members are neither aware nor concerned to improve the situation.	Cash Book General Ledger Loan Ledger Minutes Book Individual Pass Books (loan section)	
12.	Rotation of Common Fund	More than 100%	75% or more, but less than 100%	50% or more but less than 75%	Less than 50%	Bank Pass Book General Ledger Loan Ledger FD Receipts, etc.	
13.	Idle Capital	Nil. All money is loaned or intelligently invested.	Upto 25% of total funds.	Upto 50% of total funds.	More than 50% of total funds.	Bank Pass Book General Ledger Loan Ledger FD Receipts, etc.	To be assessed over a 12-month period & not just based on Pass Book balance on date of review. Short duration FDs need not be regarded as idle capital, as also investment in RDs & other such schemes.

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
14.	Cash handling	Regularly rotated among all members on a designated basis.	Responsibility only taken by few members and representatives.	Only fixed representatives or Promoters. No rotation.	Promoters or Staff only.	Minutes Book. Discussions with members.	
15.	Resource mobilisation	Successful efforts made to mobilise funds through bank linkages, govt. schemes, local mobilisations, etc.	Efforts made to mobilise resources from members & community. No institutional links other than Project.	Only members are approached for small contributions. Project is seen as the only other source for funds.	No efforts made to mobilise resources other than expecting the Project to fulfil all demands.	Minutes Book Cash Book General Ledger L.C.Register Discussions with members	Age of the group must be kept in mind while making this assessment.
16.	Book keeping and Documentation	All books uptodate and correctly maintained. Bookwriter from within SHG or hired locally and paid by SHG out of its own funds. All books in safe custody of SHG (not in Project Office) All books readily available for scrutiny of members and other authorised persons All members aware of importance of book-keeping	All books opened but only some are maintained and updated. Sketchy documen-tation of Minutes, so Minutes Book cannot be called as 'Mother Book'. Bookwriter not very competent. All members not fully aware of the importance of book keeping. Books are in safe custody with SHG and available for scrutiny.	Major books only opened. Not well maintained or regularly updated. Members are dominated by bookwriter, who may or may not be fully competent in book keeping. Books in custody of book writer, even if not a member of the SHG. Supporting bills, etc. often not traceable. Staff effort is more in ensuring that atleast few basic books are kept.	Very few (basic minimum) books opened. Incomplete documen-tation, & books updated only due to staff effort. In some cases, staff are writing the books. No concern for the safety of books and records. Most members not even aware of the need for book keeping and where the books are. Supporting documents frequently not traceable.	Physical verification of books Discussions with bookwriters and members	The books to be maintaintained are • Admission Book • Minutes Book • Attendance Book • Cash Book • General Ledger • Savings Ledger • Loan Ledger • Bank Pass Book • Individual Pass Books • Receipts Vchrs. • Payments Vchrs • L.C.Register Stock Book (if applicable)

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
17.	Audits	Need for audit understood by SHG. Annual Audits conducted and paid for by SHG from own funds. Audit Reports discussed in presence of all members. Audit actions taken. Audit Reports properly filed and readily available.	Need for audit not fully understood, but SHG co-operates with Project when audits are arranged and even pays for it. Audit Reports properly filed. Staff initiative needed to discuss audit findings and take appropriate action. .	Need for audits not understood. Staff have to make the efforts to get things ready for audit, arrange for it,& pay for it atleast in part. Compliance level low. Findings are not disccussed unless staff insist. Not much action taken on the findings.	Audit concept itself is not clear, much less the need for audit. Only staff and book writer are involved in the entire audit process. Findings may be read due to staff effort, but no one is interested to listen or to act on them. Compliance level very low.	Discussions with members and Project Staff. Minutes Book Previous Audit Reports and review notes, if any.	Audits reinforce the credibility of the SHG, and the fact that the SHG is an 'informal' group should not come in the way of conducting audits by competent persons. Chartered Accountants based in nearby towns can be engaged for this.
18.	Training programmes	Members are aware of the usefulness of training, and eager to participate. At times they even ask for it. Attendance at every training session is more than 90%. Members do not expect cash compensations for attending training. Absent members may even be censured/fined. Recall of training contents is good.	Attendance at any given training session is around 75%. No cash compensations for attending training. Absent members may be censured but are rarely fined. Recall of training contents is partial.	Average attendance at training programmes is around 50%. Absent members are neither censured nor fined. Staff have to put in repeated efforts to mobilise members. Recall of training contents is partial. Attendance improves if cash incentives are given.	Average attendance is less than 50%, that too, with a lot of staff effort. Absence at trainings is never a matter of concern. Members demand cash compensation to attend training. Recall of training contents is very poor, even among those who have attended.	Discussions with members. Minutes Book Project training records.	Trainings are usually organised by the Project. All training arrangements including faculty, materials, and food are paid by the Project. However, members are not compensated for loss of wages, if any, to attend trainings. Partial payment for trainings by the SHGs is slowly being explored. MYRADA specifies 12 basic training topics for each SHG, spread over 18 to 24 months.

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
19.	Planning, Implementing, Monitoring, and Evaluating programmes	All members fully understand the need and the processes. Responsibilities are well distributed among members, and responsibly discharged.	Understanding of these processes and sharing of responsibilities is limited to some members and representatives, who do a reasonably good job.	Members take responsibility only if repeated pressure is brought on them by Staff. Then too, the representatives are expected to do most of the work. Output quality not upto expectations.	Not much interest in these processes Promoter/Staff have to bear almost all the load. Output quality depends only on them.	Minutes Book Case studies and reports, if any Discussions with members and Project Staff	Programmes are usually initiated by the Project, but a good SHG can get completely involved in all the processes including making sure that the programme fulfils its (the SHG's) agenda rather than the Project's agenda.
20.	Social Actions and Community Action Programmes	Self-initiated involvement, including budgeting, fund-raising (including Project contributions), planning, implementing, monitoring, and follow-up. Programmes are initiated to serve the interests SHG members and the community.	Self-initiated involvement or good response to external initiative, but funding dependence may be more on the Project. Inadequate management and follow-up	No internal initiative. Responds only to external initiative. Therefore, agenda may also be based on external assessment of the need for such action, rather than internally experienced by the SHG members themselves. Little involvement in management and follow-up.	No internal initiative. Poor response to external initiative, unless all the funding is also taken care of by the external party. No concern for management and follow-up	Minutes Book Discussions with members	Since community action programmes involve money, the SHG may not always be able to achieve it on its own. Outside investments are frequently necessary. However, the initiative to act can very well come from the SHG.

Sl.No		Good	Average	Poor	Very poor	Objectively Verifiable Indicators	Remarks
21.	Education, Literacy, and Numeracy	All SHG members know how to sign their own names (learnt after joining SHG) Atleast 70% members are able to read basic numbers (learnt after joining SHG) All members with children in school-going age are sending their children to school	70% members or more know how to sign their names (learnt after joining SHG) 50% members or more know how to read basic numbers (learnt after joining SHG) 75% members with school age children are sending their children to school	Around 50% members have learnt how to sign their own names. Around 30% members have learnt to identify basic numbers Around 50% members with school age children are sending their children to school	Less than 50% members know, or are even interested to know, how to sign their own names. Hardly anyone has learnt to identify basic numbers Less than 50% members with school age children are sending their children to school	Random tests with signatures and numbers Discussions with members.	Since many SHG members are either in the older age group or having to work long hours for wages, it is unlikely that they will attend literacy classes. But signing their names is both easy to learn and enhances confidence. Learning numbers is important. Sending children to school is MOST important.

Guidelines For Financing Self-Help Groups

(Checklist for assessment of self-help credit management groups before linking with banks and other financial institutions)

This checklist has been developed by MYRADA based on its experience of working with self-help credit management groups and promoting the direct linkage of self-help groups with banks.

Bankers who have had little or no prior experience of working with self-help groups often ask us what they should be looking for in assessing the creditworthiness of a group before lending to them; this checklist is intended to provide them with a few of the guidelines that they are looking for.

---

1. The Self-Help Group should have had credit transactions (i.e. lending to and recovering from its members) with its own Common Fund for atleast 6 months prior to application for external finance/bank loan.

   Verified and found to be satisfactory : ______

   Verified and found to be unsatisfactory : ______

   Not verified : ______

   Comments : ____

2. The groups internal overdues of principal and interest on loans taken by members from its own Common Fund - prior to application for external finance/bank loan - must not be more than 15% of its total outstanding loan amount. The length of such delayed payments must not have exceeded 12 months at the time of applying for external finance/bank loans.

   Verified and found to be satisfactory : ______

   Verified and found to be unsatisfactory : ______

   Not verified : ______

   Comments : ____

3. Atleast 80% of the group members should have taken loans from the group's own Common Fund prior to application for external finance/bank loans (i.e. all loans should not have been cornered by a few members only).

Verified and found to be satisfactory : ______

Verified and found to be unsatisfactory : ______

Not verified : ______

Comments : ____

4. The trend of borrowing within the group should be in favour of production activities (atleast a ratio of 1 : 1 between production and consumption loans).

Verified and found to be satisfactory : ______

Verified and found to be unsatisfactory : ______

Not verified : ______

Comments : ____

5. There should be evidence of regular savings by <u>all members</u> (i.e. a steady growth in savings), and per capita savings of atleast Rs.300/- prior to application for external finance/bank loans.

Verified and found to be satisfactory : ______

Verified and found to be unsatisfactory : ______

Not verified : ______

Comments : ____

6. The Group's <u>**Minutes Books**</u> and <u>**Books of Accounts**</u> should be properly and independently maintained (assistance of a literate person can be hired, if necessary, and <u>paid for by the group out of its own funds</u>).

Verified and found to be satisfactory : ______

Verified and found to be unsatisfactory : ______

Not verified : ______

Comments : ____

7. There should be evidence of regular meetings as per the norms established by the group, with minimum 80% attendance at any given meeting.

Verified and found to be satisfactory	:	______
Verified and found to be unsatisfactory	:	______
Not verified	:	______

Comments : ____

8. The Group's Common Fund should be in regular circulation as evidenced through minimum bank balances in the group's bank account (an average of less than 15% of the group's Common Fund over the preceding 12 months).

Verified and found to be satisfactory	:	______
Verified and found to be unsatisfactory	:	______
Not verified	:	______

Comments : ____

Other points :

- The banker should have attended more than one regular meeting of the group that has applied for the loan.
- The banker should ask for and study the Audit Report of the group for the preceding year (the Audit need not necessarily be done by a Chartered Accountant).
- The loan cheque should be handed over to the group in the presence of as many members as possible.
- The banker must also play an active role in ensuring that the loan is repaid as per the terms of the Agreement.

