

National Rural Livelihood Mission

Suggestions for Effective Design and Implementation¹

Submitted by National Network of Resource Organizations (NNRO)²

Recently the Ministry of Rural Development (MoRD) has decided to redesign the SGSY program into the National Rural Livelihood Mission (NLRM) to address poverty through a mission mode and to alleviate the rural poverty by 2015. In the India union budget 2009 – 10, the Government announced the renaming of the program as National Rural Livelihood Mission (NRLM) and also mentioned to cover 50% of all rural poor households into SHGs. The MoRD is in the process of wider consultation to work out more details of the NRLM. The MoRD prepared a preliminary note and shared with key stakeholders to initiate a wider debate. In the note, the MoRD proposed very interesting and useful measures. These include giving more space to states to prepare their own plans based on their context, doubling of capital subsidy amount per participant, introduction of interest subsidy, setting up dedicated and permanent implementation machinery, promotion of SHG federations from village level to national level, universal coverage of all rural poor in the program, etc. The purpose of this note is to provide NNRO's feedback on NRLM and particularly on the measures proposed by the MoRD.

NNRO feels that designing of NRLM (or redesigning of SGSY) should be based on thorough analysis of SGSY experience gained over the past decade. As SGSY is closely intertwined with SHGs in general and SHG-bank linkage in particular, the performance of one will definitely have a large impact on the other. NNRO, with a vision of '**vibrant SHG movement in India**', has been studying rather closely the SGSY program. Recently NNRO prepared a comprehensive paper on SGSY based on secondary sources.

Box – 1: Major findings about SGSY program

SGSY, the program, accomplishments, failures

- SGSY was designed on the basis of learning of several anti-poverty programs, which were implemented earlier. It is a credit and group oriented holistic anti-poverty program.
- Since inception, the program assisted in formation of 34 lakh SHGs; assisted 1.21 Cr.

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² Indian SHG movement emerged as the largest microfinance model in the world and largest chain of the poor women's own and only institutions. However, the SHG movement is not getting its due recognition as an effective strategy for poverty reduction and women empowerment. On the other hand the SHG movement in general and federations in particular are being used by many as inexpensive delivery channels. To build the profile of SHG movement, to bring issues of SHG movement to the notice of the government and other key stakeholders and to facilitate a conducive environment for the healthy growth and sustainability of SHG movement, a national network of resource organizations (NNRO) has emerged in 2007. Currently the network has seven member organizations, viz. APMAS, Hyderabad; CmF, Jaipur; Chaitanya, Rajgurunagar/ Pune; GMO, Kolar/ Karnataka; ISMW, Ahemdabad; Reach India, Kolkatta and SHGPF, Kolkatta. NNRO is anchored by APMAS, Hyderabad www.apmas.org.

Swarozgaris in establishing their own micro-enterprises. The Government of India released Rs.11,486 Cr under the program; bank credit mobilization is Rs.19,017.

- The program has been underperforming since inception on many counts such as growth over the past 10 years; credit mobilization; targeting of the real poor and vulnerable sections; survival of promoted micro-enterprises; additional income generation; etc.

Constraints in implementation of the program

- Critical limitations of the program are – (a) banks are not enthusiastically participating in the program due to mounting NPA, (b) pilferage in different stages of implementation, adversely affecting the implementation and performance of the program and (c) the primary stakeholders are not participating whole heartily in the program. These critical limitations have been manifesting in different forms since inception. These limitations were identified in the early 2000s itself. Since then several measures were taken to overcome various implementation related problems, without success.
- The principal reason, for persistence and magnification of these limitations and problems, is the deliberate and strategic behavior by different stakeholders like banks, officials and swarozgaries.
- To overcome these limitations, the design related problems of the program have to be identified and removed, in other words the program has to be redesigned.

