

MYRADA

Rural Management Systems Series
Paper - 63

No.2, Service Road
Domlur Layout
BANGALORE 560 071. INDIA.
Telephone : 25352028, 25353166, 25354457
Fax : ++91-80-25350982
E-mail : myrada@myrada.org
Website : <http://www.myrada.org>

SAGs, JLGs and Suicides Aloysius P. Fernandez March 28,2011

Dipika pushed The Hindu under my nose early in the morning of March 25: " Look... another suicide - this time in Mandya - and all because of your micro credit". Rani a 28 year old from Hanakere Village was unable to return a total of Rs 835 every week to two MFIs, so she consumed poison.... together with several others during the week who had problems in exams, schools, in the family and on the farm. I was not surprised because all lack adequate support services to cope with increased risk or stress. But what shook me was her next observation: "I have heard you mentioning Self Help Affinity Groups formed by Myrada for the past 20 years...they gave thousands of loans ...but there were no suicides; that's probably why Myrada never got any media publicity". Well I said lamely: "The SAGs must have done something good" - and changed the subject.

But it did trigger off this piece: a) to clarify what a genuine SAG is - the inputs required, the features that make a group a SAG and the model of lending under the SHG Bank Linkage program as envisaged when it began; b) to ask why has no one bothered to tell us what a JLG is -the inputs required to form one, its features and the impact of the lending model; and c) why have RBI, the Financial Institutions and Government Ministries involved pushed the JLG model as the major instrument of financial inclusion (which experience has shown is not synonymous with inclusion in growth) especially during the past 3 years? Even though NABARD is responsible for building the SHG movement over the past 25 years in a sustained and committed manner, yet during the past 3 years even the Chairman spoke only of the JLG model while others in NABARD tried to take the SHG program along.

Why SAGs and SHGs: First the difference between SHGs and SAGs need to be explained. When the large Cooperative Societies with which Myrada was working broke down in the early 1980s because the poor were not getting loans or getting them at high rates of interest via the Chairman/Secretary, the poor families came as a group of 10-20 to Myrada offering to return the loans but not to the Cooperative. Myrada did not want to hold their recoveries, so it was finally agreed that each small group would open an account and place the recoveries in it- this was called the Group's common fund. The birth of the

groups therefore resulted from an effort to change power relations. These groups were originally called **Credit Management Groups** with the focus on management. After several meetings in which the groups were trained how to meet, discuss, encourage participation, identify hurdles in their progress and develop strategies to overcome them etc. some wanted money for different purposes. Myrada suggested they borrow from their common fund account.

In 1986 Myrada approached NABARD (Shri P.R. Nayak was the Chairman) for a grant to: a)train each group in Institutional Capacity Building (I C B not ICT) and b) to contribute to each group's common fund according to its performance. NABARD sanctioned a grant of Rs.1 million in 1987 and the name was changed to **Self Help Groups** according to NABARD's wishes. Towards the late 90s however NABARD was asked to raise the target to reach 1 million groups. Speed entered into the strategy -and the Road sign "Speed Kills" is true even in development strategy for poverty mitigation. Speed was increasingly promoted until it dominated the program from 2000 when the SHG model became part of the poverty mitigation strategy of the Central Government. As a result of speed to target larger numbers, NABARD had to reduce the amount to train each group in IC B. It was then that Myrada changed the name to **Self Help Affinity Groups (SAGs)** to identify groups that had been exposed to ICB-at least 14 of the 24 modules¹ and to stress that the members self select themselves on the basis of affinity which was identified as relations of mutual trust and support which already existed before Myrada intervened; the groups were not formed on external criteria as is the practice in Government schemes. Myrada did not create affinity - it was a diamond in the mud- a traditional strength. All Myrada can take credit for is that we stopped to pick up this diamond and to polish it through I C B in order to equip the group to take on new roles.

What is the process of forming an SAG?