❋ ❋ ❋ ❋ ❋

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Rural Management Systems Series
Paper - 30C

Guidelines For The Evaluation Of Self-Help Groups

(To decide if MYRADA's involvement can be phased out)

We are often asked how we decide when a group can begin to function on its own without day-to-day contact with MYRADA. 'Phasing out' does not happen suddenly; it is a gradual process. When groups are new our staff are present at almost all their weekly meetings. This is followed by a period over which our Training Staff provide regular trainings to the group members on group development, income-generating programmes, credit management, common fund enhancement, documentation and book-keeping, responsibility sharing for group administration, establishing linkages with other institutions, and awareness on various social and developmental issues. All these training programmes have a bearing on the groups' day-to-day functioning. Meanwhile, our staff slowly reduce their presence at group meetings to once or twice a month or even less.

There comes a point when our staff stop attending group meetings of the older groups altogether. If the groups do require our assistance once in a while, they come to our Office and ask for it rather than the other way around. Our contacts with these groups may be at Federation/Apex Body meetings of which they are members. We have had instances where older groups requiring training inputs are even paying some faculty charges; in other cases, some of the group members themselves are providing training to other groups, independent of MYRADA. The audit of group accounts is also paid for by the groups themselves.

A single staff member, who can only work with 10 to 15 groups at the initiation stage, can now support over 50 groups once they reach this stage of managing most or all of their affairs independently.

Total discontinuation of all forms of contact results in some of the groups deteriorating or collapsing. After a decade of experience in working with self-help groups, MYRADA has realised that many groups do need a 'rallying point'; a psychological reassurance that "some one out there is interested in us". We, therefore, recommend staying in touch through Federations/Apex Bodies but interactions are far less frequent and qualitatively different. The Guidelines that follow are an indicative check list of whether that stage is reached.

Section A:

Name of the group: ____

Address of the group: ____
____

Membership composition and number of members:

Men	:	______
Women	:	______
Total	:	______

Month and year of group formation/Age of the group: ____________________

Funds available with the group as on date of this evaluation:

Source	**Amount**
Membership Fees	
Members' Savings	
Interest On Loans	
Bank Interest	
Fines	
Donations	
TOTAL	

(Section B follows)

Section B : **Essential criteria that the group must fulfil**

Score **'1'** if point is fulfilled and **'0'** if not. There are no scores in-between.

These criteria must be essentially present in every group; Even if one is not present, it means the group requires focused attention for some more time.

1. The group is meeting regularly without being asked or reminded.

   Score : _______

   Comments: ____

2. There is atleast 80% attendance at any given meeting.

   Score : _______

   Comments: ____

3. Loans are available to all members and not just the same few.

   Score : _______

   Comments: ____

4. There is a regular rotation of leadership and responsibility-sharing.

   Score : _______

   Comments: ____

5. Regular savings are made by all members.

   Score : _______

   Comments: ____

6. The amount of delayed repayments of loan instalments by members to the group is not more than 20% of the group's total outstanding loan amount; the length of such delays in repayment is not exceeding 12 months in any single case.

   Score : _______

   Comments: ____

7. There are no delayed instalments of loan repayment from the group to any external source of loans.

   Score : _______

   Comments: ____

8. The group's documents and books of accounts are well-maintained, without any assistance from MYRADA.

   Score : _______

   Comments: ____

9. The total Common Fund in the group (minus borrowed capital) amounts to atleast Rs.1,000/- per member.

Score : ________

Comments: ____

10. The ratio of fund deployment (loans advanced to members) between productive and other purposes is not less than 60:40.

Score : ________

Comments: ____

11. Atleast 50% of the group members (or their families) possess a regular source of income.

Score : ________

Comments: ____

12. The group is in contact with other institutions for technical and/or financial resource mobilisation.

Score : ________

Comments: ____

(Section C follows)

Section C : **Optional criteria that the group may fulfil**

Score **'1'** if point is fulfilled and **'0'** if not. There are no scores in-between.

These criteria are optional; they need not be considered in deciding whether to withdraw from a group unless the evaluator has some specific concern in mind.

1. The group has atleast one trained promoter and access to the services of other trained promoters (e.g., in accounts, health and mid-wifery, etc.)

   Score : ________

   Comments: ____

2. The group is a member of a local Federation of similar groups (Apex Body).

   Score : ________

   Comments: ____

3. The group has an adequate place to meet where all are allowed to enter.

   Score : ________

   Comments: ____

4. The group is successfully managing atleast one Group Income Generating Programme.

   Score : ________

   Comments: ____

5. The group has implemented some community action programmes and is capable of continuing to do so independently.

   Score : ________

   Comments: ____

6. The group has successfully conducted literacy, numeracy, and functional education classes for its members.

   Score : ________

   Comments: ____

7. The group is involved in promoting some social and cultural activities among its members and the community.

   Score : ________

   Comments: ____

8. The group has made atleast one effort to promote social justice and/or prevent the exploitation of its own members by others.

   Score : ________

   Comments: ____

(Section D follows)

Section D: **Other critical points**

This section has YES/NO responses. Negative responses have to be given serious consideration in deciding whether to phase out of the group.

1. Does the group have any liabilities against MYRADA ?

   Yes : ____ No : ____

   Comments: ____

2. Has the group undergone the full training syllabus with minimum 80% attendance in each session ?

   Yes : ____ No : ____

   Comments: ____

3. Is the group following its rules and regulations properly, with sanction and control mechanisms?

   Yes : ____ No : ____

   Comments: ____

4. Is the group following collective decision-making processes ?

   Yes : ____ No : ____

   Comments: ____

5. Does the group have a clear vision and plans for the future ?

   Yes : ____ No : ____

   Comments: ____

(Section E follows)

Section E: **Summing Up**

1. Essential criteria:

Maximum points obtainable	:	12
Minimum points obtainable	:	0
POINTS OBTAINED BY THIS GROUP	:	

2. Optional criteria:

Maximum points obtainable	:	8
Minimum points obtainable	:	0
POINTS OBTAINED BY THIS GROUP	:	

3. Evaluator's main observations:

____
____
____
____
____

4. Evaluator's recommendations regarding phasing out by MYRADA:

____
____
____
____
____

_______________________ _______________________

Date of evaluation Signature of Evaluator

The Role of SAGs[1] in Watershed Management Institutions The MYRADA Experience

Aloysius P. Fernandez
(Rural Management Systems – Paper 35)

1. Introduction:

In MYRADA's projects, SAGs existed much before watershed management programmes were introduced. In many watersheds, SAGs were already functioning for 3 to 5 years before discussions began on watershed management. This was not because of any strategic decision. It was just because MYRADA started forming SAGs in 1984-1985 and the strategy became reasonably clear by 1986-97 –(when NABARD gave MYRADA a grant from its R & D Fund to test a pilot programme), while watershed management programmes started only in 1986 and took some years to crystallise. In fact when the first watershed programme started in Gulbarga in the mid-eighties it did not include any component to support the formation of SAGs. Watershed Management strategies spread from Gulbarga Project to other MYRADA Projects during the early 90s. Meanwhile SAGs had been functioning in all these projects for 3 to 5 years. The performance of people's institutions in terms of taking the lead and innovating in watershed management strategies is far more evident in these later projects where the SAGs had been functioning for several years before watershed management was introduced. It was this experience that prompted MYRADA to introduce the formation of SAGs in all subsequent watershed projects before discussions related to watershed management were initiated.

Why then does MYRADA consider that SAGs are critical to watershed management strategy? Briefly for four reasons, which emerged from our experience in the field. We discovered that:

- It was the SAGs that this gave space for the landless and near landless to participate in investments made and opportunities created in the watershed.
- The SAG members who were inducted in the Watershed Management Institutions (WMIs) contributed to the development of organisational and financial management systems in the WMI and insisted that systems be respected.
- The SAGs provided credit from their common fund to members who were engaged in watershed activities to supplement the investments made by the watershed component which often lacked the flexibility required to meet the differences in the local situation. They also provided credit to members to meet the obligations of 'beneficiary contributions' expected in most watershed development programmes.
- The SAGs introduced the strategy of converting the grants provided to the WDI for watershed activities into loans for treatment on private lands. As a consequence

[1] SAGs – Self-help Affinity Groups

of this influence exerted by the SAGs which are accustomed to manage loans, the WDIs which were provided with grants from a donor, decided to convert these grants into loans to individual members for treatment activities on their private lands. Treatment on common lands remains as grants with people participating through shramdaan.

This paper will focus briefly on these four areas where there is evidence that SAGs have influenced WMIs. A few case studies will be reproduced below where the influence of SAGs on WMIs has been recorded.

2. Examples of SAGs introducing the objective of equity in watershed programmes: Since watershed programmes tend to focus on the landed, and to benefit those in the lower reaches of the watershed –which are generally owned and cultivated by the better off families – equitable distribution of benefits through watershed programmes has been a major concern of MYRADA and hence considerable effort was devoted to supporting initiatives that helped to correct this bias towards the better-off. A visual experience of these differences in society merits re-call.

When the Watershed programme started in Gulbarga in the 80s this author had a visual experience of some of the issues involved that related to equity? A meeting was called of the families living and/or farming in the Wadigera watershed near Gulbarga. When all the people had gathered and settled down, the picture that emerged projected the class distinctions that operated. On the floor, in front, sat those farmers who had lands in the lower reaches of the watershed which were (in this watershed) the most fertile and benefited from protective irrigation. Behind them sat or stood those farmers with lands in the middle reaches; though the land holdings of some of these farmers were not smaller than those of the first category, the lands were not as productive; besides they were more vulnerable to drought and long dry spells as protective irrigation was not available. People who stood on the periphery were mostly tribals and those with holdings on the upper reaches. The landless hung around. There were no women present initially; but as the meeting went on, they strolled in, more as inquisitive bystanders than as participants.

The discussions were initiated and dominated by the farmers with holdings in the lower reaches who were sitting in front of the group. They also belonged to a caste higher than the others. It was evident that if the marginalised groups were to be given an opportunity to participate effectively, they would have to meet in a different situation and to organise themselves in a way so that they could exert their influence on the programme in a sustainable manner. It was here that we discovered in other MYRADA Projects that the Self Help Affinity groups were playing a significant role.

The Members of the SAGs are the poorer families, namely the landless and near landless. They have benefited from an intensive training programme which focuses on institutional capacity building. The 24 training modules offered to the entire group include the following: A structural analysis of society; how to conduct a SAG meeting; Unity-Affinity in Action; Building a Vision; Group Goals; Developing Rules and Regulations; Responsibilities of group members; the need for proper Book-keeping and Auditing; Conflict resolution methods; Consensus or collective decision making; Common Fund management; Self Assessment, Linkages, Federations and Credit-Plus activities related to social change, health and education.

