

Working draft

**Suggestions for Designing of  
National Rural Livelihood Mission**  
*A review of SGSY*



Prepared by  
*National Network Enabling Self Help  
Movement (NN-ABLE)*  
(Previous known as National Network of Resource Organizations (NNRO))

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## Preface

*Over the past 10–15 years, SHG movement has demonstrated their potential in effective financial inclusion, poverty alleviation and women empowerment. However, the SHG movement is yet to cover a large number of regions, communities and households. Though SHG movement is receiving a lot of support from the Central & State Governments, NABARD, Banks, SHPIs and multilateral and bilateral donors; the support is, mostly inadequate, misdirected and also contradictory, at times. National Network Enabling Self Help Movement (NN-ABLE), which was earlier called National Network of Resource Organizations (NNRO), emerged in 2007 to strengthen SHG movement in the country. Major objectives of NN-ABLE are: (a) Research based policy advocacy to obtain conducive environment for healthy and sustainable development of SHG movement in the country and (b) Capacity building of primary and secondary stakeholders in the sector through development of resource material and translating of the same in several Indian languages, training of trainers, mentoring, problem solving, on-the-job support and piloting and replication of new ideas.*

*NN-ABLE is really happy that the Department of Rural Development, Government of India has come up with a very thoughtful and progressive strategy for addressing rural poverty thru a mission mode. The present paper is aimed at providing feedback to the policy makers in designing the National Rural Livelihood Mission (NRLM). For this purpose, all available macro level information and data on SGSY has been collected and analyzed and presented in this paper. The experience of SGSY is put in the present development context. Hope this paper will be useful in designing of the NRLM and in strengthening SHG movement in the country.*

*Hyderabad  
September 30, 2009*

*C. S. Reddy  
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*Mr. C. S. Reddy, CEO of APMAS and Convenor of NNRO, has gone through the earlier version of the paper thoroughly and provided substantial feedback for revision of the paper. Another colleague Ms. Sussane Sudradjat edited the paper. I am grateful to both of them. However, I am alone responsible for all remaining omissions and errors in the paper. My colleague Mr. Sivaramkrishna, Communications Team formatted the text and supervised the printing of this paper. Special thanks to him.*

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# Executive summary

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## Context

- 1.1. Recently the Ministry of Rural Development (MoRD) has undertaken a comprehensive review and redesigning of the Swarnajayanti Gram Swarozgar Yojana (SGSY) program to make it the flagship program for alleviation of the rural poverty by 2015. In the budget 2009 – 10, the Government of India announced renaming the program as National Rural Livelihood Mission (NRLM) and also mentioned to cover 50% of all rural households by organizing them in SHGs.
- 1.2. The MoRD is in the process of wider consultation to prepare the blueprint for NRLM. The MoRD prepared a preliminary note and shared it with all the state governments and 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 contexts, doubling of the capital subsidy amount per participant, introduction of interest subsidy, setting up of 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.
- 1.3. The National Network Enabling Self Help Movement (NN-ABLE) feels that designing of NRLM should be based on a thorough analysis of SGSY's experience gained over the last 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. NN-ABLE, with a vision of a '*vibrant SHG movement in India*', has been studying rather closely the SGSY program.
- 1.4. Recently NN-ABLE prepared a comprehensive paper on SGSY based on secondary sources. The report contains comprehensive suggestions for redesigning the SGSY program or designing the NRLM. *Almost the entire report is reproduced below with few changes.*

## SGSY, an Introduction

- 1.5. SGSY was designed on the basis of learning from several anti-poverty programs, which were implemented earlier. It is a credit and group oriented holistic anti-poverty program.
- 1.6. Because of its several positive features like group approach, credit linkage, involvement of NGOs, line departments, banks, PRIs, etc, it is considered as a wonderful program by many stakeholders. Many feel that if the scheme was implemented properly, there would be no need for another scheme.
- 1.7. However, it has been chronically encountering numerous problems in the implementation. The success rate is modest at best and successful cases are few and far way in terms of space and time.
- 1.8. Given the importance of poverty alleviation, the Government of India has been extending all kinds of support to the program. The Government has been getting the program constantly reviewed by several prestigious institutions and experts and improving the program by incorporating the appropriate recommendations.

- 1.9. However, as most of the studies and reviews were carried out with limited mandate, there was no serious review of the design of the program, which is more critical for the success of the program.
- 1.10. The major objective of this paper is to review critically the design of the program and make critical suggestions to improve it. .

### **SGSY, the program, accomplishments, failures and future directions**

- 2.1. Since inception, the program assisted in formation of 35.7 lakh SHGs; assisted 1.24 Cr. Swarozgaries. The Government of India released Rs.11,486 Cr under the program; bank credit mobilization is Rs.19,017.
- 2.2. The program has numerous and severe challenges like - stagnation; mobilizing credit as per targets; targeting the real poor and vulnerable sections; low survival rate of promoted micro-enterprises; realized additional income from the micro-enterprises is significantly less than anticipated, incremental income of Rs.2,000 per month.
- 2.3. To overcome these problems, the Government is planning to redesign the program. There are some very important positive features of the proposed redesigning, like more flexibility to the states; promotion of SHG federations; setting up of training institutions; placement; interest subsidy; etc. However, the proposed measures can not address the crucial issues like bank credit, low survival rates of assisted micro-enterprises, etc.

### **Identified constraints in implementation and suggestions to overcome them**

- 3.1. 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 and (c) the primary stakeholders are not participating whole heartily in the program. These critical limitations manifested themselves in different forms. These limitations were identified in the early 2000s itself. Since then several measures were taken to overcome various implementation related problems, without success.
- 3.2. The principal reason for persistence and magnification of these limitations and problems is the deliberate and strategic behaviour by different stakeholders like banks, officials and swarozgaries.
- 3.3. 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.

### **4. Design related issues**

- 4.1. As the SGSY is a macro program with Government of India willing to allocate large sums of money and planning universal coverage of all BPL families in the country, it has to be consistent with the overall development stage and direction of the economy and the development theory.
- 4.2. The assumptions of the program are not consistent with the present economic development stage, direction of the economy and international experience. The underlying assumptions of the program are:
  - 4.2.1. The poor need a number of additional employment opportunities to come out of poverty.

- 4.2.2. Self employment is the superior form of employment compared to other forms of employment.
  - 4.2.3. By integrating the government subsidy with bank loans the participants can get the best of both.
  - 4.2.4. Group approach suits income generating activities better.
  - 4.2.5. Through cluster approach a number of advantages could be reaped.
- 4.3. 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.
  - 4.4. The evidence across the globe suggests that self employment is neither preferred nor a superior option for the poor, especially for the poorest of the poor.
  - 4.5. Integration of the state subsidy program with bank credit not only adversely affects the SGSY program but also has detrimental effect on regular SHG banking. The participants may be feeling that government/ subsidy and bank/ loan are one and the same.
  - 4.6. Several studies warned about the negative effect of SGSY on SHG banking, e.g. *SGSY ... is the antithesis of SHG, and a cancerous virus to destroy the long term growth of SHG* (Dasgupta, R 2006).
  - 4.7. 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 as well. It indicates that where SGSY groups are in large number, they can have negative impact on the repayment behaviour of non-SGSY groups also. Without addressing this critical problem, expansion of the SGSY program is going to have a devastating effect on one of India's finest programs – SHG banking.

## **5. Suggestions for designing of NRLM**

- a. As about three-fourths of total households are either poor or vulnerable, NRLM may cover all willing rural households, irrespective BPL or APL status in the SHG program for effective financial inclusion. NRLM may focus on generating an enabling environment for the poor to come out of poverty on its own. Financial inclusion proved to be the most effective enabling service for poverty alleviation and economic development of poor and vulnerable.
- b. NRLM may have a twofold strategy or two sub-programs, viz. Financial Inclusion and Livelihood promotion.
- c. The two sub-programs may be implemented sequentially. First five years may be totally focused on promotion and strengthening of SHGs institutions and later on focus could be on setting up of small and medium enterprises under SHG federations.

### **5.1. Suggestions to promote SHG banking**

1. SHG banking may be allowed to function as core banking activity without any outside interference like target fixing, interest cap, loan size, etc.
2. The Government may promote quality SHGs through village/ cluster level; sub-district/ block level and district level federations.
3. Community Resource Persons (CRPs) proved to be the most effective (also cost effective) strategy to improve and manage the quality among SHG institutions. CRPs may be extensively used in the promotion and strengthening of SHG institutions.
4. Wherever banks are not accessible or not responsive, federations may be prepared to take up financial intermediation
5. Promoting agencies play a crucial role in developing quality institutions. Promoting agencies may be given adequate financial and capacity building resources and timeframe. Available evidence indicate that investment of about Rs.15,000 per SHG for 8 to 10 years is required to promote quality SHGs with strong federations and effective livelihood opportunities.
6. Promoting agencies should have a clear role transformation strategy and same should be implemented in letter and spirit
7. NRLM may work on sensitization and orientation of bankers about the commercial value of SHG banking.
8. NRLM may understand the banks' concerns such as quality of groups, political interference in functioning of federations, wrong signals like loan waivers, etc and address them.
9. NRLM may provide interest subsidy as given in AP.

