

The way ahead –SAGs

# RMS 69A

## Self Help Affinity Groups – The Way Ahead—Some Suggestions

I ended RMS 69 with a promise to follow up with a brief note on some suggestions going forward. **This note incorporates these suggestions.**

### **1.Introduction: Summary of RMS 69.**

**Two stages: 1985 to 2000 and 2000 onwards.** The concept of the Self Help Affinity Group (SAG)of the poor has evolved since it started in 1985 in Myrada. As I wrote in RMS Paper no 69, there are two phases. In the first phase from 1985 till 2000 the Myrada model dominated the experience in the country.Institutional capacity Building (ICB) was given priority and the SAGs were considered to be primarily civil society institutions. They started with savings and internal lending. The management of savings and credit together with ICB gave them a degree of financial independence, management skills, and self confidence. After 2000,Government sponsored programs namely the SGSY and NRLM as well as the privatesector MFI-NBFCs together changed the concept considerably. Briefly they reduced the SAG movement to: i) financial intermediation only; they did not invest in building SAGs into civil society institutions since provision of finance was the only objective andii) a part of Government’s delivery system; for example they asked SHGs to implement Government programs like PDS etc. No or little institutional capacity building (ICB) training was given. The SGSY/NRLM did budget funds for training but the trainers focused on making the SAGs part of the Government system and did not build them into independent people’s institutions.....much less to challenge the power structure and the lack of transparency in Panchayati Raj institutions and in Government delivery systems.Hence the SAGs did not grow into civil society institutions of the poor after 2000.

**When the SAGs originated in Myrada they were primarily civil society institutions of the poor.** The SAG movement challenged the Cooperatives which were dominated by the rich and powerful.As they grew in confidence, numbers and financial independence, they began to influence change in society for the benefit of the poor, to promote, expand and stabilise their livelihood opportunities Unfortunately after 2000,their role as civil society institutions was downplayed and is now forgotten. **Myrada must return to the basics – namely to the original focus of building the SAGs as civil society institutions of the poor.**

The SAGs were groups of poor people **only**, unlike the PACS which included both rich/powerful and poor. The SAG movement showed clearly that if the target is to benefit the poor, they must have their own institutions –the SAGs are one example.Myrada has many others too like CMRCs, MEADOW . The slogan Sab ka Sath can be a goal to achieve, but it is not an effective strategy to empower the poor. It underlies institutions like the PACSs and

the GPs where all are included by official dictats, but in reality the powerful dominate; they do not provide a level playing field where the poor can grow in self confidence management skills and exert pressure for change in their favour. I have explained this in detail in RMS 69.

**2.Recent developments** . Recent demands from Public Sector Banks and some RRBs have undermined the group structure required to build sound civil society institutions. In the past Banks lent one bulk loan to the SAG which strengthened the SAG as an institution since it increased group ownership and responsibility for use and repayment of the loan. Today, the Banks are **lending to individuals** ( who happen to be in so-called SHGS which have been put together in a hurry or in JLGs which are not grounded on social affinity and do not have common fund). Secondly the Banks are insisting that **the SAGs be registered** which will make them vulnerable to interference from petty government officials. I received a report from Myrada's projects that the Banks are not opening accounts in the name of the SAGs unless they are registered. On the other hand, the policy allowing unregistered SAGs to open accounts in the Banks was the victory the SAGs won in 1992 when Dr C.Rangarajan (Governor RBI) allowed Banks to open accounts even though the SAGs were not registered provided they kept records of decisions and books of accounts. Now, the Banks, I was told are insisting that they be registered. How do we meet these two challenges? i) Lending to individuals (which undermines the group cohesion) and ii) the demand for registration (which makes the SAG vulnerable to Government interference)

**Lending to individuals:** The practice of extending one bulk loan to the SAGs which was the dominant pattern up to 2000, has declined considerably. I do not expect this practice of extending a bulk loan to survive in the future for the following reasons: The software available and being used by all financial institutions (including Sangamithra) focuses on individuals. Secondly the Govt. wants details of caste, creed etc of members, hence the focus will be increasingly on individuals. Further the Banks are demanding Aadhaar numbers to open accounts which only individuals have, not groups like SAGs. Finally, Rating and Grading Agencies hired by Banks to assess financial institutions including Sangamithra use criteria based on the model where loans are given to individuals. As a result, Sangamithra which adopted the model of lending to the SAG in the past always scored lower marks which lowered its rating. Hence my conclusion is that there is no point in saying that Sangamithra is lending to groups (SAGs); it is in practice lending to individuals in groups. ). As a result the loans are divided equally among SAG members; ( I have scrutinised about 200 loans of about 20 SAGs in Sangamithra to come to this conclusion ). This standardisation however reduces time, costs and discretion( which could open the door for corruption since the decisions are increasingly monitored by the Staff and not by the SAG)