The SAG members also benefit from the experience of managing a group common fund. The MYRADA model promotes the habit of saving, the skills required for lending and the culture required to ensure repayments and take on credit plus activities. All decisions are taken within the group. The Banks extend a line of credit to the group without asking for the ultimate purpose of each loan. The Bankers have been trained to assess the institutional strengths (and weaknesses) of the group, not to assess the viability of each loan. Their major objective is to establish a relationship of trust with the group and to service the members who come to the Bank to deposit the savings or withdraw funds. All decisions related to credit provision, schedule of repayments and management of repayments therefore are taken within the group, not by the Bank. The focus of this model is not so much on the provision of credit, but on the management of credit. As a result the members acquire the skills of decision making, of conducting meetings, the confidence to relate with outsiders including Bankers and the respect for sound organisational and financial management systems. This experience and the support provided not only by the group to which they belong but by other SAGs in the watershed gives them the confidence and skills to participate effectively in the meetings of the Watershed Management Institutions.

Further most of the loans for consumption which the poor required and for which they had to depend on the bigger farmers of the watershed are now given by the SAGs; this has a direct impact on reducing the level of dependence of the poor families on bigger farmers. The poor took consumption loans from the larger farmers and in turn were "bonded" to labour on their fields. With the SAGs providing the poor with regular loans, they were in a position to bargain for higher wages and to exert their rights more effectively during watershed meetings. Here are some examples of how the SAGs were able to promote the interests of the poorer families:

In one watershed in Gulbarga, the SAGs influenced the WMI to permit the landless to harvest fodder from the protected areas. These protected areas were of two types. The first consisted of private lands lying fallow since the farmer had migrated. Since the title of the land was clear and it was not used by others, the SAG did not anticipate any conflict which would have arisen if common lands had been targeted. The SAGs proposed that these fallow areas could be regenerated. This would help to conserve soil and water, to provide vegetative cover and to provide fodder. The SAGs suggested that the WMI enter into a contract with the absentee owner and helped to negotiate the agreement. The WMI agreed to fence the land with a boulder wall. Biomass would regenerate in these protested areas. It was agreed that the trees would remain the property of the owner while the lopped branches and fodder grasses would be used by the village. **The SAGs lobbied with the WMI to give the landless the right to harvest fodder from these areas. As a result of their access to fodder, the landless were able to purchase cattle with loans from the SAG. In Gulbarga, over 35 such agreements have been negotiated.** This strategy has not only helped to provide a livelihood base for the landless and near landless but also converted neglected lands which added to soil erosion into regenerated parks which increased biomass and played a more effective role in managing soil erosion and water run-off than bunds. The following is a sample of one agreement in Wadigera between the SAG and an individual farmer.

Quote

Rs. 5/ Stamp Paper

AGREEMENT

(Translation)

I, Sri Narayan Amba Rao Joshi, s/o Sri Amba Rao Patwari Joshi, aged 65, resident of Wadigera village, Kamalapur Mandal, Gulbarga Taluk and District, hereby make this agreement with the Wadigera Gramabhivruddhi Sangha on this fifth March Nineteen Ninety Two.

On this day I have agreed to lease my land – Survey No. 105, of approximately 20 acres (non-agricultural) to the Wadigera Gramabhivruddhi Sangha for a period of 10 years to be developed into a forest plot with the help of PIDOW MYRADA, of my own free will. The produce from the land will be shared with the Wadigera Gramabhivruddhi Sangha taking 30 percent to be shared by its members and the remaining 70 per cent to me[2]. I will not interfere in any of the works. In case there is any dispute with regard to sharing of produce, I agree to let the Wadigera Gramabhivruddhi Sangha to solve the issue.

Yours sincerely,
Narayan Rao Amba Rao Joshi
Kamalapur

Witness:

1. *N. V. Reddy*
2. *Tulasa Reddy*

The second category of land protected was wasteland belonging to the Revenue Department. The SAGs lobbied for the poorer families to harvest fodder from these lands. However, this was possible only in a few watersheds in the more remote areas where these lands were not used by outsiders for grazing

[2] In subsequent agreements during 1993-94 sharing of produce was on a 50-50 basis.

3. Examples of SAGs influencing the management of WMIs:

The members of credit groups acquired considerable management experience while conducting the affairs of the SAGs. They learned to set priorities, to take decisions and risks, to draw up rules of behaviour, to resolve conflicts and to apply sanctions effectively for non-compliance. They learned the art of co-operation. They acquired the skills required to sustain co-operation and to set up and maintain the systems necessary (like records) to make co-operation a regular behaviour pattern – in a word to institutionalise co-operation. These skills and systems are absolutely necessary for managing the resources of a watershed. They cannot be easily acquired during a watershed programme since the process of watershed development is still heavily guided and influenced by interveners who insist on technical specifications and guidelines in terms of 'how' to go about watershed treatment as well as 'what' is to be done and 'where' and by 'whom'. The 'transfer of technology' approach within a delivery system leaves little room for local people's institutions to develop. **The self-help group therefore provides a training situation, using credit as a tool or instrument**. Credit is an appropriate tool because it is familiar to all and also because it meets a felt need. Successful management of their common fund gave the group confidence that they can achieve certain objectives provided they were willing to observe certain rules and create a culture that motivates people to support each other. **The SAGs established a culture that was required for the resources of a watershed to be managed in a sustainable manner.**

There are four SAGs in Kalamandargi (Gulbarga) mini watershed. Two representatives from each SAG are members of the WIC; the roles and responsibilities of the WIC were established by the SAGs in a joint meeting; they are as follows:

- To involve farmers in implementing the soil and water conservation work on their land.
- To supervise the soil and water conservation work and to resolve conflicts.
- To mark out the work according to the PRA Plan, to measure the work done and decide on payment.
- To make payments based on the quantity as well as on the quality of work.
- To work out the farmers contribution according to the condition of the land, of the family and work involved in transportation of material.
- To collect the contribution from the farmers to the SAG as well as to the Project (in cash to the SAG and labour to the project).
- To allocate and ensure employment to the landless labourers and poor farmers.

- **The second area where the SAGs influenced the WMIs was in the management of cash transactions:**

Handling funds and making decisions on the quality and quantity of work are crucial areas for effective and sustained participation of people; they must therefore be transparent and seen to be just. In many areas where treatment measures had been undertaken previously, people are not aware of budgets and expenditure; they suspected the staff and contractors had been the major beneficiaries. Hence they viewed these measures more as a benefit to others than to them. Their commitment towards maintaining these measures was therefore weakened. The Kalamandargi WIC has decided on the following procedure to manage funds: (Note that in this watershed the Government Departments were not involved):

- The WIC members first verify the quantity and quality of works carried out in the farmers land; they prepare a statement of works done and the amount to be paid; MYRADA technical staff and SAG representatives scrutinise these statements. Sanctions for poor quality or shortfalls are imposed – usually delayed or revised payments; these decisions are made in the presence of the WIC and SAG members in the field of the farmer.
- The WIC submits the requisition for funds to the concerned Watershed Manager along with the signature of the Extension Officer; both are MYRADA staff.
- The Watershed Manager draws the required amount from the office and pays the farmers in the presence of the WIC and SAG members. Payment is made weekly on a fixed day.
- After making the payment, the Implementation Committee members and in their absence the SAG representatives sign the payment voucher along with the farmer, Extension Officer and Watershed Manager.
- The WIC collects the cash contribution of the farmers to the SAG and remits it to the Bank Account of the SAG to which the farmer belongs.
- True copies of the payment vouchers are handed over to the SAGs for their reference.
- A separate measurement book for soil and water conservation measures and forestry is maintained in each SAG to monitor the progress of the work.

4. Role played by SAGs in promoting Loans for Treatment Measures on Private Lands in a Micro Watershed?"

G.M.Doddi Micro Watershed (MYRADA Huthur Project)
A Case Study

There are 54 farmers with lands in this micro watershed (MWS). They are all members of the Watershed Development Association. Of these 54 farmers, 29 belong to 6 different self help groups (SAGs) functioning in 4 adjacent villages. <u>These 29 farmers continued to be members of their respective SAGs</u> from where they availed of loans mainly for agricultural inputs but also for other purposes including health and house repair. Out of these 29 farmers, 10 were landless till the Watershed Development Association (WDA) decided to include them in the watershed activities and approached MYRADA and the

Government to provide land and houses. The 19 farmers (out of the 29) who had experience in self help groups were primarily responsible for taking the initiative to form a Watershed Development Association to develop their lands which lie in the G.M.Doddi MWS. They also took the initiative to include the 10 landless families in the programme, since they lived within the watershed and were already SAG members.

Of the 54 farmers, 35 have taken up micro watershed treatment activities on their private lands; this figure includes the 10 formerly landless families. MYRADA was able to provide them with a plot of 5 acres (½ acre each) and the Zilla Panchayat came forward to give them houses. They have now formed a separate SAG of their own (since they relocated to their newly acquired lands) and call their hamlet Gandhinagar.

There was no irrigation system in this MWS. However, the WDA approached MYRADA to construct a weir across an adjacent nala (drain). With the water impounded, one farmer is lifting water from the reservoir; the WDA is negotiating with him to pay for the water. Five open wells, which had gone dry, are also now recharged. As a result approximately 14 acres are irrigated. There is yet no proposal to lift water from the weir for irrigating the lands of other farmers; the water is not adequate to irrigate the lands of all, even partially.

Out of the 29 farmers in the 6 SAGs, 19 (i.e., excluding the 10 in Gandhinagar) who had been members of SAGs for 2 to 3 years were the first to take the initiative to treat their watershed. They had seen the result of such treatment and management in another watershed (Ardhanaripura) close by. Several of these farmers had worked on daily wages when this watershed was being treated. With their experience in managing SAGs and supported by the visible impact in Ardhanaripura, it was relatively easy for them to persuade other farmers who were not members of SAGs but had lands in the G.M.Doddi MWS to join together to form a WDA in 1995. But here a problem arose.

In the Ardhanaripura MWS, the agreement between MYRADA and the WDA was that the people would contribute 30% and MYRADA 70% as a grant. No loans were envisaged. When the G.M.Doddi MWS discussions started, MYRADA made it clear that all treatment on private lands would be on the basis of loans. The people objected strongly. Once again the 19 SAG members took the initiative to persuade the others that they should go in for loans. The SAG members pointed out that they had been availing of loans from their SAGs for several years and as a result had built up considerable amounts in each SAG from which they continue to take loans for income generation and consumption; they also pointed out that these loans would be repaid to the WDA and not to MYRADA. This would build up a common fund in the WDA which could later be used for agricultural inputs, marketing support and for IG investments.

