THE MYRADA EXPERIENCE

ALTERNATE MANAGEMENT SYSTEMS FOR SAVINGS AND CREDIT

OF THE RURAL POOR

Aloysius Prakash Fernandez

Second Edition

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I N D I A.
First Edition - June 21, 1992 & reprints on May 9, 1993 & Jan. 30,1994
Second Edition - January 1998

MYRADA
A Mission Statement

✦ "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 their efforts:

- *to build and manage appropriate and innovative local level institutions rooted in values of justice, equity and mutual support, which can ensure their sustainable livelihoods.*

- *to recreate a self-sustaining habitat based on a balanced perspective of the relationship between natural resources and the legitimate needs of people.*

✦ To influence public policies in favour of the poor and to build supportive institutional linkages between official institutions and peoples organisations.

✦ To support small NGOs and foster the emergence of new NGOs working in rural areas.

✦ To promote networking among peoples' institutions and among NGOs."

March 1994

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Chapter 1

INTRODUCTION

1.1. The First Steps

These pages are written in a hurry and are an outpouring of an experience partly documented but mostly stored in memory; order suffers as a consequence. They are meant not to meet academic standards of excellence, but to provide the staff of MYRADA and others interested in this experience with an introduction to the process of savings and credit management that started in 1984-1985. It started as a search for alternative systems, the basic elements of which were not introduced but which were lying dormant or suppressed in rural society. MYRADA's intervention triggered off a process which enabled dormant values (like the social obligation always to repay a loan) to revive and to become institutionalised, not in traditional systems of money lending which were oppressive, not along the lines of preconceived and standardised systems of credit management, but as voluntary institutions with an open, decentralised and participative style of functioning and appropriate to local situations. As a result, many different plants have sprouted; some have withered and died, others have yet to flower, and about seventy to eighty percent have blossomed. The people and our staff learned from their failures and were encouraged by their successes. There are a few experiences more exhilarating than attending a meeting of a vibrant self help or credit management group.

This focus on supporting the emergence of alternative institutions, flowed from MYRADA's mission which emerged during 1983. **It shifted the thrust of MYRADA's programmes from delivering services towards motivating and supporting the emergence of people's institutions appropriate to the resource to be managed whether it be credit, watersheds,**

arid areas or forests.

To all the staff of MYRADA involved with programmes, training, accounts, audit and administration without whom there would be nothing to write about and especially to those who continue to work with MYRADA inspite of the Director and of several other and more lucrative opportunities that came their way, are these pages dedicated; it has been my privilege to work with them since 1982.

This effort started with and continues to be a search for alternatives in credit management which the poor were involved in designing and managing. The systems what evolved, however, are appropriate for all groups who do not have the facilities provided by official credit institutions within reach and are relevant even where they are.

To the Governing Body of MYRADA which has followed closely the progress of this experiment and encouraged it all these years, my thanks.

NABARD has guided, encouraged, funded and documented this small experience since 1986. If this and other experiences have been forged into a policy in the service of the rural poor, it is entirely to the credit of NABARD's officers who have spared no effort to visit the field and attend group meetings on many occasions. Faced with the poor recovery rates of programmes involved with lending to the poor, NABARD was also searching for alternative strategies among which the "Self Help Group" concept appeared to be the most promising. If it could be demonstrated that it worked, NABARD was willing to persuade Banks to advance loans directly to the groups, anticipating that while repayments will improve, the transaction costs to the Banks will also decline. By 1990, MYRADA had organised 1580 groups; they proved that they could work, repayments averaged 95% and the self confidence of the members had increased considerably. This was a sufficient base for NABARD to draw conclusions.

MYRADA has consistently fostered a strategy that goes beyond "banking with the poor" towards **"banking with institutions established and controlled by the poor"**. It is not easy for the official credit system to recognise and accept an alternate system with its own rules and financial mechanisms controlled by the poor. The institutional pressure to impose systems of finance management on lower institutions in the delivery system is strong. The pressure emerges from the dominant role that funds play in financial delivery systems. **Institutions which control the funds, call the tune.** Institutions of the people on the other hand are forced to conform in order to access funds, as the old saying goes **"if you have your hand in an other man's pocket, you will have to walk with him"**. This is also true of a few major Donor Agencies in the development field which are weak on development strategy but are dominated by financial and administrative control systems; the tendency to impose these systems on those who receive funds in the name of accountability to Donors is strong, and inhibits the processes required for the growth of people's institutions.

The model that NABARD envisioned, where established groups would link up directly with Banks also coincided with MYRADA's strategy which endeavoured to ensure that a decentralised and centralised model would not be imposed; this is why MYRADA has resisted several pressures to introduce models which have the potential to attract a much larger flow of funds but demand a far more centralised and standardised system of credit management; this in turn would undermine the voluntariness and potential for empowerment of the groups.

Attempts to compare this SHG model with the Grameena Bank of Bangla Desh do not take into account that the latter is a centralised Bank, however friendly it is to the customer; while the SHG model operates in a decentralised manner which is far from standardised, but which is able to respond to the needs of different situations without any delay. Decisions are made by each group. This diversity makes the model "uncomfortable" for specialists who often find the village "clumsy". As a result of this decentralised model, MYRADA has been able to organise about 3130 SHGs with 62,769 members; (approx. 450,000 people). MYRADA has 420 staff working in 2800 villages; they are involved with house construction (20,000 houses constructed over 13 years) drinking water and sanitation systems, animal husbandry, watershed management, education, health, arid zone development, small scale industries and off-farm livelihoods. This does not leave much time to organise and strengthen SHGs. Yet this model has allowed MYRADA to extend credit to almost half a million people with only 420 staff who devote about 20% of their time to SHG support. **The MYRADA groups have a total common fund amounting to Rs.170 million of which Rs.48 million is savings and Rs.12 million interest earned on loans.** (Annexure 1)

1.2. UPSCALING : NABARD and MYRADA

MYRADA's strategy for upscaling has been based on **building "partnerships"** with institutions which have the potential to play a strategic role in the particular sector where upscaling is envisioned. In this case, the institutions were and continue to be NABARD (and the RBI); these are the major institutions involved with change in policy, as well as with introducing new guidelines; they also have the ability to encourage the Banks to adopt and implement new initiatives.

Convinced that the experiment was worth supporting, the Reserve Bank of India issued a circular dated July 24, 1991 to Commercial Banks advising them to participate actively in the pilot project for linking Self Help Groups with Banks (Annexure 2). NABARD, after consultations with a few interested Banks and voluntary agencies, issued a set of guidelines on February 26, 1992; (Annexure 3) which, while being adequately comprehensive were kept flexible enough to enable participating Banks and field level bankers to innovate and to contribute to strengthening the project concept and strategy.

During the past five years several Banks have taken steps to link with the Self Help Groups. The following table indicates the spread of this alternate credit mechanism.

ALL INDIA SHG-BANK LINKAGE PROGRAMME PHYSICAL AND FINANCIAL POSITION AS ON MARCH 31, 1997 (Cumulative)

Source NABARD Report

Sl. No	Region / State	Total No. of Groups Linked	Total (Rs. in Lakhs)	
			Bank Loan	NABARD Refinance
A.	Southern Region			
	Andhra Pradesh	823	242.326	240.436
	Karnataka	2.442	386.253	386.201
	Kerala	1.290	79.090	59.970
	Tamilnadu	865	121.177	119.351
	UT of Pondicherry	7	0.760	0.760
	Total (A)	5,427	829.608	806.718
B.	Western Region			
	Gujarat	152	32.230	32.182
	Maharashtra	424	76.904	66.267
	Total (B)	576	109.134	98.449
C.	Northern Region			
	Total (C)	335	60.939	46.392
D.	Central Region			
	Total (D)	1,062	81.566	33.606
E.	Eastern Region			
	Total (E)	1,159	89.348	68.010
F.	North Eastern Region			
	Total (F)	39	13.025	11.775
	GRAND TOTAL	8,598	118.618	1,064.952
			Rs.11.8 crores	Rs.10.6 crores
			Rs.118 million	Rs.106 million

Prominent among these steps were (1) The initiative taken by NABARD to organise training workshops for Bankers in MYRADA's projects. MYRADA has conducted 131 workshops for 2618 Bankers during the past 3 years. The change in the participants has been noticeable. In the first workshop, conducted in 1992, out of twenty, only two were open to the concept of linking with self help groups, and these were NABARD related staff. The other eighteen were skeptical till they visited and spent time with the SHGs. At the end of the workshop sixteen of the eighteen were convinced; the other two belonged to the ranks of the confirmed skeptics. Today, among twenty participants, eighteen are open to the concept: "we think it is a good idea; let us go out to the field and see how it works". (2) The decision to focus on training Bankers who worked in areas where a Bilateral or Multilateral project based on group credit is operating. This approach made the workshops more focused. The Bankers were also confident of support when they returned.

MYRADA, on its part did its bit to upscale this strategy of SHGs. It partnered the Womens Development Corporation of Tamilnadu in Dharmapuri District to foster SHGs; the project was supported by IFAD (International Fund for Agricultural Development). MYRADA was also involved in formulating a credit programme for seven states in India based on the SHG strategy and followed up by conducting training for key personnel in these states. MYRADA has also carried this initiative to other countries, notably to Cambodia and recently Myanmar and Kyrgystan.

Credit should be given to some Banks, notably Canara, Cauvery and Chitradurga Grameena Banks which took the lead in the linkage programme.

DETAILS OF DIRECT FINANCE FROM BANKs/CO-OP SOCIETIES TO CMGs FOSTERED BY MYRADA AS ON SEPTEMBER 1997

S.No.	Name of the Bank	No. of Groups	Amount Financed (In Rs.)
I	**COMMERCIAL BANKS**		
1	Canara Bank	159	4,252,900
2	Corporation Bank	33	727,700
3	State Bank of Mysore	32	491,600
4	Bank of India	34	394,000
5	Syndicate Bank	8	225,150
6	State Bank of India	10	332,000
7	Vijaya Bank	9	94,200
8	Punjab National Bank	6	167,000
9	Indian Bank	5	105,000
10	Union Bank of India	3	29,500
	Sub Total	**299**	**6,819,050**
II	**PRIVATE BANKS**		
11	Vysya Bank	15	369,000
	Sub Total	**15**	**369,000**
III	**RRBs**		
12	Cauvery Grameena Bank	233	4,655,100
13	Chitradurga Grameena Bank	107	2,497,500
14	Krishna Grameena Bank	34	1,329,000
15	Sree Anantha Grameena Bank	19	533,000
16	Malaprabha Grameena Bank	14	70,700
17	Kolar Grameena Bank	2	24,700
	Sub Total	**409**	**9,110,000**
IV	**COOPERATIVE SOCIETIES**		
18	W.M.P. Co-op Society.	2	17,000
	Holalkere	1	20,000
19	Vyavasaya Seva Sahakara Sangha Niyamitha- Gulbarga		
	Sub Total	**3**	**37,000**
	GRAND TOTAL	**726**	**16,335,050**

1.3. CREDIT PLUS : MYRADA's role - social intermediation

Initially the groups in MYRADA were called Credit Management Groups (CMGs) and not Self Help Groups (SHGs). The name CMG however, did not limit their activities to credit management. Even in the initial stages the groups discussed common problems and planned solutions; they shared information and made efforts to improve their numeracy and literacy skills. This is the major reason why they decided to meet weekly. The social dimension of their activities played an important role in building group cohesion and the skills required for self reliance and sustainability. Even with reference to credit, it is the **management of credit** that is important. Credit is used as a **tool to develop their management skills** and their ability to participate in group discussions which prepares them to participate effectively in larger groups like Cooperative Societies which are not homogenous. It is because their management skills have developed that they move beyond monitoring activities and mobilising savings, to take decisions which require a degree of confidence to take risks, to establish priorities and to apply sanctions for deviant behaviour.

The success of the SHGs has also changed **the perceptions of other groups in the village about what the poor can do on their own**. A recent survey that covered a broad spectrum of the village population indicated clearly that the **upper castes and classes had developed a growing respect for the achievements of the SHGs** mainly because they had developed into recognisable institutions that were functioning with a degree of transparency and participation, far greater than other and older institutions in and around the village. As a result, people are looking up to the SHGs to perform certain social roles, particularly to remove bottlenecks to progress in the village. This is **a shift from the traditional perception of intervenors, where the poor are expected to fight for a place in society, towards a situation**

where society approaches the poor to help solve local problems. A recent experience in Dharmapuri District was revealing. On the trek to the village we passed a group of masons and a contractor constructing an arch, which we were told was donated by a businessman who had received a favour at the local temple. The meeting of the SHG in the village subsequently revealed a vibrant and self confident group that had managed the affairs of the SHG admirably. When asked to identify a village priority, they identified the need for a road from the highway to the village. "We need money", they said, "to construct this road". "Why not start with shramdaan", we countered. After some hesitation they revealed that the problem was not lack of money, but lack of cooperation among the villagers to give up some portion of their lands to align the road. On our return, we discussed the same issue with the contractor and his men. They said, "there is only one group that can solve this problem; it is the SHG you have just visited; we are going to approach the group to take the initiative".

MYRADA has always fostered SHGs which do not only mobilise savings and manage credit, but which are **agents for change both within the SHGs as well as in society;** this is what the description of the SHG's role as "Credit-Plus" intends to convey. Of late the term "social intermediation" as distinct from "financial intermediation" has become fashionable. MYRADA has always avoided being a financial intermediary. It has been under pressure to channel funds to small NGOs as well as to SHGs. It has consistently resisted these pressures. Its strategy to link Banks directly with SHGs flows from this stand..

An analysis of the data of the linkages with Banks throughout the country reveals that there are two main patterns. One in which the loans are given by the Banks directly to the SHGs and the other in which the Banks lend in bulk to the NGOs who in turn on-lend to the SHGs. In the second model, the NGO acts as a financial intermediary. Since almost 50% of the SHGs receive loans through NGOs, this model needs far greater attention than hitherto given. It assumes that the NGO operates like a financial intermediary. NGOs are largely not comfortable with this role. The systems and the culture required to operate an effective financial intermediary differ from those that social intermediaries require in order to achieve their objectives. MYRADA does not hold the position that NGOs cannot operate as financial intermediaries, on-lending to SHGs; **but NABARD will have to insist that such NGOs absorb the culture and systems required for financial intermediation as well as to organise workshops** to help them build and sustain this capacity. At present, all the workshops conducted for NGOs focus largely on the social role of NGOs.

Chapter 2

AN ALTERNATE CREDIT SYSTEM - WHY THE NEED AROSE

It was becoming increasingly clear during the early eighties that the existing credit delivery system in the rural areas especially the Banks and Cooperatives was no longer able to cope with existing and effective demand. It was therefore unrealistic to expect the system to achieve the social objectives of providing **credit to the poor** and marginal farmers which requires intensive work in the field in order to identify potential borrowers and to advise and follow up on utilisation and recovery.

2.1. Structural and operational hurdles

There was general agreement within MYRADA that the existing credit delivery system was **inadequate due to insufficient funds to meet credit needs and poor management.** Several studies indicated that the official credit system which included the Commercial Banks, the Regional Rural Banks and the Land Development Banks provided approximately 20% of the credit required by dryland farmers who, with the landless, were the target group of MYRADA's interventions. **But the question was being raised whether the system was appropriate to meet the real needs of the people especially the landless and marginal farmers. In other words, even if funds were adequate and management of the existing delivery system good, could the system achieve the objective of meeting the real credit needs of the poor or was an alternate credit system necessary?**

An analysis of the credit needs of the poor revealed that they required **small** but **regular** and **urgent** loans for **consumption**, as well as for trading and small income generating investments where the turn over was rapid, often daily. On the other hand, peoples options were restricted to programmes designed and approved by the Government which did not cater to these needs. Small loans for consumption were readily available from money lenders who also placed the poor on the track of increasing debt and bondage which went rapidly downhill. The money lenders were not only those who had followed this occupation by tradition; increasingly other groups with surplus cash and with no easy access to other avenues of investment, were entering this occupation. Surveys indicated that there were several informal sources of credit, including small politicians, local government officials, presidents of cooperative societies and even farmers with one acre of irrigated cash crop.

There was ample evidence to show that dryland farmers who took small consumption loans had to mortgage their lands within a few years since they could not repay their debts. The Banks were not willing to entertain loans for **consumption** even though it was obvious that the largest number of loans was taken for this purpose. They were also not willing to lend for income generating investments, if the loan required did not measure up to their specifications under "unit cost" and "scheduled asset"; a package of options was not considered to be a sound investment. The Bankers also had their side of the story. They placed the blame for poor performance in utilisation and recovery squarely on the politicisation of credit. Many Bank Managers emphasised they had little or no say in the selection of "beneficiaries" or in the choice of the "purpose of the investment".

Banks also could not give any loans **quickly** when needed. Therefore, there was a growing opinion that they were not appropriate as a credit delivery system to the poor who often required small but "urgent" loans.

Several procedures and practices of the official credit institutions also confirmed this opinion. They insisted on standardised costs and estimates, often on the grounds of feasibility; these amounts were usually larger than what the people required. For example, when farmers in one area, where the water table was high, needed approximately Rs.3000/- to sink an open well, the Bank insisted on providing the standard rate of Rs.9000/-. The people used the extra amount for consumption which in turn made repayment difficult. **There was no mechanism to fine tune the size of projects and estimates to the micro situation.**

In several cases the **Banks schedule of recovery did not conform to actual trends in returns**. An interesting example concerned milch animals. It is well known that in the summer, milk yield falls, yet the recovery installments required by the Bank remain constant, instead of adjusting to the actual trends in milk yield. Another example of inappropriate recovery schedules was the practice of linking recoveries with harvest time on agricultural loans to marginal dryland farmers. The majority of them consumed over 80% of their produce and could not possibly repay loans from sales of the remainder. When the credit groups supported by MYRADA started functioning, they were well aware that marginal farmers earned wages from labour during sowing, weeding and harvesting, and could start repaying their agricultural loans to the groups before harvest; hence the groups recovered loans throughout the agricultural season. One year in a MYRADA Project, after good rains, when sowing was completed, a long dry spell followed; the crop withered and died. Yet since the groups had made recoveries from the first week after they had issued loans, they had adequate funds to provide another loan for seeds when, after a gap, the rains, returned and sowing was repeated.

The insistence on abiding by the "unit cost" prescribed on the basis of viability was questioned by MYRADA as findings from surveys indicated that **where repayments were comparatively high, the income was often from sources other than the asset for which the loan was taken.** For example, a MYRADA study of

142 cases in which repayments were over 75% indicated the following :

Sericulture	:	In 12 out of 32 cases the asset was the major source of repayment.
Animal Husbandry	:	In 43 out of 60 cases the asset was the major source of repayment.
Horticulture	:	In 5 out of 17 cases the asset was the major source of repayment.
Non Farm activities	:	In 15 out of 33 cases the asset was the major source of repayment.

Discussions with the people concerned indicated that several considered the asset purchased through the loan as a long term investment; they were aware that the income from the asset could not meet the repayment schedule and had already decided that repayment would come from other sources of livelihood. In fact, many opted for loans smaller than the unit cost because they assessed their repayment capacity on income from other activities and not from the asset for which the Bank provided the loan.

It was also noticed that the schedule of recoveries could be disturbed due to changing situations - not just by natural conditions like drought - but by other unexpected developments which were not accounted for when the schedule was worked out. An interesting example emerged when a credit group member decided to stand for village elections; he had recently taken a loan from the group to purchase a cow. The group members suspected that he would sell the cow to raise funds for the election, so they seized it till the elections were over. The Banks would not have been able to respond to this 'development'; yet, for a **project to be successful, effective management of changing situations is essential.**

Another hurdle which was responsible for loanees being unable to ensure recovery was the practice of working out the size of the project on the basis of **viability** - the ability to stay alive; viability also implied that the project's returns would raise the family above the poverty line. This was the case with several income generating projects under the anti-poverty programmes. For example, providing a poor woman with 10 ewes and 1 ram was worked out to be viable unit, but it usually failed to earn adequate returns according to schedules since it pre-supposed that the woman was doing nothing prior to this project. Managing a 10+1 unit is almost a full time job requiring her to give up other wage opportunities which provided her with her daily needs in order to manage this sheep unit. The common solution people adopted was to sell a few sheep for their daily sustenance.

Again, most people preferred a package of several small sources of income, which together formed a "viable" package. This lessened the risk factor on individual investments and gave them a degree of freedom in management. Though this example is taken from a tiny project in the rural areas, the principle holds good for projects of all sizes; **what is viable may not necessarily be manageable** unless the skills and resources of the person are upgraded rapidly which is usually not possible. Further a **package of options where the risk is spread** is what a poor farmer prefers to invest in, rather than in one large income generating project where the entire risk factor is concentrated.

The wide gap between the number of loans a branch of a Bank managed and the actual need in the area also indicated that the system is inappropriate. For example, after the credit groups had functioned for a few years in an area, a comparative study of the performance of the credit groups and the Banks showed that one branch had advanced a maximum of 50 loans under the anti-poverty schemes during a year, while the 102 credit groups within the Branch's service area had advanced over 5000 loans every year to the poor. True the Bank's performance may have been restricted by its quota, but it is common knowledge that very few rural branches can handle over 400 loans to small and marginal farmers and landless in a year.

It is often repeated with justifiable pride that after the nationalisation of Banks in 1969, rural branches had increased by 11 times and deposits by 19 times. The Regional Rural Banks (RRBs) branches increased from 17 in 1978 to 12,939 in 1986. Further from 1985, 40% of the total credit of commercial Banks has been directed to priority sector borrowers; the amount disbursed in 1969 was Rs.483 crores while in 1986 it increased to Rs.22,844 crores. This massive program had an impact. The findings of the Rural Credit Department and Investments surveys of 1971 and 1981 showed a decline in dependence on informal sources of credit in rural areas.

What is not widely reported however, is that this major credit delivery system largely benefitted the richer sections. The poor continued to depend on informal credit sources. While 9% of their credit came from the official formal institutions, 85% of the credit needs of the rich was met by these institutions. (Source : All India Debt and Investment Survey of 1981.)

MYRADA's experience in the early eighties indicated the almost total dependence of the poor on money lenders to provide credit for consumption, trading and for small enterprises. **The emerging consensus within MYRADA was that a shift to an alternate credit system for the poor was required, along with efforts to make the mainline delivery system not only more appropriate and effective, but also willing to accept and relate to an alternate system with its own rules and management systems.** It was a mainstreaming strategy but where the mainstream diverted its course to support the tributary.