**However, our concern is whether this practice of lending to individuals and not one bulk loan to the SAG, will undermine the cohesion of the group and as a result weaken the SAG as a civil society institution?** To a certain extent it will. But the basis of our argument is that a SAG will not develop as a civil society institution unless: i) all the members are poor (economic homogeneity); ii) the members self select themselves –which they do on the basis of affinity – this is the social bass that binds them together and iii) they invest in a group common fund that provides the economic basis in which all members have a stake in the

existence and growth of the group. These three features can be preserved if we focus only on the poor and if we use participatory methods through which the people identify the poor (wealth ranking etc). Affinity can be preserved if we allow the poor to self select the group members and if we do not impose external criteria for membership; ii) the economic basis of the common fund can be preserved if the SAG has a common fund made up of savings, fines, grants etc. Even if loans are not credited to the common fund, there would still be a group common fund. The key question is whether the individual members will agree to pay a higher interest rate than the Bank levies when loans are given to individuals. In the Myrada model, the SAG fixed the interest rate and it was slightly higher than the Banks interest rates. The difference was credited to the Groups Common fund. It helped the fund to grow and the SAG to use this common fund to ensure that Banks were regularly repaid even when some individual members could not repay to the SAG in time due to genuine reasons. Will this continue? I am doubtful. And if it does not, it will weaken group cohesion for this showed that there was joint responsibility. However if the SAG has a group common fund from all other sources (savings, grants, fines etc), it may provide a sufficient economic base to establish the members ownership. But to achieve this Myrada must focus on providing good training in institutional capacity building.

**The demand for registration:** Let us now consider the demand from Banks to register the SAGs which some projects are reporting. I enquired from the RBI and NABARD whether there has been any notification to this effect- namely that SAGs should be registered. The response was NO! Then I tried to find out why the Banks are asking that the SAGs should be registered. I finally discovered that the banks have to fill up a standard form before they begin transactions with any client who applies for a loan. One question in this form is: "In which category does the client fall" The list given in the format includes individuals, Companies, Trusts, Societies etc...but it DOES NOT include SHGs. Hence this has to be explained to the Banks; SAGs are not deliberately excluded. Organisations like SaDhan have to get SAGs included in the list. I met some ex-staff of our SRLM a few days ago. They tell me that now all SAGs in Karnataka will come under "one umbrella" namely SRLM. I then suggested that SRLM publishes a list of all well functioning SAGs and circulates this list to the Banks. If this is done we can perhaps persuade the Banks to advance loans to SAGs in the SRLM list. The Central Government is also considering to set up a "SHG Bank" along the lines of Andhra which started a Cooperative Society called Stree Nidhi; it is not a Bank.

Another reason given for the need for registration is that when the SAG places a large amount of money (above Rs 50,000) as FD, Banks demand PAN which in turn means that the SHGs have to be registered

One of the major battles Myrada fought in 1992 was to ensure that Banks could lend to SAGs even if they were not registered. The SAGs did not want to be registered since they feared that they would be harassed by some petty Government official.

Now how does Myrada cope with this requirement of registration? First let me stress that there is no official notification requiring registration of SAGs to open bank accounts. Secondly let me ask why we need Banks. We need them for two reasons i) To give loans to

the SAGs – which Banks credited to the SAG group account in the past - and ii) for the SAG to open an account in which it deposits its common fund / group common fund.

As far as extending loans is concerned, the Banks are no longer extending one bulk loan to the SAG group account; instead they are lending to individuals and directly crediting the amount to the individuals account. Hence the SAG does not need a group account; it also follows that it need not be registered. Secondly Banks are no longer the only source. There are other sources today. Since there is no notification from the RBI or Nabard that SAGs should be registered, we can take several steps like i) persuade the Banks to extend loans to individual members (even if the SAG is not registered) provided the SAGs keep books of accounts and decisions made; ii) use the SRLM list if and when it comes out and finally ii) apply for loans to Sangamithra which does not require the SAGs to be registered, but, note, it will give loans to individuals in SAGs. The interest rates of Sangamithra are higher than that of Banks, but the effort to register, to submit reports annually, get new registration every year, and to cope with the bureaucracy will also involve costs to the SAG which could be higher if properly monetised.