### **5.2. Small and medium enterprises**

Small and medium enterprises may be promoted at village/ cluster; sub-district/ block and district level SHG federations.

1. The possible units could be agro-processing units; milk processing units; common service providing units; cold storages; rural warehouses; market yards to organize weekly markets; etc
2. Appropriate institutions like 'commodity cooperatives' and 'producer companies' may be promoted under SHG federations to take up small and medium enterprises as per the pattern of the borrowing from the SHGs.
3. The federations could be assisted to have *state of the art* units by hiring professional consultancy firms, who can provide these units on turnkey basis.
4. NRLM may provide investment and working capital to the federations to set up these units
5. If banks are non-responsive, the apex financial institutions like state finance corporations/ SIDBI/ NABARD could be accessed.
6. These units would develop entrepreneurship in federations, provide a large number of regular employment opportunities to the members and boost the local economies.

- 5.3. The implementation mechanism should follow the design of the program. It should be kept in mind that a proper role transformation strategy and implementation of the same in letter and spirit is essential for the development of people's institutions.

# Suggestions for Designing the National Rural Livelihood Mission

*A review of SGSY*

## Chapter – 1: Introduction

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### 1.1. Context

Recently the Ministry of Rural Development (MoRD) has undertaken a comprehensive review and redesigning of the Swarnajayanti Gram Swarozgar Yojana (SGSY) program to make it the flagship program for the alleviation of rural poverty by 2015. In the budget 2009 – 10, the Government announced renaming the program as National Rural Livelihood Mission (NRLM) and also mentioned to cover 50% of all rural households **by organizing them in SHGs**. The MoRD is in the process of wider consultation to prepare the blueprint of the NRLM. The MoRD prepared a preliminary note and shared it with all the state governments and 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 contexts, doubling of the capital subsidy amount per participant, introduction of interest subsidy, setting up of 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 National Network Enabling Self Help Movement (NN-ABLE) feels that designing the NRLM should be based on a thorough analysis of SGSY experience gained over the last 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. NN-ABLE, with a vision of a **‘vibrant SHG movement in India’**, has been studying rather closely the SGSY program. Recently NN-ABLE prepared a comprehensive paper on SGSY based on secondary sources. The report contains comprehensive suggestions for redesigning the SGSY program or designing the NRLM. Almost the entire report is reproduced below.

### 1.2 SGSY an Introduction

For a multi-pronged and concerted attack on the poverty, the Government of India launched an integrated program for self-employment of the rural poor, with effect from 1 April 1999, known as Swarnajayanti Gram Swarozgar Yojana (SGSY). The scheme is an amalgamation of six earlier programs, viz. (1) Integrated Rural Development Program (IRDP), (2) Training of Rural Youth for Self-Employment (TRYSEM), (3) Supply of Improved Tools for Rural Artisans (SITRA), (4) Ganga Kalyan Yojana (GKY), (5) Million Wells Scheme (MWS) and (6) Development of Women and Children in Rural Areas (DWCRA). The objective of the scheme is to bring the assisted poor families above the poverty line by organizing them into Self Help Groups (SHGs) through the

process of social mobilization, training and capacity building and provision of income generating assets through a mix of bank credit and government subsidy.

According to the Chaitanya and Chalana study, many official and non-official functionaries, who are involved in the implementation of the program, feel that with positive features like social mobilization; focus on groups; referring to ‘beneficiaries’ as ‘swarozgaries’; involvement of NGOs for promotion and nurturing of SHGs and other vital tasks; involvement of bankers and field officers, line-departments, PRIs, in various aspects of the program; critical role to bank credit, etc, it is an excellent program. ***If the scheme is implemented properly, there will be no need for another scheme*** (Chaitanya and Chalana (undated).

However the program has never taken off. It has progressed at snail pace from the inception. It has been chronically encountering numerous problems in the implementation. The success rate is modest at best and successful cases are few and far way in terms of space and time. Given the importance of poverty alleviation, the Government of India has been extending all kinds of support to the program. To overcome the challenges and to build on the positive gains, the MoRD got the program evaluated, experimented and got different aspects of the program studied through noted institutions like RBI, NIRD, BIRD, NIBM, NIPFP, etc and experts (e.g. Prof. Radhakrishna committee). The MoRD has been constantly reviewing and improving the program based on the findings and recommendations of different studies, experiments and experts’ advice.

As most of these studies are sponsored and/ or facilitated by the MoRD, the parent organization of the SGSY, these studies, by default, focused on implementation problems of the program. There was no serious review of the design of the program and its underlying assumptions. Even experts committees like Prof. Radhakrishna’s Committee reviewed the program with limited mandate.

Further, these studies analyzed in details the external constraints on the SGSY program, but almost all of them ignored the hazards of the program on the external environment. As SGSY is closely intertwined with SHGs in general and SHG-banking in particular, the performance of one is going to have large impact on the other. NN-ABLE, with the vision of a ‘vibrant SHG movement in India’, has been studying rather closely the SGSY program. Comprehensive learning of NN-ABLE about SGSY is presented in this paper. Based on the learning, NN-ABLE also provided comprehensive suggestions for designing the NRLM (redesigning SGSY).

### **1.3. Structure of the report**

The salient features of the SGSY program, its major accomplishments and its challenges are discussed in chapter 2. In chapter 3, the identified problems, which are mostly related to implementation of the program, are discussed. The design issues of the program are covered in chapter 4. Suggestions for revamping of the SGSY program or designing of NRLM are given in chapter 5. Chapter 6 covers the summary and conclusions of the study.

## Chapter – 2: SGSY, the program, accomplishments, challenges and future directions

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### 2.1. SGSY, the program

SGSY is a credit based self employment program basically aimed at below poverty line (BPL) families. The objective of the program is to bring the assisted families (swarozgaris) above the poverty line by ensuring appreciable sustainable levels of income over a period of time. For this purpose, the rural poor are organized into self-help groups through a process of social mobilization, training and capacity building and provision of income-generating assets (Tankha, Ajay, et al. 2008). It is a central scheme with cost sharing on the basis of 75:25 by central and state governments. For the north-eastern states the ratio is 90:10. It is being implemented by DRDA through Block Development Offices. Banks, other financial institutions, Panchayat Raj Institutions, NGOs and Technical Institutions in the district are being involved in the process of planning, implementation and monitoring of the scheme. NGO's help is being sought in the formation and nurturing of the Self Help Groups (SHGs) as well as in the monitoring of the progress of the Swarozgaris. The assisted families may be individually addressed or in groups. Emphasis is on the group approach. The Scheme aims at establishing a large number of micro enterprises in the rural areas. The main features of the program are given in Box – 1 below. More details of the program are given in Appendix – 1.

#### Box – 1: Main features of SGSY

- Emphasis on mobilization of rural poor to enable them to organize into SHGs.
- A credit-cum-subsidy scheme, where credit is the critical component and subsidy is only an enabling element.
- Participatory approach in selection of key activities.
- Project approach for each key activity.
- Emphasis on development of activity clusters to ensure proper forward and backward linkages.
- Strengthening of the groups through Revolving Fund Assistance.
- Training of beneficiaries in group processes and skill development – integral part of the project.
- Marketing support with emphasis on market research, up-gradation/diversification of products, package, creation of market facilities, etc.
- Provision for development of infrastructure to provide missing critical links.
- Active role of NGOs in formation and capacity building of SHGs.
- Focus on vulnerable sections, i.e. SCs, STs, women and disabled (handicapped)
- Only one member from a family is eligible in a group.

*Source: Adopted from Tankha, Ajay, et al. 2008*

It is a flexible scheme; the district administration is free to allocate funds for sub-activities like training and capacity building (maximum 10% of total allocation), revolving fund (RF), subsidy and infrastructure development (maximum 20% of allocation for infrastructure development). Many argue that it is a well designed scheme after careful review of strengths and weaknesses of earlier schemes. *It is expected to yield Rs.2,000 additional incomes per swarozgar per month.*

## 2.2. Accomplishments

The progress of the program since inception is given in Table 2.1. The program assisted in formation of 35.7 lakh SHGs; assisted 1.24 Cr. 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; Total subsidy provided is Rs.9,318 Cr. The program helped many participants in improving their economic conditions. It provided new market infrastructure and new marketing channels for the rural poor. The program developed many interesting development models (successful stories).