2.2. People's Perceptions

Apart from the structural and operational hurdles which made the official credit system inappropriate, there were other issues as well which did not help to develop a healthy relationship between the Banks and the Cooperatives on one hand, and the people on the other. The politicians had all but destroyed the basic culture that loans must be returned. On one occasion when a Minister was introduced to a woman who had been given a loan by the bank for two buffaloes, the Minister asked her whether she had taken a ***'sala'*** (Kannada for loan); she protested that she had not taken a ***'sala'***, whereupon the Bank Manager standing nearby who was very disturbed at the turn of events shouted at her, "have you taken a **loan**?". "Yes", she replied, "I have taken a loan but not a '***sala***'." A ***'sala'*** obviously was a loan bound by traditional sanctions and norms and was always returned, while a loan was a "gift" from the Government. Though ***'sala'*** in Kannada is translated as "loan", the meaning of the two words was clearly different for the woman.

When the perceptions that people had of credit institutions were taken into account, the evidence was startling. If people perceive an institution to be hostile or unresponsive to them, they hesitate to approach it and to continue an ongoing relationship on their own no matter how much they are persuaded to do so. On one occasion when people were asked to identify the credit sources in their village they listed the Bank, the Cooperative Society and the money lender. Asked to describe these institutions, they brought a large stone and said, "This is the Bank, it is unmovable!". The Cooperative Society was symbolised by a smaller stone with a piece of paper beneath. "We can get credit but after a lot of paper work for which we have to pay". The money lender's symbol took some time to be identified; they finally came up with a parthenium plant. "Once this weed comes into your garden, it is very difficult to eradicate!", they said. Yet when asked to identify which of the three they considered to be "**more honest**", they pointed to the "parthenium". Which source was **prompt** in providing loans? Once again it was the "parthenium". Any direct attack on the moneylender, therefore, whom some radical elements cannot tolerate, will not go far! The same people were later exposed to a self help group and decided to form one themselves. Months after the self help group was formed, they added a "flower" to symbolise their group alongside the stones and parthenium.

By 1985, it became clear that it was no longer adequate for MYRADA staff to identify potential borrowers and to use their good offices to obtain loans from the Bank for them. A few video films of MYRADA's work during the early 1980s highlighted the staff accompanying poor farmers to the Banks and obtaining loans for them; this image could not continue. No longer was it adequate for MYRADA to place collateral risk or incentive deposits against which the Banks would advance a limited number of loans. Improving the credit delivery system was not an adequate strategy. A new and alternate system was required to cope with the expressed and silent needs of the poor. **If such a system could evolve it would also require the Banks and Cooperatives to relate to it on its own terms and conditions. Could an alternate system evolve? Would the existing credit institutions (Banks and Coops) relate with it on its own terms? These were the two major concerns during the period 1985-1988.**

2.3. Inappropriate Village Institutions

During this period, as MYRADA found the Banks and cooperatives inappropriate to cope with the situation, it organised and worked with and through Village Development Associations (VDAs). MYRADA did not provide any model, but asked the people to form institutions which could perform certain roles like the identification of eligible "beneficiaries" and of priorities, channeling of funds and monitoring of development programmes both for the village as well as for individual families. Two types of VDAs emerged. One, in which the whole village was involved; though some were elected representatives, all the families were members and the meetings were to be attended by all, though attendance rarely exceeded 50%. This model was similar to the traditional Gram Sabha. The other type of VDAs comprised **only the poor families** of the village; the well-to-do were left out.

Our records and reports indicate some major features which were common to both types of VDAs, due to which the majority were not functional and could not perform their roles effectively.

a) With a few exceptions, where leadership was enlightened and effective and where the groups were small and relatively homogeneous, the majority of the VDAs did not function effectively. They were large, most of the members did not attend the meetings, and leadership passed into the hands of a few.

b) In both types of VDAs there were sub-groups consisting of 15 to 20 members which could not work constructively with each other. Interestingly, even when all were poor families in the second type of VDA where a certain economic homogeneity prevailed, there were still sub-groups within the larger group which could not work together, even though in most cases there was no conflict of interest; on the contrary they had more to gain by working together than by making it difficult to do so. As a result, much time and energy of the staff was spent in solving problems of inter-relationship among sub-groups many of which were more apparent than real.

c) In VDAs where the entire village was involved including both the relatively well off as well as the poor, it was evident that the benefits did not reach the poor; they were clearly marginalised.

MYRADA's efforts to keep the village groups together were based on an assumption that the village is one unit and would become self-reliant and sustainable if this unit worked effectively. We were influenced by the theory that modernising influences had broken up the traditional village society and that unless this unity was re-established the village would disintegrate. We were therefore surprised to find that inspite of considerable investment of time (and money) both types of VDAs disintegrated once our staff kept away. **We then decided to critique our basic assumptions**. Why should we not accept the sub-groups as the institutional basis for motivating and sustaining the development process? In any case the image of the "unified" village society was more ideal than real. We could later observe if these sub-groups once established and confident, would work together to achieve common objectives.

One feature that dominated the Gram Sabha model in which the entire village was involved was that while these VDAs became a part of the credit delivery system (in terms of selecting beneficiaries, taking them to the Banks, channeling and managing funds and programmes from MYRADA and the Government), the objectives of equity, sustainability and effective participation and management of resources through group decisions, were not achieved. Though they did recommend individuals for grants/ loans which were either given directly by MYRADA or through the Banks, they had little influence either on the utilisation of the loans or on repayments. **As far as equity was concerned the poor did not get their fair share of credit.** When asked why the poor were marginalised, the village leaders justified their decisions on the grounds that they could not be responsible for the proper use of the loans and for recoveries as far as the poor were concerned. There were, no doubt, a few cases where a few of the comparatively poorer families were "recommended" for credit, but on closer analysis we found that this "recommendation" served to strengthen the patronage relationship which increased the dependence of the poorer "beneficiaries" on the well-to-do. Credit delivery became a mechanism through which exploitative relations were reinforced. It was also obvious that the effective participation of all members in group decisions was lacking because of the underlying relations which fostered dependence. Besides, once the loans were distributed there was no institution of the people that played an effective role in managing utilisation, recovery and further lending; the absence of this institution undermined any effort to make the process sustainable.

The pattern of relationship between the VDAs and our staff and the roles which our staff played in this VDA pattern of credit delivery also created a situation in which some of the staff quietly assumed proprietary attitudes over the VDAs especially with regard to the selection of "beneficiary families". The perception of people that the staff had certain power and leverage to access funds from MYRADA and the Banks strengthened this behaviour with the results that a few of our staff began to take on roles similar to that of petty officials where every decision has a price. Fortunately, such cases were few, but our analysis was timely and served the purpose of strengthening our resolve to search for an alternate credit system, in designing and managing which the people had a major role to play, and over which they would have control.

Chapter 3

TENTATIVE BEGINNINGS

During 1986 several experiences which emerged from people's initiatives helped MYRADA in its search for an alternate credit system which was appropriate to and manageable by the poor; of these we will describe **three.**

3.1. People's Institutions

The first and second experiences were analysed in 1987 and formed the basis of a paper which was widely shared. To quote from this paper (RMS Series Paper 3, Al Fernandez and Vidya Ramachandran)

1. "We noticed that there were a few small groups of women organised by one of our women staff primarily to discuss their problems and to give them an opportunity to acquire basic literacy and numeracy. They had been encouraged to make weekly savings of whatever small amounts of money they could put aside. After some time, part of these savings were put in a common fund. Of their own accord they had made some rules to discourage withdrawals until their account had reached a certain size. However, there were occasions when one of the group members needed money urgently, and needed a slightly bigger amount than what she had managed to save. Since there was money available in the group account, the other members checked out the genuineness of the need and agreed upon a rate of interest, the schedule of repayment and time frame for repayment. The main reason for this decision was expressed by one woman. "Why should a fellow-member approach a moneylender when her own group has the means to support her?" In the bargain, not

only was her need met without being caught up in the cycle of indebtedness, but the group too expanded its resource base with the interest earned."

2. Till 1984-1985 MYRADA continued to use the Cooperative Society in some projects as the basic institution for the management of credit as well as for other common activities. This approach was based on the success of the Tibetan Cooperative Societies which MYRADA had helped to organise during the 1970s.

The second experience emerged from the break-up of one Cooperative Society in our Kadiri Project where 400 landless families who were released from bonded labour were being resettled. To quote from the paper mentioned earlier :

"A Cooperative Society on our project in Kadiri which MYRADA had organised broke up of its own accord into fourteen smaller groups. Our Project staff at first tried their best to bring the groups together again, but realised the futility of it when they discovered that the people distrusted the leadership and that in any case, their needs and interest were too varied for them to be adequately considered and met through the Cooperative."

"They preferred to meet as small, independent groups where members shared common concerns and a feeling that they could trust and work with one another. That there was merit in this argument was proved by their **willingness to return the loans they had taken from the Cooperative to these groups but not to the Cooperative.** That year, when the agricultural season came, instead of approaching the Cooperative for crop loans, some of the groups approached the MYRADA Project Office for working capital support. Before they approached MYRADA with their request, they had met to assess what their requirements were, how they would use the money and when and how they would repay it. The staff were initially uncertain, but finally decided to take the risk and advance them the money because the agricultural season was upon them and the moneylender was the only other option; they also felt that these groups who had made considerable effort not only to get organised but to plan their strategy, deserved this chance. It was observed later that the money was managed more carefully and there was far greater responsibility and commitment from these groups towards using this amount for the purpose taken and in repaying it, which never unduly bothered the people earlier when they were dealing with the Cooperative. Significantly, on this occasion there was little pressure on staff to keep a group together, to help the group take decisions and to chase people for recoveries."

3. During 1984-1985 realising the problems in using the Cooperative Society as an appropriate credit institution, especially for the poor, MYRADA had also organised Village Development Associations (VDAs) where only the poor families of the village were members. When we analysed these VDAs, we found that they were large (often 50 to 120 members); further over fifty percent of the members were always absent from the meetings. When we went to the people with an open mind and asked them why they stayed away from meetings and whether they were interested, they replied that they would not join the larger group but would like to form another group of their own. Subsequently, several of the large Village Associations broke down into smaller groups just as in the case of Cooperatives. There was opposition in some cases from vested interests, especially in those VDAs where the entire village was involved since the more powerful families found that people were "going out of

their control", but though this delayed the break-up of the large associations it could not prevent the emergence of the small groups over a period of time.

3.2. MYRADA's Learnings

We tried to analyse these experiences and discovered that the major **reactions and expectations** of poor families at that initial stage were the following :

i. They had **no confidence** in the Cooperative since it was used to further strengthen the hold of the powerful on the poor through patronage. The unequal social-economic relationships that existed between members in their daily lives were carried over into the Society's meetings and transactions. How could a poor member of the Society's Board question decisions when he depended on the other members for labour, consumption loans and even social acceptance in the village?

ii. They (especially the women) **responded enthusiastically** to the opportunity provided for them to meet in a group of their own choice. There were several occasions when MYRADA staff found that only men had turned up for a meeting which was planned for women. The men were reluctant to leave. Our staff treated them well, held a group session with them to which they usually responded satisfactorily and then asked them to leave and to send the women to have a meeting of their own. This strategy worked in several cases though we also had instances of men refusing to allow women to attend meetings and even forcibly dragging women away from meetings. It was clear however, that the **groups particularly of women did not meet for the purpose of raising or managing credit in the initial period.** The women were motivated more by an opportunity provided to gather as a social group.

Accordingly, the first few months were devoted to group sharing of their problems, to socialising and to literacy. Only later was numeracy given priority in response to their demand to read their pass books and statement of loans and repayments. **Opposition from men to women meeting in groups lessened considerably when they discovered that women were able to raise loans to meet their needs.** There were also other problems which cropped up; for example - some men resented having to accept certain household duties, while women were attending meetings. Personal counselling in the homes was provided in these cases.

iii. **When the idea of savings was introduced, the response, both from men and women, was enthusiastic.** In many groups it was the exercise of depositing their savings, the discussions that revolved around the amount of savings mobilised by each and the provision of small loans, which were the major motivating factors bringing people to the meeting - far greater than the interest in literacy or numeracy. In a way the ability to save and produce the savings at the meetings became a status symbol. As far as women were concerned, the group also provided security for their savings.

iv. The staff noticed that the basic structure of the groups was already in existence before our intervention. The people expected MYRADA to build on these structures. The **"linking factor"** that united the group was not the desire to get loans but a certain **"affinity"** arising from social homogeneity like common heritage, caste or sub-group, gender, place of origin or the same traditional occupations. As the members trusted one another the staff did not have to spend much effort to keep the group together. These groups were **"socially viable or functional; they were also described as "affinity**

groups"; they possessed no financial capital that could be quantified, but had a social capital - a network of relationships - that was evident in their functioning. The people in these groups came together and worked in groups when there was a common action programme supported by the village, Government or by MYRADA. The groups, however, did not meet and function regularly; they were action oriented and met only when there was work to be done. The provision of a meeting place and other facilities by MYRADA, the regular home visits by MYRADA staff and their presence at the meeting gave the people an opportunity to meet regularly, and a reason for women to be at the meeting place which the men and elders in the home accepted.

v. **The people formed groups of members who had a high degree of economic homogeneity.** On analysing the groups that emerged it was discovered that they had a high degree of economic homogeneity. People's desire for groups with this feature was the clear message that emerged from the breakdown into small groups of the Cooperative Societies and the VDAs; these were economically heterogeneous associations; they consisted of small, large and marginal farmers, different castes and sub-groups. On the level of economic relations, the interests of these groups were often in conflict, with the powerful always dominating. For example, marketing of produce never took off, since several members on the Board of the Society were middlemen who controlled the market. The pattern of loans and recoveries also revealed a strong bias towards the powerful within the Society. On the other hand the members of the small affinity groups had more or less the same level of income. Although the same source of income added to homogeneity it was not an essential factor for affinity. It was however, necessary that the members are not involved in activities which could cause a conflict of interest among them (1).

vi. **These "socially viable or affinity groups" were small** (10 - 25 members); besides the **members reacted strongly to any attempt to increase the number for the sake of fulfilling the demands of a programme.** For example, when a Government sponsored programme required 20 in a group, it could not take off as the group refused to artificially increase or decrease its membership. The people gradually realised that the group had to be small if the objective of effective participation was to be successfully achieved. It is well known that larger groups do not provide a conducive culture and situation for each member to participate; they tend to adopt a 'representative' pattern of functioning where the members elect representatives and in the process hand over or mortgage most of their rights and responsibilities. MYRADA, however, soon realised that being small did not automatically result in effective participation by all. **The objective of achieving effective participation of each in a small affinity group required the constant intervention of MYRADA staff during the first year.** The weaker or more diffident members have to be encouraged and often provided with the opportunity for special training to enable them to intervene with confidence and to take on responsibilities. The role of MYRADA in providing training to group members and support, especially to the weaker ones, was an important element in the groups growth towards self-reliance and sustainability.

vii. **The groups were voluntary :** Though the Cooperative Societies were supposed to be voluntary they were so tied down by rules and regulations (all in the name of protecting the people) that every member interviewed felt that they were extensions of the Government delivery system. Further, their rules were standardised and did not allow for flexibility and adjustment to local situations.

Each credit group on the other hand evolved its own rules and regulations including the rate of interest, schedules of payment and recovery and sanctions for non-compliance. The groups are reluctant to register as societies since they are concerned that they would lose their freedom and flexibility and would become vulnerable to the demands of petty officials.

viii. When the group was given a choice to place **their savings in the common fund** of the group or to keep it in their personal account, the choice was overwhelmingly for the former though there were several who exercised both options. Till 1992, there is no record of any group member asking for interest on her/his contribution to the common fund. Since then, this issue has been discussed by several groups, some have decided to pay interest and have worked out the modalities.

ix. There was no report that any affinity group, (which emerged in this process) preferred the auction or lottery or chit model of credit management. At that time the staff did not ask why. Experience with these "chit" models later helped to explain why the poor did not choose to operate with these models or join these credit systems.(2) Their reasons for not adopting the 'chit' model were the following :

- The members expected that they would be able to get loans for consumption and that small emergency loans **should be easily available at any part of the day or night;** this facility was not provided by the lottery or auction chits.

- They also expected that **several** would get loans at each meeting if funds were available and not just one member. This required a pattern of management that differed from the auction or lottery chit.

There was remarkable consensus among the groups that no **single** member would be responsible for another members default even if in some cases she/he stood guarantee. **The responsibility of recovery and monitoring the use of the loan would rest with the entire group.** This was understandable as no single member could afford to stand guarantee for all. Once again this differed from most chit models where the **'foreman'** stands guarantee.

Since a major purpose of coming together was social interaction and support, the issues of the "life" or "duration" of the groups did not arise. In auction or lottery chits, the life of the group depends on the number of members.

x. Many of the groups made an innovative decision to change their main functionaries (President, Secretary and Treasurer) every year. MYRADA supported the decision and made it feasible by asking the group to elect/ select the functionaries for the following year six months ahead, so that they could be given special training in the skills required to manage the group. **This rotation of representatives ensured that all the members would have an effective role in managing group affairs.** This practice also helped to check the tendency for power to become concentrated in the hands of a few, and for leaders to use the groups in their quest for political power. Briefly, the groups opted for a participative model in which decision making was not delegated to a few "representatives" but shared by all. This feature once again distinguished the group from the chit where there is one strong "foreman" for the **entire period of the chit.**

There were a few expectations on the part of MYRADA as well; these covered a broad spectrum ranging from "expectations" which flowed from or were based in MYRADA's Mission Statement, to those which were thrown up as a result of an analysis of several groups carried out after they had functioned for a period of 1 to 2 years. Those expectations that flowed from MYRADA's Mission Statement were the following :

i. **Only the poor could become members of the group.** This helped to keep out those above the poverty line. Upto 1988-89 the methodology and criteria used to identify these poor families was based on studies made and formats designed by institutions and individuals specialising in these fields. Since 1988-89, these criteria are increasingly being established by the people and the decisions made by them using participatory appraisal methods. We find that the results are more accurate. The criteria used by people to identify the poor have considerably increased our knowledge of people's perceptions and criteria which differed in many ways from ours.

ii. **The need to save regularly and to cultivate the habit of thrift :** Though this aspect is not mentioned specifically in the Mission Statement, it expresses the underlying philosophy of self-reliance and sustainability. MYRADA's message since 1985 clearly states: **"Savings are from necessities not from surpluses; the poor too can save".** We did not ask for a "share" as a condition to join the group since the capital for this "share" was usually borrowed. Besides, the objective was to **cultivate the habit of thrift which calls for regular savings** and which MYRADA considers essential for the poor to sustain their efforts towards self-reliance. The need for the thrift habit became clear when we noticed that the consumption pattern especially of men changed as their incomes grew; they increased expenditure on drinking, smoking and clothes. Several groups - both of men and women - applied and enforced sanctions especially on consumption of liquor, paan chewing and smoking.

3.3. Emerging Guidelines

There were also a few other expectations relating to the functioning of these groups which MYRADA considered necessary after analysing the performance of groups that were 1-2 years old. These expectations related to norms or guidelines adopted by groups which had functioned effectively and developed the features of an institution. It was genera lly accepted that if people's **desire to continue functioning as a group was to be sustained,** certain norms/guidelines would have to be observed :

i. Regular meetings, preferably once a week.

ii. Literacy and Numeracy : At first literacy was given priority but it was soon evident that people wanted to read the numbers and figures on their pass books and on the statement of loans and recoveries; hence numeracy was given priority.

iii. Attendance at meetings should be over 85%. If a significant number did not attend regularly, the reasons for their lack of participation have to be assessed. In many cases, those who kept away decided to start a separate group.

iv. Basic books and records should be kept like the attendance register and minutes books where all decisions were recorded. If there was no one in the group capable of keeping these records, the group could avail of the services of MYRADA staff on the understanding that this would be a temporary measure. Another option before the group was to hire the services of a local person and to pay her/him for every meeting attended and recorded. The group members, however, had to acquire the skills needed to monitor the records as soon as possible; MYRADA's role in this area was to provide all support necessary to achieve this objective.

These experiences were tentative beginnings, but they were sufficient to give us confidence that, given the opportunity, poor people even though illiterate to begin with, could develop institutions that were appropriate to meet their needs, and that they were capable of managing these institutions provided they were assured that support would be available, readily and willingly, if required. MYRADA had enough evidence to confirm its assumption that **if the poor had managed to survive in a situation of uncertainty and scarce resources they must be good managers.** True they now had to shift into a new gear, to a higher level of skills and self-confidence in their ability to take risks. They needed support in this effort; but the will to shift gear was theirs and external support had to be conditioned not by the need to achieve targets or spend funds within a stipulated period, not by an ideology, the consequences of which they were unable to bear, but by support that was sensitive to their feelings, appropriate to their strengths and timely without being over-powering.

It is to the discredit of MYRADA that it did not succeed in every one of its 16 projects in providing support of this quality; but in those projects where it was able to cope with several and often conflicting pressures which would have had a negative impact on the growth of the groups, these tentative beginnings gathered strength and flourished.

MYRADA's search for alternate systems appropriate to the area and based on traditional values and practices ensured that it would not try to **transplant ready-made models** of credit management which had developed in other countries. Further, MYRADA emphasised that, **it would not become a financial intermediary,** as many, in fact, wanted it to. MYRADA also did not attempt to design a credit management model or to ensure that all the groups adopted a standardised or normative pattern of credit management. For example, the number of members in each group was not fixed initially, it varied from 12 to 30. It was after two years of experience with the groups that an analysis indicated that the better groups ranged from 15 to 20. It was then that a guideline on the size of the groups was circulated. The rates of interest also vary from group to group depending on their assessment of the cost of credit in the local area, the profit expected on investment, and the social needs of the family.

A feature of MYRADA's management style that had an influence on the credit model that developed was a strong thrust towards decentralisation. As a result, the alternate credit system did not take on centralised features. Each group has its account in the nearest Bank or Post Office. Decisions on loans, on the rate of interest, on payment and repayment schedules and sanctions are taken in each group; the representatives of the group collect savings and recoveries during the meetings and deposit these funds in the nearest Bank or Post Office; they sign and cash cheques. Each group also decides to undertake various other types of community activities besides credit management. The decentralised approach is one reason why MYRADA does not attempt to start a "Bank" which tends sooner or later to take on features that are standardised and centralised due to several factors, including the need to conform to banking norms and to recruit a certain type of people who tend to have formal banking experience which impacts on the culture of the institution and on the pattern of management and administration.

Footnotes :

1. This characteristic of economic homogeneity distinguished these credit groups from the milk societies of the Amul model which MYRADA had also organised in its project areas alongside the credit groups. The milk societies need the large milk producers to make the milk route viable. The small supplier who contributes _ a litre needs the large one with her/his 5-10 litres. The small man sits on the back of the big man. The system ensures that all receive a fair price provided quality is maintained irrespective of the quantity contributed. Whereas in the credit societies heterogeneity in economic levels further weakened the poor as the exploitative relationships operating in society were carried into the credit group. In this case the big man sits on the back of the small. The cooperatives are good examples of this; the poor had little say in their running and even less on the sharing of benefits. During the early years some credit groups which ran on the model of the VDAs were heterogeneous and had a similar experience.