It was these 19 farmers who also took up the issue of landless families and decided to approach MYRADA and the Zilla Panchayat for support. As stated above, MYRADA provided 5 acres of land and the ZP gave funds for the houses.

The effort to organise people, to convince them, to plan and implement the treatment measures, and to collect repayments required 68 meetings and 6 participatory planning exercises from April 1995 to March 1998 in which all the farmers participated.

The WDA consists of 54 farmers, but only 35 have taken loans in the first round for treatment of private lands. The decision of the WDA is that the other farmers will get a first loan and the first 35 will get a second loan only when repayments come in. MYRADA provided the funds for treatment on private lands as a grant to the WDA which converted it into loans to individual farmers.

Since the WDA was too large, they decided to form a Watershed Development Committee (WDC) of 14 members which meets every 15 days; 9 of the 14, are members of SAGs in their respective villages. The WDA meets once in three months. The WDC in turn set up several sub committees namely:

- Sub Committee to supervise treatment of private lands;
- Sub Committee to supervise treatment of common lands

While these two sub-committees will dissolve when the work is over there are others which will continue namely:

- Sub-Committee to monitor repayments, and
- Village Development Committee to manage sanitation, drinking water.

The WDA's function is coordination, problem solving and establishing linkages for inputs and marketing. It also maintains an appropriate but adequate system of records and accounts to which all members have access. This practice they acquired as members of the SAGs.

The following Table indicates the amount of loans taken for treatment on private lands and the activities for which the loans were utilised:

Activity wise Loan Details
Activity For Which Loans Were Used On Private Lands

Sl. No.	Name of the Farmer	Earthen Bund	Boulder Bund	Land Reclaim	Terra-cing	Diversio n Drain	Compost Pit	Total Loan
01.	Puttamadappa	8,128	0	0	0	0	0	8,128
02.	Basavanna	2,950	0	0	12,230	0	0	15,180
03.	Puttaraju	1,250	340	0	6,000	552	200	8,342
04.	Girijamma	1,470	0	450	0	0	0	1,920
05.	Kumba	1,400	1,450	600	0	0	0	3,450
06.	Prabhuswamy	7,205	0	0	2,820	0	0	10,025
07.	Mallanna	2,740	2,630	8,320	0	0	0	13,690
08.	Umesha	0	670	990	0	0	0	1,660

Sl. No.	Name of the Farmer	Earthen Bund	Boulder Bund	Land Reclaim	Terra-cing	Diversion Drain	Compost Pit	Total Loan
09.	Chikka Javaraiah	0	880	1,170	0	0	0	2,050
10.	Veerappa	2,086	0	0	0	0	0	2,086
11.	Kunna Madappa	6,429	0	0	0	300	0	6,729
12.	Siddaiah	0	1,860	3,000	0	0	0	4,860
13.	Umashankar	2,418	2,110	870	0	0	0	5,398
14.	Shivarudrappa	870	0	0	0	0	0	870
15.	Mada	0	120	300	0	0	0	420
16.	Shivamma	1,058	1,840	2,450	0	0	0	5,348
17.	Madaiah	0	1,015	0	0	0	0	1,015
18.	Somanna	2,066	0	0	0	0	0	2,066
19.	Chandrashekar	5,240	0	0	0	0	0	5,240
20.	Mahadeva	2,702	0	0	0	0	0	2,702
21.	Mallanna	1,058	0	0	0	0	0	1,058
22.	Chandrashekar	9,716	0	0	0	0	0	9,716
23.	Basavaraju	2,389	0	0	0	0	0	2,389
24.	Mahesha	4,001	1,660	1,770	0	0	0	7,431
25.	Ten farmers SAG *	2,624	1,700	6,090	0	3,460	0	13,874
26.	Chandra	0	2,330	2,970	0	0	0	5,300
	TOTAL	**67,800**	**18,605**	**28,980**	**21,050**	**4,312**	**200**	**140,947**

*** Note : This SAG comprises 10 Farmers**

The following table gives the loans and recovery position as on 31-12-1997 (Loans taken in 1996)

Sl. No.	Name of the Farmer	Total Amount Loaned	Duration Of Loan	Recovery	Outstanding	Overdue
01.	Puttamadappa	8,128.00	5 years	1,433.00	6,695.00	2,143.00
02.	Basavanna	15,180.00	5 years	3,782.00	11,398.00	2,897.00
03.	Puttaraju	8,342.00	5 years	3,089.00	5,253.00	581.00
04.	Girijamma	1,920.00	5 years	749.00	1,171.00	96.00
05.	Kumba	3,450.00	5 years	1,060.00	2,390.00	458.00
06.	Prabhuswamy	10,025.00	5 years	884.00	9,141.00	3,527.00
07.	Mallanna	13,690.00	5 years	6,130.00	8,560.00	334.00
08.	Umesha	1,660.00	5 years	501.00	1,159.00	229.00
09.	Chikka Javaraiah	2,050.00	5 years	600.00	1,450.00	302.00
10.	Veerappa	2,086.00	5 years	481.00	1,605.00	437.00
11.	Kunna Madappa	6,729.00	5 years	1,745.00	4,984.00	1,216.00
12.	Siddaiah	4860.00	5 years	2,178.00	3,417.00	284.00
13.	Umashankar	5,398.00	5 years	2,375.00	3,373.00	154.00
14.	Shivarudrappa	870.00	5 years	100.00	770.00	283.00
15.	Mada	400.00	5 years	140.00	280.00	45.00
16.	Shivamma	5,348.00	5 years	2,262.00	3,086.00	91.00
17.	Madaiah	1,015.00	5 years	305.00	710.00	142.00
18.	Somanna	2,066.00	5 years	156.00	1,910.00	753.00
19.	Chandrashekar	5,240.00	5 years	735.00	4,505.00	1,571.00
20.	Maadeva	2,702.00	5 years	600.00	2,102.00	589.00
21.	Mallanna	1,058.00	5 years	500.00	558.00	0.00
22.	Chandrashekar	9,716.00	5 years	1,130.00	8,586.00	3,145.00

Sl. No.	Name of the Farmer	Total Amount Loaned	Duration Of Loan	Recovery	Outstanding	Overdue
23.	Basavaraju	2,389.00	5 years	500.00	1,889.00	551.00
24.	Mahesha	7,431.00	5 years	2,759.00	5,095.00	697.00
25.	10 farmers SAG *	13,874.00	5 years	0.00	13,874.00	0.00
26.	Chandra	5300.00	5 years	2,060.00	3,240.00	272.00
	TOTAL	**140,927.00**		**36,254.00**	**107,201.00**	**20,797.00**

*** Note : This SAG comprises 10 farmers**

Though repayments during 1995 and 1996 have been forthcoming, there are also overdues, mainly because the instalment scheduled to be repaid in February 1998 was overdue. During discussions with the farmers in early April 1998, they pointed out that they had not yet sold their maize as they expected prices to rise. The farmers assured the WDA that their overdues would be cleared as soon as the maize was sold.

Loans from WDA (Round Two)

From the recovered amount of Rs.36,254/- an amount of Rs.20,321/- was lent by the WDA in November 1997 to 7 farmers for treatment of private lands as the following Table 6 indicates. This was the first loan given to these 7 farmers. At the time of compiling this case study (April 1998) no repayments have come in, but there are also no over dues; the loans are scheduled for repayment starting in December 1998.

Sl. No.	Name of the Farmer	Total Amount Loaned	Duration of Loan	Recovery	Out-standing	Over-dues
01.	Bhakthavathsala	5,640	5 years	-	5,640	-
02.	Allamaprabhu	1,410	5 years	-	1,410	-
03.	Parvathamma	5,467	5 years	-	5,467	-
04.	Nagappa	3,584	5 years	-	3,584	-
05.	Mallannagowda	2,360	5 years	-	2,360	-
06.	Parashivamurthy	520	5 years	-	520	-
07.	Rachaiah	1,340	5 years	-	1,340	-
	TOTAL	**20,321**			**20,321**	

Loans from WDA (Round Three)

In February 1998, another set of 3 farmers were advanced loans as the following Table 7 indicates; the loans are only 1-2 months old.

Sl. No.	Name of the Farmer	Earthen Bund	Boulder Bund	Land Reclaim	Terra-cing	Diversion Drain	Compost Pit	Total
01.	Siddaiah	0	735.00	0	0	0	0	735.00
02.	Umashankara	0	350.00	0	0	0	0	350.00
03.	Mallanna	0	1,000.00	0	0	0	0	1,000.00
	TOTAL		**2,085.00**					**2,085.00**

As mentioned earlier, 29 members of the WDA were members of 6 SAGs; they continue to remain members of their SAGs even after forming the G.M.Doddi Watershed Development Association (except for the 10 landless members who relocated to Gandhinagar and formed a separate group). The 6 SAGs have played a key role in the development of the watershed by extending loans to the members for the following purposes during the period January 1996 to March 1998. (The loans details include several advanced to the 10 landless members before they formed their own SAG.)

Purpose	No. of Loans
Agricultural	14
Irrigation	1
Consumption (Food, Wedding, Clothes)	16
Health	4
House Repairs	2

The total amount lent by the SAGs is Rs.126,683 of which Rs.54,399 has already been repaid; there are no overdues. Besides providing loans, the SAGs are running 3 weaving units employing about 35 women. MYRADA provided the sheds, the looms were purchased by the families and the inputs and marketing is being provided on an ongoing basis by a small businessman from outside.

Total Investment in the Micro Watershed:

MYRADA grant to SAG/WDA for treatment and plantation on common lands	Rs. 154,886
MYRADA grant to SAG/WDA which the WDA advanced as loans for work on private lands	Rs. 143,455
Loans from SAGs	Rs. 126,683
Total Loans & Grants	**Rs.425,024**

Discussions with the WDA indicated that income from agriculture is the major source of repayment of the WDA loan; however, several families pointed out that they are also able and prepared to repay the loans to the WDA from income derived from weaving and other sources. The following provides information regarding the quantum of work done both on private and common lands as well as the grant and loan components in each activity.