**Table – 2.1: Progress of SGSY since inception up to December 2008**

Indicator	Progress
Total Central Release	Rs.11,486 Crore
Total Investment	Rs.28,336 Crore
Total Subsidy Disbursed	Rs. 9,318 Crore
Total Credit Disbursed	Rs.19,017 Crore
Per Capita Investment	Rs.22,883
No. of SHGs formed	35.7 Lakh
Grade I SHGs	23.04 Lakh
Grade II SHGs	10.65 Lakh
Economically Assisted SHGs	7.74 Lakh
Total Swarozgaris Assisted	123.83 Lakh
Number of SC/ST Swarozgaris	58.15 Lakh
No. of Minorities Swarozgaris	4.24 Lakh
Number of Women Swarozgaris	71.06 Lakh

*Source: MoRD 2009a: Prepared from the PPT on the progress of SGSY, MoRD Feb. 2009*

As the program financed a large number of livestock units, it helped in establishment of many private enterprises such as bulk milk cooling units (BMCU), hatcheries, livestock breeding units, etc to serve the micro-enterprises in some of clusters. About 50% of the assisted swarozgaris in 2007 – 08 took up dairy animal businesses (Government of India 2009). BMCUs, which emerged in a large number, not only provided alternative market channels but also pushed up the price of milk in many parts of the country, despite a significant increase in milk production in recent years.

Another good accomplishment of the program is that it has adopted the SHG strategy. The number of assisted SHG/ group swarozgaris has increased from 35,000 in 1999 – 00 to 1.15 million in 2007 – 08. At the same time the number of assisted individual swarozgars has declined from 586 thousand in 1999 – 00 to 254 thousand in 2007 – 08 (Table – 2.2).

### 2.3. Challenges of the SGSY program

Though it was considered as a wonderful program by many stakeholders, the program failed on many counts. As the purpose of this section is to just illustrate the failures of the program, only an indicative list of failures is provided below.

1. Challenge of take off.
2. Challenge of mobilizing the credit as per targets
3. Challenge to target the real poor and vulnerable sections
4. Challenge of low survival rate of promoted micro-enterprises
5. Challenge of low realized additional income.

#### 2.3.1. Challenge of take off

The program supported promotion of 292 thousand SHGs in the first year, i.e. 1999 – 00. The number remains around this level in all subsequent years with wide fluctuations from year to year. Similarly, 214 thousand groups passed Grade – I, in the second year of the program, i.e. 2000 – 01. It remains around this level in all subsequent years. Though there is significant growth in the number of groups that passed Grade – II, groups which have taken up economic activities are less. In total only 685 thousand groups have taken up economic activities (Table – 2.2). It is a little over one-fifth of groups promoted in the scheme.

**Table – 2.2: Physical Progress under SGSY since Inception**

(thousands)

Years	Self - help Groups formed	No. of SHGs formed Grade-I	No. of SHGs formed Grade-II	SHGs Taking-up Economic Activities	SHG Swarozgaris Assisted	Individual Swarozgaris Assisted
1999-2000	292	125		29	35	586
2000-2001	223	214	74	26	319	687
2001-2002	434	176	54	31	365	573
2002-2003	399	190	95	36	414	412
2003-2004	392	205	91	51	578	320
2004-2005	266	220	106	68	789	327
2005-2006	276	211	92	80	873	278
2006-2007	246	222	156	138	1472	220
2007-2008	306	251	117	181	1154	254
2008-2009 (up to Oct. 2008)	298	201	62	46	557	117
<b>Total</b>	<b>3134</b>	<b>2014</b>	<b>948</b>	<b>685</b>	<b>6869</b>	<b>3772</b>

Source: Adopted from Government of India, 2009

### 2.3.1.1. Funds allocation and utilization

The allocation of funds for the SGSY scheme by both central and states' governments was Rs.1,472 cr. in 1999 – 00, the first year of the program. In the subsequent 7 years, the allocation remained below that of the first year. It was nearly half of the first year allocation in 2001 – 02 and 2002 – 03 (Table – 2.3). The total amount allocated for the program during 10 years is Rs.14,467 cr. It is less than half of the budgetary allocation of Rs.30,100 cr. for NREG in just one year, i.e. 2009 – 10. As can be seen in the next two chapters, the principal reason for stagnation in funds allocation is non-cooperation of banks. The allocated meager amounts were not fully utilized even in one year during the last 10 years program period. Total utilization is 74% of funds made available. However, the utilization ratios are increasing over the years. It has increased from 49% in 1999 – 00 to 86% in 2003 – 04. It remains well over 80% in the subsequent years. Though there is provision for utilizing of 10% of allocated funds for training and another 20% for development of critical infrastructure, utilization of funds in these two activities is quite less (Table – 2.3) and relatively more funds were used for providing subsidies and grants to SHGs and individual swarozgaries. As a result the program is often known as subsidy oriented program.

Table – 2.3: Allocation and utilization of funds for SGSY

Year	Govt. (Centre + State) allocation	Total funds available	Total funds utilized	% of available funds utilized	Percentage utilization of Funds on :				
					Subsidy	Revolving fund	Infra-structure Dev.	Training/ Capacity Building	Others
1999-00	1472	1962	960	49	36.79	5.06	22.16	4.65	0.79
2000-01	1332	1608	1118	70	52.67	6.73	24.45	4.32	0.82
2001-02	775	1300	970	75	86.16	8.79	15.79	4.97	1.05
2002-03	756	1178	921	78	65.78	12.58	14.79	4.47	1.76
2003-04	1066	1215	1043	86	68.37	15.14	14.47	4.91	2.34
2004-05	1333	1511	1291	85	66.52	10.79	14.1	5.9	2.06
2005-06	1333	1588	1339	86	67.59	11.08	13.3	6.31	2.16
2006-07	1466	1725	1424	83	68.18	9.86	12.99	7.26	2.15
2007-08	2269	2394	1966	82	65.57	9.52	15.98	9.76	5.48
2008-09 (up to Oct. 08)	2666	1737	930	54	76.42	13.87	14.23	9.24	0.21
Total	14467	16188	11963	74	65.4	10.34	16.23	6.18	1.88

Source: Adopted from Government of India, 2009

### 2.3.2. Credit mobilization

Mobilizing bank credit is a major challenge of the program, due to which the governments at centre and states could not increase the allocations over the years. In total, the target of credit mobilization is Rs.29,831 cr. But little over half of that amount

was mobilized during the last 10 year. However, the proportion of actual mobilization to target is increasing over the years (Table – 2.4). It is a healthy sign. Because of lower than targeted mobilization of bank credit and allocation of a relatively higher proportion of funds for subsidy, the ratio of credit to subsidy was about two during the period and did not vary much from year to year. Thus, the credit-subsidy ratio remained much below the target ratio of 3:1 (GoI, 2009). It also resulted in less than planned investment per swarozgar.

**Table – 2.4: Credit Mobilization and Disbursement under SGSY since Inception**

In Rs.Crore

Year	Total Credit Target	Total Credit Mobilized	Credit Mobilized as % of Target	Credit Disbursed to SHGs	Credit Disbursed to individuals	Total Subsidy Disbursed	Subsidy Disbursed to SHGs	Subsidy Disbursed to individuals	Total Credit + Subsidy	Ratio of credit to subsidy
1999-00	3205	1056	33	187	869	542	125	417	1598	1.9
2000-01	3205	1459	46	257	1202	702	168	534	2161	2.1
2001-02	3201	1330	42	318	1011	666	210	456	1995	2
2002-03	2525	1184	47	459	725	606	283	323	1790	2
2003-04	2129	1302	61	708	594	713	444	269	2015	1.8
2004-05	2508	1658	66	1028	631	859	586	273	2517	1.9
2005-06	2516	1823	72	1275	548	905	671	234	2728	2
2006-07	2869	2291	80	1803	488	971	771	200	3262	2.4
2007-08	3744	2760	74	2091	670	1289	991	298	4049	2.1
2008-09 (up to Oct. 08)	3930	1547	39	1136	412	711	461	250	711	2.2
Total	29831	16412	56	9262	7151	7963	4709	3254	24375	2.1

Source: Adopted from Government of India, 2009

### 2.3.3. Challenge to target the real poor and vulnerable sections

A comprehensive study by BIRD, 2007 on coverage of SCs/ STs in SGSY, which covered 10,848 swarozgaries and non-swarozgaries (control sample), pointed out exclusion of SCs and STs in the following ways and for the following reasons.

- Physical exclusion – by not being accepted as group members.
- Financial exclusion by denial of their due share either by group leaders or by implementing bank or block officials
- Exclusion because they are already covered under some state government sponsored programs (often implemented by state (ST/ SC corporations) and in many cases are already defaulters of bank loans (BIRD, 2007).

The study also indicated that about 60% of the non-swarozgaries (control sample) were found to be sure about their inclusion in the BPL list (BIRD, 2007). A more dismal

picture is provided by a MoRD (2007) briefing, which shows that SGSY covers only 1% of the relevant household population, and only 33% of its beneficiaries are drawn from the poorest quintile, whereas as many as 14% are from the richest and 26% are from the two richest quintiles. Further, the total benefits are even more inequitably distributed with the richest quintile receiving as much as 50% as compared to 8% for the poorest (as quoted in Tankha, et al. 2008). The annual report of MoRD 2002 – 03, reported that in most of the areas, especially in Bihar and Uttar Pradesh, influential persons in villages were found to own a group (as quoted in GoI, 2009).