2 Just about this time the staff of MYRADA Head Office ran an auction chit. Both the men and women were involved. Participants also cut across several levels of responsibilities and positions. A rapid analysis showed that some of the men chose to bid for the first few chits, while the women preferred to wait. When queried, it emerged that those men who bid for the early chits had plans to invest in areas of higher returns. They assessed their losses, therefore, not with reference to the dividend they had to forgo by bidding early but with reference to the entrepreneurial opportunities that they would miss by delaying. On the other hand those who preferred to wait, unanimously justified their stand by the argument that they were not loosing any money by waiting; besides when they need a lumpsum they could get it. They estimated that their 20 month chit, would close in 18 months and would earn an average of 9.8% interest on total investment of each member over the period. They were prepared to forgo the extra interest they would have gained by investing even in 'safe' areas like fixed deposits with Banks and Companies and considered the loss worthwhile in return for the opportunity of getting a lumpsum when needed. For these members therefore, the chit covered emergencies while at the same time ensuring they did not lose money. There was also the added incentive to save that the chit provided and the social relations it generated. On the other hand the participants in the credit management groups did not have any entrepreneurial opportunities to attract them to the auction chit model. They were unwilling to take large loans for business or cottage industry in the initial stage, as they did not have the confidence and skills to do so. As confidence grew and opportunities to acquire skills were provided and taken and after they had the confidence that their consumption needs in an emergency could be met by the group, the number of loans for income generating projects increased.

Chapter 4

AFFINITY GROUPS - THE FOUNTS OF AUTONOMY

This chapter will try to respond to some of the queries regarding the development and structure of the credit management groups that arise repeatedly, and even some that do not, but need to be explored further.

4.1. Why focus on groups?

Why does MYRADA focus on **groups** as an institution for savings and credit management instead of adopting the procedure of delivering funds directly to each family?

Funds were provided as loans to individuals before the affinity groups were formed; the role of MYRADA in identifying individuals, assessing their capability and following up on the loan, created a debtor-creditor relationship between MYRADA and the individual. This relationship undermined all MYRADA's efforts for community organisation and motivation. The defaulters kept away or attempted to build unhealthy relationships with the staff in order to further delay recoveries; besides the staff could not apply effective sanctions.

The short response to this query is that MYRADA did not make this choice. The Cooperative Societies and VDAs which MYRADA had organised broke down into small affinity groups. Later other groups were identified during common action programmes, like tank desilting or road construction which were organised by people; they worked in small functional groups and each group undertook an identifiable objective or area of operation. These groups were also identified through regular contacts and meetings in the village. Several groups came to our staff with a request to relate to them as they had seen other groups meeting regularly and had decided to do the same. **These groups were the founts of autonomy** which became visible due to their positive response to events and opportunities.

MYRADA, however, never insisted that all the 75,000 families it works with should be in groups; it continues to work directly with individuals where the groups do not exist or do not function well. There are hundreds of cases where individuals have availed of loans/grants from Banks on the recommendation of MYRADA staff. These individuals tend to belong to a group that MYRADA calls the "enterprising poor". MYRADA's experience, however, shows that the large majority of the poor prefer to function as groups; it has been found that these groups offer their members the best opportunity to develop a support institution for their sustained development.

Driven by its mission to identify, accept and rely on traditional social management systems before proceeding to revive and equip them to face new challenges and responses, MYRADA did not stop to question or analyse these groups; **it accepted them**. During the first year, the functioning of these affinity groups confirmed that they were socially viable and, with appropriate inputs, could function in a sustainable way.

Social viability requires that each group is held together by an **"internal" force and does not require an external agent to resolve conflict problems and to keep them from falling apart.** This internal force arises from a **network of relationships** which is the core of **social capital**; this is what makes the groups socially viable. In order to function however, they have to acquire skills in two broad areas: they have to develop their own rules, regulations and pattern of behaviour, in other words become fully **voluntary institutions**, and they have to become fully participative **where every individual becomes an effective member. In these two areas MYRADA's support was provided. A reference to the feature of "participation" would**

be in place here. It was noticed that though these small affinity groups were socially viable, **all the members did not participate effectively**. In such a situation power could become monopolised by a few. This is where MYRADA had to play a role. Workshops were organised for the group **as a whole.** The weaker members were provided with training specifically geared to help them acquire skills necessary to participate in meetings. Numeracy and literacy classes helped them to acquire the skills to monitor all transactions. We found that members of these small groups were keen to acquire the skill of numeracy in order to read their pass books and the records of loans and repayments, which in turn helped to keep the system open and sustain their involvement. The regular (yearly) rotation of the group's office bearers helped all the members to gain confidence; the office bearers for the following year were elected 6 months in advance and provided with training opportunities to equip them for their job.

We were criticised for supporting these sub-groups to function more visibly. We were told that this approach went against the accepted goal of building a village community. On the other hand we discovered, mainly from attending meetings of the groups, that the small groups were not antagonistic towards one another. They perceived their progress as a tangible **opportunity to improve their lives rather than to compete with others**. The regular meetings and higher social visibility also fostered a progressive sense of pride in their efforts to improve as well as a growing sense of belonging. We could see the transformation of a group into an **"institution"** with an emerging pattern of behaviour, which above all was their own. Interestingly, competition with other groups surfaced mainly when they approached Government or politicians for benefits from anti-poverty programmes which were targeted to specific groups or areas and which could cope with only a small percentage of those eligible. **It is in their demands for Government largesse, which is always in short supply, that they stress their separateness**

causing intolerance and resentment of each other.

It must be mentioned here that contrary to many statements repeatedly made by some politicians that the poor depend on the Government, our experience indicates that they depend on the better off families in the villages more than on the Government. It is the middle and higher income sections of society who depend on the Government to the extent that they expect it to do far more than it possibly can, and are able to manipulate Government machinery to support their interests which the poor are unable to do. **The patronage of the powerful is the dominant feature of public life.** It is this daily experience which explains why the poor lack confidence in any Government sponsored institution; **this in turn increases their sense of commitment and belonging to one institution namely the small affinity group which they had a hand in shaping.**

There was adequate evidence however, that the group, as it developed into a savings and credit management institution which increasingly met the credit needs of its members, created **resentment** among the moneylenders in the village. In most cases, however, most of these "moneylenders" had other occupations; they were shop-keepers, farmers with irrigated land and small businessmen. They did not depend for a living on moneylending only. Latent hostility to the group became overt and organised in pockets where the feudal system was strong or where the moneylender had no other occupation to fall back on. In many villages, inspite of the group's lending operations the members **still rely on money lenders.** There are several reasons for this : some groups still do not have adequate capital in the common fund, many groups refuse to give agricultural loans to all its members during the same season (the reason they give is that the group sanctions would weaken if all availed loans for the same purpose) therefore some members have to rely on moneylenders, many have personal reasons, the moneylender is also a long standing "institution" in which people have confidence. What is important to note, however, is that the dependence of members on moneylenders has decreased and interest rates have fallen, as the SHGs began providing 25% to 30% of their credit needs.

4.2. Obstacles to the Group Strategy

The group strategy, however, met with several obstacles since it did not harmonise with:

- the Government's IRDP and other anti-poverty programmes which provided funds **directly to individuals**.

- the Banks operative systems of transacting lending operations where all **documents are in the name of individuals**.

- the policies of some of the external donors of MYRADA whose administrative systems were highly sophisticated but were created during a period when they had to cater **directly to individuals** rather than foster the formation of people's institutions. Other donors, however, quickly adapted to MYRADA's focus on "institution building".

MYRADA received funds from these sources, but for different projects which were administered separately in an increasingly decentralised manner. As a result, disparities arose among the various projects in the progress and structure of the credit groups, even though MYRADA attempted to relate all the programmes to the process of group formation. What must be noted is that MYRADA itself was searching for a strategy during these years (1984-86) while the funding relationship with the Government, Banks and external donors had already been well established.

Consequently, MYRADA's efforts to relate the programmes in various project areas (some of which were driven by the culture and pressure of a delivery system relating directly to individuals) with the growing concern for building appropriate and sustainable people's institutions had various degrees of success. In some areas the progress of institutional growth was weakened and sometimes stifled, while in others it flourished. In some projects the difference in focus during the initial period projected two messages - one from MYRADA and the other from the donor; but gradually several of the donors realised that the need for sustainable development required the nurturing of institutions, and supported MYRADA's strategy.

With the entry of NABARD in December 1987 which invested both time and money in the credit groups in some of MYRADA's projects, the perception of the Banks and other donors towards group management of credit began to change. A significant shift in Bank policy from direct individual financing, towards provision of funds as loans, matching the groups savings, was the first area in which a breakthrough emerged. The **entry of other institutions** however, required extensive 'facilitation' and training especially of their staff at lower level, since several concepts, important for the functioning of the groups were easily misunderstood. For example, the "group" meant different things to different people. The difference lay in three areas:

i. in the understanding of the group **structure** that is required if the **focus of the intervenor is on the poor**.

ii. in the manner in which the people are **approached** and the groups formed.

iii. in the objective of the intervenor - whether it is to support the group to grow into a **people's institution in its own right** or **whether the group is formed to achieve the objective of outsiders (NGOs and Government) which**

are usually target oriented and temporary. A few examples to illustrate the obstacles that arose in these three areas will help to clarify the differences.

i. As far as differences in **structure** are concerned, this has been amply illustrated in previous chapters where the structures of the Cooperatives and the VDAs on one hand and the self help groups on the other were analysed; the latter were socially viable affinity groups of the poor; Cooperatives and VDAs were not; they reflected the heterogeneous state of society, where divisions of class and caste and conflicting interests dominated. As a result, the poor who were members of the Cooperatives and VDAs did not participate effectively and had little influence and power in decisions. Some of MYRADA's partners also assume that the group should include all families in a village; the group would then appoint/elect a few representatives to implement programmes. This approach is similar to the VDA or Cooperative Society and suffers from similar structural limitations.

ii. The **approach** used in forming a group is of importance in laying the basis of a group which can develop into a viable institution. In one MYRADA project implemented in collaboration with the Government which focused on group formation, a number of officers from the Government Departments were involved with MYRADA staff; considerable funding was provided through Government sources. The project strategy as formulated in the proposal was based on group formation and management of savings, credit and assets. While MYRADA's role was to identify and strengthen groups and to provide training, both to groups and animators, the role of the Government was to establish the criteria to select eligible (largely defined as those who were not defaulters) beneficiaries, to provide technical support to their income generating options and to manage fund flows. Interestingly, while all the Government officers involved asserted that they had worked through and with groups as directed, it became clear over a period of time, that in some areas, projects were successful, while in others they were not so. On further enquiry it was found that the officers had adopted the following approaches in relation to people and in forming groups :

Officers in areas where the projects were unsuccessful, had visited the villages at their convenience usually between 10 a.m. and 1 p.m. and between 3 p.m. and 5 p.m. They announced their arrival and purpose (to identify eligible beneficiaries) and gathered people around. This gathering, the officers referred to as a "Group". The options of each eligible family present were identified and the visitors left to process the applications. **The significant progress in this strategy was that the team of officials went to the villages and finalised the programmes there. The people did not have to make several trips to the BDO's(1) office or the Bank**; this approach was described by some as a rapid appraisal of and response to beneficiary needs.

The other group of officers first went to the MYRADA project units where the list of scheduled group meetings was displayed. They visited the group on the day and at the time it was scheduled to meet. **They did not conduct the meeting, but let the group negotiate its business and complete the agenda for the day.** They then explained the project they were involved with and asked the groups to discuss their members' options at their pace and convenience; they left, promising to return for the next meeting. It often took 3 visits for options to be finalised for processing, as the original choices of members were discussed by the group and several changed. The take off in the second group was slower than in the first, but the result, at least in terms of choice and management of assets, was more successful. The second approach left the group far more involved in the programme and willing to apply sanctions for improper use of assets and recovery.

It was clear that the word "group" was understood differently by the two groups of officials. In the first case, the group was formed and controlled by the officers, it was their "group"; this was not the case with the second group.

iii. Objectives of Intervenors : From 1989, onwards, working with "groups" has become almost a "fad". Many programmes, both Government and Non-Government, incorporate the group as the basis of their strategy. **To project the group as a people's institution while at the same time to be driven almost entirely by the intervenor's objectives (like achievement of fixed targets which are unrealistically high often due to political pressure and officials' willingness to please) that are extraneous to and often destructive of the process of group formation, is to sabotage the group concept and strategy and to destroy all potential for management and sustainability.** The following example will help to clarify this observation.

During the initial period when MYRADA was searching for appropriate methods and approaches to group formation there were several experiences involving MYRADA, Donors and Government staff which reduced the process of group formation to a symbolic gesture, since the groups were viewed merely as another link in the delivery system. These experiences had certain features in common :

- **pressure to achieve annual targets** in expenditure or in identification of beneficiaries was very strong and was the major factor driving the programme; the performance of the officials was assessed on the basis of the targets achieved in the areas of expenditure incurred or number of beneficiaries assisted.

- **prescribed criteria to select "eligible beneficiaries"** (such as non-defaulters or those who had children eligible for sponsorship) or even to fix a priori the number of group members; these criteria were extraneous to and undermined the process of group identification and growth.

- a development strategy which required that **groups implement programmes**; further, to avoid the criticism that certain sectors were not involved, this strategy demanded that **groups should be formed of the entire village**; accountability was ensured if the group followed **monitoring systems prescribed by the donors**, which reduced the latter's risk to zero; this strategy did not recognise that society was heterogeneous and that development of the poor required structural change; consequently it did not support adequately the groups' **potential as change agents**.

As a result of these pressures, staff in some projects first identified eligible families (using criteria external to the process of group formation) and brought these families together into what was described as a "group". In most cases, these groupings were artificial; there was no internal network of relationships binding the members of the group. Though the members had a degree of economic or gender homogeneity, **they were linked only by the desire to become "beneficiaries"** of the programme; the social capital and affinity which would have provided a basis for social viability did not exist or was very weak.

We had several experiences of officials and donor representatives insisting that it is a waste of time to look for existing affinity relationships on the basis of which to build the group.**(2).** Their argument was justifiable in the context of the pressures under which they had to operate, since several members of the affinity groups would not pass the prescribed eligibility criteria, and therefore could not be potential "beneficiaries" of the programme, it would be a "waste of time" to work with them. It was difficult to make such programme administrators realise that if only "eligible" beneficiaries were required to form a group it would be a common feature for some of the affinity group members to be left out and therefore the others who were included in the "group" and who were bound by social relationships to them would be very uncomfortable. On the other hand families who are not socially cohesive would be "forced" together to work as a group; this group would always require an external agent to keep it together. Moreover, in the latter case, it would be difficult not to project the message that the real objective of "group" formation was to provide funds to each one — with the group being just a symbolic feature or an instrument that would reduce the responsibility of the "giver" in case of default. One cannot expect groups formed in this fashion to scrutinise the options of each member or to apply sanctions throughout the process of management of the asset and repayment.

4.3. Why save?

Though it was surely the "group" as a key element in MYRADA's strategy, which encountered the most difficulties, there were also other areas where queries were raised. Why for instance, did MYRADA organise a sustained campaign to motivate each group member to **save**? And why did MYRADA encourage people to invest their savings in the group's common fund even though the group offered no interest on deposits? Further, why did each group need a separate **common fund (3)**?

The poor, we are often told, are unable to meet their daily consumption needs; how can they possibly set aside any income as savings. Yet from our interaction with them we find that they do have certain aspirations - mainly to own some asset, and are willing to save to acquire it.

Their potential to save is largely seasonal; an analysis of their income pattern does reveal certain surges during the year; it is during these periods that savings are possible. But the stand that MYRADA adopted, based on previous experience in group savings which some of the staff had, was to urge people to save throughout the year, even when earnings were low. The slogan MYRADA adopted was **"savings are from essentials not from surplus". The idea behind this thrust was to encourage "thrift"; to make it a habit**; one Banker described this as "sacrificial savings". It is commonly accepted that the habit of thrift which contributes to savings and later to investment, if opportunities exist, is a major factor in generating and sustaining an individual's desire for progress. The groups often refused to accept members whom they knew would not save because of habits like excessive drinking, smoking, *paan* chewing and gambling. Such people, they said, have no desire for progress.

There were, however, obstacles that the group members had to overcome; for instance, in order to save, they had to be able to put aside their savings **everyday or atleast regularly**; in other words, there had to be a system to "receive" these savings. The "Piggy Bank" practice served this purpose in several areas; but MYRADA's efforts to introduce it within its credit programme has not been very successful. The major reason being that it was not considered safe; the location was identifiable as it could not be easily hidden.

Most groups agreed to a minimum figure of savings which rose gradually as they progressed. Where the groups function effectively, the rate of savings has been sustained. For instance, in **Talavadi** savings rose from Rs.201,891 in December 1988 to Rs.318,777 in December 1991, to Rs.536,841 in December 1993, to Rs.1,188,329 in December 1996. In **Holalkere** savings rose from Rs.215,066 in June 1990, to Rs.357,055 in December 1991, to Rs.1.2 million in 1993 and to Rs.3.3 million in December 1996. In **Huthur**, savings rose from Rs.59,699 in June 1990, to Rs.90,142 in December 1991, to Rs.182,960 in 1993, to Rs.538,561 in December 1996. In **Kamasamudram** savings rose from Rs.84,377 in December 1989, to Rs.282,714 in December

1991, to Rs.715,543 in 1993, to Rs.1,499,860 in December 1996. Our surveys, however, revealed that the savings produced at weekly meetings reflected not so much a daily effort but more the effort of the day of the meeting or of a day or two prior to it. One can assume that if a system to foster daily savings is introduced, the savings would rise considerably.

As incomes increased due to the provision of credit opportunities, it was noticed that men began to change their consumption pattern; from 'traditional' to 'foreign liquor' and from *'beedis'* to 'cigarettes'. The womens groups raised this issue at several meetings. As a result, social pressure began to be exerted in men's groups to restrict the consumption of liquor; fines were imposed in many groups. The objective was to curb unnecessary consumption and to encourage savings. **The excuse that there was no place which was safe and of easy access to keep their savings was no longer accepted**; the group fund was there and needed every rupee. The constant stress on the need to save in order to build a good future did have an impact. As confidence grew in their efforts to progress, hope increased in their ability to achieve certain of their objectives like sending the child to school, buying a piece of land or providing irrigation or starting a small business; this in turn increased the incentive to "save".

Savings also played an important role as a component of the common fund. In several projects it was the major component. As a result the group took a **risk** whenever a loan was given, since part of the money belonged to the members. This element of risk helped to ensure that decisions were taken after full consideration of the pros and cons of the case.

Some groups are far more protective of their savings than of the recoveries accruing from loans originally provided to members by MYRADA. A few groups maintain two common funds - one of their savings and the other of the recoveries from loans originally provided by MYRADA to the groups. They levy higher interest rates on loans from their savings than from the second common fund. This indicates the high value they place on their own funds which in turn motivates management.

The groups also started lending from their own savings before MYRADA or NABARD provided matching funds. This ensured that they went through a period when their resources, besides being their own, were also **scarce**. Though this is not a feature specific to savings, it flows from it and places the group in a situation where the members have to make choices in the initial period since resources are scarce. If resources are adequate to meet the needs of all the members, the group does not "**manage**" the common fund though it may "**monitor**" the use of the loan and the recovery. Management requires that choices are made in order to establish priorities, to refuse a loan and to change the amount or timing; it is this exercise that trains and equips the members with the skills and qualities required to ensure success in any enterprise.

Another common question is - **"Why did MYRADA offer the members an option** - either to invest their savings in the Banks in their individual names or in the common fund?" MYRADA in fact did not pressurise the members to make a choice. Many of the members exercised two options, they placed part of their savings in the common fund and part in their individual accounts; this is a good example of their maturity and wisdom when given options. There is however, ample evidence to prove that in projects where the groups flourished, the group members were willing and even eager not only to start a common fund but to place all their savings in it. In several cases, they even decided that their contributions to the common fund would not be reimbursed if they left the group. While the formation of a common fund did not require any "pressure" from MYRADA, the management of the fund did require inputs in terms of skills and necessary instruments.

A major criticism of the functioning of the common fund is that the **members do not earn any interest from their "investments"**; as a result their commitment to strengthen the fund is expected to weaken. This did happen in a few groups after 4-5 years where the fund exceeded an average of Rs.2,000/- per member. In some cases the members feel that this amount is adequate to meet their consumption needs and their demand for investment in agriculture and livestock. For other major loans they now have the confidence to approach the Banks. Other groups, however, are revising their position on giving interest on investments in the common fund. They feel that the decision to give interest may provide an ongoing incentive to the group to keep the common fund revolving more rapidly by advancing loans to members in order to earn adequate income which in turn would source the interest. The groups in Talavadi project which have set a minimum target for weekly savings have decided that while this amount will not earn interest, any savings over and above this minimum will do so; they reason that those with larger savings cannot claim extra or larger loans, since they will in any case earn more interest than the others. Some groups in the Dharmapuri Project have arrived at the following decisions in this matter :

> "Interest will be paid to the group members at a rate not exceeding 6% per annum, since the group also gets the same interest on Savings Accounts. Hence, even if part of the common fund is not rotated by the group, it will be able to pay the interest rate.
>
> Interest will be paid to the members at the end of every year to reduce the number of transactions in the group.
>
> Interest will be paid over and above an

amount of Rs.400/- per member saved and the interest will be paid on multiples of Rs.100/- over and above Rs.400/-".

4.4. Building Blocks of Self-Rèliance

Studies conducted periodically both by MYRADA and by outside institutions and evaluators indicate that SHGs have several positive features that are the building blocks of self-reliance and empowerment; these are listed briefly below:

- They provide a **cost effective credit delivery system;** the transaction costs of lending decrease sharply both to the banks and the borrowers; Banks which have advanced lines of credit report that the repayment rates are high, ranging above 95%.

- They provide a forum for **collective learning** which rural people find more "friendly" and which is consequently more effective than the individual or classroom approach that is commonly adopted. The intervenor, must realise and make use of this potential.

- They promote a genuine **democratic culture** where **rights and responsibilities** are equally valued and internalised; and where **sanctions** are **imposed** and **accepted.**

- They provide the members with opportunities to **imbibe norms of behaviour** that are based on mutual respect and which can be recognised by the society.

- They foster an **"intrapreneurial"(4)** culture where members realise that they need the support of the group to achieve personal objectives; their personal interests, however, cannot be promoted at the expense of the group.

- They provide a **firm and stable base for dialogue and cooperation** in programmes with other institutions like Government departments, cooperatives, financial and Panchayat Raj institutions; if the groups are functioning well, they have the credibility and the power to ensure their participation in identifying, planning, budgeting, and implementing Panchayat Raj programmes for the empowerment of the poor (several members of SHGs have been elected to Panchayat Raj institutions).