Sl.	Activities	Achievement	Loans	Grants
01.	Earthen Bund	86241 rft	86,241.00	0.00
02.	Boulder Bund	2257 rmt	22,570.00	0.00
03.	Land Reclamation	986 MDs	26,980.00	0.00
04.	Diversion drain	49831 cft	4,312.00	1,044.00
05.	Land Terracing	28313 cft	21,050.00	0.00
06.	Bush Clearance	135 MDs	0.00	4,060.00

Sl.	Activities	Achievement	Loans	Grants
07.	Block Plantation	6700 sdls	0.00	12,510.00
08.	Gully Plug	12 nos	0.00	3,600.00
09.	Silt Traps	4 nos	0.00	93,672.00
10.	Compost Pit	2 nos	200.00	0.00
11.	Bund Plantation	39528 sdls	0.00	40,000.00
			161,353.00	**154,886.00**

Though this case study does not record the increase in income from agriculture, it must be noted that the farmers shifted from cultivating ragi and pursuing sericulture to maize in the non-irrigated areas and vegetables in the irrigated plots. When asked about the sharp decline in area under mulberry and the general fall in sericulture which was the major income generating source till 1990, they replied, that it was very difficult to obtain disease free layings and that in general, recurrent diseases had made sericulture a very risky proposition; they were sharply critical of sericulture programmes run by the Government and supported by bilateral and multilateral organisations.

An interesting case of a widow Shivamma is worth recording. She is a member of the Laxmidevi SAG, which is one of the 6 SAG in which farmers with lands in the G.M.Doddi MWS were and continue to be members. She was landless and worked in the Ardhanaripura MWS. The impact in this MWS encouraged her to make efforts to purchase a plot of cultivable land. She began by taking a loan from the SAG for sheep. In 1996 she sold the sheep for Rs.12,000/-. With this capital she identified 3 acres of land which she decided to buy; the cost however was Rs.25,000/-. She raised this amount in the following manner:

Sale of Sheep	12,000.00
Loan from SAG	2,000.00
Own Savings	5,000.00
Loan from a relative	6,000.00
Total	**25,000.00**

She took a loan of Rs.5,348/- from the WDA in the first round for treatment on her land; she has already repaid a sum of Rs.2,262/-.

In the last three years, 33 micro watersheds have been treated by WMIs in the Huthur Project. In all of them, the SAGs have influenced the members of the WMI to take loans for treatment on private lands. MYRADA provided a total sum of Rs.8.1 million to these WMIs as a grant. Of this amount Rs.4 million was converted a loan to the members by the WMI for treatment measures on private lands and Rs.4 million was given as a grant for work on common lands. The WMIs also availed of the following loans: Rs.6.6 lakhs from the WMIs common fund, Rs.4.8 lakhs from Banks. As a result of this approach, the WMIs now have substantial funds at their disposal to continue with investment in the watershed both for new structures as well as for maintenance and for agricultural inputs. MYRADA has noticed that in watersheds where the WMIs provided loans to the members for work on private lands, the quality improved, the cost decreased and there was significant diversification of crops.

A Concept Paper on Federations of Self Help Groups

(Rural Management Systems - Paper 32)

<u>Editor's Note</u> :
There is a notion that while MYRADA is actively involved in building people's institutions and constantly deliberating on how these institutions can be strengthened and made sustainable, the building of <u>Federations</u> is not on its agenda. This is not true.

MYRADA has been promoting the formation of federations of self-help groups for well over ten years now. However, what is true is that the degree of clarity that exists in MYRADA with regard to primary membership institutions such as self-help groups or watershed development associations did not, until recently, extend to higher level representative-based institutions such as federations. Both in its own work and in the work of others, MYRADA has not fully been able to isolate those structural features that can make a federation a vibrant and functional institution without performing such functions that the primary groups can well perform on their own, or without merely becoming an additional link in the conduit for channelling funds to primary groups.

Our early experiences with federations showed us how quickly they could get politicised, how easily they could come between ourselves and our contacts with the primary groups, and how conveniently they lent themselves to achieving our agenda rather than being built in response to a push from the primary groups. In fact, the push never came. Even now, our work with federations is somewhat one-sided: the efforts are more ours to bring primary groups together than any great need expressed by the primary groups themselves to federate. However, we recognise that this can be true of many development interventions until their value is experienced. It is what has kept us going with regard to federations. But there is a greater consciousness now that (a) federations must provide such services that can strengthen primary groups without themselves becoming power centres, (b) channels of direct communication between MYRADA and the primary groups must continue to be kept open, and (c) federations must be promoted with a view to setting and achieving their own agenda rather than "taking over the functions of MYRADA when MYRADA withdraws"

This Paper is divided into the following sections:

- A brief introduction
- Key questions and concerns in MYRADA on Federations, followed by a brief record of discussions and positions taken with regard to them
- Suggested roles to be played by MYRADA in promoting federations, including some "dos" and "don'ts"
- Some criteria to be adopted in the grading of federations of self-help groups

<u>Introduction</u>

This Paper emerged out of a Workshop held at MYRADA Kamasamudram Project on 10th, 11th, and 12th May 1999 on the subject of **<u>Federations</u>** or ***<u>'Apex Bodies'</u>*** as they used to be known as until now in MYRADA. It was a MYRADA Staff Workshop at which almost all Projects were represented, called in order to resolve prevailing differences of ideas and actions within MYRADA and develop a common perspective with regard to federations.

This Paper does not attempt to describe our work with federations. On the contrary, it provides a framework for what we should do in the future. This framework itself has been shaped by our past experiences and the lessons we have learnt. Though we have not dwelt upon these experiences and lessons in this Paper, we believe other organisations have also encountered difficulties along the way of promoting federations. It is for this reason that we presume to believe that this Paper is worth sharing with others.

Key questions and concerns

The Workshop began with each Project sharing its experiences of promoting federations. At the end of all presentations the common concerns that were listed were:

1. Why are federations needed? Why are we promoting them?
2. What are the activities that a federation must undertake?
3. What should be the size of a federation, and at what level should it be formed?
4. Who should be the members of a federation?
5. What should some of the key management features of a federation be?
6. Should a federation engage in fund-raising? From whom, and for what purpose?
7. What should be the training imparted to federations?
8. Should the registration of federations be promoted?
9. How can a federation establish credibility and legitimacy for itself?
10. What should MYRADA's role be in the promotion and development of federations?

These questions were discussed in sub-groups and presented in the plenary. At the plenary there were further discussions, and the positions that were finally accepted by all Projects now constitute MYRADA's approach to federations:

<u>Key questions</u>	**<u>Positions accepted</u>**	**<u>Remarks</u>**
Why are federations needed? Why are we promoting them? Every time we ask ourselves this question the answer points to federations as some kind of an alternative to MYRADA: *"When MYRADA withdraws the federation can continue to perform many of the functions earlier performed by MYRADA".* It was brought up at the Workshop that this reason was not good enough. Federations had to be seen as institutions in their own right and not merely as a replacement for MYRADA. Therefore, our reasons for promoting federations had to be more positive.	The following were accepted as reasons for promoting federations : 1. For strengthening SHGs through providing a forum for regular interaction and networking 2. For information dissemination to SHGs 3. For undertaking such activities that benefit the SHGs and communities but cannot be taken up by individual SHGs on their own	It was agreed right at the beginning that federations could be of various types but what we were deliberating on were clearly FEDERATIONS OF SHGs ONLY.
What are the activities that a federation must undertake? It was felt that to be a functional and sustainable institution, the activities of federations had to be CONCRETE, INTERESTING, and USEFUL to the SHGs and communities	1. Regular review of the functioning of member SHGs 2. Strengthen SHGs through ideas, suggestions, visits, exposures, audits, training, etc. 3. Collect and disseminate relevant, useful, and interesting information to SHGs (at monthly meetings, through newsletters, etc.) 4. Take up activities of benefit to member SHGs & communities 5. Take up activities that strengthen the federations themselves <u>It was agreed that federations should not be encouraged to take on such functions that the individual SHGs could perform on their own</u>.	

Key questions	Positions accepted	Remarks
What should be the size of a federation, and at what level should it be formed? Discussions centred around MYRADA's experiences with federations until now, and the fact that we were talking here of federations of SHGs only, and not of any other kind	1. It was decided that at this time we would encourage federations with a membership of not less than 10 and not more than 20 SHGs 2. It was decided that federations that were already in existence and had more than 20 SHGs as members would not be broken down unless absolutely necessary. 3. It was decided that, if necessary, higher level federations (i.e. federation of federations) could be promoted at a later date. However, the reasons for forming such apex federations would have to be clearly thought out, and their activities would need to be well-defined	The reasons for keeping the federations to a maximum of 20 SHGs was a management decision taken with a view to ensure maximum participation through keeping the size and scale of activities manageable.
Who should be the members of a federation? Discussions centred around MYRADA's experiences with federations until now, and the fact that we were talking here of federations of SHGs only, and not of any other kind	1. Groups that have the features of SHGs and have functioned as SHGs for atleast 6 months prior to joining the federation 2. SHGs will attend federation meetings for six months as observers before being granted membership 3. Membership in federations promoted by MYRADA will be open not only to SHGs promoted by MYRADA but other SHGs as well, on the same conditions as mentioned above	Key features of SHGs • Stable & voluntary membership of 20 members or less • Regular meetings attended by all members • Regular savings by all members • Building up of Common Fund • Bank account in the name of the group • Credit transactions from the Common Fund • Maintenance of books and documents • Rules and regulations for proper governance • Rotation of leadership roles • "Credit-plus" roles

Key questions	**Positions accepted**	**Remarks**
What should some of the key management features of a federation be? This was discussed under the following sub-heads : • *Terminology* • *Ensuring continuity* • *Meetings* • *Rules and Regulations* • *Responsibility-sharing* • *Books and documents* • *Appraisal, monitoring, and evaluation* *Ensuring continuity* :	*Terminology* : 1. It was decided to henceforth refer to these institutions as FEDERATIONS, and not 'Apex Bodies' 2. It was decided stop using words like 'Share Capital' and 'Savings' since they were wrongly being used anyway. Instead, 'Contributions' could be the word used for financial collections made from SHGs. It was decided to promote the following : 1. Training of all Self Help Group members on the basic concept and roles of federations and themselves as members 2. Federation meetings to be attended by 2 members from each SHG for a 2-year term per member, with one member of the pair retiring every alternate year. (In federations that are 4 years or older, one member per SHG to attend compulsorily; the second member is optional. This is because by then all the SHG members have a fairly clear idea of the functioning of the federation) 3. Federation Meeting Minutes to be circulated to all member SHGs, and discussion of these Minutes to be on the agenda of each member Self Help Group 4. SHGs to be encouraged to send agenda points for discussions at federation meetings	Federation implies a union with autonomy for the individual units that constitute the union; Apex implies a hierarchical structure where the unit at the top has power over those below. There are no shares or savings in the federations we have promoted so far. In the matter of ensuring continuity, the concern was to ensure that all SHGs were aware of all the activities of the federation so that even when persons representing an SHG at the federation changed, there would not be a gap in understanding.
Meetings :	It was decided that federations should meet regularly, once a month, preferably on a fixed date and at a fixed venue. It was decided that every	