With regard to the need for a Bank account in the name of the SAG so that the SAG can deposit the common fund of the group, there are also several alternatives today.

If the Banks refuse to open this account in the SAGs name since they are not registered, try explaining to the Bank that the SAGs are not excluded deliberately from the list. If this does not succeed then the SAG can go to the Small Business Banks or Local Area Banks and open an account there. If your project does not have a Small Business Bank in the area (like UJIVAN, JANA etc), I can meet their senior management and persuade them to open branches in your project. But you too have to promise to ensure that our SAGs open accounts in them. Some of them may ask for registration but we will try to persuade them not to do as there is no notification from RBI / NABARD to his effect; besides they are anxious to mobilise deposits and so there is an incentive for them to open branches in our project area.

**3. Should Myrada continue to form SAGs?** Yes we should, but we need to go back to the basics, namely, to ensure that the SHGs are primarily civil society institutions of the poor; their objective is to empower the poor through building confidence, management skills, ability to federate and mobilise community action, to influence the GPs and trigger change in attitudes related to gender (how to cope with domestic violence, priority to girl child) and to health care, sanitation and the environment. As I have been saying for the past 30 years, the SAGs are not instruments of Government or of Myrada (NGOs) to deliver services and implement programs of Govt. and Myrada. They are institutions of poor people with their own agenda.

In this context we also need to ask what is the relation between FPOs/FIGS on one hand and SAGs on the other. The present picture in Myrada's projects is quite diverse. In some projects

a large number of SAG members have also become members of FIGS. In other projects very few SAG members have become members of FIGS; this is due to two reasons; i) many of our newer staff have not realised that it is prudent and even strategic to build larger institutions on the strengths of existing institutions like SAGs especially since our focus is on the poorer sectors; ii) Few of the SAG members have cash crops and surplus commodities for sale; only these have become members of FIGS/FPOs. There may be other reasons and combinations also. But our critical concern is this: **The small farmers (who have some surplus or who have cash crops) are part of Myrada's target group. How do we support them in the FIGS and FPOs so that they are not controlled and exploited by the richer farmers who will try to dominate the FIGS/FPOs? Please note that *I assume that the landless and near landless (one acre dryland or less) do not become members of FIGs or FPOs; as far as Myrada is concerned we have clubbed them with the landless***

We must recall that the CMRCs are made up of SAGs whose members are all economically homogeneous, so there is no major structural potential for conflict. But the FPOs are made up of FIGs which are larger than the SAGs and are not economically homogeneous; they have both large and small farmers –they are like Milk Societies . The large farmer contributes volume to make the business viable and even expertise. But care should be taken that the interests of the small and marginal farmer are not undermined by the large farmers who will take control of the FPOs/FIGs.

Where the SAGs have converted into FIGs or at least a large number of the SAG members have joined the FIGs, this may not be a major problem, though we need to monitor the situation closely to ensure that the poorer farmers are not marginalised and exploited. In cases where the smaller farmers are only a small number in the FIGS/FPOs, it will be more difficult to protect their interests. In some cases where they have been members of strong SAGs they will have the confidence to hold their ground – however we still need to monitor this regularly since they may not have sufficient numbers to have an impact. I suggest that this concern should be part of the criteria to assess whether the FIGs/FPOs are a success, namely whether the FPO provides a level playing field for the small farmers so that they have the space to influence decisions and to earn their rightful dues.

One way to ensure this is to build strong SAGs of the small and marginal farmers, some of whom will become members of the FIGS and the FPOs.

Meanwhile those in the lowest category namely the landless and near landless and even many dryland marginal farmers who are not eligible or not able to join the FIGS/FPOs (because they have no surplus or do not cultivate cash crops) must not be left out of Myrada's concern; they will have to be organised into SAGs which are both civil society institutions as well as institutions which provide the skills and opportunities for growth in livelihoods in a sustainable manner and for empowerment to find their legitimate place in society. **The Program Officers must beware of this since it is possible that with our recent focus on forming FIGS/FPOs, we may forget or give low priority to identify the poorer farmers (marginal dryland farmers) and landless which really form the core target group of Myrada.** We must remember that those farmers who now have surpluses or cash crops and

find a place in the FIGs/FPOs were also poor in the past and have used our interventions and local resources which they mobilised and opportunities which they identified to increase their livelihood base. Thus should happen to the dryland marginal farmers (near landless) and landless as well – and we have a responsibility to ensure that these groups remain part of our core concern.

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