- They provide the **individual member with the flexibility required** over the timing, size and schedule of loans and programmes, and with the freedom to broaden the pattern of asset provision to include a package which helps the individual to spread risk rather than to limit it to a single asset;

- They help to assess the **individual member's management capacity** which may fall short of what a "viable" investment package requires for optimum returns, as prescribed under regular IRDP norms, but which is manageable by a particular member.

The strategy therefore evolves around (i) the potential of the SHG to provide space and support so that each of its members can identify and use opportunities for her/his empowerment both in private and public life, and (ii) the capacity of the SHG to relate effectively with other institutions. **Briefly this is what MYRADA means by describing SHGs as credit plus institutions** or as founts of autonomy.

It is, therefore, necessary that SHGs are promoted in a way that facilitates the development of a participatory and empowering culture. This in turn makes it crucial for all intervenors to empathise and be familiar with participatory management practices in their own organisations before using participatory methods to identify and form SHGs.

4.5. Myrada's Learnings :

Our experience over a few years with these groups helped us to reflect on why we continue to adopt this small, affinity group strategy. It is necessary to stress once again that of the **75,000 families** with whom MYRADA works directly, only **62,769** are in groups. The others still relate directly to credit institutions or MYRADA. Even among the groups, several do not work well. The percentage of poor groups ranges from 30% in projects where the formation of groups encountered serious hurdles to 10% where they did not. Among the groups performing poorly, there are several members who have availed of loans directly and have flourished without group support; but though these are poor they were the best equipped; they had the skills and a degree of such confidence and only required capital to take off. **The group strategy is not therefore an absolute requirement; MYRADA has not insisted that all the families it works with should be in a group; it has found, however, that the group meets the needs of a large number of poor families and they will continue to be members as long as they feel the need to do so.** Of those who are not in groups, some do not wish to join a group; these are usually the enterprising poor while others are not admitted by the group due to their behaviour which reduces their credibility.

Reasons for pursuing vigorously the group approach which emerged during the first few years of our experience with the savings and credit groups are briefly summarised below:

i. We discovered that it was not sufficient to provide inputs directly to a poor family in an effort to raise it above the poverty line; it also needed continued support to **remain** there. The so called "backward and forward" linkages were not adequate for this purpose; the family also required what we call **"sideways" linkages** - namely a support group - at least during the initial period. The group provided social security initially, and later, even physical. As the groups self-reliance grows, it affects entrenched interests which in turn threaten the members; the group provides security and gradually emerges as a power base.

ii. **We realised that what is considered viable by experts who formulate schemes is not necessarily manageable** by a particular family. When inputs or assets were provided directly to the family, we found that often the family opted for the assets because it knew MYRADA or the Government had to provide them under the scheme. On the "donors" part the micro projects were based on standard practices which were supposed to ensure "economic viability". The group created an environment in which a family opting for a loan from the group would not obtain it, if the group decided that this family could not maintain the resource because of its lack of skills, or because it did not have the ability for sustained work and commitment or for several other reasons which the project proposal did not take into consideration. Whether the family **could manage this asset was the major concern** which played a part in deciding initially whether the family should get an asset. The role of MYRADA was to provide the families with the necessary skills and exposure to increase their managerial capability; this requires time. **Experience showed that families start with consumption loans, move on to loans for petty business and trading before acquiring confidence to take larger loans to purchase assets.**

Viability also has another angle. Projects are designed with the purpose of raising the family above the poverty line. For example, the provision of cross bred cows is based on the income they can provide which is considered adequate to raise the family above the poverty line. Managing these exotic animals however requires skills, infrastructure and confidence which many of the poor families do not possess. Given the opportunity, they opt for a package of assets which independently may not be viable, but together provides them with adequate income and the flexibility needed to meet both short and long term needs. For example, if the package includes one local cow (which by itself is not viable) a few sheep and some poultry, they can sell the smaller assets like poultry or sheep if they need money urgently; they also have the skills and resources to manage these assets. This package the groups provide, while official schemes do not. Though NABARD had approved such packages in the Dharmapuri Project, the Bankers did not implement it since their reporting formats required data according to prescribed sectors like agriculture, animal husbandry etc.; **packages made reporting extremely difficult**. It was becoming increasingly clear that the decisions of the affinity groups helped to fine-tune decisions regarding the capabilities of the individual and the transaction. No external organisation could hope to identify and inter-relate all these factors in order to take a decision in each case.

iii. We learned that the groups also considered **"timing" as or sometimes even more important than cost.** MYRADA for example, would purchase sheep during the summer months because prices fell, without realising that the precise reason for the fall in prices - namely the shortage of fodder - would make the asset difficult to manage. The groups on the other hand refused to advance loans for sheep except when fodder was available even though at this time prices usually showed an upward trend.

iv. An analysis of the size and number of loans and the variety of purposes, proved conclusively that neither the official credit institutions or MYRADA could cope with all these factors. As far as **size** was concerned, the vast majority of loans were very tiny. Till 1991, out of a total of 8,376 loans given by the Holalkere groups, 4,882 were below Rs.200/-; in Talavadi out of 26,464 loans, 19,025 were below Rs.200/- **(5)**. The picture was the same in other projects. The **number** of loans was also too large for any Bank to handle. In 4 years, groups in Talavadi advanced 26,454 loans; in Kamasamudram 5,293 loans and in Holalkere 8,376 loans, while one branch of a Bank finds it difficult to handle 400 loans in a year.

v. The variety of purposes also took us by surprise. Only in the groups could such a variety be identified and supported.

A consolidated list of loans advanced by Talavadi Project till 1991 indicates this **variety** :

Activity	No. of loans
Bicycle	3
Clothing	1,797
Education	425
Food	7,454
Health	2,870
Bonded Labour	6
Land Release / Purchase	3
Repaid to Moneylenders	521
Consumption (others)	6
Radio Repairs	6
Socio-Religious Ceremonies	2,104
Shandy (Local Market)	156
Travel	141
Crop Loan	3,464
Agri. Equipments	230
Irrigation	7
Land Development	2,180
Bullock	427
Cow / Buffalo	904
Feed / Treatment	78
Infrastructure	16
Animal Husbandry (others)	4
Poultry	136
Sheep / Goat	1,961
Watch Dog	1
Cottage Industries	17
Petty Business	375
Sericulture	208
House Construction	331
House Electrification	1
House Repairs	552
	26,454

vi. When MYRADA extended loans directly to people, recoveries were poor since MYRADA's image of a **lender is soft**. On the other hand the lending operations of groups did not create a debtor-creditor relationship. Being a member of the group, a loanee is simultaneously a debtor and creditor. She/he feels responsible to repay on time. We found that the groups can and do apply pressure and sanctions on the few members who do not repay promptly.

vii. The **cost of repayment** to Banks and Cooperatives is also high - the few who feel responsible to return loans often travel 6 - 10 kms to repay whatever small amount they can; this acts as a disincentive for prompt repayment; whereas the group being right at her/his doorstep the loanee can return funds without incurring costs.

viii. These autonomous and voluntary groups fostered the emergence of innovative, appropriate and replicable ideas on **a continuing basis** by providing the people opportunities to come together and to share and learn from each other's experience. They also brought to the surface and made operative latent traditional values like group support. These values which were operational in society, became latent and were almost lost. However, once a group began to function, these latent values gradually became activated. This was proved by several decisions taken by the groups which affected their behaviour patterns making them more socially and individually responsible. The groups for example are able to apply sanctions effectively. These sanctions cover not only defaulters but also certain practices which the group decided were obstacles to progress, like excessive consumption of alcohol, *beedies* and *paan*; in many groups, population control has become an objective and sanctions are applied to those who do not stop having children over a certain number agreed upon. Sending children to school regularly is an increasing practice and sanctions are applied on defaulters. The most important "sanction" that the group applies however, is the withdrawal of group membership; the groups have an "exit" policy which proves effective in maintaining its coherence and viability.

Footnotes :

1 BDO - Block Development Officer
2 The initial groups in the IFAD project in Dharmapuri were formed under similar pressures.
3 The Common Fund is dealt with in Chapter 7
4 As distinct from "entrepreneurial" which implies a strong element of competition.
5 Since 1994 however, the size has increased.

Chapter 5

THE PROCESS OF FORMING SHGs
When Should Intervenors Withdraw?

The process of SHG formation could be divided into 3 phases for the sake of clarity. While drawing attention to the danger of attempting to standardise the process, a few guidelines are useful together with indicators regarding the features of the SHGs at the end of each phase.

5.1. Phase I : Identification and Formation of SHGs (0 - 5 months) :

Identification of SHGs :

It must be understood that the basis of the self help affinity group exists prior to any intervention. The members are linked by a common bond like caste, sub-caste, blood, community, place of origin or activity. The intervenors, whether from the NGO, Bank, or Government must have the experience to identify these natural groups which are commonly called **"affinity groups"**. What links together the group members, therefore, is not primarily the need for credit, but a **"capital stock"** of relationships built on mutual trust and confidence, on mutual interests of the group members, on a degree of social and economic homogeneity and on the gut feeling of its members that the group offers the best opportunity to realise their latent and often suppressed aspirations to develop economically and socially.

Since identification of such an affinity group is a critical function, on which depends all further progress of the group, staff with experience in this area have to take the lead in identifying an affinity group; inexperienced staff will not be equipped to perform this role of group identification; **the tendency therefore,**

to place newly recruited staff to identify affinity groups should be avoided.

Though the affinity groups in the early period arose as a result of Cooperatives and VDAs, breaking down, MYRADA had to evolve ways of identifying these groups in new project areas. A few of the popular strategies used are described here.

- **regular visits to the village**, meeting with informal groups gathered around tea shops, temples, water spots, markets, provision shops, milk collection centres; special care is given to visit and interact in areas **where the poor**, scheduled castes and tribes live and where **women** tend to gather;

- **involvement of the entire village in a common action** like desilting a pond, or building a road also helps to identify these groups, **provided people organise the action themselves**; it is noticed that when encouraged to plan such projects people tend to work in affinity groups. For example, in Talavadi Project when the village decided to dig a trench around their fields to protect them from grazing, they organised into groups and divided the work; they completed a 60 km. trench in 5 months; besides each group built up a common fund by savings from daily wages which provided adequate credit for further investments. These groups were based on "affinity"; this was the major reason why the suggestion to save and build up a Common Fund took off.

- **participatory appraisal exercises**; these are useful to identify groups, provided care is taken to involve **all** the people in various exercises.

- in recent years, several **groups outside** our project areas who have experienced good SHGs functioning or where families from old SHGs have migrated or married, have approached our staff, to help them form SHGs; most of them have already identified members among whom there is strong affinity; they come to MYRADA with a request for group training.

Formation of SHGs :

Formation of SHGs during Phase I begins with an assessment of members' **strengths**. People are motivated to collect information **on initiatives they have taken in the past** to resolve problems and to initiate collective or group action. Information on incomes and borrowings and their seasonality, on the availability and use of natural resources, on skills and markets, on people's perception of poverty and its causes, on the various social groups in society and their mutual inter-dependence should also be collected. Participatory Rural Appraisal exercises including meetings with various groups in the village and outside, with poor families in public and in private, a structural analysis of society and exercises that bring to the surface gender biases in society, within caste, creed, colour and employment benefits are appropriate instruments to collect information that is necessary in order to identify affinity groups.

During this phase, if the SHGs are entirely composed of women, it has been found necessary to meet with men and to explain what is going on, especially the benefits that will accrue to the family through the SHGs.

It takes several meetings during this period for the group to have **definite membership**. Staff from the intervening organisation must attend the meetings regularly during this phase. During this period members may leave and others may join if the group agrees. At least **two trainings** for the **entire** group need to be conducted. The group learns how to set an agenda and to conduct a meeting; it begins to value the importance of documents like minutes, and the need to act in a transparent and accountable manner as well as to meet regularly, preferably weekly.

The meetings held during this period are not only social gatherings; the members are encouraged to raise issues concerning the family and the village. Matters regarding saving and lending are also debated thoroughly; the need for credit is usually a major common concern of the group. Agreement to save and to lend and the willingness to abide by group decisions without breaking bonds and confidence in the group indicate a degree of trust in one another; these are the building blocks of effective SHGs.

Features of SHGs at the end of Phase I :

- The group is identifiable; it is not a place where people can walk in and out at will.
- It has given itself a name, and adopted a "theme song".
- It has identified a place to meet.
- The date and time of meetings are maintained.
- The members are saving regularly.
- An account is opened in the nearest Bank or Post Office;
- Basic records are maintained like, Attendance Register, Minutes Book, and Savings ledgers.
- The roles and responsibilities of the group are clearly understood by all.
- Two members are selected to function as Chairperson and Secretary; they are also the signatories of cheques and other documents; the group accepts that these functionaries will be rotated annually.

5.2. Phase 2 : Group Stabilisation (6 - 15 months) :

The groups should save regularly and **begin to lend** to members. This provides the members with opportunities to acquire the skills to prioritise scarce resources, to assess the strengths of each member, to time the loans and schedule of repayments and to fix interest rates. Meetings are held regularly, preferably **every week**. **Attendance** should average over 80%, and repayments over 95%. The group **institutionalises the need to introduce sanctions** for deviant behaviour, which includes delay in repayments, arriving late at meetings, smoking during meetings etc. The following **records are maintained** either by a literate member of the group or by the staff or preferably by someone from the village who is paid for such services : Admission Book, Attendance Register, Minutes Book, Members Savings Ledger, Members Pass Book, Receipt/Payment Voucher, Cash Book, General Ledger, Loan Ledger, Stock Book.

The need for **basic literacy and numeracy** must be recognised by all members; some time during the weekly meetings should be devoted to literacy and numeracy. At least one **common action programme** should be initiated by the group; it helps the group to assess its strengths and position in society. These common action programmes could focus on tank desilting, road construction or watershed treatment as good starting points. The group begins to **interact with other groups** in the village and outside, with Government, Panchayat Raj and private institutions. The intervenor should help build these **linkages**. Care should be taken to **build linkages with private institutions**; these tend to be neglected by NGOs; yet surveys show that people build far more relationships with private individuals and institutions to acquire services and materials than with Government institutions.

To foster the above skills and the confidence needed to organise programmes, at least three **training** modules each of two day duration should be organised during this phase. Intervenors should focus on those members who are **weaker** and who have not availed of loans from the group to the same extent as other members. The two main functionaries of each group also need special training during this phase, particularly in the skills of **conflict** resolution and leadership; they need to understand that part of their responsibility is **to train other members** to take over their functions as soon as possible.

The intervenor continues to play a key role in this phase as well, but, staff need not attend all the meetings of the group. Staff, however, need to keep in touch regularly to assess the groups progress in organisational growth and in maintaining basic documentation as regards savings, loans and repayments, as well as to encourage the group to broaden its concerns to include issues that concern the good of the village. The training sessions during this phase should also facilitate the imposition and acceptance of sanctions as well as organisational discipline.

Some intervenors employ animators at the village level who play a major role in conducting group meetings, maintaining records and establishing linkages. Experience in several MYRADA projects indicates that these animators tend to retain control and do not make serious efforts to build the capacity of the group to take over responsibilities. **MYRADA has withdrawn all animators during this phase.** Group maintenance activities like keeping of accounts and records is now done by a local person who is paid either by the intervenor or by the group on a job-by-job basis.

The intervenor should also focus on training field technicians in animal husbandry, agriculture and horticulture, whose services are hired out by the group members. This support service is required since Government services in these areas are minimal and far from most villages. Since two of the major thrusts in MYRADA's programmes are on Gender and the Environment, issues concerning women and the girl child are raised at meetings and included as an important module in training; environmental issues are also incorporated through watershed management, arid zone regeneration and by establishing the causal linkage between forestry and agricultural productivity; these are tangible benefits which people can grasp. Other thrusts are added later as confidence grows.

Negative reactions from men to women's absence from home when they attend SHG meetings or are involved in common action or even to the increasing presence and profile of women in public life, is a common feature during this period. The intervenor has to play a direct role to cope with this problem, even offering **counselling services** at the family level when the problem threatens to escalate.

After 6 to 9 months, if the SHG is progressing according to the indicators mentioned above, grants in installments matching the savings, or in a higher ratio, depending on the performance of the group are credited directly by MYRADA to the Common Fund. This helps to build up available capital, enabling members to access larger loans for business and trading and for other small income generating activities.

<u>Features of SHGs at the end of Phase II</u> :

- The group is involved regularly in savings, lending and monitoring the use of credit and recovery.
- All transactions are supported with documentation.
- A summary of loans and recoveries is posted in a public place and regularly updated.
- The Common Fund is revolving and steadily increasing through interest, savings and fund raising by the group.
- Bank balance is low or nil.
- The recovery rate is consistently over 96% and attendance over 80%.
- The members have acquired the skills to conduct meetings and to resolve conflicts; they have acquired basic skills in literacy and numeracy as well.
- Their confidence to act in public life has increased; they are able to relate with other institutions and Government

as a group.

- Initial steps are taken to relate with the Bank and to negotiate a direct loan to the group.
- The group has the experience of organising and being involved in one or two common action programmes and in conflict resolution within the group as well as outside.
- The members of women groups have begun to address social issues and to take small though significant actions both in public and at home.
- The group has identified the President and Secretary to succeed the first two members and trained them to fulfill these roles.

5.3. Phase 3 : Withdrawal (16-36 months)

When Should The Intervenor Withdraw?

Though intervenors need to integrate withdrawal in their strategy from the beginning of the process in order that interventions will support the growth of self reliant people's institutions and not increase their dependency, yet withdrawal becomes more tangible and acceptable after the major interventions required to build up the groups taper off.

MYRADA expects withdrawal to be complete 15 months after the groups exhibit the features listed at the end of Phase II, which is about 30 months after the groups are identified. As the groups realise that the responsibility to function is theirs, the intervenors gradually withdraw during this phase. To begin with, the intervenors attend weekly meetings only once in 3-4 months. Next the groups begin to pay from their own sources for all maintenance services which they require. MYRADA still provides the services of its accountants for an annual audit; but the groups are now asked to contribute a part of the costs; the groups are also made aware that they will have to pay the entire cost in future. The intervenor, however, must be prepared to respond to requests to intervene in the event of a crisis which the group on its own cannot resolve.

Major interventions during this period are technical services for asset management and productivity, all round support for off-farm activities, especially for design, quality and marketing. These services could be provided partly by trained local people as in the case of animal husbandry, agriculture, sericulture and horticulture; (for these services the members of the group pay either from their savings or by taking loans from the group) and partly by staff of the intervenor or consultants when a higher level of skills is required.

MYRADA also assesses all the groups during this period. The criteria for assessment were identified through meetings with the staff and representatives of the SHGs. These criteria are given in Chapter 10. **SHGs that come up to the standard required are those which MYRADA proposes to the Banks for direct lending.** MYRADA develops a strategy in each Project to cope with groups that do not come up to the standard that is expected. Those groups that have potential for improvement are offered additional training or any other support they ask for; other groups are dropped. MYRADA however also does not withdraw until the SHG is linked with a Bank; this linkage is essential for regular flow of credit, as well as for on-going monitoring of credit management by the group.

SHGs from which MYRADA withdraws are audited annually by outside auditors. MYRADA also assesses their progress through the services of consultants or students from IRMA or other institutions who spend a few months with the organisation. MYRADA continues to collect data annually from each SHG to assess trends in lending; it is ready to provide support to members to move into larger income generating assets, to acquire new skills and to establish new linkages.

5.4. Apex Bodies

During Phase III the intervenor and the SHGs foster the emergence of Apex bodies; but the need for such bodies and their functions should be decided by the SHGs. MYRADA's experience indicates that a few SHGs (8-10) come together to function as service societies; they purchase agricultural inputs and equipment in bulk once or twice a year; a few are also involved in marketing produce. At another level several SHGs (20 - 40) come together to form an Apex Body. Experience with Apex bodies has shown that they are vulnerable to political influence or are used as steps towards political power by the main functionaries of these bodies. **Politicisation of Apex bodies weakens and eventually destroys the self help groups.** Care should be taken that the SHGs are strong enough to control the functioning of the Apex bodies before they are formed. In some projects, groups have restricted the roles of Apex bodies to supervising the groups and to assist in problem solving; they have refused to give Apex bodies any funds or the power to control resources. Where the Apex bodies have funds, care should be taken to audit them regularly.

There are several functioning Apex Bodies in MYRADA projects. In general they have focused on i) Supervision of SHGs including regularity of meetings, savings and repayments, maintenance of Books of Accounts; ii) Fostering linkages with Government and private support institutions; iii) Solving problems within the SHG and among SHGs, including resolution of conflicts that arise between SHGs and other groups or individuals.

Some Apex Bodies are initiating larger projects with loans from Banks; the move to purchase transport vehicles is one example. Others have built up a common fund from which loans are given to SHGs. MYRADA is monitoring these initiatives closely in order to gather experience in this new area, which is a further stage in the growth of people's institutions. The trial balance of an

Apex Body functioning in Holalkere project which also manages a common fund besides performing other functions like monitoring the SHGs is given in **Chapter 8** where the Apex Bodies are considered in the context of MYRADA's withdrawal. It gives an insight into the various financial activities in which the Apex Body is involved. This Body took on activities similar to a Farmers Service Society; it also operates as a financial intermediary; the loans advanced by MYRADA to the SHGs were returned to this Apex Body for on-lending to SHGs.

ARE ALL GROUPS SHGs?

When MYRADA was asked by NABARD to spread the strategy of Self Help Groups, we found several constraints arising from groups already formed under various Government programmes:

A feature that is common to all Government anti-poverty programmes which provide an asset to the beneficiary is the criteria that comes along with the scheme to identify the beneficiary. When the scheme was targeted to individuals this method of targetting did not meet with any obstacle; but of late Government, has adopted the "group approach"; all the eligible beneficiaries are therefore required to form groups which are then called "Self Help Groups". MYRADA calls these groups: **Groups of "eligible beneficiaries"**. This strategy to link direct targetting on the basis of predetermined criteria with group formation creates several problems when the NGO insists that the groups must be genuine "affinity groups". In the IFAD project in Tamilnadu, several groups were formed of "eligible" beneficiaries. The criteria for eligibility was set by Government and covered age (17 years), gender (women) and previous performance in repaying loans from Banks. The Banks went a step further and considered women un-eligible if their fathers, brothers or husbands had defaulted. MYRADA, however formed groups on the basis of affinity. Several of the members of these groups were not eligible according to the Bank's norms. As a result, in order to target 10,000 beneficiaries in the District as planned under the IFAD project, about 20,000 members had to be organised into SHGs. This was considered to be a waste of time and effort by Government officials; it also called for extra staff and resulted in the failure to meet with annual beneficiary targets. Therefore, the solution imposed was to organise groups of only "eligible" women. A similar situation arises in projects where families become eligible on the basis of a child suitable for sponsorship;

these families are then formed into a group.