Design related issues

- As the SGSY is a macro program with Government of India willing to allocate large sums of money and planning to universal coverage of all BPL families in the country, it has to be consistent with overall development stage and direction of the economy and development theory and international experience.
- The assumptions of the program are not consistent with present economic development stage and direction of the economy and international experience. The underlying assumptions of the program are:
 - The poor need a number of (new) employment opportunities to come out of the poverty.
 - Self employment is superior form of employment compare to other forms of employment.
 - By integrating the government subsidy with bank loans the participants can get best of the both.
 - Group approach is better suits for income generating activities.
 - Through cluster approach a number of advantages could be reaped.
- With about 2.6% unemployment rate and about 26% of poverty rate, India's major challenge is **poverty among working people**. What the poor basically needed is increase in their productivity and remunerations, not additional employment hours and days. Financial inclusion is one of the critical factors for increasing productivity and remunerations of the poor.
- The evidence across the globe suggests that self employment is neither preferred nor superior option for the poor, especially for the poorest of the poor.
- Integration of state subsidy program with bank credit not only adversely affected the SGSY program but also has detrimental effect on regular SHG banking. The participants

- may be feeling that government/ subsidy and bank/ loans are one and the same.
- Several studies warned about the negative effect of SGSY on SHG banking, e.g. one writer wrote that *SGSY ... is the antithesis of SHG, and a cancerous virus to destroy the long term growth of SHG.*³
 - SGSY has detrimental effect on repayments even in regular SHG banking. According to NABARD data, NPA (1.69%) is least in states, where SGSY groups constitute less than 25% of total groups. It is highest (8%) in the states, where SGSY groups constitute over 75% of total groups. The same pattern could be seen in SGSY and non-SGSY groups. It indicates that where SGSY groups are in large number, they can have negative impact on the repayment behavior of non-SGSY groups also. Without addressing this critical problem, expansion of SGSY program could have devastating effect on one of the India's finest programs – SHG banking.

Importance of Financial inclusion for poverty alleviation

According to a recent study by Arjunsengupta, et al (2008)⁴ that *more than three-fourths of Indians are poor and vulnerable with a level of consumption not more than twice the official poverty line. This proportion of the population which can be categorized as the "common people" is much higher among certain social groups, especially for scheduled castes and scheduled tribes. There is also evidence to suggest that inequality is widening between the common people and the better-off sections of society.* Because of crisis in agriculture and climate change, the vulnerability in rural areas is increasing over the years. Therefore any comprehensive rural poverty alleviation program should target about three-fourths of rural households. It does not mean that the Government should provide subsidies and other direct benefits to three-fourths of household. But the government should provide the enabling environment for the people to come out of the poverty and improve their economic condition. Financial inclusion is one of such enabling services. There is absolute unanimity of the opinion about the importance of financial inclusion in poverty alleviation. But, some believe that financial inclusion is the necessary but not sufficient condition for poverty alleviation. According to them that without corresponding promotion of appropriate livelihood opportunities the poor people credit absorption capacity would be limited and there would be possibility of misuse of funds, which may lead to indebtedness.

Aloysius P. Fernandez, one of the pioneers of SHG movement in the country, argue that one of the serious problem of all livelihood promotion programs is that they assume that the poor do not have livelihood strategies of their own and they start with zero. In fact the poor have their own basket of livelihood strategies and financial needs such as education, purchase of livestock, land development, working capital needs in agriculture and other family ventures, business, jewellery, medical expenses, purchase of land, house repairs,

³ Dasgupta, R 2006: Swarnjayanti Gram Swarozgar Yojana: Bend it Like Parbhani; Case study for MOVIB, Mumbai.

⁴ Arjun Sengupta, K P Kannan, G Raveendran: India's Common People: Who Are They, How Many Are They and How Do They Live?; Economic and Political Weekly, March 15, 2008

house construction, LPG connection, etc.⁵ Currently APMAS is studying Self Affinity Groups (SAGs)⁶ of Myrada. The research team found that in many SAGs, each member has taken as many as 20 to 30 loans worth Rs.2 to 3 lakh over a period of 8-15 years and repaid. The largest cumulative loan amount taken by a member is Rs.311,700 in 18 loans in 9 years⁷ and the second largest loan amount taken by a member is Rs.276,400 in 16 loans in 10 years⁸. It happened without any significant livelihood promotion efforts on the part of Myrada or any other agency. Myrada promoted very few livelihood activities like training motor driving to the children of a few SAG members.⁹ It shows the existing credit absorption capacity of the poor people and it also shows the diversity of credit needs of people.