- i. The process starts by using PRA methods like wealth ranking so that people gathered together can identify the poor in the village;
- ii. The identified poor are given a short description about an SAG and requested to form groups;
- iii. The members self select themselves - the basis is affinity among members which is based on relations of mutual trust and support and cuts across caste, religions and activities;
- iv. The groups are given institutional capacity building - at least 14 modules;

¹ The Capacity Building Modules include: 1. A structural analysis of Society; 2. Analysis of Local Credit Sources; 3. Self Help Affinity Group - A concept; 4. How a meeting of the Community Based Organisation is conducted; 5. Communication; 6. Affinity; 7. Vision Building; 8. Organisational goals; 9. Planning Resource Mobilisation, Implementation, Monitoring & Evaluation (PRIME); 10. Rules and Regulations; 11. Responsibilities of Group Members; 12. Bookkeeping and Auditing; 13. Leadership; 14. Conflict Resolution; 15. Collective Decision Making; 16. Common fund Management; 17. Self-Assessment; 18. Group Graduation; 19. Linkages with other Institutions; 20. Building Credit Linkages; 21. Federations; 22. Credit Plus; and 23. Analysing Gender Relations in the Family and Community.

- v. Alongside they start regular meetings and savings;
- vi. They start a group common fund in which their savings go and later the loans from Banks – there is only one group account;
- vii. They start taking loans from the common fund before the linkage to Bank starts;
- viii. After 6 months the SHG Banks Linkage program (which was launched by NABARD in 1992) kicks in: one loan (called “bulk loan”) is advanced to the entire group allowing the group to decide on individual loans. This differs from the JLG model, where the Bank/MFI decides on each individual loan. The decision is taken by the Bank/MFI outside the group on the basis of proposal from each member

**What are the key features of the SHG Bank Linkage Model?
There are three.**

1. Banks extend one loan to the group leaving the group free to decide on the purpose, size and interest to be paid on loan requests from each individual member; the group also decides on repayment schedules.

“The Banker is expected to provide credit in bulk directly to the group...which may be informal or formal. The group in turn would undertake on lending to the members”(pg 4)“The SHGs would be free to prescribe appropriate repayment period and terms of loans to members as determined by the group” (pg 5) Ref: NABARD Circular to all Commercial banks dated 26 February 1992; sd by Shri Y.C. Nanda. General Manager. NABARD

The lending agency which gives one loan (a bulk loan) to the group does not have to assess each individual loan in the SHG-Bank Linkage model. It however has to assess the institutional an organisational strengths of the group. The criteria for this assessment was given by NABARD in 1992-1993.

The practice to give one loan to the group serves to strengthen the affinity and mutual liability. It also provides the space and freedom for the SAG to decide and to adjust quickly the repayment schedule and /or amounts if the member has to face sudden pressures, which require a diversion of income over a short period. The group is aware of the situation which requires any adjustment. This is in contrast to the JLG model where the purpose, size etc of each member’s loan is fixed (a product), repayments are collected in a standardised package, where the individual has to provide information on the purpose before the loan is given by the MFI. All decisions in this case are made by the MFI/NBFC. Software which imposes standardisation on loan sizes and repayments (size and period) reduces the MFI-NBFC’s costs; but on the other hand it effectively destroys the diversity and the flexibility

required to respond to members needs related to size of loan and repayment capacity. The model is not client friendly.

The MFI practice of weekly repayments at the doorstep does not jell with the cash flow of income activities which is lumpy. This in turn forces them to take up daily wage labour or petty business (leading to overcrowding) or to resort to multiple borrowing - borrow from one MFI to pay another; most resort to the last option. As a result multiple lending has been a feature in every country where the Grameen II model (or prior to it the commercialised model) has been introduced - be it Mexico, Boliva or Bangladesh and now India.