#### **2.3.4. Low survival rate of promoted micro-enterprises**

Many assisted swarozgaries are either reluctant to create or acquire the planned assets or were disposing them immediately after acquiring. According to BIRD's study "*in northern states, the success rate in terms of whether units exists or not in case of units financed to group swarozgaries turned out to be even worse than that in case of individual swarozgaries as only 17.7% units were found to be existing in case of group swarozgaries as against the 31.11% units intact in case of individual swarozgaries. The results indicate just opposite pattern to what most of us believe/ perceive that group approach of financing is better than the individual financing. However, in case of southern states, 76.6% units were found to be existing at the time of field visits which shows the better care by the government department as far as monitoring of units is concerned*" (BIRD, 2007). The present author observed that in Andhra Pradesh some groups manipulated acquiring of assets/ livestock. According to the group members, they sent their buffaloes to their relatives/ friends' houses a day before the proposed transaction. The next day they acted as if purchasing (their own) livestock from their relative/ friend in front of the officials.<sup>1</sup> The Government of AP noticed these kinds of problems long ago and converted capital subsidy into interest subsidy in 2004. Now one hardly hears words like SGSY, subsidy and revolving fund among SHGs in rural areas of Andhra Pradesh. One can only hear the words 'Pavala Vaddi' or '3% interest loans'. In other states, many studies reported that groups' focus is on subsidy. They dispose the capital/ livestock immediately, repay the bank loan and distribute the subsidy amount (see e.g. APMAS, 2008; Tankha, et al, 2008; BIRD, 2007).

#### **2.3.5. Low realized incremental income from Income generating activities**

The program envisaged that swarozgaries would realize about Rs.2,000 per month from the investment of about Rs.25,000. Except a few case studies, no major evaluation study reported additional income anywhere close to Rs.2,000 per month. In 2002 – 03, only 43% of the assisted swarozgaries reported an increase in their income (as quoted in GoI, 2009). A rigorous study by Pathak and Pant (2006) in Jaunpur district of UP shows that SGSY has not contributed significantly to the change in the level of income of the beneficiaries (as quoted in Tankha, et al, 2008). According to a NIRD (2008) study, even in the better performing State of Andhra Pradesh the income gain to a *swarozgar* from enterprise activities under SGSY was a mere Rs.1,228 per month (as quoted in GoI, 2009). BIRD presented an even grimmer picture. According to their study *the poor income generation in both the cases of individual swarozgaries (Rs.9,391) and group*

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<sup>1</sup> The group members shared these old stories (6 to 7 years old), since then they have repaid their loans and all officials got transferred.

*swarojgaries (Rs.6,916 in northern states and Rs.11,089 in southern states) per member per annum suggests for serious thinking about implementation of the program in its present format. Certain success stories, here and there should not be read as final outcome of the program and at the best, these can be documented and evaluated so that the reasons for success can be internalized into the future policy guidelines. The program also breaks the great myth that ‘group approach of lending’ is always better than the individual approach of financing (BIRD, 2007). Needless to say, that the above figures are only of surviving units. If failed units were also included, the average incremental income would be around a few hundred rupees or less.*

The crucial factors, according to many evaluation studies, for the poor incremental income, among other things, are underinvestment and low focus on training. But these appear to be not the major reasons. According to GoI (2009) the average actual investment is Rs.22,995 per swarozgar vis-à-vis the target of Rs.25,000. Less than 10% less investment may not cause over 60% less incremental income. The same report noted that about 6% of the funds were invested in training and capacity building. It is less than the permissible 10%. Further, the government promoted groups got less training and capacity building inputs compared to the NGO promoted groups. Similarly, the BIRD study also pointed out that *with no prior experience in livestock rearing and without adequate training, the SC and SC swarozgaries suffered losses*. It may be recalled that about 50% of the swarozgaries have taken up dairy. About another quarter has taken up other livestock rearing, including poultry and other primary activities. It is surprising to note that Indian villagers need training in activities like livestock rearing, the primitive and primary occupation in the country.

#### **2.4. Future directions**

To overcome the above described problems and make the program more effective the MoRD got the program studied by many important institutions and experts. It also took up wider consultations to revamp the program. Based on the inputs received, the MoRD is planning to redesign the program. Some of the proposed changes are given in Box – 2.

#### **Box – 2: Main features of the proposed re-designing of SGSY (extracts from MoRD, 2009a)**

- **Demand Driven Strategy:** More flexibility to the States for formulating their own poverty elimination plans and allocation of funds on the basis of the action plans.
- **Universalizing of SHGs:** To ensure that all the poor in the country become a part of the social mobilization process.
- **Setting up of People’s Institutions:** Success of a Program like SGSY can be ensured only through peoples’ participation. Therefore, states should federate the SHGs at various levels.
- **Setting up of Dedicated Implementation Structure:** It is proposed to have a dedicated professional institutional structure from Sub-district level up to national level with suitable linkages with the existing network of DRDAs.
- **Special focus on training & capacity building** with dedicated staff/ cells at the

state, district and sub-district levels to ensure comprehensive training of SHGs and all other stakeholders

- Setting up of one **Rural Self Employment Training Institute (RSETI)** in each district of the country for skill development training. States need to identify land for setting up these Institutes.
- Massive **up-scaling of special projects** for skill development and placement.
- **Subsidy:** Continuation of capital subsidy at enhanced rates and introduction of **Interest Subsidy**
- **Greater Emphasis on Infrastructure and Marketing** through involvement of the Private Sector and adoption of the PPP model
- **Convergence for technical & other inputs** with programs of different ministries in order to achieve synergies.
- **Improved evaluation and monitoring** for ensuring complete transparency and accountability in the implementation of SGSY through **social auditing** of the scheme and **third party evaluations**. A **national MIS** for SGSY will also be put in place for better and continuous evaluation and monitoring.

#### **DRDA (ADMN.) – Major issues**

- On one hand DRDAs are over burdened with a multiplicity of schemes and on the other hand more than 40% of posts in DRDAs are vacant
- Lack of professionals and specialists from different fields in DRDAs
- The question is whether the DRDA should be an implementing body or an overseeing body for various Rural Development Programs.

#### **Restructuring of the DRDA Administration scheme**

- The broad structure of DRDAs will consist of core wings like administration, Finance, Monitoring, Training etc. with subject specialists in each wing.
- Implementation of the programs will be through dedicated machineries of the respective programs.
- The cost of the implementation structure would be met out of program funds by earmarking a certain percentage of the allocation for the programs.

There are some very important positive features like more flexibility to the states; promotion of SHG federations; setting up of training institutions; placement; interest subsidy; etc in the intended restructuring of SGSY. However, the proposed measures can not address the crucial issues like bank credit, low survival rates of assisted micro-enterprises, etc. Some of the crucial structural issues and contradictions in the program are not adequately analyzed by evaluation studies and expert committee reports and addressed by the proposed redesign measures (Box – 2). Unless the structural issues are addressed the program success rate would not improve.

The crucial failures of the SGSY are the result of a number of implementation related limitations of the program, according to a number of evaluation studies. These issues are discussed in the next chapter.

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## Chapter – 3: Implementation related limitations

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Many evaluation studies listed a number of limitations of the program. The RBI (2003) quick study on the 'credit gap' provided a comprehensive list of limitations of the program. It also provided a number of suggestions to overcome the identified limitations of the program. The list of limitations and suggestion given in the RBI (2003) study is shown in Box – 3.

### **Box – 3: Limitations of the SGSY program and suggestions to overcome the limitations (Extracts from RBI, 2003)**

#### **Observations concerning Banks**

It was observed that non-receipt of subsidy/delay in receipt of subsidy from DRDA (forming 60% and 40% of the pending applications pertaining to groups and individuals respectively) was one of the important reasons for the inordinate delay in disbursement of loans under SGSY. The other reasons were:

- Complex and voluminous documentation.
- Delay in grading the groups on account of their poor performance
- Delay in obtaining 'No Dues Certificate' from other banks.
- Delay in tie-up arrangement in case of dairy activity.
- Cumbersome procedures imposed by the banks such as insistence on the presence of borrowers repeatedly in the branch for various formalities.
- Pressure of work in the banks due to lack of manpower, annual closing, audit and inspection, etc.
- Non-delegation of authority to the bank managers.
- Some of the bank branches have not been conveyed the credit mobilization targets.
- Lack of awareness among the dealing staff about the guidelines of the Scheme.
- Lack of commitment, enthusiasm and participation on the part of banks due to poor recovery performance of loans under the Scheme resulting in mounting NPAs.

Banks have not adhered to the guidelines issued by the Government of India /RBI in implementation of the Scheme as would be evident from the following findings of the study.