Key questions	Positions accepted	Remarks
Rules & Regulations: *Responsibility-sharing* : *Books & Documents*: *Monitoring and Evaluation* :	federation must have certain basic rules and regulations for governance that are written down, known to all member SHGs and accepted by all member SHGs 1. Rotation of cheque signatories each year 2. Maximum opportunities for sharing responsibilities to be promoted through forming appropriate Task Forces for the various activities to be taken up. The following books are to be compulsorily maintained : • Minutes Book • Cash Book • General Ledger • Receipt and Payment Vouchers Maintenance of other books and documents will depend on needs and activities. 1. The federation will prepare a Monthly Financial Statement (MFS) each month 2. The work of the federation to be reviewed at each monthly meeting 3. An appraisal of performance to be done once a year, against established targets and indicators 4. An annual get-together of all members from all member SHGs where certain basic information on the performance of the federation will be compulsorily be shared	Task Forces could also draw upon the talents of the other SHG members and not necessarily be limited to the SHGs' designated representatives to the federation.
Should a federation engage in fund-raising? From whom, and for what purpose? Discussions were mainly derived from MYRADA's past experiences with federations collecting (what they wrongly	It was decided to promote the following means for building up the funds of federations : 1. Membership / Admission fees as a one-time payment from member SHGs	Federations require funds to meet their own operating costs. Even with a limited range of activities, they still need money to open a bank account, purchase

Key questions	Positions accepted	Remarks
termed as) savings and share capital, revolving funds given from MYRADA itself for onlending to member SHGs, and so on.	2. Monthly contributions from member SHGs : a fixed amount to be collected each month 3. Fines from member SHGs for violations of rules, etc. 4. Bank interest earned on the account of the federation 5. Donations from any source 6. Contributions from other institutions for programmes within the scope of the federation's objectives 7. Service charges (when the federation's services are used for any work) 8. Income earned from any income generating programme taken up by the federation	books of accounts, files, stationery, etc., pay a bookwriter, host tea for members at federation meetings, meet travel expenses, and so on. It was decided that they ought not to depend on grants from MYRADA for such expenses. In fact, most of these expenses are already being met by them out of their own funds, and this should be encouraged to the maximum.
What should be the training imparted to federations?	It was decided that training would be at two levels : <u>At the SHG level</u> : One training session per SHG for all SHG members on the concept of federations, roles of federations, and their own roles as members <u>At the federation level</u> 3 to 4 training programmes attended by all federation level representatives on key topics related to the efficient functioning of federations	The details of the training topics for the federation level have not been included in this Paper since they still have to be finalised. The point to note is that in addition to attending SHG meetings, SHG training programmes, SHG and Task Force activities, and their own day to day work, we cannot expect these persons to spend a lot of time attending federation level training programmes as well.

Key questions	Positions accepted	Remarks
		Hence, it is important to keep these trainings to a few absolutely necessary sessions
Should the registration of federations be promoted? This issue was discussed only briefly from the point of view of both merits and demerits of being legally registered	It was decided that at this point, MYRADA would not actively promote the legal registration of federations. However, if they took the initiative on their own to be registered, they could go ahead with it	Though the legal registration of federations will not be on the agenda at this point in time, the federations will be oriented to follow all good practices that are needed of a registered body, including audits
How can a federation establish credibility and legitimacy for itself? This point actually emerged out of an interesting discussion on why our SHGs were known in their communities and enjoyed a good status while federations were largely unknown to anyone beyond their own members.	Concluding that in order to be sustainable a federation should establish credibility and legitimacy for itself not only in the eyes of member SHGs but also in the community, it was decided that the following factors would definitely contribute in this process : • By attaining the features of an organisation • By showing good results in relation to objectives • By building good relations with as many institutions as possible	<u>Features of an Organisation</u> : 1. Vision & Mission 2. Organisational Management Systems 3. Organisational Accountability 4. Financial Management Systems 5. Linkages 6. Learning and Evaluation Systems

What should MYRADA's role be in the promotion and development of federations ?
After much discussion, the following decisions were taken :

Stage	Approximate duration	MYRADA's role
Preparatory	6 months (prior to formation of the federation)	• Discussions at SHG level on federation • Training at SHG level on concept and roles of federations and their own roles as members • Selection of SHG representatives to the federation, and orientation to the selected representatives
Formation	0 - 6 months	• Facilitate framing of Vision, Mission, Goals

		• Facilitate framing of rules and regulations, activity plans, and clarify functions, roles and responsibilities of federation and members
Stabilization	6 - 24 months	• Capacity building inputs • Facilitate processes on how to operationalise activity plans in accordance with Vision and Mission • Facilitate building linkages with other institutions • Facilitate establishment of documentation, financial management systems, and audits
Phasing out	25 - 36 months	• Continue to attend federation meetings periodically and facilitate federation strengthening processes • Participatory evaluation
Withdrawal	After 36 months	• Occasional "friendly" appearances at meetings and events organised by the federation

Regular involvement of MYRADA	:	Upto 24 months
Partial involvement	:	25 to 36 months
"Friendly" appearances	:	After 36 months

Some DOs and DON'Ts for MYRADA :

What to encourage (a quick checklist of essentials)	**What not to encourage**
Circulation of federation meeting Minutes to all member SHGs	Do not : use the federation to achieve our agenda
Responsibility sharing among all member SHGs	Do not : pay travel costs and food costs of members attending federation meetings (this can become a habit and a pre-condition for attending meetings)
Periodic audits and sharing of audit findings with member SHGs	Do not : take the responsibility for calling federation meetings
Planning of all activities with focus on Vision, Mission, and Goals	Do not : host federation meetings on our Project premises (our experience shows that they will expect us to make all the arrangements including cleaning up after the meeting)

Periodic assessment of achievements against plans	<u>Do not</u> : get involved in decision making on behalf of the federation
Training programmes to strengthen the federation	<u>Do not</u> : hold or write the books and documents of the federation
	<u>Do not</u> : be a signatory to the federation account
	<u>Do not</u> : pay faculty charges, service fees, etc. directly to federation members, if engaging them as resource persons. Discuss with the federation and pay the federation directly; the federation can then pay the concerned individuals
	<u>Do not</u> : give subsidies/grants to the federation (except under special circumstances that are clearly discussed at the Project level and with Programme Officer)
	<u>Do not</u> : encourage the federation to perform any activity that can well be performed by individual SHGs - including collecting savings, giving loans, etc. (the issue of raising funds and lending to SHGs for on lending to individuals is still being debated)

The final session of the Workshop dwelt on developing clear-cut criteria for the grading of federations. Holalkere and Kamasamudram Projects shared the detailed documents they had earlier prepared on the same topic. The Workshop participants decided that grading could be categorised under the 'Six Features of an Organisation'. Accordingly, the following table was developed. ***This is just a first attempt and is intended to be further developed and improved***:

<u>Grading Criteria for Federations of Self-help Groups</u>		
<u>Criteria</u>	**<u>Indicators</u>**	**<u>Means of Verification</u>**
<u>Vision and Mission</u>		
Vision and Mission	Developed by the federation and known to all at the federation level as well as at	• Written Vision and Mission Statements • Minutes Book

Grading Criteria for Federations of Self-help Groups		
Criteria	**Indicators**	**Means of Verification**
	the level of all the member SHGs	• Interactions with members
Goals and Activities	Framed in consonance with the Vision and Mission	• Minutes Book • Action plans and reports • Discussions with members •
Organisational Management		
Size	Not less than 10 and not more than 20 SHGs (20 to 40 representatives at the rate of 2 members per SHG)	• Admission Register • Attendance Book
Meetings	Regular meetings as per schedule (preferably atleast one meeting per month)	• Minutes Book • Attendance Book
Attendance at meetings	All member SHGs are represented at all meetings (atleast 80% attendance at any given meeting)	• Attendance Book • Minutes Book
Rules and Regulations	Framed by the federations with the acceptance of all member SHGs, and known to all concerned. Maintained and followed, with penalties for violations of rules	• Minutes Books • Written copies of rules and regulations • Fines collected, etc. as penalties for violation • Discussions with members •
Sharing of responsibilities	Task forces formed and functioning, with different members taking the lead in different things	• Interactions with federation representatives and SHG members • Minutes Book
Financial Management		
Bank account	Bank account opened in the name of the federation	• Bank pass book
Fund raising	Funds mobilised from different sources	• Minutes Book • Accounts books & documents • Interactions with members
Fund utilisation	Proposed activities taken up following proper procedures	• Accounts books & documents • Discussions with members

Grading Criteria for Federations of Self-help Groups		
Criteria	**Indicators**	**Means of Verification**
		• Discussions with others
Book keeping	All books (listed elsewhere) maintained on their own and kept up-to-date	• Verification of books
Auditing, reporting, and follow-up	Annual audits conducted, reports shared and follow-up action taken	• Audit reports • Discussions with members • Minutes Book
Organisational Accountability		
Rotation of representatives	Regular change of representatives according to guidelines, including annual change of cheque signatories	• Minutes Book • Interactions with members • Bank documentation
Sharing of information	Activities of the federation known to all members, as well as to donation-givers and other stakeholders	• Circulation of federation meeting Minutes • Discussions with members and other stakeholders • Evidence of reports circulated to others, if any • Evidence of any annual gatherings organised to share the work of the federations with others
Distribution of benefits (if any such programme taken up)	Distributed according to established conditions and procedures (not cornered by a few more powerful members)	• Minutes Book • Accounts books & documents • Discussions with members
Linkages		
Linkages with other institutions	Established good relations with member SHGs, other federations, other local level institutions, technical and financial resource institutions, etc. in keeping with Vision, Mission, and Goals	• Minutes Book • Interactions with federation representatives and member SHGs • Interactions with other institutions • Evidence of resources mobilised (accounts books)
Learning and Evaluation		
Work reviews and performance appraisal	Regular review of activities during meetings Annual review of activities in relation to action plans Obtaining feedback from member SHGs and others on the performance of the	• Minutes Book • Interactions with members and others • Annual review reports, performance appraisal reports, etc., if any

Grading Criteria for Federations of Self-help Groups		
Criteria	**Indicators**	**Means of Verification**
	federation	
Training programmes	Good initiatives shown to solicit training programmes and attend training programmes	• Correspondence • Training records • Discussions with members

With this, the Workshop came to a close. Plans are being made to share these discussions with all the other Project Staff not present at these discussions, and initiate appropriate action.