Members of groups formed on the basis of external criteria remained in the group only because they considered that their membership was a pre-condition to get some money from the Banks, NGOs and from Government. As soon as loans were extended many groups tended to disintegrate; this in turn increased the work of the NGOs concerned who had to put in considerable effort to organise meetings and motivate repayments. Briefly it was the NGO that managed the groups.

MYRADA's experience indicates that most of these groups are used to implement prescribed programmes. There is hardly any effort to foster a process of self help and to build sustainable institutions on the basis of "affinity". Most of these groups are based on eligible beneficiaries - the eligibility criteria being decided by those who formulate the "scheme". These groups began to be called "self help groups" since this title was considered official. No effort was made to understand the structure of a SHG and of the process required to foster one. Groups formed under several Government programmes are "implementors" of a prescribed programme. Examples of major programmes where "groups" are organised as the final link in the delivery chain are DWCRA (**D**evelopment of **W**omen and **C**hildren in **R**ural **A**reas) and groups organised under the Literacy and Mahila Samakhya programmes; in some areas Milk Societies were also being considered as groups that could manage credit. A brief description of groups formed under these programmes and their potential (or lack of it) to become SHGs follows:

6.1. DWCRA Groups

Groups formed under DWCRA : These groups are functioning well in several cases and fulfilling the roles assigned to them; but they have several constraints in becoming SHGs, for example:

in many cases women in DWCRA groups have to conform to eligibility criteria; they are brought together from several neighbouring hamlets or villages; there is no common underlying bond of affinity on which trust can be built; selection through political patronage results in similar group configurations.

there is a strong, and at times almost exclusive, **focus on a common economic activity**. Those groups which are described as functioning are those which are engaged in an economic activity; the most common feature of a functioning group is a common activity in which all the members are engaged , though at times in various segments of the production process. Those groups which are functioning usually produce a product which is purchased by the Government; where this is not the case, marketing is a major problem leaving goods unsold, with members losing confidence. In very few cases is the group taking the initiative to tap the open market. In general, self help and self reliance is not the guiding culture of these groups;

there is no initiative to foster regular savings, lending and repayments; this exercise helps to build a degree of confidence and self help and to acquire the skills to prioritise and monitor.

there is no provision for regular meetings to discuss issues besides the main economic activity and to acquire the skills necessary to build and manage an institution which is identifiable and wins the respect of others in society.

many women leave the DWCRA group due to several reasons, many of them personal; no one, however, is asked to leave by the group because she is not abiding by its norms and culture; in a word, there are **no effective sanctions** operating within the group. In general, the groups have not developed a culture of their own; those norms that guide the group derive from and are limited to an activity, and are imposed from without.

The question raised repeatedly is whether a DWCRA group can become a SHG. It can, provided the DWCRA group which has normally around 20 members is based on affinity, and is willing to discuss common problems, to find solutions, to encourage regular savings, to provide loans and to ensure repayments. Further each member must be free to borrow according to her individual needs whether they be consumption, trading or asset creation. Unfortunately several of the DWCRA groups have already taken loans and most have failed to repay. In such cases, if they are affinity groups, the NGO involved could turn them around, but it will take considerable time and effort. If they are less than 20 members in the group, Banks will be willing to extend a line of credit to groups that are functioning like genuine SHGs. If they are not genuine SHGs or have been formed on the basis of political patronage or merely to serve as channels for benefits which have really gone to others, then it is suggested that they be left alone; attempting to revive such groups or to make them into SHGs will be futile.

6.2. Literacy Groups

Groups formed under the Literacy and Mahila Samakhya programmes: Groups formed under these two programmes can be considered together, though they may not have the same objectives. They are similar to the extent that the groups are large, often heterogeneous, including members from different castes and economic strata and even from different hamlets and villages; these are major constraints to their emergence as SHGs. On the other hand, they provide the opportunity for women to improve the skills they require to manage and maintain an institution like a SHG. Examples of such skills are literacy and numeracy which they need in order to read the Minutes of their SHG meetings and the figures in their pass books. These programmes also build the confidence of women by organising them to lobby for their rights and to acquire the confidence to organise common action. These are all qualities that members of the SHGs require for the SHGs to develop into an institution. However, these large groups need to make special efforts to enable every member to participate effectively in the proceedings.

It was reported in many areas that attendance in these large groups tends to fall in programmes which focus only on literacy and awareness raising. The reasons are many, but the main ones that emerge from discussions with groups are : (i) People want to go beyond literacy to programmes from which they derive some immediate benefit; "after all" they ask - "what is the point in being literate, if one cannot earn a livelihood? " (ii) It is often assumed that those who fail to attend are not interested; enquiries have shown that in many cases absentees are willing to participate in the programme but not with the members of the existing group; they do not feel comfortable to relate and work with them; they prefer to form another group of their own; in most cases this is an "affinity group".

The skills of literacy and numeracy together with the self confidence that grows through common action especially in some of the Mahila Samakhya groups are good building blocks for SHGs. **SHGs therefore can emerge from these groups provided the women are allowed to form small affinity groups after the concept**

of the SHG is explained and discussed thoroughly; exposure visits to functioning SHGs have proved to be very effective. Discussions with such groups indicate that women are quick to see the benefits of building up a common fund in each SHG over which they have control and ready access. The major motivating factors are:- (i) the desire to go beyond "literacy" and to use literacy to open opportunities for sustainable livelihoods; (ii) to meet their need for loans for consumption, trading and asset creation; and (iii) the realisation that the SHG gives them an opportunity to decrease their dependence on money lenders and on other families who have traditionally exploited their vulnerability.

A word of caution however, is in place. Under the National Literacy Programme, several literacy groups were formed. These were not based on affinity and were generally large. It was assumed that the groups which had gone beyond literacy to mobilise for social change (one example, is the anti-liquor movement) could also graduate into self help groups managing savings and loans. This assumption has not proved to be valid. While these groups were successful in social mobilisation, they were not structurally appropriate to manage savings and loans as self help groups.

6.3. Milk Societies :

These societies at the village level are examples of a group structure which is appropriate for the collection and handling of milk but is inappropriate for the management of credit. The milk society requires the larger producer to make the route viable; the small supplier (normally belonging to the poorer sections of society) rides on the back of the large farmer; **it is this heterogeneity that makes the system**

viable. In an SHG, on the contrary, if larger farmers and members of rich families are included with the poor, their interests will collide. Often the families of the rich are the very money lenders against whose interests the SHG now operates, both in terms of loans, as well as in other areas – like the demand for fair wages and payment for services which the poor sectors have traditionally rendered below market rates to the dominant families in the village. It is, however, quite feasible for the poor members of a milk society, if they have affinity linkages and are homogeneous in terms of incomes, to form an SHG. Experience with groups of marginal farmers and landless people owning dairy animals has shown that these members borrow from the SHGs to meet expenses for animal health care, breeding and feed.

For these programme related groups to develop into SHGs, intervenors must understand that the basis of the self help group exists prior to any intervention. If, the groups are genuine SHGs they will function not because the members have joined a group as a condition to receive loans, but because women have taken the initiative to build an institution on the basis of their own efforts. In a genuine SHG, the group continues to grow and function even after the project period is over. If groups are to sustain their efforts, they need to be affinity groups as well as small and homogeneous; besides, they must have the freedom to develop their own rules and regulations and to include and exclude members according to norms which they lay down. Women who are brought together because they are eligible for loans, perceive the formation of a group as a precondition to receiving loans; seldom do they go any further either in terms of increasing self confidence or empowerment in social and private life.

Chapter 7

THE COMMON FUND : HOW IT IS BUILT AND MANAGED

Since the common fund is the source of group transactions the management of this fund plays an important role in the process of group growth in terms of skills, values, self-confidence and sustainability. While the previous chapters have described the process through which groups are formed, this one will describe the process through which the Common Fund (CF) is created and managed and the role it plays in building up the group's confidence.

7.1. The Process

The first contribution of the CF is usually the membership fee. This is followed by regular savings collected at meetings. Several groups fix a lower limit of savings and some impose fines if this amount is not forthcoming. Other groups do not fix the amount but encourage the members to save and contribute to the CF as much as they can. The latter groups tend to attract a higher level of savings. For instance, in the Talavadi Project where a lower limit of savings is fixed, the savings have amounted to Rs.318,777.15 after 4 1/2 years with 2,014 members. In Holalkere where the members are free to contribute any amount to the CF the savings amounted to Rs.357,055.66 over 3 1/2 years with only 1,289 members. The trends are similar in other projects as well. This indicates that poor people have a higher capacity to save than normally assumed, and are willing to save if they are sure that they will have ownership and control of these savings. Societies covering several groups have emerged, the members of some Apex bodies are also contributing a small sum monthly to the Apex bodies.

The CF grows gradually over the first few months. There comes a time when either the members or a staff of MYRADA raise the question of what to do with the CF. The response invariably is to decide on giving small loans to members for consumption needs which they find difficult to obtain and which places them in a vulnerable position that is easily exploited by moneylenders.

Once the rules governing loans and recoveries are agreed upon by the members - an exercise that contributes greatly to the learning process of the group - loans are advanced. During this period MYRADA conducts several exercises to strengthen the groups and provides opportunities to the members to acquire skills in numeracy and literacy, in conducting meetings, in keeping records of meetings and simple accounts. **It is not sufficient to identify an affinity group and to motivate the members to build up capital; certain skills and practices are required** if the groups are to manage the CF in a sustainable manner.

In the initial period the loans are necessarily small because the group's capital is scarce and the members are careful. The rate of capital rotation tends to be high with loans taken and returned within a week. Over a period of six months the members acquire experience in managing credit and in prioritising their needs. They also learn to **accept refusal of the group to consider a request for loans as integral to the process of group growth; to be refused loans and yet to continue as active and supportive members is a feature that distinguishes a genuine group from a gathering of people who come together only because they expect to become "eligible beneficiaries";** in such groups the CF is not treated as genuine "common property" over which all have both a claim and a responsibility.

When the group shows adequate signs of its ability to manage credit, MYRADA and more recently several Banks led by Commercial Banks (like Canara, Corporation and State Bank of Mysore), and RRBs (like the Cauvery, Chitradurga and Krishna Grameena Banks) increase the CF by lending sums directly to the groups (1). Some Banks continue the practice of maintaining accounts in the name of individuals and of demanding information on the purpose of the loan from each member. Such Banks have not understood the meaning of a "Common Fund". True, it is customary to expect that a resource commonly owned will not be managed better than a loan given to an individual. But the SHGs precisely go against what is called "customary practice"; they prove that the poor are capable of managing a resource when they have access to and control over it and when they realise that through good management of this resource they are able to reduce their dependency on traditional forces that have exploited them and to win the respect of the others in the village.

7.2. The Composition

The following breakdown of the composition of the CF in two MYRADA projects shows that people have a high degree of ownership of this resource since a major part of this fund is built up from their savings and the interest earned.

	DHARMAPURI (In Rs.)			HOLALKERE (In Rs.)		
	1991	1993	1996	1991	1993	1996
Membership Fee	37,161	38,552	51,928	2,638	6,450	49,118
Share Capital	814	1,496	10,600			
Savings	1,063,164	3,009,154	12,968,624	357,056	1,239,030	3,355,121
Fines	3,524	9,557	81,161	17,693	25,328	67,936
Donations	2,709	7,659	58,345	7,267	33,000	55,513
Others	45,973	48,077	276,975	17,212	163,964	28,007
Interest on Loans	215,477	665,379	6,115,321	66,274	227,548	975,163
Bank Interest	64,529	102,730	112,152	11,457	47,336	110,466
Cap. from MYRADA (2)	543,662	2,305,626	3,049,950	114,845	2,663,403	3,362,847
Cap. from Govt. (3)	1,246,440	130	711,157	-	-	15,000
Cap. from Bank (4)	-	-	-	-	156,400	1,366,500
Cap.fromNABARD (5)	-	25,000	49,100	-	45,916	16,227
Cap. from CAPART	55,460	23,550	23,550	-	-	-
Cap. from other sources	-	-	222,500	-	-	77,600
Com. Contribution	143,096	136,545	1,142,875	6,090	35,750	140,130
TOTAL NO. OF LOANS ADVANCED	16,846	30,444	62,706	8,376	14,122	24,624

Note: All figures of 1991 and 1993 are included in those of 1996; these are running totals.

The breakdown of the CFs in all MYRADA's projects indicates that major contributing factors to the CF are **savings and interest** recovered on loans. These amounts indicate the degree of "self help" and ownership by the members. The rates of interest levied by the groups vary from group to group and from loan to loan. MYRADA has never tried to fix this rate or to influence the different rates levied for different purposes. To pre-empt any concern that the credit groups are as bad as moneylenders however, it will be useful to state here that though the **average rate of interest levied by the groups upto 1991 works out to an average of 36% per annum, it declined sharply as the common funds increased. During 1993 the average was 15% and fell to 12% by 1995.** A recent study shows that the cost of visible transactions undertaken by the beneficiary of **IRDP** loans works out to an interest rate of **32%,** though the official rate of interest is only 12%.

When the self help groups were asked why they decided to levy such high rates of interest in the early years, the responses were:

- "the rates of the moneylenders are higher, besides we have to work for them, plough their fields, go on errands, purchase medicines, etc., from the city; these services should be added to the interest rate."
- "No one will lend us even Rs.5 since we have no value."
- "By far the large majority of loans are at rates lower than that of the moneylenders, only a few are higher."
- "In any case the interest accrues to our Common Fund and does not leave the group."
- "We want to build up our Common Fund; once this is done, we will lower the rates."

It must be noted that most activities for which loans are taken in a village have a short duration; some businesses last for a week. To compute interest on a yearly basis therefore does not give a correct picture of the situation.

Another source of the CF is **"fines"**, levied by the group on "deviant behaviour". Though in terms of cash, this amount is not large, the practice of levying fines is a significant factor that contributes to establishing group behaviour especially in terms of controlling consumption of non-essentials as well as in making sanctions more effective. Fines for example, are levied on defaulters, for smoking and drinking, chewing *paan* and coming late to and talking during meetings. Family planning is also emerging as an area where sanctions are applied. Once at a meeting a few members were fined for smoking. When asked the reason why they considered smoking an offense, the reply was surprising and indicated how different their perceptions are from ours. The members claimed that men usually talk to each other when they smoke – "one of them offers *beedis* to the others"; as a result, if smoking is allowed during meetings, a small group of 3 or 4 tend to talk, thus withdrawing from the business transacted by the main group and disturbing its work; the concern about smoking being injurious to health was not the reason. The members do not object to paying a fine when they realise that the money goes into the common fund.

7.3. A Case Study

One is often asked how a CF is managed at a group meeting, both in terms of how loans are prioritised and decisions made. The following is a report given by officials from NABARD who participated in a 3 day participatory exercise on credit in MYRADA's Kamasamudram Project during which they attended several group meetings; this report will partly answer this question. A more satisfying answer requires personal participation in a group meeting.

Village	:	Dodda Kalavanchi
Group	:	Gowri Mahila Sangha (functioning for $2^{1/2}$ years)
Date	:	May 27, 1992
Time	:	8.30 p.m. to 10.30 p.m.

The agenda for the meeting was set up by the group at the beginning. The NABARD officers were observers and did not participate; but asked questions after the meeting.

Certain common problems were discussed and recoveries of earlier loans called for; the NABARD officers assessed from the Books of Accounts that recoveries were over 90%.

Applications for new loans were called for and considered :-

- One woman wanted a loan for leaf plate making. She was a pregnant woman who was forced to leave her job because of her delicate state, so she wanted to start making leaf plates. She was given a loan.

- A request for a loan to purchase sheep was deferred by the group as it was not considered a priority.

- One woman asked for a loan of Rs.2,000/- to redeem a tamarind tree which had been pledged 10 years ago. She owed Rs.400/- to the group from a previous loan. After assessing the income from this particular tree and the loss she had sustained by pledging it, the group advanced Rs.1,000/- to enable her to release the tree and promised the second installment of Rs.1,000/- as soon as she repaid the outstanding amount of Rs.400/-.

- A loan application for house repairs was sanctioned in view of the impending monsoon and hence the urgency of repairs.

- Another loan was sanctioned towards transport costs to carry tank silt to their fields.

The general impressions that the NABARD officers gathered from their visits to 3 groups were the following:

- There was freedom of expression; all participated;

- Decisions were arrived at after a thorough discussion.

- Loans were sanctioned based on priorities and subject to availability of funds.

- No fresh loans are given before repayments of earlier loans - there are exceptions in cases of urgency but a high degree of confidence in the member is essential.

- All members had pass books, hence a relation to the Bank; yet they had not availed of any Bank loans even though in two villages the Banks were less than one kilometre away. One member received a *"Poojari"* loan, which the group had insisted he repay.

- The groups maintained several records; Minutes were signed by all; receipts issued against all funds received. The group maintained the following books:-

    1. Admission Book
    2. Attendance Register
    3. Minutes Book
    4. Members Savings Ledger
    5. Members Pass Book
    6. Receipt Voucher
    7. Payment Voucher
    8. Cash Book
    9. General Ledger
    10. Loan Ledger
    11. Stock Book

- 2 members were expelled from the group for being defaulters; this was recognised as an important factor in group stability and management of the CF.

- The group arrived at a decision to admit new members after a discussion on the person's character and ability to fit into the group.

- One set of officers felt that recovery was motivated by concern for others. "If I do not return, others will not get a loan", replied one group member to their query. All the officers stated that there was no external pressure for recoveries.

- All decisions on CF management were made at meetings except in the case of small emergency loans which were later ratified.

- For loans over Rs.1,000/- a promissory note was introduced.

- Loans taken for agriculture were returned before the harvest mainly from wages.

- When asked how they were able to save after the group was formed though there was no significant increase in income, the members said that they had cut down their consumption to contribute to the CF.

- When asked what they would do if a member defaulted, they replied that it had happened and the group has seized some assets of the family till the money was returned.

7.4. Control over Cash

The management of the CF includes also the system that the groups have adopted to exercise control over cash. MYRADA has played a role in helping the groups to establish a system, though there are differences as groups adapted it to their requirements. The diagram on the next page however, gives a picture of the system that is practiced by a large majority of groups.

There are three links in this system where cash is handled : (i) by the Secretary who holds an amount to meet emergencies; (ii) by the Secretary, group member or a staff of MYRADA who holds the recoveries, interest and fines after a meeting and before depositing the amount in a Bank or Post Office, and finally, (iii) by the person who cashes the cheque after group decisions are taken on loans and distributes the amount to the loanees; this is not the practice in every case, but is resorted to when the amount of cash collected at meetings is not adequate to meet the loans sanctioned.

There have been instances of malpractice relating to the three "cash in hand" links in the chain; there have been few forgeries of cheques as well. These instances are negligible when compared to the large number of transactions handled by the groups. The total number of loans advanced during the first four years for instance was 77,927, while the malpractices numbered about 30 in one project and 18 in all others together; both MYRADA staff and group members were involved.

The groups responded well to all these situations. To control the cash in hand with secretaries for emergencies, they fixed a limit averaging Rs.200. In other cases they have tracked down the culprits. Assistance like provision of transport has been provided by MYRADA in some cases. An interesting instance that occurred, concerned a staff member who had taken a sum from the group's recoveries and resigned. He was a native of the village which was covered by another MYRADA project. The group members tracked the culprit. When an exposure trip was arranged by MYRADA to visit the groups in the project where the culprit was living, they grabbed the opportunity. On arrival they insisted on visiting a particular village, a demand that surprised our staff who had organised a programme for them, which did not include a visit to this particular village. They found their way to the village, located the culprit, informed the entire village of his misbehaviour and demanded their money back. A compromise was arrived at with a part returned immediately and the rest to follow.

Footnotes :

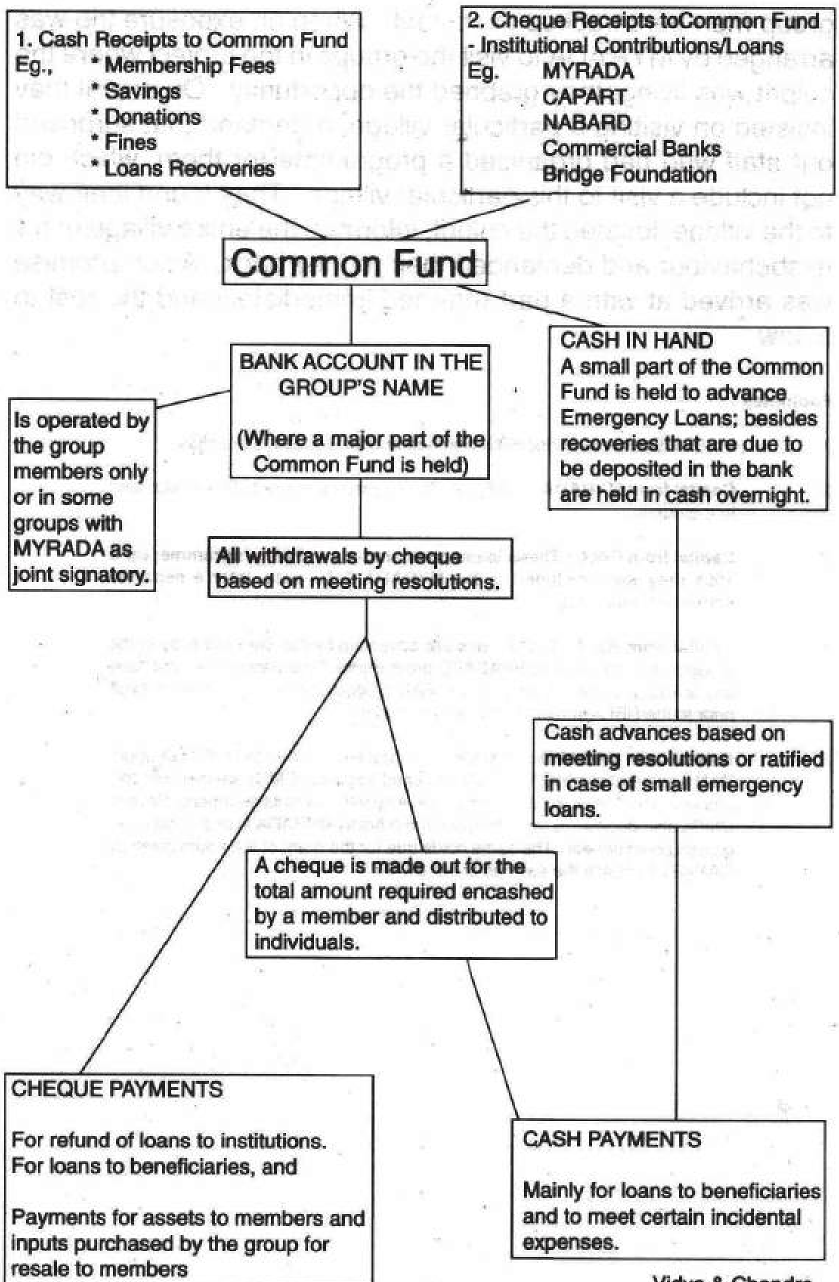
1 In 1996, Cooperative Societies also began to extend loans to SHGs.