- Not maintaining proper Loan Application Register.
- Discrepancies in maintaining the Revolving Fund Account/Cash Credit Account, Subsidy Reserve Account and SHGs Account.
- Not adhering to the time frame prescribed by RBI for settlement of applications.
- Demanding a third party guarantee in several cases, this is in violation of RBI guidelines.
- Linking of assistance under SGSY to subsidy target.
- Charging interest on the subsidy portion and not maintaining the Subsidy Reserve Account group-wise.

- Subsidy portion was kept in SB accounts and beneficiaries were paid interest.
- Giving the full benefit of subsidy to those applicants who have repaid the loan before the lock-in-period.
- Not fixing the repayment schedule as per the guidelines.
- Opening individual loan accounts in the names of group members.
- No proper follow-up of the end use of the funds by the banks.

### **Observations concerning Sponsoring Agencies**

One of the significant observations made was that viable SHGs were not available for bank financing. This was attributed to various reasons, such as, failure on the part of DRDA to mobilize healthy/ active NGOs for the formation of groups. The study also revealed the following:

- Deficiencies in the project reports submitted by the Sponsoring Agencies for the key activities.
- Bunching of applications by the Sponsoring Agencies and submission of applications at the fag end of the year.
- Forwarding unviable and un-bankable proposals to the banks resulting in rejection of applications.
- Key activities have not been identified and most of the applications pertained to a similar type of activity resulting in saturation of the activity.
- Lack of awareness of the scheme guidelines among Government Officials.
- Submission of incomplete applications without any scrutiny.
- Obtaining individual applications from the group members instead of one application from the group.
- Not granting the subsidy as per the entitlement of the applicants.
- Lack of co-ordination between Govt. agencies and bank officials.

### **Observations concerning Beneficiaries**

Some of the beneficiaries contacted under the study have stated that it took unduly long time in sponsoring their cases and they had to visit the office of BDO, several times (3-7 times). Some of the reasons for the gap between sanction and disbursement of loans under SGSY attributable to beneficiaries were:

- Non-completion of formalities by the applicants due to illiteracy. (Forming 31% and 35% of pending applications pertaining to groups and individuals respectively)
- Groups are not cohesive and not responding.
- Change of activity by the Groups.
- Most of the groups restrict their outstanding under cash credit account to the subsidy portion of Rs. 10000/- under the impression that the activity loan would be granted only when they clear the cash credit facility.
- Beneficiaries approaching the banks after considerable delay.
- Delay in asset creation by the beneficiaries.
- Lack of proper training and guidance from the Sponsoring Agencies and Banks

- has resulted in taking up unviable economic activities by the groups.
- Unawareness among groups and individuals about the benefits of the Scheme.
- Disposing of the assets (Milch animals) by the borrowers.

### **Suggestions for redress**

- Sensitization of the rural and semi-urban branch managers should be undertaken.
- Delegation of authority to branch managers for sanctioning of loans under Government Sponsored Schemes.
- Proper maintenance of Loan Application Register by the banks.
- Involvement of NGOs and Sponsoring Agencies in completing the formalities.
- Sponsoring should be planned/ target fixed.
- Forwarding applications in a phased manner and avoiding bunching of applications in the last quarter of the financial year.
- Introduction of Screening/ Task Force Committee and phasing out of individual applications in favour of groups.
- Timely release of subsidy.
- More effective co-ordination between NGOs, BDOs and bank officials.
- Creation of awareness of the scheme among BPL families and motivating them to avail of the benefits of the scheme.
- Due publicity of the Scheme should be given by the State Publicity Departments.

It may be noted that the RBI study is 6 years old study. Almost all subsequent studies provided almost the same list of limitations and suggestions with few context specific modifications. But even today these limitations are persisting. E.g., in the 13<sup>th</sup> meeting of the Central Level Coordination Committee (CLCC) of Swaranjayanti Gram Swarozgar Yojana (SGSY) held on June 4, 2009, it was noted that banks in many states are not releasing the second instalment to the swarozgaries (MoRD, 2009). Similarly, the BIRD study noted survival of a very small proportion of assisted micro-enterprises in 2007, especially group related swarozgaries in North India. Even today the year end rush is norm in the program (see, e.g. APMAS, 2008).

The principal reason, for persistence and magnification of these limitations and problems, is the deliberate and strategic behaviour of different stakeholders like banks, officials and swarozgaries. E.g. banks are not committed and less enthusiastic to participate in SGSY because of poor recovery and mounting NPA (RBI, 2003). This manifests in different forms, such as showing ignorance, citing various procedures, etc. Unless the problem of mounting NPA is addressed, measures like branch expansion, as recommended by the Prof. Radhakrishna Committee (GoI, 2009) and as discussed in the 13<sup>th</sup> CLCC meeting (MoRD, 2009), will not yield any positive results. Similarly delays at DRDA level for the release of a onetime subsidy is a major hurdle in the program. Without solving the problem, introduction of the release of the subsidy in six instalments as recommend by the Prof. Radhakrishna Committee (GoI, 2009) may aggravate the problem. Same is the case with other stakeholders.

To overcome these limitations, the design related problems of the program should be identified and removed, in other words the program should be redesigned. As most of the evaluation studies and expert committees are sponsored by the MoRD, these studies and reports looked at the program with limited mandate and in almost all these studies, the major focus has been on implementation aspects only. SGSY design related issues were not touched at all or scantily or superficially touched by a few reports. These design limitations of the program are discussed in the next chapter.

## Chapter – 4: Design related limitations of SGSY

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As mentioned elsewhere in this report very few studies and reports looked into design/structural issues of the program. Further, their attempts are partial. E.g. dismayed by the poor survival of assisted micro-enterprises and meagre incremental income generation by the existing units, the BIRD (2007) study asked for rethinking the program. It seems like a hint to look beyond the 'self-employment' paradigm; the study suggested renaming the program as National Program for Rural Poverty Reduction (NPRPR); it should be repositioned as a microfinance program rather than a program for distributing subsidies. Similarly the NIBM and NIPFP (2007) report also asked for redesigning the program by stopping completely the individual subsidies and recommended to use those funds for human resources development. The report emphasized that while forming SHGs, subsidy or SGSY should not be brought into the picture at all. Thrift, internal lending, normal bank loan and empowerment must be the focus during both, the formation and nurturing periods. Initially, where there is not much development of SHGs, focus must be on the generation of good SHGs, not on the utilization of subsidies (NIBM and NIPFP, 2007). Both these two studies did not elaborate on measures to boost the demand for bank loans/microfinance. On the other hand the Prof. Radhakrishna Committee did recommend enlarging the scope of the program by including wide scale training and placement programs. The report recommended setting up a network of training institutions across the country. But the report did not offer any serious solutions to the critical problems like mounting NPA and slipping repayment rates, low incremental incomes, etc.

The serious challenges of the program and persistence and magnification of the same set of problems in the implementation of the program over the years warrant a thorough review of the program. As discussed above, recommendations of different studies and reports proposed re-designing measures but did not address comprehensively the critical design related issues. As the SGSY is a macro program with the Government of India willing to allocate large sums of money and planning universal coverage of all BPL families in the country, it has to be consistent with the overall development stage and direction of the country, international experience and development theory.<sup>2</sup>In this section, the validity of some of the crucial assumption and strategies of the program are analyzed in the light of national and internal development experience and development logic. From the design of the program, it could be inferred that the program has the following underlying assumptions.

1. The poor need a number of additional employment opportunities to come out of the poverty.

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<sup>2</sup> As per old saying, t theory may not provide solutions to all the problems, but any solution, which is not consistent with theory, may lead to new and complex problems. Mr. T. Vijay Kumar, CEO of SERP, which is implementing one of the most successful anti-poverty programs, i.e. IKP in India, said in the inaugural session of the national conference on SHG Federations, organized by APMAS and others in Hyderabad in 2008, that **poverty reduction or forming a federation is a science**. Application of scientific principles in building the people's institutions is as important, if not more, as application of the scientific principles in building a building.

2. Self employment is the superior form of employment compared to other forms of employment.
3. By integrating government subsidy with bank loans the participants can get the best of both.
4. Group approach suits income generating activities better.
5. Through cluster approach a number of advantages could be reaped.

The validity and implications of these assumptions are analyzed below.

#### 4.1. Fatal assumption of 'self'-employment

According to development theory/ international experience the labour force participations would be inversely 'U' shaped. That is, it would be low in subsistence/ low economic activities conditions and increase as the economic activities pick up and start to decline after crossing a certain economic level. Labour participation rates in different groups of countries are given in Table – 4.1.

In developing countries the men's work participation rate is 77%, vis-à-vis 64% in developed countries. However, the women participation rate is same (49%) in both developing and developed countries. One of the reasons for relatively low work participation of women compared to men in developing countries is the cultural factor. In South Asia, the men's and women's work participation rates are 78% and 34% respectively. Cultural factors are the main reason for relatively low women's work participation rate. Because of predominance of self-employment and family enterprises, the unemployment rates are usually low in developing countries compared to developed countries.