Financial inclusion could work on the other side of poverty also. Poverty could also be the result of high cost of living and production. Prof. C. K. Prahalad pointed out in his celebrated book 'Fortune at the Bottom of the Pyramid', that *the poor live in costly environment and often pay relatively higher price for comparable services*. Most prohibitive price they often pay is to the financial services. One can easily find a widespread usury in the vicinity of the poor and poorer regions and states, which is a cause and consequence of the poverty. Earlier studies indicate that one of the first and foremost benefits of SHG banking is that the program frees the members from the clutches of moneylenders/ usury. Families could save significant amounts on interest payments. As money saved is money earned; it resulted in smoothening of the fluctuations in, and improvement in, consumption levels. Macro data also show that there is high correlation between poverty/ under development and financial exclusion. The financial exclusion is as high as 95% in north-east.

Keeping this insight in the mind, NNRO suggestions for designing and effective implementation of NRLM are given at Box – 2.

Box – 2: NNRO suggestion for designing and effective implementation of NRLM

1. As mentioned above about three-fourths of total households in the country are either poor or vulnerable. Needless to say, that this proportion would be higher in the rural areas. NRLM may focus on covering all the willing households under SHGs, irrespective of BPL/ APL status. NRLM may focus on creating enabling environment, in which the household, particularly the poor, get higher returns/ remunerations for their efforts and labor, rather than providing individual subsidies

⁵ Fernandez, Aloysius P. 2008: Sustainability of Self Help Affinity Groups or SAGs: As understood by Myrada, Rural Management Systems Series, Paper – 41, Myrada, Bangalore.

<http://www.myrada.org/rms/rms41.htm>

⁶ MYRADA calls its SHGs as SAG to emphasize the importance of 'affinity' and self selection of members by the group.

⁷ Nanjamani of Nimishamba SAG of Narahalli Panchayat of Kollegal block of Chavurajanagar district

⁸ Vishalakshi of Chaluvachanrangaraya SAG of Ramapura Panchaya of Kollegal block of Chamarajanagar district

⁹ Personal communications by Dr. K. Raja Reddy, APMAS, study team leader.

and other benefits directly.

2. NRLM may have twofold strategy for poverty alleviation and rural prosperity. In the first stage of 4 to 5 years, NRLM may totally focus on promoting SHGs and SHG federations and financial inclusion. In the second stage the SHG federations may be assisted to promote livelihood organizations such as commodity cooperatives, producer companies, etc.
3. The draft guidelines suggest for a permanent implementation mechanism at the district and block level. There must adequate clarity on the role of the staff at different level and the processes by which they would ensure strong sense of ownership and functional autonomy for the SHG federations from the promotional staff. As SHGs and SHG federations become strong & sustainable, the promotional staff must undergo a role transformation to provide support in the area of livelihood promotion.
4. NGO role in the promotion and nurturing of the SHGs and SHG federations need to be articulated clearly. While NLRM mechninary may play an effective role SHG promotion, involvement of strong NGOs would ensure a process-oriented approach and would also promote innovations. NGOs would also be effective in building the capacity of the staff of the NRLM at different levels.

Suggestions for stage one – Institution Building and Financial Inclusion/ SHG banking

5. New SHGs may be promoted to cover all rural households, who are willing to join. Funds necessary for formation, training, exposure visits and nurturing of SHGs be allocated. Though there was an allocation of Rs.10,000 per SHG under SGSY, those funds were not easily available for the promoters and also those funds are not adequate in difficult regions. To promote strong SHGs, SHG federations, facilitate bank linkage and also support them in the process of livelihood promotion may require high allocations over a period of 5-10 years. An allocation of Rs.15,000 per SHGs over a period of 5-10 years may be required as promotional funds. In regions that have high incidence of poverty, higher promotional funds would be needed.
6. SHG Federations from village level to district level may be promoted to promote new SHGs, wherever necessary and to promote and manage the quality in the existing SHGs. Investment may also be made to strengthen existing federations.
7. Federations could also take up the activities, which the SHGs can not take up independently.
8. Community Resource Persons (CRPs) or “Jankars” proved to be the most effective and also cost effective model to promote new SHGs and for strengthening of existing SHGs. A large cadre of CRPs, Jankars or any other type of para-professionals be identified and trained from among the SHGs to form & strengthen SHGs.
9. One of the major functions of Federations would be to generate a large pool of **social capital**: CRPs, Jankars, SHG Animators, Book Keepers, Community Auditors, etc.
10. Huge investment is required in promotion and strengthening of federations from village level to district level. Investments are required in preparation of training material and translation of the same into regional languages, training of SHPIs/

implementation machinery, training of trainers, who will in turn train the federation leaders, office bears, staff, etc.