The NABARD Circular cited above also added other criteria for selection: "The group should have been in existence for at least a period of six months" and "The group should have successfully undertaken savings and credit operations from its own sources" (group common fund); "Democratic working of the group wherein all members feel that they have a say should be evident" and "The Banker should be convinced that the group has not come into existence only for the sake of the project...there should be a genuine need to help each other and work together among the members".
Pg 3 Circular No DPD/104 dated 26 February 1992

This is a slow process -building institutions is slow- as well as requires **grants for building institutional capacity (ICB)**. The SHG model therefore was not adopted by the MFI-NBFCs. They are in a hurry to "include" the poor. They were also actively supported by Financial institutions where SIDBI has taken the lead .The over-all stress by Government to "include" the poor as fast as possible resulted in selection of members by the MFI which they called "Joint Liability groups". No I C B was given, no savings were encouraged; if there were savings they were carried over in cases where the MFIs took over the SHGs formed by NGOs and Govt. Programmes.

2. **Banks were allowed to lend to unregistered groups:** vide Circular No DPD/104 Pg 4. This was perhaps the most difficult policy decision and it was taken by Dr. C. Rangarajan the then Governor of the RBI who liberated the SHGs by this single decision. Myrada has asked its SHGs whether they wanted to be registered. The refused on the grounds that if registered they would be vulnerable to the manipulations of a petty official. However they insisted that they would ensure that proper accounts and records were maintained.
3. **Physical collateral security was not required.** The affinity and performance of the SHG would be adequate.

What is a Joint Liability group? (JLG).

The name indicates that it is primarily a group that has joint "liability" not a group where members support one another for a joint development activity or a group whose members are linked by affinity. The members of a JLG as the name indicates are linked primarily by the obligation to be mutually liable. But what is the basis of this "joint liability"? There is hardly any basis. The members are selected by the MFI -they do not self select themselves; they do not start by savings which are placed in a common fund which provides a basis for mutual responsibility; they undergo little or no institutional capacity building. As a result the experience of a JLG is that when one member defaults, the group breaks up **If the joint liability really works why is it necessary for the MFI staff to exert pressure on individuals to repay, often going to their homes early in the morning and pursuing them wherever they go? There have been wilful defaults in SAGs too; but it was the SAG that applied pressure on the member (even seizing assets like agricultural or horticultural commodities or bullocks) for repayment; it was not the staff of the MFI or NGO, which applied pressure.** The doorstep features which is touted by MFI-NBFCs as a major plus, is a double ended sword especially when there is pressure from the MFI to grow rapidly backed up by incentives to staff. One study by Ramesh Arunachalam identified 9 ways of applying pressure adopted by MFI staff which need not be described here. This is not socially acceptable and will continue to cause negative reactions from society.

There are only three sources which exert pressure to repay: a) physical collateral; b) affinity among members and d) the expectations of another loan within a short time . This expectation of another loan is the major driving factor of the current MFI-NBFC model. The major concern of the clients is how to mobilise the amount due weekly. I have interviewed many clients. Not one of them knew the interest rate levied and was not really interested in knowing. To mobilise the amount required to repay weekly was their major concern by far.

A Few Questions: I therefore would like official institutions promoting the JLGs to kindly answer the following:

- 1) How are the members selected?
- 2) Should they be encouraged to save regularly in a common fund
- 3) What are the features that are essential for a group to be called a JLG?
- 4) What I C B inputs are required for them to acquire the features of a JLG?
- 5) How long should the group be in existence before it is assessed for lending?
- 6) What are the criteria for assessing the JLG?
- 7) Should one loan be given to the group allowing it to decide on loans to individual members or should individual loans be given.
- 8) On what basis is the "Joint Liability" established?

It is because of the lack of clarity that MFI- NBFCs call any group a JLG .One of them even told me that the MFI-NBFC is forming a "JLG-SHG" type of group!!!

Personally as I have said in an earlier article, my position is that the SAG model is appropriate for the poor.

The JLG model is more suited to the not poor who depend on private money lenders for loans. They are small and marginal farmers, small businessmen aggregating commodities some of whom add value and who have an assured market. These families have assets and income but are exploited by usurious interest rates and hence cannot build capital. But the critical features that make a JLG and the inputs required to build a JLG have to be clearly identified.

Aloysius P. Fernandez

The Writer is Member Secretary MYRADA and Chairperson NABFINS. Views expressed here however are personal.