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INCENTIVES FOR SAVINGS

Several Affinity Groups have attempted, since 1997, to distribute to their members a part of the interest earned from loans. The reasons were to encourage members to save more, to increase their share in the common fund and to respond to requests from members to adopt policies similar to the financial institutions where their savings were earning interest. About 200 groups are now adopting this practice. The formula used differs, but there are a few which have become popular since they meet with the expectations of the members and are comparatively easy to administer. Here are a few examples of the formula adopted which have worked.

1. Dharmapuri Project:

Formula: 50% of net income (Income – Expenditure) x Individual savings
Total SHG savings
Note: Challakere Project affinity groups have also adopted this formula.

Income Taken For Calculation:
1. Interest earned on SHG loans
2. Fines
3. Bank Interest
4. Donations
5. Cash awards given by external agencies and visitors
6. Any grant received

Expenditure Taken For Calculation:
The following expenditure was taken into account for deduction from the gross income of the affinity groups.
1. Honoraria to book writers
2. Stationery
3. Travel
4. Auditors fee
5. Contribution to Federation or Apex Body
6. Community Action Programmes
7. Visitors
8. Social functions
9. Penalty paid by the SHG

Criteria For Selection Of SHGs:
Groups, which met with the following criteria, were selected to initiate this pilot experiment.
1. The age of the group should be 5 years and above from the date of lending and repayment.
2. The repayment performance should average 85% at least.
3. External loan repayment (to the Banks) should not average below 98%.

4. Attendance at meetings of each member should average 90% during the previous 12 months.
5. There should be sufficient funds in the group for meeting the loan demand.
6. The group should be willing to reassess itself according to these criteria once in 3 years.

The following is an example of the dividend earned by one Affinity Group (Mahalaxmi MM, Pattanur) in Dharmapuri Project.

$$\frac{\text{50\% of net income x individual savings}}{\text{Total SHG savings}} =$$

Net income after deductions	Income	=	Rs.103,584.50
50% of net income		=	Rs.51,792.00
Total Savings		=	Rs.81,865.00

Based on the above formulae each member of the group received:

Sl. #	Name of Member	Calculation	Dividend Paid (In Rs.)
1.	Panchali	$\frac{51792}{81865} \times 3320 =$	2,100
2.	Govindammal	$\frac{51792}{81865} \times 3365 =$	2,128
3.	Kaveriyammal	$\frac{51792}{81865} \times 3690 =$	2,334
4.	Parvathi	$\frac{51792}{81865} \times 3690 =$	2,334
5.	Muthammal	$\frac{51792}{81865} \times 3605 =$	2,281
6.	N. Laxmi	$\frac{51792}{81865} \times 3960 =$	2,505
7.	Rathna	$\frac{51792}{81865} \times 3700 =$	2,341
8.	A. Laxmi	$\frac{51792}{81865} \times 3760 =$	2,379
9.	Chandra	$\frac{51792}{81865} \times 3510 =$	2,221
10.	R. Kaveriyammal	$\frac{51792}{81865} \times 3250 =$	2,056
11.	Ellammal	$\frac{51792}{81865} \times 2830 =$	1,790
12.	Kaveriammal	$\frac{51792}{81865} \times 3155 =$	1,996
13.	Mariyammal	$\frac{51792}{81865} \times 3800 =$	2,468
14.	Jeya	$\frac{51792}{81865} \times 3830 =$	2,423

Sl. #	Name of Member	Calculation	Dividend Paid (In Rs.)
15.	Saraswathi	51792 x 2380 = 81865	1,505
16.	P. Laxmi	51792 x 3590 = 81865	2,271
17.	Mari	51792 x 4010 = 81865	2,537
18.	Palani	51792 x 4280 = 81865	2,708
19.	Thulasi	51792 x 3475 = 81865	2,199
20.	Janaki	51792 x 3245 = 81865	2,053
21.	Venkatammal	51792 x 3220 = 81865	2,037
22.	Kannammal	51792 x 2620 = 81865	1,658
23.	Vediammal	51792 x 2870 = 81865	1,816
24.	Chandrakantha	51792 x 2610 = 81865	1,651
	Total		**51,791**

2. Kamasamudram:

In Kamasamudram, the most popular formula was a simpler one. The Affinity Groups decided to pay a dividend of 5% on the total savings, provided the amount saved was above Rs.1500/- some groups later withdrew this ceiling. The three affinity groups included in the MYRADA study have all started giving dividends on savings.

Rani Abbakka Mahila Sangha:

Sl. #	Name of Member	Savings as of December 1999	Interest	Remarks
1.	M. Kumari	2,535	127	
2.	Ramakka	1,940	97	
3.	Parvathamma	1,300	0	
4.	Shakuntalamma	5,720	286	
5.	Salamma	5,115	256	
6.	Sarasamma	2,605	130	
7.	C. Shanthamma	2,335	117	
8.	Meramma	2,695	135	
9.	Nanjamma	2,140	107	
10.	Ganamma	3,350	167	
11.	Venkatalakshmamma	3,350	167	
12.	Shanthamma	2,395	120	
13.	Papamma	2,620	131	

Sl. #	Name of Member	Savings as of December 1999	Interest	Remarks
14.	Muniyamma	2,290	114	
15.	Tayamma	1,800	90	
16.	D. Venkatamma	2,365	118	
17.	C. Venkatamma	5,305	265	
18.	Sujathamma	2,675	134	
19.	Munirathnamma	2,525	126	
20.	Narayanamma	2,930	146	
21.	Manjamma	1,330	0	New admission
22.	Manjulamma	810	0	New admission
	Total	**60,130**	**2,833**	

Shanthi Mahila Sangha:

Sl. #	Name of Member	Savings as of December 1999	Interest
1.	Shamsun	1,578	79
2.	Gowramma	2,319	116
3.	Seethamma	2,450	122
4.	Shanthamma	4,453	223
5.	D. Munirathnamma	1,720	86
6.	Bhairamma	3,147	157
7.	R. Munirathnamma	2,820	141
8.	Kanthamma	2,265	113
9.	Amaramma	1,723	86
	Total	**22,475**	**1,123**

Nethravathi Mahila Sangha:

Sl. #	Name of Member	Savings as of December 1999	Interest
1.	Menasamma	1,610	81
2.	Chandramma	2,015	98
3.	Parvathamma	2,731	128
4.	B. Rajamma	2,312	107
5.	G. Rajamma	2,950	147
6.	S. Kamalamma	2,525	126
7.	Akkamma	3,234	155
8.	C. Muniyamma	1,887	94
9.	Munivenkatamma	1,975	97
10.	Sarasamma	2,299	115
11.	K. Muniyamma	2,208	105
12.	Rathnamma	1,850	93

Sl. #	Name of Member	Savings as of December 1999	Interest
13.	R. Muniyamma	2,869	143
14.	Sakamma	2,095	105
15.	Hittamma	2,091	105
16.	Padma	1,950	94
17.	Thimmakka	1,500	75
	Total	**38,101**	**1,868**

Impact Of Providing Dividend On Savings:
A survey conducted by MYRADA of members in groups where the payment of dividend was practised indicates the following:

– The amount of savings in the personal accounts of members in the Banks has decreased, while there is an increase in the common fund of the group through an increase in savings.

– The demand to withdraw savings has decreased considerably and in most groups has not occurred; this demand was made when members decided that they had saved enough and wanted to utilise their total savings. After withdrawing the amount, they would start to save again; this practice was not appreciated by the group.

– Members interest and ownership in group affairs increased.

– Those members who had not acquired the regular savings habit became motivated to save by cutting down on non-essential expenditure. They felt that they had to "keep up" with the others who had not only saved but had been 'rewarded' for their efforts through the dividend.

– Competition between the affinity groups to increase savings and pay dividend has increased.

– Over dues decreased significantly.

– The respect for the affinity group offering dividend has increased in the village.

– Members are more interested in knowing and discussing financial matters and management.

Aloysius P. Fernandez

IS MICRO CREDIT HEADING TOWARDS A MACRO MESS?

By Aloysius P. Fernandez

Imagine an innovative effort, hailed as the panacea for all evils afflicting the poor, becoming problem ridden itself and desperately crying out for reforms? This is precisely the situation that the micro credit sector seems to have landed itself in – several years after the world saw it as the magic elixir that would alleviate poverty.

Although the terminologies may be modern, NGO initiated micro credit in its various forms has existed for over a century in this part of the world. There were the credit cooperatives of Chota Nagpur area and then the famous Gujarat experiments. These were primarily cooperatives or banks that functioned according to norms laid down by the official system. Initially intended to be flexible and more of an alternate system, they were soon made to comply with and resemble the official system over time.

Around 1984, MYRADA undertook several studies related to the structural causes of rural poverty. A majority of the rural poor depended heavily on credit and unavailability of the same caused many to lose land and also their failure to build up capital. This further increased their dependence on those few who had several sources of income, resulting in the spread of risks involved in dryland agriculture. On the other hand, the official institutions dispensing credit were subject to political decisions and pressures, lack of capital and initiative, inappropriate credit policies and norms and a general sense of decay. Realising the need to respond to this situation, MYRADA decided to foster an alternative credit system owned and managed by the poor. MYRADA's initiative started in 1984; it fostered an alternate credit system managed by small groups which were called Credit Management Groups till NABARD proffered a grant in 1987; after which the name changed to Self-Help Groups (SHGs) build around a degree of "affinity" among the members. As these SHGs grew in confidence and became agents of change, they attracted the label of "CREDIT PLUS" institutions.

This model was based on three pillars. *The NGO* was to identify the affinity group and train it; *NABARD* was to provide the NGO (MYRADA in this case) with funds under its R & D programme to match the savings of the Credit Management Groups (CMGs - the precursors of the Self-Help Groups). The Banks were intended to come into the picture if the pilot project succeeded. Their role would be to extend a line of credit to the CMGs/SHGs without asking for the purpose of the loan that was to be extended to the individual members. Official norms related to viability and "unit costs" would not be imposed and the groups could lend for any purpose including for various types of "consumption", without any ceiling on the interest rates. The CMGs/SHGs could decide whether to be formally registered or not and in either case they had to abide by a set of norms which are required for any organisation to grow and survive. MYRADA assisted each group to develop these norms. The CMGs/SHGs started with regular savings, deposited in a group common fund from which they advanced loans and managed repayments for at least 6 months before outside funds were offered.

Each of these three pillars had their respective comparative advantages. MYRADA gained experience in identifying affinity groups and in training CMGs/SHGs, NABARD had the funds and could influence policy throughout the rural banking sector; the Banks had the expertise to assess whether each CMG/SHG was an institution, which could be considered as a sound investment opportunity. The CMGs/SHGs that are functioning well are those that have benefited from the comparative advantages of these three pillars.