11. A large body of evidence from different parts of the country over last 10 years suggest that individual oriented subsidy under SGSY has weakened the SHG movement. Therefore the NRLM may discontinue the individual oriented capital subsidy completely in SHGs. The funds may be used for member education, institutions' building and preparation of social capital.
12. NRLM may introduce interest subsidy linked to regular repayment of bank loans.
13. After meeting all above mentioned investments and interest subsidy, If NRLM still keen to provide subsidies, it could be provided as seed capital to SHG federations. Federations may use the money as corpus and use the interest income to its operational costs; for on-lending, wherever there is need; and to set up small or medium enterprises.
14. Wherever, the banking system is not accessible or indifferent to SHGs, the federations could be prepared to take up financial intermediation.
15. Promoting agencies should be provided adequate financial and capacity building resources and timeframe for promoting quality SHGs and federations.

Promotion of SHG banking

16. SHG banking should be allowed to function as regular banking business. The governments should restrain from all sorts of interferences including interest rate fixing, giving targets, loan amount, etc.
17. The NRLM could provide interest subsidy, which is being implemented in Andhra Pradesh. It would improve the repayment rate and encourage the banks to increase their exposure to SHG banking as noticed in Andhra Pradesh.
18. The NRLM may also work on awareness and sensitization of bankers through well developed training programs and exposure visits. Building the understanding and right orientation for bankers is central to the success of SHG – Bank linkage. NABARD can play a key role in the bankers training & orientation. Except for Andhra Pradesh, SHG – Banking has not really met the credit demands of the SHG members in any other state. In fact, in many states frustrated SHG members are migrating to MFIs. To deal with this issue and to build capacities of the SHGs, bank linkage is essential.
19. The NRLM may understand the concerns of banks such as quality of SHGs, political interferences in the functioning of SHGs/ federation and address them. Recent farm loan waivers and some rumors during elections apparently have lead to significant drop in repayment rate of SHG loans. The NRLM should see such signals do not go out in the future..

Second stage – Promotion of small and medium enterprises with SHG federations

To obtain desirable employment transformation and to take full advantage of booming secondary and tertiary sectors, under Livelihood Promotion, NRLM may promote small and medium enterprises in 'services' and 'manufacturing' sectors with SHG federations.

20. Appropriate institutions like 'commodity cooperatives' and 'producer companies' may be promoted under SHG federations to take up livelihood activities as per the

pattern of the borrowing from the SHGs. In any given area there will be 3-5 major livelihoods that could be promoted among the poor through these specialized institutions. While these women are a part of the SHGs and SHG federations for savings and credit services, they would be members of the livelihood organizations for specific livelihoods that they are engaged in. NRLM may consider giving “investment” funds and working capital for these organizations based on their business plans.

21. Federations may be helped to have ‘state of art’ enterprises. Profession consultancy firms could be hired to provide complete package of services from market survey, identification appropriate units, appropriate technologies, building of units, trail run, tie ups with suppliers and marketing of production, etc on a turn –key basis.
22. These units may be provided only to the non-financial federations, which are of good quality and willing to take up these kinds of units.
23. SHG federations could also promote enterprises where possible. The possible units could be agri-processing units like rice mills, juice factories, cotton ginning mills, oil mills, poultry feed making units, etc; rural warehouses, cold storages; bulk milk cooling units, milk processing units, production and marketing of bio-chemicals, readymade garment making units, etc. Federations could also be helped with facility to organize weekly markets.
24. The advantage of these units are, that they develop entrepreneurship in the federation, provide a large number of regular employment to the members and give a big boost to the local economies particularly to the primary sector.
25. NRLM could also undertake employment activities for the youth by training them in jobs for which there is demand in the market. Some of the SHG federations could manage these skill based training centres.
26. District level livelihood promotion centres could be established for providing training, mentoring and other support services. These could also facilitate linkage with diverse stakeholders including the private sector.