2 **Capital from MYRADA** : In all projects provided as grants to SHGs who lend to members.

3 **Capital from Govt. : These loans given under the IFAD programme; upto 1991 they were included in the MYRADA CMG data; later a separate statement was kept.**

4 **Capital from Bank :** These loans are advanced by the Banks directly to the groups under the new RBI/NABARD programme. Dharmapuri does not have any linkages since it managed the IFAD programme which started in 1988 prior to the RBI approval of the linkage model.

5 **Capital from NABARD :** NABARD provided Rs.1 million to MYRADA under R&D as a grant in 1988. MYRADA matched some the CMGs savings with this amount. The CMGs used this amount to extend loans to its members. Several CMGs also decided to repay this original grant to MYRADA in order that other groups could benefit. The same holds true for the grant of Rs.1 lakh given by CAPART to match the savings of the CMGs



Vidya & Chandra

Chapter 8

LINKING GROUPS WITH BANKS

8.1. The Rationale :

MYRADA's objective in approaching NABARD to support this experiment in the mid 1980s was geared to achieving a change in banking policy that would enable the Banks to relate directly with the credit **groups as "bankable institutions"**. If MYRADA has to withdraw from the project area after a period, as its strategy requires, the groups have to be linked to a credit institution to meet their on-going credit requirements. The linkage between the banks and the groups therefore is an important plank in the strategy of withdrawal. Linking SHGs with Banks is also a part of MYRADA's strategy to **upscale the SHG strategy** as well as to mainstream it.

Following the Reserve Bank's circular of July 24, 1991 and the NABARD guidelines of February 26, 1992 several Banks have established links with the SHGs. Records show that **by October 1997 there were 9620 groups linked up with Banks all over India**. Some officials feel that progress is too slow. Yet others are of the opinion that it is necessary to build a good base of successful experiences and that "hastening slowly" is a better strategy. The Canara Bank and several RRBs have reported that repayments from credit groups range between 95% to 98%. Other Banks have a similar experience. It is also clear that if any of the Banks had experienced poor repayments during the first years, the scheme would have suffered a set back.

The affinity group strategy of credit management based on groups of 15-20 members is not presented as the only one in the effort to **bank with institutions developed by the poor over which they have control;** it is not a panacea for all the ills that the priority sector is experiencing in the anti-poverty programme. **It is an alternative strategy for credit which is not part of the**

official credit delivery system. It is also a decentralized model where decisions are taken at the group level; it is **based on alternate institutions** which are free to operate according to their own rules and regulations. More than just a complementary strategy therefore, it is radically innovative. The official credit system has accepted that it can lend money to a group of poor people on the basis of the group's performance **as an institution.** This requires that the official system accepts that the SHGs can establish the purpose and size of the loans, the schedules of advances and repayments and the rate of interest.

It has been pointed out earlier, but bears repetition here that unlike the Grameen Bank model of Bangla Desh, which operates along the lines of a centralised Bank, the SHG model operates in a decentralised manner; its systems are not standardised and are able to respond to the needs of different situations without any delay. **The decisions to lend or not to lend are made in each group.** This diversity makes the model "uncomfortable" for specialists who often find the village "clumsy". As a result of this decentralised model, MYRADA has been able to organise **3,173** SHGs with **62,661** members; (approx. 450,000 people). MYRADA has 420 staff only, who are involved with house construction (20,000 houses constructed over 13 years), with drinking water and sanitation systems, animal husbandry, watershed management, education, health, arid zone development, small scale industries and off-farm livelihoods. This does not leave much time to organise and strengthen SHGs. Yet this model has allowed MYRADA to extend credit to almost half a million people with only 420 staff who devote about 20% of their time to SHG support.

MYRADA has often been approached to operate as a financial intermediary. Several Banks have offered to lend in the first instance to MYRADA for on-lending to SHGs. This approach does not require any change in operational behaviour and systems on the part of the Banks. They can continue to stick to their traditional way of doing business. This approach defeats a major objective of the pilot experiment, namely, to introduce changes in the main line financial institutions. Further, most NGOs are not adequately equipped to function as effective financial intermediaries; **their strength is social intermediation.** MYRADA has chosen to remain committed to social intermediation, which is the area of its competence.

There are also several parallel efforts being made to provide funds directly to groups. The Rashtriya Mahila Kosh is one such experiment which is providing loans to NGOs for on-lending to groups. The demand for alternative sources of funds similar to the Rashtriya Mahila Kosh model is growing, particularly because the linkage programme is not expanding fast enough to cope with the number of SHGs. MYRADA is faced with two options: to accept funds for on-lending and therefore to become a conduit, or to set up new financial institutions to operate in the Districts where the number of credit groups has increased and Banks are unable to cope; these institutions will receive funds for on-lending to credit groups that have been started **by all the NGOs** in the area. MYRADA has opted for the second alternative and is presently working on establishing Non Banking Financial Institutions which will operate independently. One has already been registered - it is called appropriately SANGHAMITHRA. MYRADA is also toying with the idea of starting a Local Area Bank - but with a difference; it will have equity from the self help groups, the local RRBs (if they are involved in lending to SHGs) and Sanghamithra; but this proposal is still on the back burner.

8.2. Guidelines for Banks, NGOs and SHGs

The feedback from workshops organised by MYRADA for Branch Managers highlights certain guidelines, which if followed by all intervenors and SHGs, will help to foster not only a growth in the number of groups linking with Banks, but also a significant increase in the quality of the relationships. These guidelines are listed below:-

i. **Groups that meet only for savings and not for lending to members do not have the necessary experience to receive loans from Banks.** A group should have atleast 6 months of experience in saving, lending and repayments before Banks have the confidence to advance a loan to the group.

ii. The groups should **maintain the minutes of the meetings,** recording their decisions to advance loans from their common fund to members and a **statement of accounts** indicating repayments of capital and interest as well as defaults and sanctions. These records must be maintained regularly before a Bank Manager has the confidence to advance a first loan no matter how supportive the official policy may be.

iii. Government and Bankers must realise that **the cost of credit does not emerge as the primary concern of the groups**; hence the official concern to fix a ceiling on interest rates payable by the loanee is misplaced. What is important is the ready access to credit without harassment, the freedom to decide on the purpose and size of the loan as well as on the schedules of advances and repayments and on the interest rates.

iv. Intervenors must ensure that the loans given to individual members are not viewed by them as a loan from the Bank, **but rather as a loan from their own group common fund;** it is therefore necessary that the members have adequate savings and the experience of lending from their own funds before the Bank loan is received. The Bankers on their part should avoid giving the impression at group meetings that they are advancing loans to individual members. **They should assess the performance of the group rather than focus on the purpose of loans to individuals** before extending a line of credit to the group.

v. Bank credit should be restricted to groups that can use it effectively; **it should not be looked on as a disbursement** to which all the members in the group have a claim or are entitled to. If a group decides to distribute loans equally to all members, it is a sign that it is weak.

vi. The Branch Managers **should visit the groups,** atleast twice, before deciding to lend money. Periodic visits after the loan has been advanced are strongly recommended; they help to build a relationship between the SHG and the Bank.

vii. The Bankers must realise that they are responsible to establish a healthy and abiding **relationship with the groups**; this fosters open communication and builds up trust; they need to consider the members of the group as **"borrowers"** and not as **"beneficiaries"**, and give them the respect that a genuine borrower commands; they should also be **available to meet people at times convenient to the people and not restrict interaction to "office hours".** Most loans turn "sour" because this relationship is weak and restricted to the convenience of the Bankers.

viii. The Branch Managers who visit the groups should realise that they are dealing **with institutions and not with individuals.** Many of them still adopt the IRDP approach and insist that the purposes for the loans be clearly identified by the group before the loan is given, and that these purposes should be listed in the Memorandum of Understanding between the group and the Bank. **While all the group members may be required to guarantee the loan and recoveries, there is no need to state the purpose of each loan to the member before the Bank advances a loan to the group.** The primary concern of the Managers should be that the loan is repaid and on time. There is no need for them to attempt to assess viability since this is not the basis on which the group decides; **it is manageability more than viability that is the governing norm for people in the credit groups.**

ix. The Branch Managers should visit the groups and assess atleast the following :

Performance	Verifiable Indicators
Whether attendance is good (over 75%).	The Attendance Register
Whether participation is effective.	Manager's experience of the meeting and study of previous minutes.
Whether decisions are taken at the meeting and whether loans are monopolised by a few or spread over the members.	Minutes of meetings and records of loans.
Whether savings are regular and amount to atleast 1/3rd of the Common Fund.	MYRADA computerised data.
Whether recoveries are prompt.	MYRADA computerised data.
Whether sanctions are applied to defaulters.	MYRADA computerised data.
Whether group representatives are changed regularly.	Minutes of meetings.

x. **The NGO on its part has the responsibility to ensure that the groups maintain minimum records** especially regarding decisions on loans and a statement of accounts; they also need to create a culture in the groups that they should not look at the Bank as a "giver".

8.3. The Incentives to Bankers are the following :

i. Bankers must be reasonably sure that lending to groups will be **profitable to the Banks,** that the loans will be **repaid**, that this programme fits in with their overall objectives and **social obligations** to advance loans in the priority sector and that linking with groups **will improve**

their image and give weightage to their personal performance.

ii. A major hurdle that NGOs face is the insistence of several Managers that the groups cannot be given loans if there are any **previous defaulters** in the group. This is a major "mind block" that is holding up growth in linking Banks with SHGs. To begin with, MYRADA does not accept the rationale for this stand when the **group has a good track record of savings, loans and repayments.** The Banks have not been able to achieve a record of repayments anywhere near that of the groups. This hurdle therefore is a carry over from past practices and attitudes. Secondly, this objection is understandable if there are a large or significant number of defaulters in the group; but there are several instances of Banks rejecting applications from groups even where only 2 or 3 out of 15-20 members are previous defaulters. Thirdly, there have been several instances **where after Banks have advanced loans to groups with a few defaulters; they have started repaying previous loans which were lying unpaid to the Banks; this is an added incentive;** the potential for reducing the number of previous defaulters once they are members of SHGs had become an incentive to the Banks.

8.4. Main Obstacles

The feed back from 16 MYRADA Projects as well as from NGOs working in group credit management, identifies the following obstacles to the growth in the number of groups with linkages to Banks.

i. The Branch Managers are not fully convinced that this strategy is **supported by their superior officers** and that their progress in achieving linkages with groups will be given weightage in their performance reports.

ii. **Small loans are not appealing to Branch Managers;**

since the loans to the groups are small (ranging from Rs.2000/- to Rs.15,000/-) many Managers do not find them attractive, because targets are more difficult to achieve.

iii. Many find it a **burden to visit the groups** which meet either in the morning or late in the evening. Further, transport is often a problem.

iv. Some Banks and even Government sponsored credit programmes, prefer to give loans to NGOs for on-lending to SHGs. This practice is becoming increasingly popular since it reduces the involvement of the Banks (All India Data available as on March 1997 shows that while 3,585 SHGs are linked directly to Banks, 2,868 SHGs receive loans through NGOs. Source: NABARD). They have only one institution to deal with, and more significantly, it reduces both transaction costs and the degree of inconvenience which visits to SHGs cause officials, accustomed to fixed office hours and people coming to see them. This pattern however, does not encourage Banks to review their systems and to change their culture to make both friendly to the poor. They can continue business as usual. Some Banks have gone one step further to **reduce risk to zero.** They have advanced loans to NGOs for on-lending as well as frozen the savings of all the SHGs and treat these savings as a kind of collateral. This approach which uses the NGO as a financial intermediary also undermines the major role that the NGO should and can play namely, **social inter-mediation**. It is in this area that the competence of the NGO chiefly lies. To convert NGOs into another link in the financial delivery chain is to undermine the primary competence of the NGO as well as to sign on the line of least resistance as far as the Banks are concerned.

v. There are also several unexpected obstacles to the growth in the number of groups linked with the Bank. In Dharmapuri District for example, where the potential for linkages is high, the Branch Managers concerned have been unable to proceed, since the Bank has come out with its own scheme that places several obstacles on the voluntary functioning of the groups. The NABARD circular of February 26, 1992 is adequate and **there is no need for Banks to come out with different schemes of their own.** While it is accepted that the RBI and NABARD need to come out periodically with revised guidelines to respond to issues that arise as the experience expands, what has been issued so far is adequate for all Banks to start.

vi. There is, however, growing criticism that the Banks are not moving fast enough to link up with the group, even though the experience of those Banks which have linked up has been good. MYRADA alone has approximately 2000 groups which could be linked immediately with Banks, yet the number of groups so far linked up is only about 726. The approach to link up with the Banks will also have to cope with the future scenario where Banks are increasingly reluctant to expand the number of branches especially in rural areas and in fact may reduce several that exist.

8.5. Apex Bodies As Financial Intermediaries

A significant development in MYRADA projects during the past 3 years has been the emergence of Apex Bodies functioning as financial intermediaries. A trial balance and receipts and payments a/c of an Apex Body functioning in Holalkere Project which also manages a Common Fund besides performing other functions like monitoring SHGs is given below :

MYRADA HOLALKERE PROJECT
SRI SARVODAYA MAHA SANGHA - H.D.PURA
Trial Balance As On 15.01.1998

Particulars	Debit	Credit
Admission Fee from SHGs		4,350.00
Share Capital from SHGs		26,274.00
Interest on S.B. A/c.		12,510.00
Interest on Loans		853.00
F.D.R. Interest		18,229.00
Income on sale of Seeds/Fertilisers		11,829.45
Fines/Contributions		3,556.00
Savings from SHGs		25,862.00
Housing Contributions from SHGs		575.00
Sale Income of old FSC item		500.00
MYRADA Working capital repaid by SHGs		79,216.50
Reimbursement of CSH 9 Seeds Amount		1,134.00
Contribution for fencing programme		650.00
Contribution for Books		20.00
Other Income		582.00
Audit Fee	1,300.00	
Stationaries	486.00	
Bank D.D.Commission	1,652.00	
Travelling Expenses	2,496.00	
Honoraria to Animators	1,690.00	
Coolie / Hamali	234.00	
Transportation	1,370.00	
Tea & Food	196.00	
Watch & Ward	100.00	
K.D.R. A/c.	100,000.00	
Trunk / Box	238.00	
Balance Amount Receivable	37,915.20	
Closing Balance		
Cash In Hand	82.00	
Cash At Bank	38,381.75	
TOTAL	**186,140.95**	**186,140.95**

SRI SARVODAYA MAHA SANGHA - H.D.PURA
Receipts & Payments A/c. For The Month of Jan. 1998

Receipts	Amount	Payments	Amount
To Opening Balance		By Honoraria to Animators	20.00
Cash In Hand	82,00		
Cash At Bank	26,159.25		
To Savings from SHGs	453.00		
" Fines / Contributions	132.00		
" Audit Fee	200.00		
" Contribution for fencing	50.00	Cash in Hand	82.00
" Seeds & Fertilisers balance amount	11,407.50	Cash at Bank (CGB HD Pura)	38,381.75
	38,483.75		**38,483.75**

These Apex Bodies fulfill an important role in taking over responsibilities from MYRADA, thus allowing the field staff to withdraw and move to new areas or take up other activities.

Apex Bodies have evolved from below rather than being constituted from above, though MYRADA did intervene in the process when required.

Some Apex Bodies decided to **mobilise and manage funds and programmes,** others decided that they would not handle funds. Major roles which are common to all are, monitoring the performance of credit groups, lobbying with Government and tackling problems common to the area which require larger funds than MYRADA can mobilise. MYRADA up to 1992 did not actively encourage Apex groups to manage large funds and to take on a lending role. This was based on its experience of Apex groups which had performed these functions; they became politicised, attracted outside interference and were unable to monitor the credit groups effectively. It must however be admitted that where the Apex groups failed the SHGs were weak and did not exercise any control over these Apex Bodies. In recent years, however, several Apex Bodies have managed funds successfully.

8.6. NABARD - State Level Meet on SHGs

Meetings of senior Bankers are convoked regularly by NABARD, Bangalore. These meetings have played a critical role in identifying blocks to the Linkage Programme and in evolving the strategies to overcome them. The following issues were tabled at the meeting held on October 4, 1996:

Sl. No	Issues	Clarifications/ Suggestions from NABARD
1.	Many bankers enquire whether the savings amount raised by SHGs should be taken into account for the purpose of deciding the credit-worthiness of SHGs.	The amount of savings together with the amount of interest and, sanctions as well as other funds mobilised by the SHG should be taken into account to assess the credit worthiness of the SHG.
2.	Some banks are blocking the savings account of the SHGs as security for financing them.	This **practice contravenes the very concept of the SHG linkage programme.** Banks should not adopt this practice or take any sort of collateral - security while financing a SHG. They need to assess the strength of the SHG as an institution on the basis of criteria listed in Chapter 10.
3.	With deregulation of interest rates on lending, some RRBs have hiked their minimum lending rates above 12%; these revised rates are made applicable for SHG financing.	The maximum interest rate to be charged to SHGs should not exceed 12%, despite deregulation of the interest rates.

4. Some RRBs/Commercial Banks are charging one time service charge and also visiting fee in respect of SHG financing.	This is not a correct practice, keeping in view the philosophy of SHG linkage. Banks are not expected to collect any service charge and visiting fee for SHG financing.
5. Some Branch Managers are demanding deposits from the NGOs as a pre-condition for financing SHGs sponsored by them.	This practice is not in order.
6. Banks are demanding from SHGs, the details of the **purposes** of lending to members **before** financing. Very often the repayment period is fixed by the Bank based on such purpose.	The financing branches may collect information relating to the purposes for which the loans have been utilised for internal data generation, one month **after** the loan is extended; **this should not be done before** the credit is extended. Repayment schedules should be decided by the SHG and the Bank; the capacity of the SHG to repay depends on its general cash flow; not on the repayment schedules of each loan.
7. SHGs financed by Banks should maintain uniform set of books of accounts for which NABARD should issue instructions.	To allow flexibility in the functioning of the SHGs, they may decide on the minimum books of accounts and records to be maintained; the number may vary depending upon the nature of groups, business transacted and location.

8. Focus on reducing non-performing assets (NPA), raising profitability consciousness, high CD ratio in rural areas, staff constraint in rural branches, increase in work load in rural branches are coming in the way of Banks participating in the SHG linkage programme in a significant manner.	SHG financing is beneficial to Banks in many ways. Besides reducing transaction cost of the banks it ensures high recovery rate. However, occasional visits to SHGs usually after office hours is required to build a relationship; this maybe inconvenient for some. The banks gain in terms of lower NPA, quick recycling of funds, higher profit and access to new clients among the poorest class. The paper work load on account of the SHG linkage infact decreases since one loan is given to a group and no records of individual loans is required before lending. Besides, the social obligations of the banks are fulfilled.
9. SHGs should have some kind of formal character; some checks and balances should be thought of for overcoming the non-recovery problem, which is likely to be compounded in future with increased volume of lending to SHGs.	Several studies conducted in the past have revealed that the recovery performance in respect of SHGs is much higher than the recovery percentage under any other loan segment. At present, the recovery from SHGs hovers around 90% in all the states As such, the time has not come for expressing apprehensions on this count. The documentation prescribed by the RBI for SHG financing is sufficient enough to take care

of the legal aspects concerned with recovery. If loans are given on the basis of performance and contact with the SHG is maintained by the Bankers, repayments will continue to be high.

10. Keeping in view the low level of information on the SHG concept at the field level, awareness meets on SHG should be conducted at district/ taluk levels regularly.	LDMs of various districts in coordination with the AGMs (District. Development), NABARD should organise such programmes at taluk/district level for which necessary support in terms of faculty and materials will be made available by NABARD Regional Office.
11. The progress under linkage of SHGs and various issues concerned with the linkage should be discussed in various State/District/Taluk level forums.	As per the Working Groups recommendations, which have been accepted by RBI, the progress under SHG linkage programme and various issues connected therewith may be discussed in all BLBC, DCC and SLBC meets. The Convenor, SLBC has already agreed to include this as a part of the agenda in every meet. LDMs should discuss the SHG linkage programmes and other connected issues in every DCC/ DLCC meeting.

The following issues emerged at a meeting of the State Level Review Committee convoked by NABARD, Bangalore on November 24, 1997

Sl. No	Issues	Clarifications/Suggestions from NABARD
1.	Some banks in their guidelines to branches have required a margin money of 5% to be charged to SHGs for loans in excess of Rs.50,000/-	It was felt that such a stipulation should not be insisted on by any bank. The RBI representative would look into the matter and issue necessary clarifications.
2.	Some banks are insisting on interest payments from SHGs on a quarterly basis even before the principal falls due. Compounding of penal interest is also resorted to in certain cases.	It was felt that interest should be collected along with principal amount; compounding of interest should be avoided.
3.	With revision of stamp duty and in the absence of any exemption for SHG lending from stamp duty, the charges payable by SHG by way of stamp duty on the main agreement and inter-se agreement is a burden on the poor. The issue has been taken up with the state Government.	SLBC should take up this issue with the State Government.
4.	As per NABARD guidelines, loans to SHGs may be issued linked to savings at the ratio	NABARD's guidelines on this issue need not be applied strictly to decide the maximum

of 2:1 to 4:1. There is a suggestion from SC/ST Commission to raise the ratio to 8:1 for financing SHGs which have only SC/ST members.	quantum of the loans. Banks may sanction at a higher ratio to SHGs depending upon their confidence in the capacity of the groups.
5.Many banks are extending short term loans and sanctioning cash credit limits to SHGs. As NABARD's refinance is not available for short term/ cash credit type loans, banks resorting to such lendings are deprived of National Bank's refinance facility.	The issue is under examination by NABARD, Head Office.
6.Under SAMIS, a separate code number is not allocated to the SHG programme, as a result, lendings to SHGs do not appear in computer print-outs.	RBI may look into the matter.
7. Some Banks are in doubt whether supplementary/ additional loans can be sanctioned during the currency of earlier loans to SHGs.	Banks may have to sanction additional loans to SHGs even when previous loans are not repaid, provided they are satisfied with the SHGs performance and potential to repay.
8.Should cheque books be issued to SHGs?	Yes. The practice of some banks not to issue cheque books and to rely only on withdrawal slips is not in order.

[1] The models adopted by the Government and related financial institutions where loans were given to members through the group, but the group could not levy any additional interest (like in the IF AD project covering Dharmapuri District) or where a ceiling was placed on interest (like the Rashtriya Mahila Kosh) did not find favour with the SHGs.