Table – 4.1: Proportion of working-age population that is employed in 2007 in %

Country Group	Women	Men
Sub-Saharan	55	79
Eastern Asia	65	78
South-Eastern Asia	55	78
<b>Southern Asia</b>	<b>34</b>	<b>78</b>
Latin America and Caribbean	47	74
North Africa	22	70
Western Asia	25	70
CIS	50	63
Transition countries of South Eastern Europe	44	56
<b>Developed regions</b>	<b>49</b>	<b>64</b>
<b>Developing regions</b>	<b>49</b>	<b>77</b>

*Source: Adopted from United Nations, 2008*

In India also the unemployment rate is 2.6% as per 11<sup>th</sup> plan document. But the poverty rate is 10 times the unemployment rate, i.e. about 26% According to the 11<sup>th</sup> plan document, over 20% of the workforce, who is gainfully employed, is poor in the country. That is, their incomes are below the poverty line. In these conditions what is basically needed is that productivity and income of employed people should be increased. Creation of more working days and hours are not needed. *Because of this reason, many participants/ swarozgaries dispose their assets at the earliest and minimize their time commitment for the program.* For increasing the productivity of the people, technology is always overemphasized and the importance of finance is completely ignored. The role of financial inclusion in poverty alleviation is discussed in the next chapter.

What the poor in India need most is a significant increase in the returns to their labour, not additional working hours and days. At the same time, it is not suggested that India has no unemployment problem. Unemployment among the educated, i.e. in the category of secondary level education and above, is as high as 6.5% for rural male and 6.2 for urban male. The same is 18.2% and 17.9% for rural and urban females respectively (Table – 4.2). A separate program could be initiated for these categories for ‘self’ employment promotion.

**Table – 4.2: Unemployment rates in India by level of education on current weekly basis in 2004-05 in %**

Level of education	Rural areas		Urban areas	
	Male	Female	Male	Female
Illiterates	2.7	2.5	2.8	2.5
Primary level	3.0	3.1	3.7	4.0
Secondary and above	6.5	18.2	6.2	17.9
All	3.8	4.2	5.2	9.0

Source: Adopted from 11<sup>th</sup> Five Year Plan Document Vol. 1

#### 4.2. Self employment is vulnerable employment

In development literature self employment includes ‘own-account workers’ and workers engaged in family enterprises. UN organizations like ILO refer to ‘own-account and contributing family workers’ as vulnerable workers. Because of that there is a very high positive correlation between the proportion of ‘employed poor’ and the proportion of ‘own-account and contributing family workers’ (see Table – 4.3). Table – 4.3 indicates that the proportion of the self employed (vulnerable workers) declines significantly in the development process. The proportion of self employment in the total employment is as low as 8% and 10% for women and men respectively in developed regions and as high as 64% and 57% for women and men in developing regions.

**Table – 4.3: Proportion of working poor and proportion of own account and contributing family workers in different groups of countries**

Country Group	Proportion of employed people living below \$1 (PPP) a day in %		Proportion of own-account and contributing family workers in total employment in 2007 in %	
	1997	2007	Women	Men
Sub-Saharan	55.5	51.4	81	64
<b><i>Southern Asia</i></b>	<b><i>51.5</i></b>	<b><i>31.5</i></b>	<b><i>83</i></b>	<b><i>73</i></b>
Oceania	22.9	21.6	75	63
South-Eastern Asia	24.1	13.3	64	56
Eastern Asia	18.8	8.7	60	52
Latin America and Caribbean	11.6	8.0	33	33
CIS, Asia	11.0	5.8	33	30
Western Asia	2.9	5.4	38	26
Transition countries of South Eastern Europe	3.8	2.3	26	27

North Africa	3.0	1.3	41	30
CIS, Europe	5.2	0.0	9	11
<b>Developed regions</b>	<b>0.2</b>	<b>0.1</b>	<b>8</b>	<b>10</b>
<b>Developing regions</b>	<b>20.4</b>	<b>20.4</b>	<b>64</b>	<b>57</b>

Source: Adopted from United Nations, 2008

#### 4.2.1. Self employment in India

In India the overwhelming proportion of workers is in the self employment category. About 64% of the rural and 46% of the urban workforce is engaged in self-employment (Table – 4.4). One of the reasons for this high concentration of workforce in self employment is the failure of the organized sector to absorb the growing labour force in the country. Restructuring the organized sector is beyond the scope of this program. But the program could facilitate the employment transformation by focusing on creation of more employment opportunities including self employment opportunities in the secondary and tertiary sectors, which can link the rural areas with booming urban centres. But so far the program has promoted about three-fourths of employment opportunities in the low paying primary sector, with dairy alone accounting for about 50% of total participants.

**Table – 4.4: Percentage distribution of employed persons by category of employment (CDS) in India**

Category	Rural areas			Urban areas		
	Male	Female	Persons	Male	Female	Persons
Self-employed	62.91	66.51	63.95	45.86	43.94	45.50
Regular employees	10.25	5.12	8.76	42.39	43.18	42.54
Casual Labour	26.84	28.37	27.29	11.75	12.88	11.96
Total in %	100.00	100.00	100.00	100.00	100.00	100.00
Total in 000	197391	80685	278076	87027	19806	106833

Source: Adopted from 11<sup>th</sup> Five Year Plan Document Vol. 1

#### 4.2.2. Poverty among the self employed

In India 20.51% of the workforce are living below the poverty level. The proportion is highest (31.9%) among casual labour and second highest (17.17%) among the self employed. However, in terms of absolute number, the self employment category has the highest number of poor – 45.28 million, followed by casual labour – 41.45 million (Table – 4.5). Though the intensity of poverty is higher in casual labour vis-à-vis self employment, many hardcore poor may not take up self employment immediately for various reasons. According to Vijay Mahajan, one of the pioneers of the microfinance movement in India, the assumption that all the poor want to be self employed is one of the fatal assumptions of microfinance (Mahajan, Vijay 2006). If the broader definition of poverty, i.e. US\$2 per day is considered, the number of self-employed poor would be very high. Clearly there is a need for improving the productivity and remunerations of the

workers employed in the self employment category. It is possible through provision of social security measures, technology infusion, skill upgrading, financial inclusion, etc. Innovative approaches are needed to raise the incomes of the people employed in self employment.

**Table – 4.5: Working poor in India by category of employment in 2004 – 05 in thousands**

Population segment	Self employed	Regular wage/ salaried	Casual Labour	Total
Rural Persons	33139 (16.08)	2273 (9.30)	34125 (30.34)	69537 (20.27)
Urban persons	12141 (22.87)	5302 (11.49)	7321 (41.90)	24765 (21.22)
All Males	29135 (17.17)	5863 (10.24)	27388 (31.85)	62386 (19.94)
All Females	16145 (18.03)	1713 (12.83)	14058 (31.99)	31916 (21.74)
All persons	45280 (17.47)	7576 (10.73)	41446 (31.90)	94302 (20.51)

*Note: Figures in brackets are the proportion of poor workers to total workers in that category*

*Source: Adopted from 11<sup>th</sup> Five Year Plan Document Vol. 1*

#### **4.3. Integration of incompatible programs – Subsidies and bank credit**

Whatever the intended benefits, the integration of state subsidy with bank credit proved to be ineffective in the program. As bank loans are linked with government subsidies, it appears that it has given the impression to the participants that government and banks are one and the same, hence, there is no need for repayment. Alternatively the participants might be trying to recover their ‘costs (including transaction costs) of getting the activity/ subsidy from the ‘bank loans’. At national level the bank loan repayment rate is 42% in SGSY. It is a dismal performance (NIBM and NIPFP, 2007). In the north-east, where the program is implemented with special interest, the repayment rates vary between 14% in Nagaland and 48% in Manipur (Table – 4.6). In Assam, the repayment rate is not only low but also declining over the years. It has declined from 36.54 in June 2005, to 32.20% in June 2006 to 25.21% in June 2007 (APMAS, 2008). Rigidity in the repayment schedule and absence of physical/ financial collateral security apparently, among other things, contributed to this low recovery rate. In response banks started avoidance strategies like inordinate delays, under financing, just releasing the subsidy component, etc. This in turn resulted in delays in starting economic activities; in acquiring/ creation of low/ inferior assets; in low incomes/ losses and consequently in low repayments. The program fell into a vicious circle.