In the following years (1987 – 1990) MYRADA continued to foster SHGs in all its projects covering three states and to match their savings with the NABARD grant. NABARD conducted several studies of the pilot during the years 1989 and 1990; the major one was an assessment of transaction costs to the Bank and the borrower under the SHG model and to compare it with other models of credit delivery operating under the Government sponsored programmes. These studies, which showed clearly that the SHG-Bank Linkage model was by far the most, cost effective, resulted in the RBI's policy of 1990 allowing and encouraging the Banks to promote a Linkage Programme and the NABARD Guidelines of 1991 which provided a framework for operations. Regular meetings convoked by NABARD Head Office as well as at the State levels, particularly in Karnataka, helped to update and streamline these guidelines. NABARD also organised training for Bank Managers and offered to refinance all loans given by Banks to SHGs.

There was much criticism of the linkage programmes though for being too slow. By December 31, 1993 only 124 groups were linked and only 13 banks were involved. A suggestion was made to replicate the Bangla Desh Grameen Bank Model in India.

While agreeing that progress was slow and stepping up the training and promotion programme in the Banking Sector along with NABARD, MYRADA however, pointed out that India had 196 Grameen banks older than the Bangla Desh model. They were started to provide low cost credit, to be easily accessible to the rural poor and to be flexible enough to meet people's needs. A variety of maladies ranging from staff agitation for equal packages with the Commercial Bank staff, the general lack of commitment to go to the people, excessive politicisation, poor leadership at the Bank and unrealistic credit norms set by the Government crippled these banks though. As such, the answer was not to set up a new Bank, but an alternate system that functioned with its own rules and regulations and which was supported by the official one. In support of this strategy, MYRADA also pointed out that the existing banking structure in this country particularly in the Southern and Western states was far more functional and widespread when compared to the banking infrastructure in Bangla Desh. There are 14,547 branches of the Regional Rural Banks in the rural areas, 32,933 rural and 13,758 semi-rural branches of Commercial banks. Why not put this extensive system to effective use to support the initiatives of the poor? Why not adopt a model of rural credit that was an empowering one, namely one which was designed by the poor and controlled by them? Further, why not mainstream it – not by imposing the rules and regulations of the official system on the alternate one, but by recognising and respecting the systems that the people had a hand in developing?

MYRADA realised that the strategy to achieve its objectives required not just discussion at higher levels for the financial system but; (i) a large number of successful SHGs; (ii) exposure of senior officials of these SHGs so that they have confidence to change policy; (iii) an extensive training programme for officers and staff who are expected to implement policy.

After 1994, the sector saw the advent of big players like the World Bank, through its Consultative Group to Assist the Poorest (CGAP, 1995-6), and the Government of India through the Budget of 1998-9 that accepted the Self-Help Groups strategy (which is broader than the SHG-Bank linkage strategy) and set a target of promoting two lakh SHGs. The World Bank had always expressed a fondness for the Grameen bank of Bangla Desh. In fact it tends to operate as the lender of last resort to the Grameen Bank. The same is true of a few high profile officials of the Government of India; on one occasion this writer was summarily informed that starting a clone of the Grameen Bank would be the best approach. While he did not comply, several other NGOs did and some have subsequently been supported by the CGAP.

Under pressure to expand, NABARD also promoted another model where Banks were encouraged to lend to NGOs for on lending to SHGs. The Rashtriya Mahila Kosh (RMK) also came up during this period; its pattern was similar – lending to NGOs for on-lending to SHGs. SIDBI is the largest entrant. In general, therefore two models are being promoted; one the SHG-Bank Linkage Model (which MYRADA continues to call the Indian Model) where Banks lend directly to the SHGs after they are identified and trained by NGOs, and the other – the On-Lending Model (unfortunately also called the SHG-Bank Linkage Model) where Banks (and other financial bodies like the RMK) lend to NGOs for on-lending to groups.

There are differences between the two models and even with practitioners of the second model with regard to norms governing the rates of interest, restrictions on the purpose of loans and of late the trend to encourage large size loans among some institutions. Though a variety of models should be encouraged to develop, the financial scenario is now so diverse as to reach a point of becoming confusing for the ultimate user.

Another major area where confusion is at a premium is the difference between MYRADA's concept of SHGs and several others being promoted. MYRADA's SHGs (particularly those formed after 1987-8) are based on affinity. Affinity already existed among the members before MYRADA's interventions; MYRADA identifies it and builds on it. These affinity groups have the following features; they are small, generally homogenous and voluntary. Large groups (above 20) pulled together and based on criteria set by intervening organisations and official programmes (where affinity did not exist among the members) are also being called SHGs. They require regular support from the NGO in order to survive. Several of the CMGs started by MYRADA in the 80s were so large; these either broke down into smaller affinity groups or disappeared. Some of the CMGs were also treated as implementers of programmes (this happened largely in projects supported by PLAN International); these too remained weak. The latest fashion is to rename DWCRA groups as SHGs without providing the training required and building the culture of self-help; this helps to achieve the target set by the Government but not much more.

All these high profile initiatives have jointly contributed to the emergence of a fairly chaotic scenario, as mentioned earlier. Thousands of NGOs have become Financial Intermediaries (FIs). They cannot be called Micro Finance Institutions (MFIs). In fact of the 19,000 SHGs reported by NABARD, which are involved in the Self-Help Groups-Bank Linkage programme, over 38% of the SHGs included are not directly related to the Banks but to NGOs. The number of groups linked to NGOs is in fact far larger since RMK, SIDBI and other financial institutions have all adopted this model. This raises several concerns:

1. **Can NGOs operate effectively as Financial Intermediaries (FI)?** NGOs are normally agents of change. Further, most of the NGOs involved in the on-lending pattern have been in existence for several years before micro credit came into their lives. They have therefore developed a culture of their own, which, in most cases, was not conditioned by the exigencies of managing a micro credit programme. The FI in contrast enters into a debtor-creditor relationship with the borrower. The dynamics involved in this relationship do not jell with those that an agent of change needs to foster.

2. **Secondly, the systems of financial administration in NGOs are usually not appropriate to manage the transactions of the FI.** None of the training programmes offered to the NGOs involved as FI's, offer separate modules to train NGOs to cope with the transactions of FI's.

3. Thirdly, Bankers have the experience of assessing whether the SHG is a "good" investment or not. **NGOs do not have the training or experience to assess the level of risk involved;** further, they have formed the group and usually have a "parental" attitude towards it; this makes it difficult to assess the group from the angle of an investment opportunity. Many also point out that the NGO image is "soft"; people are accustomed to receiving grants from an NGO, particularly if the NGO involved has operated in the area for several years before it ventured into micro credit.

The general conclusion, therefore is that NGOs as a rule are not structurally built to operate effectively as FI's.

To encourage them to do so, without adequate and timely support is certainly a recipe for disaster.

Key Issues:

- Can NGOs operate effectively as Financial Intermediaries (FI)?

- Are systems of financial administration in NGOs appropriate to manage the transactions of an FI?

- Are NGOs structurally built to operate effectively as FI's?

- Apart from these structural concerns, there are several others, which could add to the general mayhem. For example:

    - NGOs registered under the Societies Registration Act are mobilising loans and grants from financial institutions, lending directly to groups or individuals and requiring the borrower to place a deposit with them. Can and should they continue to be registered as NGOs? Many of these NGOs have come into existence only to function as FI's. Unlike the other group of NGOs who have several other activities, the major activity of this group of NGOs is that of a Financial Intermediary.

    - The general opinion is that such NGOs which operate mainly as FI's, whether they mobilise deposits or not, should be registered as NBFCs. To mobilise deposits which are truly voluntary, (namely not from borrowers) they need not only a clearance from the RBI but credibility with the public. This credibility is not built up in a day. With no lender of last resort to bail them out, it is questionable whether they will ever build up the level of credibility required to mobilise public deposits. Yet there is no doubt that they are meeting a genuine need and must be guided and supported. This support must come in the form of an enabling framework, rather than a panic reaction caused by the failure of one of them; such a reaction would smother all such initiatives.

- Spurred on by the huge unmet demand for credit several NBFCs have sprung up during the past 3 years. These organisations have a genuine claim to be called Micro Finance Institutions (MFIs). They have been started by professionals motivated to provide credit in areas where the official system is weak as well as to the poor who cannot or do not access the official Banking/Cooperative Sectors. These NBFCs mobilise grants or loans from various institutions and on-lend to groups and individuals.

    They can be divided into two groups:

    1. Those registered as NBFCs for profit. In this case the Directors have invested in the NBFC and are therefore entitled to a share of the profits. The question is whether such NBFCs are entitled to get exemption under Section 12A of the Income Tax Act which exempts all grants to them from tax (which would otherwise be around 30%). The general opinion is that these should not be clubbed for Income Tax purposes with the next category.
    2. Those registered as NBFCs but not for profit. All surplus is ploughed back into the NBFC; the Directors do not make any profit nor do they receive any salary.

The general opinion is that these NBFCs are eligible for exemption under Section 12A of the Income Tax Act. Their interest rates also tend to be much lower than in the NBFCs operating for profit.

- The problem that is common to both the above groups is that the Income Tax Department considers that neither is eligible for exemption under Section 12A because they charge interest. This needs to be reviewed.

Clearly the need for a well-defined system to regulate and supervise Financial Intermediaries and Micro Finance Institutions cannot be denied even by the most ardent supported of laizze faire. Whether this mechanism is self-regulatory or otherwise is still being debated. Several have suggested that NBFCs for profit relate finally with the RBI. Opinion is also gaining ground that all NGOs registered under the Societies Registration Act but whose primary function is Micro Finance, whether they are mobilising deposits from borrowers or not, should register as NBFCs and come under the purview of the RBI. If their primary (and usually sole) function is micro finance they should move towards mobilising deposits at least from borrowers. Other NGOs who are on-lending but not taking deposits - and several NGOs fall in this category since they on-lend to SHGs, do not need to relate with the RBI. In this case, NABARD could be entrusted with the responsibility of supervision and regulation.

To summarise, our desire for increased outreach and targets should not make us forget the basics. The success of micro-finance lies primarily with the social intermediation carried out by NGOs.

Without this social intermediation, micro finance would not have been able to report the phenomenal repayment rates that they are reporting today. Specialised social capacity building has indeed enabled the creation of peer guarantee mechanisms, which in turn, have controlled delinquency to a large measure.

Therefore, the focus on sustainability and target orientation should not divert attention away from investment in social capital, without which micro finance would have certainly come a cropper.

And if this were to happen, micro credit in India could really turn out into a macro mess.