Chapter 9

WOMEN SHGs

MYRADA is often asked whether women's SHGs perform better than men or vice versa. Though there are several men's groups that have an excellent record, the opinion is that overall the women's groups are not only more effective but also give more importance to the needs of the family. MYRADA's data base is not programmed to answer this question satisfactorily, but certain indicators can be identified which tend to substantiate the opinion that the performance of women's SHGs is better. An analysis of the groups in two MYRADA projects, namely Holalkere and Kamasamudram, indicate that the women's groups have a higher level of performance. These two projects have been selected because there has **been no extra emphasis** on women, which was the case in Dharmapuri Project where the focus was on women; as a result, 95% of the groups are composed of women. The SHGs in these two projects manage their common funds which are made up of their savings, interest, fines and matching grants from MYRADA and of loans from the Banks.

The following two tables (Table 1 & Table 2) provide a comparative study of the performance of men's and women's groups in these two projects.

TABLE 1 indicates that the **per capita savings** of women in both projects is **higher** (In Dharmapuri Project which has 551 women's groups the savings rose from Rs.1 million in 1991 to Rs.3 million in 1993 and to Rs.12.9 million in 1997; this was the highest rate of increase of all MYRADA projects.) The number of fines imposed per capita is lower among women's groups. Since fines are imposed largely for failure to repay according to the schedule,this indicates that women tend to be more disciplined and responsible in the use of money. Table 1 also indicates that women's groups tend to charge a higher rate of interest; for example, each loan in the men's groups in Holalkere and Kamasamudram earns Rs.8.88 and Rs.15.59 respectively. In comparison each loan among the womens groups in Holalkere and Kamasamudram earns Rs.9.79 and Rs.17.47 respectively. It has been observed that women are very keen on building up their common fund in the first two years; this is one reason for the higher rates of interest. However, many women's groups lower the interest after the common fund is established.

Women also take a larger number of consumption and animal husbandry loans. Our records of case studies indicate that consumption loans go mainly towards household expenses. In Animal Husbandry they tend to take loans for sheep and poultry which they are able to manage and not for bullocks or cows. In agriculture, since the groups do not give large loans as a rule, both men and women tend to take loans for agricultural inputs, though in the men's groups the percentage of agricultural loans is larger. Since most of the small income generating programmes are home based, women tend to give priority to these loans rather than men.

TABLE 2 indicates that overall the women's groups have a better rate of recovery and smaller overdues; (the amount outstanding which is not overdue is not included in this table). It is, however, significant that the performance of women's groups when compared to the men's in the area of agricultural loans is not encouraging; one reason for this which emerges at group meetings is that while women borrow for agricultural inputs, it is the men who manage and dispose off agricultural products; hence women do not have control over these resources.

In general, however, there are adequate indicators to support the impression that while the poor are bankable, poor women are even more so.

TABLE - 1

MYRADA HOLALKERE AND KAMASAMUDRAM PROJECTS - DATA AS ON 31.12.1992
AN ANALYSIS OF MEN'S AND WOMEN'S GROUPS

							<- % of No. of Loans Vs. Total No. of Loans ->					
Project	Group Type	No. of Groups	No. of Members	Per Capita Savings (In Rs.)	Amount of Fines Vs. No. of Members (In Rs.)	Amount of Interest Vs. No. of Loans (In Rs.)	Consum-ption	Agricul-ture	Animal Husb.	Income Gen	Housing
HOLALKERE	Men	21	432	206.92	18.54	8.88	32.88	46.37	11.65	7.88	1.23
	Women	58	1105	276.00	13.51	9.79	39.25	34.13	17.65	6.81	2.17
KAMASAMUDRAM	Men	65	1305	185.02	3.16	15.59	36.19	44.93	6.94	8.13	3.81
	Women	44	820	202.56	0.95	17.47	45.26	27.00	13.25	8.51	5.97

TABLE - 2

MYRADA HOLALKERE AND KAMASAMUDRAM PROJECTS - DATA AS ON 31.12.1992
AN ANALYSIS OF MEN'S AND WOMEN'S GROUPS

		<— % OF RECOVERY Vs. AMOUNT LOANED —>					<— % OF AMOUNT DUE Vs. AMOUNT LOANED —>				
Project	Group Type	Consu-m-ption	Agricul-ture	Animal Husb.	Income Gen.	Housing	Consum--ption	Agricul-ture	Animal Husb.	Income Gen.	Housing
HOLALKERE	Men	68.17	60.80	3.73	35.20	43.42	12.86	10.34	30.89	17.98	34.48
	Women	78.19	54.15	47.46	62.81	48.49	3.60	18.18	27.64	10.81	13.81
KAMASAMUDRAM	Men	58.30	48.26	40.09	47.71	25.29	16.79	12.80	15.32	14.11	7.16
	Women	62.74	40.90	40.87	46.53	26.08	2.66	7.13	7.43	3.02	5.89

Note : Amount outstanding but not overdue is not included in the table.

Chapter 10

MONITORING SYSTEMS AND GUIDELINES

10.1. Major Indicators of Quality

A monitoring system that is open to and understood by all the members of the SHGs and to which outsiders have access for evaluation is essential for the continued good health of any institution. The SHGs are not an exception.

Since financing institutions are now linking up directly with the groups, it is necessary that indicators are available to assess the group as an **institution**. MYRADA's strategy supported by NABARD went beyond *'banking with the poor'* towards **"banking with credit institutions" which the poor have established and which they control. For these groups to be bankable** requires that the groups maintain records which indicate the quality not only of their finance management but also of their institutional health. For example, it is necessary to monitor whether the level of participation of every member is increasingly effective, whether a few members are attempting to capture power, whether the boundaries of the groups activities are clearly defined, whether the groups have developed a culture of regular savings, repayments and control of conspicuous consumption, whether groups can apply sanctions effectively and fairly to ensure behaviour that sustains and enhances the quality of their behaviour, performance and financial management. The group's ability to maintain these records and manage its affairs in turn increases the degree of self-reliance and confidence of its members to resolve issues and fight for their rights in larger heterogeneous fora like Cooperative Societies. There is no doubt that intensive training support is required for the group to reach a stage where these systems operate effectively and where the culture required to support and sustain their operations is sufficiently developed.

The main indicators of quality, however, need to be identified by the members of the SHGs. MYRADA realised that the system had to be appropriate to local needs and skills and not one that was designed by outsiders primarily to meet their needs; such systems the staff knew from experience would be elaborate and of little use to the SHGs. MYRADA also had to ensure that while, on one hand the system did not require a large supporting infrastructure which would increase overhead costs, on the other, feedback had to be reasonably quick to be effectively utilised by the SHGs. The decision was taken to focus the monitoring system on the quality of the **groups performance as an institution** and not on that of the individual members. Case studies of the performance of the individual member would be made after the groups decided that individuals had risen above the poverty line according to the groups assessment or when the decision was taken that MYRADA could sharply reduce its support services to the group.

To ensure quick analysis of the groups performance and effective follow-up action, the entire programme was computerised and staff trained at every project to handle data input. Besides providing ready access to data pertaining to each group, consolidation of data at project and sector levels also provides adequate insights into the overall strengths and weaknesses of the project's performance and trends in the pattern of loans as regards purpose and size. Data on the management of the common fund is essential to enable the NGOs and financial institutions to assess this innovative pattern of lending to the poor.

During 1988-89 the SHGs went through an exercise to identify the criteria to assess the quality of a SHG. MYRADA staff participated in and supported these efforts. An analysis of the indicators that emerged from various projects to assess the quality of performance of the SHGs reveals certain important and common features which are consolidated below for ready reference.

Participation **:** There was general agreement that effective participation in discussions and programmes occurs in groups that are **small**, i.e. less than 25-30 members. **Hence, large groups were assumed to be weak unless otherwise proved.**

Sanctions **:** Are sanctions imposed for deviant behaviour? For example, failure to return a loan installment, arriving late for meetings, talking and smoking at meetings, excessive drinking? **Groups that imposed sanctions effectively and regularly, were seen to be strong**. While most sanctions were monetary fines, the ultimate was expulsion from the group. Since monetary fines were credited to the common fund, the extent of fines imposed by each group could be ascertained from the computerised data.

Economic Status of Members **:** SHG members should be from poor families only. In a few cases where MYRADA was starting a new programme, in order not to generate conflict too early in the process, some better off farmers were enlisted to participate in meetings in an advisory capacity. Groups made use of their experience, but they could not become members or receive loans and they had no decision making powers. **Those groups which continued to have these better off farmers attending meetings** were not considered to be **self-reliant.**

The groups also required that those members who had progressed sufficiently and were able to sustain their livelihood should not receive any loan from the group; they were, however, free to remain as members or to leave.

Office Bearers **: The term of office bearers should be fixed, with a maximum period of one year;** longer terms allow consolidation of power which weakens group cohesion and ability to decide and act effectively. To enable the weaker members to assume office, the groups suggested that the office bearers could be elected well in advance and MYRADA staff asked to provide training to equip them for their job.

<u>Status symbols</u> like the name of "President" should be avoided as they tend to invest people with extra authority and power; the term "representative" was found to be more appropriate for the office bearers.

<u>Meetings</u> : Frequency : Groups that meet every week tend to be better than those that meet fortnightly or monthly. **Hence weekly meetings were selected as an important indicator.**

Schedule : Groups were unanimous that there should be a **fixed day and time** for weekly meetings; changes could be made only under special circumstances and after adequate intimation to all members.

Attendance : **An attendance register should be maintained;** attendance of all members is compulsory. **Groups with average attendance below 75% were considered to be weak.**

It was also observed that if attendance was below 75% as a regular feature, it did not necessarily mean that the absentees were not interested; in many cases when approached it was found that they were reluctant to join the group but were keen on forming a separate group of their own.

In case of an emergency meeting, all members should be prepared to gather even at very short notice.

<u>Rules</u> : **Each SHG should frame its rules governing conduct, management of finance and activities.** The main reason many groups gave for their reluctance to have the SHGs registered was that they would be vulnerable to interference from Government officials; besides it would impose rules and destroy the SHGs voluntariness.

<u>Activities</u> : Groups which did not clearly define the nature and scope of their activities but took on various types of infrastructural programmes during the first few years and which diverted their attention from management of their common fund, tended to be weak.

Savings : **Savings by each member was an indication of her/his commitment to the group and to personal growth and progress**. Every member should be encouraged to save some amount each week from the beginning. A Savings Register should be maintained. Irregular savings indicated a weak group.

Size of Loans : Schedules of Payments and Recoveries : Groups which did not decide on the size of loans and establish a schedule of payments and recoveries irrespective of what official norms required, were considered to be weak.

Interest on Loans : **If the common fund was treated as a mere channel of loans the groups tend to be weak.** The groups should therefore be free to fix the rate of interest on all loans advanced through or from the common fund. There was strong reluctance on the part of good SHGs to undertake programmes where Government, Banks and donors provided loans through groups for specific projects of individual members and insisted that groups had no right to increase or decrease the interest rates or change the purpose.

Common Fund : **If the common fund revolves briskly, it indicates that the group is "good".** This indicator was based on the understanding that regular decision making on how to allocate scarce resources (part of which is their own savings), increases the management skills of the members, trains them to select priorities, to accept refusals and still remain in the group. The comparison between the amount of interest generated from loans to members, with the interest accruing on deposits from the common fund lying in Banks indicates the degree to which the common fund is revolving. **Large unutilised deposits in Banks, therefore indicated a "weak" group.**

Those groups which received large amounts of money as

grants to implement infrastructural programmes were found to be weak. They were more involved with implementing programmes than managing their credit needs.

Records **:** The good SHGs maintained the following books/ records:

- Attendance Register
- Minutes Book
- Savings Ledger
- Members Pass Book
- Receipt and Payment Vouchers
- Cash Book
- Loan Ledger

Overdues **: Overdues should be less than 10% of outstandings;** if more than 10%, the reasons should be placed before the members and if accepted by them the loans should be rescheduled.

Patterns of Loans **: Most SHGs that are functioning well began with tiny loans (less than Rs.300)**, mainly for consumption during the first year; then moved into small loans (less than Rs.1500) for petty business and cottage industries before moving into larger loans for assets like cows, open wells, etc. Those SHGs where the trend was the reverse were usually weak.

10.2. Guidelines for Financial Management

Given the importance of proper records of financial transactions, another set of guidelines focusing on financial management was drawn up by MYRADA staff based on the feedback from members of the groups. These guidelines are helpful for NGOs entering *the field of group credit management; they have been consolidated and divided into two categories : What should be encouraged and what should not.*

COMMON FUND MANAGEMENT RELATED

What to Promote	What to Discourage
A balance needs to be maintained between the members savings and matching funds from the project (a ratio of 1:3 is the limit). There are examples where large project contributions have made members take careless decisions which they would not have taken with their own money. In some groups members have rotated only the amount received from the project, keeping their savings intact.	Large amounts of money for infrastructure, and community programmes, should not be routed through the group since this can distort the working of the group to fund-monitor rather than fund-manage; besides such groups spend most of their time and energy implementing "donor" projects.
All financial transactions should take place during a group meeting.	No money transaction should be conducted outside the meetings, whether it relates to loan disbursals, collection of savings and repayments, or decision with regard to using funds for community programmes; no group member or office bearer should hold cash balances at any time unless allowed by the group for emergencies.
All accounts should be in the name of the group and not in the name of one or more members. Signatories to the group Bank account must be rotated periodically. All decisions regarding fund management and fund utilisation should be recorded and be verifiable through the minutes of the group.	

Fund Management tends to improve if groups display charts showing lists of members loans, recoveries, overdue balances and other activities.

MYRADA staff should not handle group money; they should not function as group office bearers; neither should they accept (even informally) to perform those functions that are expected to be performed by the group members (eg. depositing money in the bank, making withdrawals, purchases, etc.)

SAVINGS RELATED

What to Promote

Encourage the savings habit as a value in itself and not just as a means of increasing the groups fund position. It builds up the habit of thrift and controls unnecessary consumption.

Every group needs a policy on how to manage the savings of members who :
(a) leave the group voluntarily
(b) are asked to leave for some reason.

What to Discourage

The practice in some groups of requiring equal savings by all members each month regardless of the fact that some members may at times be in a position to save more has to be discouraged. Besides there are seasonal variations in the capacity to save which must be taken into account.

Payment of interest to members on savings deposited in the common fund is still not a widespread practice but one that is worth considering and promoting. Many groups permit their members to save for a leaving the group (either voluntarily or forcibly) should be discouraged. There are instances where such a decision has resulted in a drop in savings among other members who fear the same consequences.

Several groups make a distinction between members savings and contributions to the common fund. While contributions are non-refundable, the practice of withholding savings of members leaving the group (either voluntarily or forcibly) should be discouraged. There are instances where such a decision has resulted in a drop in savings among other members who fear the same consequences.

LOAN RELATED

What to Promote

All loan applications must be addressed to the group or to the office bearers of the group and must be scrutinised and approved, modified, or rejected in group meetings only and minuted accordingly.

Repayment schedules must be finalised and minuted when loans are disbursed.

Service interest charge on loans must be clearly separated from repayments.

What to Discourage

Care should be taken to ensure that few members do not monopolise all loans.

Large loans for a single member must be avoided until the group is financially strong and has systems of administration that are adequate to motivate and guide members and impose sanctions for deviant behaviour.

The tendency to first decide on who should get a loan and then to assess how much money there is in the group and if there

Promissory notes obtained by many groups for large loans should be between the group and the member.

Loans must be disbursed only at group meetings.

The practice of giving a second loan before the first is repaid should be carefully assessed, particularly if there are any overdue installments. However, the second loan should be considered where there is need.

When the Banks advance loans they should be given to the group on the basis of its performance and not made out in the names of the individual members. Care should be taken to ensure that the Bank loan is considered by the members as "their" money, as part of their common fund.

is a deficit to ask the NGO to meet it, is not credit management; it should be discouraged at all costs.

Loans must not be disbursed to persons (substitutes) other than the group member who has actually applied for it.

BOOK KEEPING RELATED

What to Promote

All groups require training to keep basic books and documents; all records must be kept in a safe box with the group either in the meeting place or with one of the office bearers.

What to Discourage

The practice of keeping books The practice of keeping books with MYRADA staff or in MYRADA office should be discouraged.

All books must be kept up to date, with transactions being recorded as soon as they occur.

All groups must close the books by the end of the calendar financial year.

Groups must be helped to develop and maintain their own (appropriate) systems and records for book keeping.

Money for purchase of books and stationery may come from MYRADA at the initial instance but not on a continuing basis.

Initially MYRADA staff may have to assist the groups in maintaining their books and documents but not on a permanent basis.

If a group retains a person on an honorarium/wage basis to keep accounts/ minutes, the money will have to be generated by the group and not expected from MYRADA.

AUDIT RELATED

What to Promote

Accounts must be audited at least once a year.

Auditors must ensure that concerned staff and group representatives are present at the time of audit.

Audit reports must be presented to the group in a language in which they can be understood by all members.

Audit reports should be taken note of for immediate and appropriate follow-up action. A regular **recorded** system should be established by the Project Office/Apex Group to follow up audit remarks.

What to Discourage

Disposal of group owned assets cannot be undertaken without the approval of members and appropriate documentation.

Members who have purchased assets with group assistance cannot dispose off the same while loan installments are still due, without adequate reasons that have the approval of other members.

10.3 Self Help Group Grading Criteria

Sl. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
1. ORGANISATIONAL							
1.	SIZE	15 - 20	21 - 30	31 - 35	36 and above	Admission Book Attendance Reg'r Minutes Book	Our analysis indicates that the best SHGs have around 18 members.
2.	CONSTITUTION (Rules & Regulations)	Formulated by the members themselves, followed by all members, easily accessible in recorded form,regularly updated, and penalties enforced for violations	Fomulated by the members with some external assistance, followed by all members, updated with some lapses; not easily accessible in recorded form, and penalties sporadically enforced for violations	Formulated with external inputs, followed by a few; others not aware, not updated; not accessible either through records or through people's memories	Not formulated by the SHGs	Minutes Book; booklet/file on Rules & Regulations. All these documents should be available on request.	Though not registered, SHGs should formulate their own Constitution and Rules & Regulations; the Project can give some guidelines.

SI. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
3.	ECONOMIC STATUS OF MEMBERS	All members are poor; members share affinities that pre-date the formation of the group. Poverty status can be confirmed through PRA and other methods.	A few members are above poverty line but are vulnerable.	Mixed group of poor and better-off people with little or no shared affinities.	All people in the village are accepted as members, including the well to do, without any clear criteria for membership	Interactions with members; Wealth ranking; Observations; House visits	The ranking holds good for new groups only. Older groups may have graduated to improved economic status for some, if not most or all, members
4.	MEETINGS	Weekly, and regularly conducted. Emergency meetings called when required	Fortnightly, and regularly conducted	Maybe fixed as weekly *or* fortnightly, but irregularly conducted	Monthly, whether regular or irregular in being held	Attendance Register, Minutes Book	Our analysis indicates that the best SHGs meet weekly.

Sl. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
5.	ATTENDANCE OF MEMBERS IN THE MEETING	All members attend regularly. Absence is with prior permission. Average attendance over the year is above 95%	Most members attend regularly. Average attendance over the year is between 75% and 95%. No system of prior permission for absence	Average attendance over the year is below 75%. A few members are regular but many are irregular in attending meetings	Average attendance at meetings over the year is below 60%	Attendance Register and/or signatures in Minutes Book	If attendance is poor there is usually a reason. It is often found that absent members prefer to form a separate SHG.
6.	PARTICI-PATION OF MEMBERS IN DECISION MAKING	Decisions on loans, organisational matters, application of sanctions, etc. made by all members during meetings.	Decisions taken during meetings but influenced by some members rather than by all	Decisions influenced by Staff/Animators partly during and partly outside the meetings	Decisions often made outside the group, mainly by Animators/Staff, and ratified at group meetings, if at all.	Assessment by evaluators; Minutes book; analysis of loans taken by members (are there biases?)	Training required for members who do not participate or who do not get as many loans as others.

SI. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
7.	SHARING OF RESPONSI-BILITY Regular rotation of representatives	Main functions rotated annually; persons performing main functions (eg. signing cheques) elected in advance and trained; All share responsibility in common action.	Main functions not rotated for 2-3 years. Only few involved in common action.	Main functions not rotated at all; only few involved in common action.	Main functions performed by staff/ animator	Minutes book, Evaluators' visits	In many groups only the cheque signatories are fixed for the year. All other responsibilities such as moderating meetings, making bank deposits and withdrawals, etc. are performed by all members in turns.
8.	Common Action Programmes	SHG recognises its role as an agent of change - both within the group as well as in the community - and takes appropriate initiatives.	SHG recognises its role as an agent of change only within the group but is not confident to take initiatives in the community.	The group does not recognise its function as an agent of change but only implements programmes and tries to involve people in implementation.	The group implements programmes but is not concerned with participation and long term impact.	Minutes Book; interactions with SHG members and with the community	A good SHG often not only initiates programmes but also tries to secure the participation of non-members in common action programmes. Having completed a programme, it also plays a part in maintenance and ongoing management.

SI. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
II. FINANCIAL							
9.	SAVINGS	All members save regularly. There is a gradual increase in the minimum amount saved by each member in the month. They decide to pay interest on savings usually above a certain amount.	All members save but more as a matter of routine. The minimum amount to be saved does not progressively increase. The question of interest is not seriously discussed	All members know that savings are important, but not all of them save regularly.	After some initial savings, the question of making regular savings and increasing the amount to be saved does not seriously engage the attentions of any member	Savings ledger; Individual pass books	Regularity of savings can be given more weightage than amount. Further, tha amount saved is not as important as the fact that all members save regularly. The objective is to cultivate the habit of thrift.

SI. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
10.	LOANS	All members take loans. The reasons for rejecting some loan applications are clearly shared in the group meeting and recorded in the Minutes. There is a significant trend from consumption loans to IGPs, trading, asset creation and maintenance, education; etc. The group is gradually able to increase the size of loans due to building up of its Common Fund.	All members take loans but loan applications are not strictly scrutinised and monitored. Loans are given on the basis of fund availability rather than assessment of purpose. Consumption loans constitute over 50% of the number of loans despite 2-3 years of functioning, but trends visible as in previous category. Individual loan amounts continue to be small.	Not all members are given the opportunity to take loans. Consumption loans are far more than loans for productive purposes. Loan amounts are small because the effort to develop the Common Fund is not there.	Most loans get repeatedly cornered by the same few influential members, whether for consumtion of for productive purposes.	Loan Ledger Minutes Book	The purpose of the SHG is to provide all members with access to credit based on need for credit, loan request assessment, capacity to manage the programme and repay the loan, and fund availability. A good SHG is one that takes all these factors into account in approving/rejecting loan applications, and at the same time making continuous efforts to build up its Common Fund to meet the needs of members that increase as their risk-taking abilities and desire to invest in development increase.