**Table – 4.6: Recovery of bank loans under the SGSY in the North-East in Rs. Lakh**

State	Number of Accounts	Amount Outstanding	Demand Raised	Recovery Account	Recovery Rate in %	Amount Overdue
Arunachal Pradesh	3836	9.7.32	422.04		32.00	285.49
Assam	29420	11990.27	3724.80	1429.90	38.00	2294.90
Manipur	1014	290.37	80.89	38.78	48.00	42.11
Meghalaya	NA	NA	428.19	152.99	35.70	275.58
Nagaland	3187	944.92	307.41	44.17	14.40	263.24
Tripura	NA	NA	22.77	6.68	30.00	16.09
Total North East	37457	14132.88	4986.10	1672.52	33.50	3177.41

Source: Adopted from GoI, 2009

Pilferage is widespread in the program. At every aspect of the program, starting from selection of members, grooming them into groups, recognition of groups, grading, release of RF, release of subsidy, selection of NGOs, release of funds/ service fee to NGO, etc; irregularities could be noticed. These irregularities are affecting adversely the program. These pilferages, which are also a cause for low recovery of bank loans, have a huge negative impact on one of the most wonderful anti-poverty programs in the country, i.e. SHG banking. These issues are discussed below.

#### **4.3.1. Adverse effect of the SGSY program on NABARD’s SHG banking program**

With its design related problems and persisting and magnifying implementation problems, the SGSY program has a significant adverse effect on the regular SHG banking program. Many studies and scholars pointed out this problem. For example R. Dasgupta, in his case study of MOVIB’s SGSY groups in the Prabhani district writes ..” *the present writer, champion of the SHG movement is equally disillusioned with the scheme of SGSY, which according to him is the antithesis of SHG, and a cancerous virus to destroy the long term growth of SHG (Dasgupta, R 2006)*”.<sup>3</sup> In her foreword to the Chaitanya and Chalana (undated) study, Dr. Sudha Kothari writes that “*SGSY has promotion of Self-Help groups (SHGs) as an inbuilt component. This scheme, therefore, has substantial ramifications on the SHG movement across the country. In Maharashtra, the SHG movement has primarily been led by NABARD and NGO collaboration emphasizing SHG bank linkage. The scheme with subsidy component has given a different meaning to the Self-help group movement throwing up new challenges and dilemmas for the practitioners in the SHG movement.*” As mentioned above, studies by BIRD (2007) and NIBM and NIPFP, (2007) asked the program to stop individual oriented subsidies for healthy financial inclusion. The report of the Prof. Radhakrishna Committee also pointed out a potential adverse impact of low recovery in SGSY on NABARD’s SHG banking program (GoI, 2009). The Chaitanya and Chalana (undated) study points out that “*ultimately, the overall effect (of integration of subsidy with loan component) is that the poor people remain deprived of the opportunity to come under formal financial sector*”. A study by IIBM, Guwahati stated

<sup>3</sup> Though he started his visit with scepticism, he found the quality of MOVIB promoted SGSY groups in Prabhani is very good. The NIBM and NIPFP, 2007 study also mentioned that the quality of MOVIB promoted SGSY groups in Prabhani is good.

that “... large number of groups from the direct bank linkage being poached by the SGSY program. Since the direct bank linkage program was just starting, it had its adverse impact on the program. The impact was larger for the smaller states like Meghalaya and Tripura where this program was launched vigorously in all the places. The fallout is that even today we have a govt. lead microfinance program in these states. The impact is far more serious because, the repayment of SGSY program has been particularly very poor (around 33%). This has already made the banks reluctant and if corrective measures are not taken, we would have the banks losing interest very fast’ (Sharama, A 2007). The major finding of APMAS’ (2008) study is that “widespread corruption in SGSY program is affecting adversely the repayment to the banks, which in turn is affecting adversely the SHG - banking program. In this way the integration has vitiated the SHG movement in the state (– Assam)”. Some of the processes and forms of adverse impact of SGSY on SHG banking in Assam are elaborated in Box – 4.

**Box – 4: Adverse impact of SGSY on SHG banking in Assam (Extracts from APMAS, 2008)**

The major reason for the current problems of SHG movement in the state is ‘integration of two incompatible programs’, i.e. SHG - banking program and SGSY program. The SHG - banking program aimed at financial inclusion, i.e. providing financial services to hitherto un-reached and un-bankable sections, was designed to run purely on commercial terms. Whereas the SGSY program, aimed at poverty alleviation through the promotion of entrepreneurship and self employment with capital subsidy, runs on state subsidy. The negative impact of SGSY on SHG banking is outlined briefly below.

As the business of SHGs at the moment in the state involve RF of about Rs.10,000 to Rs.20,000 and subsidy up to Rs.1,25,000, all kinds of manipulations are taking place. E.g. in some parts of the state, some officials take about Rs.1,000 to form and register an SHG in the block office. Registration in the block office is mandatory to get RF and subsidy. In some places, the bank staff also takes about Rs.1,000 to route the RF through the bank. Taking other transaction expenses of the group, to get Rs.10,000 of RF, a group has to spend about one-third of the RF. Some groups wind up after getting the RF and the same members would start a new group with another set of leaders. Similarly to get the subsidy under SGSY, a group has to spend anything between one third and one half of the subsidy amount.

A casual visitor, whose purpose was not to unearth these manipulations, can easily notice them implied that the manipulations are in a noticeable scale. Some of the indicators for the manipulations are: (a) in balance sheets, which were estimated from the available records and oral information given by the members, the total value of assets is significantly less than the value of liabilities in some of the SHGs. Members could not explain or do not want to explain the reasons. (c) In some groups the books of accounts do not tally at all with the oral information given by the group members. E.g. in one group the members said that they are saving at the rate of Rs.20 per month; but in the books, the amount was shown as Rs.50 per member per month. In the same group the numbers of internal loans and repayment, etc are much more as per the records, than what

the members said. It implies that records are being maintained attractively to get large RF and SGSY grant quickly.

To assess the quantum and number of cases of bribes, a direct question was included in the questionnaire. However, one could not get an accurate answer to this question, especially in an ongoing project and when the facilitators were acting as link between the groups and the research team. The cases and amounts reported are analyzed below. Total amount of bribes paid by the groups is Rs.89,986. In all, 21 groups reported that they paid bribes.

The above described bribe is the amount that the groups said they paid. There could be much more in amount and cases of bribes, which are not admitted by the groups. Many resource persons and stakeholders, who were interviewed by the present research team, revealed that the practice of bribes is widely prevalent in the state. The analysis of the balance sheets indicated in as many as 45 out of 109 sample groups that the assets value is less than their liabilities. The total deficit amount is Rs.4.59 lakh..... This could be one estimate of bribes in the sample groups. As the groups are earning good interest income, some of it could be used to pay bribes. The actual bribe amount could be even higher .

As mentioned above, the majority of, if not all, groups have to shell out one-third to one-half of the grant/ subsidy amount to get their grant/ subsidy. If the transaction costs of the groups to get the grant/ subsidy amount is considered, the groups might not have got any benefit at all. To get their own share of easy money, some groups pocket the loan component and disband the group and start the process with a new set of leaders, often in consonance with local officials. It was noticed that in some groups, books are left totally blank after the group received the grant/ SGSY subsidy.

One of the serious repercussions of group disbanding after getting an RF/ SGSY grant is low loan recovery in the banks. As per the data given by the State Lead Bank the recovery rate in SGSY is not only low but further declining over the years. The rate has declined from 36.54% in June 2005, to 32.20% in June 2006 to 25.21% in June 2007. ***As a result the banks are reluctant to lend to SHGs and even to open a saving account, which eventually leads to credit linkage or matching of loans to SGSY grant.*** In a few banks the managers are just releasing the subsidy component to the group and closing their accounts.

Another serious repercussion is no/ very few repeat credit linkages, which often have larger size loans. As per the NABARD data, in 2005-06 the number of new groups that got loans is 25,215, but only 112 groups got repeat linkages. The same at all India level were 6,20,109 and 3,44,502 respectively. While 25,005 new groups in the state were given loans, only 160 already credit linked groups were given loans (repeat linkages) in 2006-07. The same at all India level were 6,86,408 new groups and 4,57,410 groups with repeat linkages.

Apart from individual studies, the macro data published by NABARD also confirm the adverse impact of SGSY on SHG banking. According to 2007 – 08 data, the NPA across

the states increases as the proportion of SGSY groups in total SHGs increases. 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 (Table – 4.7). The pattern could also 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 behaviour of non-SGSY groups also. Without addressing this critical problem, an expansion of the SGSY program could have a devastating effect on one of India’s finest financial inclusion programs – SHG banking.

**Table – 4.7: States’ average NPA (%) as per proportion of SGSY groups to all SHGs**

% of SGSY groups to total SHGs	No. of states	All groups	SGSY groups	Non-SGSY	Name of the states in the group
Less than 25%	8	1.69	1.97	1.49	New Delhi, AP, Pondicherry, Rajasthan, Kerala, HP, Karnataka, Orissa
25 to 50%	8	2.99	3.81	2.13	TN, Maharashtra, Goa, Gujarat, J and K, Chattisgarh, Tripura and Jharkhand,
50 to 75%	9	6.54	7.82	4.88	MP, UP, Haryana, WB, Assam, Nagaland, Bihar, Uttarakhand Sikkim
75% and above	4	8.00	9.99	6.26	Punjab, Mizoram, Arunachal Pradesh Meghalaya
Average	29	4.42	5.40	3.37	

*Source: Calculated from data provided in NABARD, 2009.*

#### **4.4. Uniform group approach for Income Generating Activities**

It is widely believed that the group strategy would yield better results in income generating activities as it proved to be most successful in SHG banking. Because of this belief the group approach is overemphasized in the program especially in recent years (see e.g. Table – 2.2). However, BIRD’s (2007) study presented a sharply contradictory picture. In North India the survival rate of group based micro-enterprises is less than 18% compared to over 31% survival in case of individual swarozgaries. Similarly, the group based swarozgaries’ incremental income is about two-thirds of that of individual swarozgaries. One of the possible reasons could be that different livelihood options require groups of different sizes. But in the program, only one uniform size group has been promoted for all kinds of income generating activities/ micro-enterprises. Perhaps, because of this reason nearly half of the swarozgaries have opted for one single activity – dairy animal.