SI. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
11.	ROTATION OF COMMON FUND (Includes savings, interest, etc.)	Most of the money in the Common Fund is in circulation. Less than 25% of common fund lying unus	Between 25 - 50% of common fund lying unu	Over 50% of common fund lying unuse	Money in common fund mainly grants for infrastructure which are also no	Bank Passbook; FD Recei	To be assessed over a 12 month period & not just based on pass book balance on date of evaluation. Short duration FDs need not be regarded as idle capital
12	REPAYMENT	Over 95% as per schedule. Decisions taken on overdues, sanctions a	80 - 95% as per schedule. Decisions taken on overdues, sanctions applied	60% - 80% as per schedule. No significant effort made to apply sanctions or recover overdues	Below 60%. No effort made to recover overdue	Cash Book; Pass book; General Ledger; Loan Ledger; Minute	

Sl. NO.	CONTENTS	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
13.	CASH HANDLIN	Cash transactions and handling of cash kept to the minimum. Responsibility clearly fixed and recorded in Minutes. Responsibility for carrying cash to the bank, etc. rotated monthl. No cash carried over beyond fixed amount to meet emergencies.	Responsibility for cash handling rotated periodically; cash in hand limits not fixed and if fixed, not main	No cash in hand limits fixed. Cash handling responsibility not rotated. Practise routine handling of cash rather than dealing in cheques.	Animators or Staff routinely engaged in cash handli	Minutes Book; discussion	Efforts should be made to minimise transactions in cash

SI. NO.	CONTENTS	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
14	RESOURCE MOBILISATION	Efforts made to mobilise resources to build up common fund through fund raising initiatives, from Govt. & through Bank link	Efforts made to mobilise local resources but no linkage with Banks or Govt.	No efforts made to mobilise resources other than from NGO	No efforts made to mobilise resources not even regular savings	Minutes book; Cash book; General Ledger Resource Mobilisation reg.	The NGO should support linkages with Banks through training and exposure in order to foster sustainable credit flow.

SI. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
III. MANAGERIAL							
15	MAINTENANCE OF RECORDS	Increasingly by the members. Members are conscious of the need to maintain all relevant records and insist on it. In the case of no member being able to read and write, a non-member may be hired to perform this task.The fee for this is paid by the group out of its own funds. All books are available for audit and evaluation	Members are conscious of the need to maintain all relevant records but require the NGO to monitor and remind them. Basic accounts and Minutes are maintained, but other records and documents are neglected	Members are not serious about the need to maintain records. Even basic accounts and Minutes are not properly maintained. NGO has to perform all necessary functions but members cooperate	No awareness of accounts and documentation. No cooperation from members	Scrutiny of all books maintained by the group as against books and documents required to be maintained	There are many groups in which it is likely that no member is literate. Nevertheless, a good SHG recognises the need for book keeping and often hires a person to perform this task.

SI. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
16.	TRAINING IN ALL MODULES ACCORDING TO THE MANUAL	All modules completed, all members participated; weaker members given special attention and separate courses conducted when required. Members request for additional training	All modules completed, all participated; no special attention to weaker members. No requests from members for additional training	All modules not completed; poor participation; no special attention to weaker members. No demand from members for training	Minimum training completed. No demand from members for training	Monthly training records ; Interactions with members regarding topics and methods	Training is an important part of SHG development, but though the initiative may at first come from the NGO, the members of a good group soon see the value of training and start to ask for it. There are instances where members not attending training programmes are even fined by the group. MYRADA is producing a Manual on SHG training based on field experiences.

Sl. NO.	CRITERIA	GOOD	AVERAGE	POOR	VERY POOR	OBJECTIVELY VERIFIABLE INDICATORS	REMARKS
17.	CREDIT PLUS	Themes like education, population control, sanitation, etc. selected bi-annually and programmes planned and implemented	Similar themes selected but sporadically; implementatio-n not properly planned.	Similar themes selected but not implemented	No attention to any issues beyond credit.	Minutes Book, discussion with village community	
18.	AUDIT (By external auditors)	Audited annually; members take initiative and pay for audi	Audited annually, NGO takes initiative for audit and pays for	Audited but not annually; NGO takes initiative and pays for it.	Not audited so far.	Audit Report review and Minutes book	

Annexure 1

DETAILS OF MYRADA SELF HELP GROUPS AS ON 30.06.1997

Sl. No.	Project	Men	Women	Mixed	Youth	No. of Groups	No. of Members	Total Common Fund	Total Savings out of Common Fund	Total No. of Loans	Total Loan Amount	Interest on Loan out of Common Fund As on 31.12.96
1.	Germalam	45	31	3	0	79	1,106	5,268,581	600,017	8,622	3,333,381	506,360
2	Talavadi	88	50	5	0	143	2,278	4,086,971	1,415,066	459	3,981,709	980,772
3	Madakasira	40	429	204	0	673	13,922	51,670,671	10,844,875	49,270	69,535,215	691,017
4	Chincholi *	8	34	1	0	43	796	1,275,195	529,233	3,630	3,350,714	207,736
5	Holalkere	1	177	0	0	178	3,274	11,806,120	2,389,321	12,176	12,878,383	580,943
6	Holalkere Phased out groups	9	58	5	0	72	1,281	8,685,945	1,782,869	12,287	9,952,216	0
7	Kamasamudram	25	112	11	0	148	2,640	6,045,314	1,599,525	14,533	9,571,556	643,210
8	Kadiri	14	75	0	5	94	1,459	1,995,627	554,497	22,583	10,413,431	535,919
9	Gulbarga	76	57	3	4	140	2,555	9,316,239	2,051,226	15,145	20,871,830	0
10	Dharmapuri '	38	551	6	0	595	12,248	24,674,878	12,968,624	62,706	66,785,780	6,115,321
11	Challakere	17	66	39	0	122	2,432	2,400,973	1,667,704	7,766	6,988,414	408,147
12	H.D.Kote	156	446	64	1	667	15,928	39,498,339	10,665,183	71,188	68,050,262	1,497,544
13	Huthur	15	67	6	0	88	1,510	2,017,591	744,935	3,655	3,194,730	293,924
14	Kattery	3	19	5	0	27	450	210,189	137,268	247	582,134	0
15	Devi	0	61	0	0	61	890	1,144,045	378,389	2,626	872,752	0
	TOTAL	535	2,233	352	10	3,130	62,769	170,096,678	48,128,732	286,893	290,362,507	12,460,893

*As on 30.07.1997 'As on 31.03.1997

CHANDRA SINGH Ch.Accts. Officer

Annexure 2

RESERVE BANK OF INDIA

Rural Planning & Credit Department

RPCD No.PL BC 120/04.09.22/95-96
April 2, 1996
Chaitra 13, 1918 (Saka)

All Scheduled Commercial Banks (Excluding RRBs)

Dear Sir,

Linking of Self Help Groups with Banks Working Groups on NGOs and SHGs Recommendation - Follow up

Please refer to our circular letter RPCD.No. Plan BC 13/PL-09.22/90-91 dated 24 July 1991 advising banks to actively participate in the pilot project launched by NABARD for linking 500 SHGs with banks. Pursuant to this, NABARD vide its circular letter No.NB DPD. FS/4631/92-A/91-92 dated February 26, 1992 issued detailed operational guidelines to banks for implementation of the project. Beginning from 255 SHGs linked with banks during 1992-93, it reached 620 SHGs in 1993-94 and 2122 SHGs by 1994-95 and upto 31, December 1995, around 2700 SHGs were linked and the amount of bank loan disbursed to SHGs was about Rs.332 lakhs. In all, 26 commercial banks and 46 RRBs have participated in the linkage programme. The quick studies conducted by NABARD in a few states to assess the impact of the linkage project have brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers, etc. besides leading to gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project is that about 85% of the groups linked with the banks are formed exclusively by women.

2. With a view to studying the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, the Governor, RBI had in November 1994 constituted a Working Group comprising eminent NGO functionaries, academicians, consultants and bankers under the Chairmanship of Shri S.K.Kalia, Managing Director, NABARD. The members of the Working Group visited a number of NGOs and SHGs, held widespread discussions and studied several issues concerning SHGs and NGOs through a sample of 171 SHGs, 49 NGOs and 97 bank branches. The Working Group has since submitted its report.

Important Recommendations

3. Working Group is of the view that the linking of SHGs with banks is a cost effective, transparent and flexible approach to improve the accessibility of credit from the formal banking system to the unreached rural poor, it is expected to offer the much needed solution to the twin problems being faced by the banks, viz. recovery of loans in the rural areas and the high transaction cost in dealing with small borrowers at frequent intervals. The Group, therefore, felt that the thrust of the policy should be to encourage the formation of SHGs and their linking with the banks and in this regard, the banks have a major role to play. The Group has recommended interalia, that the banks treat the linkage programme as a business opportunity for reaching the rural poor and making it a part of their **corporate strategy**, the programme be made a part of the Service Area Approach and LBR reporting system and regular training

curriculum of banks, lending of banks to SHGs being made a separate segment under the priority sector, introducing review and monitoring of SHGs linkage programme, etc. Simultaneously, the Group has suggested for capacity building of NGOs, training of their staff, etc. The recommendations of the Working Group have since been examined and generally accepted by us.

Follow up Action
SHG Lending as Normal Lending Activity

4. As the efficacy of the SHGs as an effective mode for rural savings mobilisation and credit delivery to the poor has been demonstrated in the pilot phase and since the linkage of targetted 500 SHGs has already been achieved, it has been decided to extend the SHGs linkage programme beyond the pilot phase as a normal business activity of banks to improve the coverage of the rural poor by the banking sector. Accordingly, the banks may consider lending to SHGs as part of their *mainstream credit* operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor and review it periodically.

Separate Segment under Priority Sector

5. In order to enable the banks to report their SHG lending without difficulty on account of divergent purposes in ground level disbursements from SHGs to members, it has been decided to incorporate an additional segment under the priority sector advances. Accordingly, the banks should report their lending to SHGs and/or to NGOs for on lending to the SHGs/Members of SHGs/ discrete individuals or small groups which are in the process of forming into SHGs under the new segment, viz. 'Advances to SHGs' irrespective of the purposes for which the members of the SHGs have been disbursed loans. Lending to SHGs should be included by the banks as part of their lending to the weaker sections.

Inclusion in Service Area Approach

6. The scope for lending to SHGs in a particular area may depend upon the extent of poverty, presence and availability of support from NGOs and above all upon the need and desire among the poor to form groups for mutual benefit. Banks may identify branches having potential for linkage and provide necessary support services to such branches and include SHG lending within their service area plan. Keeping in view the potential realisability, the Service Area Branches may fix their own programme for lending to SHGs as in the case of other activities under the priority sector. With a view to enabling the bank branches to get the benefit of catalytic services of NGOs, the names of NGOs dealing with the SHGs will be indicated on a block-wise basis in the "Background Paper for Service Area Credit Plans". The Service Area branch managers may have constant dialogue and rapport with the NGOs and SHGs of the area for effecting linkages. If a NGO/SHG feels more confident and assured to deal with a particular branch other than the Service Area Branch and the particular branch is willing to finance, such a NGO/SHG may at its discretion deal with a branch other than the Service Area Branch. The lending to SHGs by banks should be included in the LBR reporting system and reviewed to start with at SLBC level. However, it has to be borne in mind that the SHG linkage is a credit innovation and not a targetted credit programme.

Opening of Savings Bank Account

7. In terms of RBI circular letter DBOD.No.BC.63/13.01.89/92-93 dated 4 January, 1993, banks were allowed to open Savings Bank Accounts of SHGs financed under the pilot project.

In order to facilitate promotion of SHGs and their eventual credit linkage with Banks it has been decided that SHGs which are engaged in promoting the Savings habit among their members may be allowed to open Savings Bank Accounts. It is clarified that SHGs need not necessarily have already availed of credit from the banks before opening of Savings Bank Accounts.

Margin and Security Norms

8. As per the operational guidelines of NABARD, SHGs are sanctioned savings linked loans by the banks (varying from a saving to loan ratio of 1:1 to 1:4). Experience has shown that group dynamics and peer pressure have brought in excellent recovery from members of the SHGs. The flexibility allowed to the Banks in respect of margin, security norms, etc. under the pilot project vide RBI circular letter dated 24 July 1991 referred to above will continue to be operational under the linkage programme even beyond the pilot phase.

Rate of Interest

9. NABARD would continue to provide refinance support to the banks under the linkage project. The present interest rates structure stipulated by NABARD at different levels under SHG-Bank Linkage Programme is as under :

NABARD to Banks (Refinance)	6.5%
Banks to SHGs	12.0%*
Banks to NGOs/VAs	10.5%*
NGOs/VAs to SHGs	12.0%
SHGs to members	As decided by the SHG

*Exclusive of Interest Tax wherever applicable.

Banks may charge interest on the finance provided to the groups/NGOs for on-lending to SHGs at the rates indicated by the National Bank from time to time. Further, the groups will be free to decide on the interest rate to be charged to its members provided the rate of interest is not excessive.

Documentation

10. Keeping in view the nature of lending and the status of borrowers, the banks may prescribe simple documentation for lending to SHGs. The Working group has suggested a set of documents for use of banks, while lending to SHGs directly or through NGOs to SHGs. The documents are inter-se agreement to be executed by the members of the SHGs, a loan application to be submitted by SHGs, model loan agreement, sponsorship from NGOs/SHPI, specimen loan application by NGO/SHPI for loan assistance for on-lending to SHGs and loan agreement for lending to NGOs. The same are enclosed as Annexures 1 to 4. The banks may adopt these documents in consultation with their Law Department.

Presence of Defaulters in SHGs

11. The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per-se by banks provided the SHG is not in default to it. However, the bank loan may not be utilised by the SHG for financing a defaulter member to the bank.

Training

12. An important step in the Linkage Programme would be the training of the field level officials and sensitisation of the controlling and other senior officials of the bank. After the launching of the pilot project, NABARD has conducted a series of training programmes for the field level officials of the banks and also their trainers. Programmes on SHG-Bank Linkage are also being conducted at CAB, Pune. Considering the need and magnitude of training requirements of bank officers/staff both at field level and controlling office level the banks may initiate suitable steps to internalise the SHGs linkage project and organise exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/ sensitisation programmes may be conducted for their middle level controlling officers as well as senior officers. In the matter of training of their faculty, the training facilities available at Bankers Institute of Rural Development (BIRD), Lucknow could be utilised.

Monitoring and Review of SHG Lending

13. Having regard to the emerging potential of the SHGs and the related non-familiarity of the bank branches with lending to SHGs, banks may have to closely monitor the progress regularly at various levels. Further, the progress of the programme may be reviewed by the banks at regular intervals. A progress report may be sent to both the RBI (RPCD) and NABARD (DPD-NFS), Mumbai in the format as per Annexure VII, on a half yearly basis as on 30 September, and 31 March each year so as to reach within 30 days of the half year to which the report relates.

Operational Guidelines

14. The Working Group had endorsed the operational guidelines issued by NABARD to banks under the pilot project vide their circular letter No. NB. DPD.FS.4631/92-A/91-92 dated 26 February, 1992. Further modifications/ amendments as and when required will be advised to banks.

15. We shall be glad if necessary action is initiated by the banks to step up their credit to the unreached rural poor by extensively utilising the SHG route. A copy of the instructions issued to the branches may please be forwarded to us and NABARD. Please acknowledge receipt of this circular letter to the Chief General Manager, Rural Planning and Credit Department, Reserve Bank of India, Control Office, Mumbai and The Chief General Manager, National Bank for Agriculture and Rural Development, DPD-NFS, Head Office, Mumbai.
Hindi version of the circular follows.

Yours faithfully,

(J.R.Prabhu),
Executive Director

Note : A similar circular on the above lines has been issued by NABARD Head Office, Mumbai, vide circular No. NB.DPD.NFS/1238/CDID/92-A/96-97, dated 01 October, 1996 to all the Regional Rural Banks and their Sponsor Banks.

Annexure 3

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

No.NB.DPD.NFS/CDID/1330/92-A/96-97

07 October, 1996

Circular No.DPD-NFS/36/96-97

The Registrar of Co-operative Societies
All States/Union Territories

Dear Sir,

Project of Linking Self Help Groups (SHGs) with Cooperatives

Please refer to our Circular No.NB.DPD/SHG/618/92-A/93-94 dated 29 May, 1993 addressed to you and also the Circular No. NB.DPD.FS.4631/92-A/91-92 dated 26 February, 1992 addressed to Commercial Banks on Pilot project for linking banks with SHGs which were sent to you earlier by us (copy enclosed for ready reference as Exhibits I and II).

2. The pilot project has been making steady progress over the years. Beginning from 225 SHGs linked with banks during 1992-93, by 31 March, 1996 around 4750 SHGs were linked with Bank loan of Rs.605.84 lakhs and NABARD refinance of Rs.566.12 lakhs covering 28 commercial banks, 60 RRBs and 7 Cooperative Banks in 16 states and 1 Union Territory. The quick studies conducted by NABARD to assess the impact of the linkage project have also brought out encouraging and positive trends like increase in loan volumes and savings, shift from non-income generating activities to production activities, excellent recovery percentage, reduction in the transaction cost for both banks and the borrowers, large participation of women, etc. besides leading to gradual increase in the income level of the SHG members.

3. With a view to studying the functioning of SHGs and NGOs and suggesting measures to expand their activities and deepening their role in rural areas, RBI had constituted a Working Group under the Chairmanship of Shri S.K.Kalia, Managing Director, NABARD. The Working Group in its report had made far reaching recommendations and the same had been generally accepted by RBI and NABARD.

4. The Working Group is of the view that the linking of SHGs with the banks is a cost-effective, transparent and flexible approach to improve the accessability of credit from the formal banking system to the unreached rural poor. It is expected to offer the much needed solution to the twin problems being faced by the banks viz. recovery of loans, in the rural areas, and the high transaction costs in dealing with small borrowers at frequent intervals. The Group, therefore, felt that the thrust of the policy should be to encourage the formation of SHGs and their linking with the banks. The Group has recommended inter-alia, that the banks may treat the linkage programme as a business opportunity for reaching the rural poor and make it a part of their **corporate strategy**. As regards Cooperatives the Working Group felt that they can use the mechanism of SHGs to increase their outreach to the unserved rural people. The Group has recommended that the State Government may actively involve themselves in such initiatives and amend the respective Co-operative Societies Act/ Bye Laws/ Rules to have enabling provision for enrollment and financing of SHGs by Cooperatives.

5. **Follow Up Action**

SHG Lending as Normal Lending Activity

As the efficacy of the SHGs as an effective mode for rural savings mobilisation and credit delivery to the poor has been demonstrated in the pilot phase and since the linkage of targeted 500 SHGs has already been achieved, it has been decided to extend the SHG linkage programme beyond the pilot phase as a normal business activity of all banks to improve the coverage of the rural poor by the banking sector. Accordingly, the cooperative banks may consider lending to SHGs as part of their *mainstream credit* operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor and review it periodically. However, it has to be borne in mind that the SHG linkage is a credit innovation and not a targetted credit programme.

6. **Margin & Security Norms**

As per operational guidelines of NABARD, SHGs are sanctioned savings linked loans by the banks (varying from a saving to loan ration of 1:1 to 1:4). Experience has shown that group dynamics and peer pressure have brought in excellent recovery from members of the SHGs. The flexibility allowed to the banks in respect of margin, security norms, etc. under the pilot project vide RBI circular letter dated 24 July 1991 addressed to the Commercial Banks (copy enclosed as Exhibit III) would also be applicable to the Cooperatives, even beyond the pilot phase.

7. **Rate of Interest**

NABARD would continue to provide refinance support to the banks under the linkage project. The present interest rate structure stipulated by NABARD at different levels under the SHG-Bank Linkage Programme is as under :

NABARD to Apex Bank (refinance)	6.5% p.a.
PACs to SHGs	12.0% p.a.
SHG to members	As decided by SHG

The SHGs will be free to decide on the interest rate to be charged to their members provided the rate of interest is not excessive. The margin of 5.5% is to be shared between the Apex Bank, DCCB and PACs as per general norms applicable for term lending.

8. **Documentation**

Keeping in view the nature of lending and status of borrowers, the PACs may prescribe simple documentation for lending to SHGs.

9. **Training**

An important aspect in the Linkage Programme would be the training of field level officials and sensitisation of the controlling and senior officers. NABARD will be organising some Orientation/ Exposure/Other training programmes to be conducted by our Regional Offices/reputed Voluntary Agencies, training institutions, etc. The Cooperatives may take full advantage of such programmes.

10. Monitoring and Review of SHG Lending

Having regard to the emerging potential of the SHGs and the related non-familiarity of the PACs/branches of DCCBs with lending to SHGs, SCBs / DCCBs may have to closely monitor the progress regularly at various levels. Further, the progress of the programme may be reviewed at the apex level at regular intervals. A progress report in regard to the Linkage programme may be sent by the DCCBs and the SCB to concerned Regional Office as per the format in the Annexure VII on a half-yearly basis as on 30 September and 31 March each year, so as to reach within 30 days from the end of the half-year to which it relates.

11. Operational Guidelines

The Working Group has also endorsed the operational guidelines circulated to banks vide NABARD's circular letter dated 26 February 1992. It may be observed that the guidelines have been deliberately kept flexible to enable participating banks to innovate and contribute to strengthening the Linkage programme. Other recommendations of the Group are being examined by us. Cooperatives will be suitably advised in this regard in due course.

12. Enabling provisions in Cooperative Societies Act/ Bye Laws and Rules

Considering the obvious advantages of lending through SHGs, it is envisaged that Cooperatives should have a significant role to play in making credit available to the rural poor through SHGs linkages. At present, Cooperative Societies Acts of only a few states provide for membership to a cooperative of any association or body of persons whether incorporated or not and whether established under any law, if such body is approved by the Government by a general or special order. Therefore, SHGs can be legally admitted as a member(s) in the capacity of a group even when such groups are informal or not registered under any law. In those states where there is no provision for enrollment of informal SHGs as members, State Governments may consider making necessary enabling provisions through amendment in the respective Cooperative Societies Act/Bye Laws/Rules for bringing SHGs within the cooperative fold.

13. We shall be glad if necessary action is initiated and suitable enabling provisions incorporated in the State Cooperative Societies Act/Bye Laws/Rules to facilitate linkage process and the flow of credit to the unreached rural poor by utilising the SHG route. A copy of the instructions issued to the Cooperative Banks in the state may please be forwarded to us and to our concerned Regional Office.

14. Please acknowledge the receipt of this letter to our concerned Regional Office.

Yours faithfully,

Y.C.NANDA
Executive Director

Annexure 4

TRAINING PROGRAMMES CONDUCTED BY MYRADA FOR FINANCIAL INSTITUTIONS

Year	No. of Programmes	No. of Days	No. of Participants
On MYRADA Projects			
1992	9	19	187
1993	12	20	263
1994	2	3	46
1995	16	39	367
1996	26	62	454
1997*	24	50	365
TOTAL	89	193	1,682
At Other Locations			
1992	2	7	55
1993	1	2	30
1994	6	6	190
1995	10	12	156
1996	5	12	124
1997*	18	22	381
TOTAL	42	61	936

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