#### **4.5. Cluster approach**

No doubt that the cluster approach, obviously, has a number of advantages such as backward and forward linkages. But the NIBM and NIPFP (2007) study indicates that the cluster approach may be a more effective strategy for area development like district or block development, but may not be so effective for a single program like SGSY. Another pitfall of the cluster approach could be that by design or default it gets focused on primary and manufacturing units and neglects completely the service units like, transport,

communications, etc. Transport could open up a number of income and marketing opportunities to hitherto cut off interior rural areas.

#### **4.6. Key activities**

One of the criteria for the selection of key activities should have been ‘the potential of the activity to trigger off the local economies’. It was not included in the guideline. As per guidelines, mostly primary activities were chosen. Though one of the criteria for the selection of key activities is the participants’ skills, a lot of money was spent on training. It is surprising to note that people in rural India need training in primary and traditional activities like livestock rearing, backyard poultry, etc.

#### **4.7. Learning**

1. Low paying ‘self’-employment creation may not be the best strategy to fight poverty. Increase in the remuneration and productivity of the workers already employed is needed to overcome the serious problem of ‘working poor’ in the country. It needs, among other things, financial services at affordable costs.
2. Self-employment is also vulnerable employment. Instead of generating a number of low paying self-employment opportunities, the program may focus on occupational transformation, improvement of productivity and remuneration of those already in the self-employment category and creation of quality employment opportunities.
3. Integration of subsidy with bank credit proved to be ineffective in the program and has a huge negative impact on the normal SHG banking program in some regions of the country. They should be separated and/ or the whole model needs to be modified.
4. For different micro-enterprises, groups of different sizes may be more appropriate.
5. Income generating activities in the service sector may be focused to take advantage of booming sectors in the economy and to integrate the hitherto cut off areas with nearby markets/ main centres.

## Chapter – 5: Suggestions for designing the NRLM

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Previous chapters clearly indicate that the SGSY program is not only underperforming but also undermining one of the India's finest programs, i.e. the NABARD's SHG-banking program. As the SGSY coverage is going to increase significantly in coming years, it may endanger the SHG-banking program unless the program is redesigned. It would be a major setback for **effective financial inclusion** of the poor. The poor performance of the program and persistence implementation related problems are largely because of the flaws in the design of the program. The discussion in chapter – 4 suggests that underlying assumptions are either incorrect or inappropriate. Redesigning of the program or designing of NRLM with incorporation of the following learning would revolutionize India's fight against poverty.

1. Like in many developing countries, the overwhelming majority of India's poor is already employed. What they need is an increase in their productivity and higher remuneration for their labour and occupational transformation.
2. Financial inclusion could play a critical role in poverty alleviation.
3. Current practice of generating low paying self employment, mostly in the primary sector, goes against the development trend of employment transformation and poverty alleviation.
4. The adverse effect of subsidies on bank credit has to be minimized if not eliminated completely.
5. Groups of different sizes are needed to take up different kinds of enterprises, including micro-, small and medium enterprises.

According to a recent study by Arjun Sengupta, et al (2008)<sup>4</sup>, *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 crises in agriculture and the 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 the rural households. It does not mean that the Government should provide subsidies and other direct benefits to three-fourths of the household. But the government should provide the enabling environment for the people to come out of poverty and improve their economic condition. Financial inclusion is the most crucial enabling service.

NRLM may focus on comprehensive rural development. NRLM's role may be more that of a facilitator rather than a direct provider of benefits to individuals. Each of its activities has to have a cascade effect. A large body of evidence from different parts of the country suggests that financial inclusion is one key activity, which can unleash the rural

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<sup>4</sup> 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

prosperity and triggers the creation of a number of income and employment opportunities (the processes are illustrated briefly below). Similarly a few key livelihood interventions like connectivity with markets, setting up of agri-processing units like bulk milk cooling units (BMCU), etc could revolutionize rural areas. Therefore NRLM may focus on comprehensive development of the rural area with sequential intervention of two sub-programs viz. (1) Financial Inclusion and (2) Livelihood Promotion or Employment Transformation. Each program may be implemented independently in two phases. Before discussing the two programs a few overall suggestions are given below.

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.<sup>5</sup> NRLM may focus on creating an enabling environment, in which the households, particularly the poor, get higher returns/remunerations for their efforts and labor, rather than providing individual subsidies and other benefits directly.
2. NRLM may have a twofold strategy for poverty alleviation and rural prosperity. In the first stage of about 5 years, NRLM may totally focus on promoting and strengthening of 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 and sustainable, the promotional staff must undergo a role transformation to provide support in the area of livelihood promotion.
4. The role of NGOs in the promotion and nurturing of the SHGs and SHG federations needs to be articulated clearly. While the NRLM machinery may play an effective role in 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.*

### **5.1. Financial inclusion, the panacea for poverty alleviation**

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, without corresponding promotion of appropriate livelihood opportunities the poor people's credit absorption capacity would be limited and there would be the possibility of misuse of funds, which may lead to indebtedness.

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<sup>5</sup> As participation of non-poor in these programs could boost the local economies, many poorest of poor, who do not want to take up self employment may get regular employment or higher wages or both. The salient features of these two proposed programs are described below.

Aloysius P. Fernandez, one of the pioneers of the SHG movement in the country, argues that one of the serious problems 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 livestock, land development, working capital needs in agriculture and other family ventures, business, jewellery, medical expenses, purchase of land, house repairs, house construction, LPG connection, etc (Fernandez, 2008). Currently APMAS is studying the Self Affinity Groups (SAGs)<sup>6</sup> 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 years<sup>7</sup> and the second largest loan amount taken by a member is Rs.276,400 in 16 loans in 10 years<sup>8</sup>. 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.<sup>9</sup> It shows the existing credit absorption capacity of the poor people and it also shows the diversity of credit needs of people. The direct link between financial inclusion and improvement in family income, without creation of any new assets, is illustrated through a case study at Box – 5.

**Box – 5: Case study – the relation between financial inclusion and poverty eradication/ economic improvement**

The present author came across, once, an SHG of an ST community in Medchel of Ranga Reddy district. The traditional occupation of the members is basket weaving. Because of SHG banking, the economic conditions of the members improved significantly even though they did not take up any new income generation activity or created/ acquired any income yielding assets. Prior to joining the group the members used to sell the baskets within the same day, irrespective of the market condition, to buy the raw material for next day's production and to meet their consumption needs. With bank loans their holding capacity has increased. They can afford to wait for a remunerative price, therefore, are realizing better prices for their baskets. They also started purchasing the raw material in bulk thus reducing, at least the transaction cost, if not the economic cost of raw material. Previously their daily production was constrained by their labour inputs and availability of raw material. Now they do not have raw material constraints thanks to SHG banking.

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 'Fortune at the Bottom of the Pyramid', that the poor live in costly environments and often pay relatively higher prices for comparable services. The most

<sup>6</sup> MYRADA calls its SHGs 'SAGs' to emphasize the importance of 'affinity' and self selection of members by the group.

<sup>7</sup> Nanjamani of Nimishamba SAG of Narahalli Panchayat of Kollegal block of Chavurajanagar district

<sup>8</sup> Vishalakshi of Chaluvachanrangaraya SAG of Ramapura Panchaya of Kollegal block of Chamarajanagar district

<sup>9</sup> Personal communications by Dr. K. Raja Reddy, APMAS, study team leader.

prohibitive prices they often pay are those for financial services. One can easily find a widespread usury in the vicinity of the poor and poorer regions and states (see e.g. APMAS, 2008), which is both, a cause and consequence of 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. Recent research by the World Bank suggests that *‘evidence of higher consumption—but not income or asset formation by (SHG) participants suggests that at the time of the survey, the program’s main economic impact had been through consumption smoothing and diversification of income sources rather than exploitation of new income sources’* (Deininger, Klaus and Yanyan Liu, 2009). Another major study by NIRANTAR indicates that the only benefits that the members got from SHG participation are smoothening of consumption and increased ability to cope up with economic emergencies (NIRANTAR, 2007a and 2007b). The above description clearly suggests that financial inclusion could reduce significantly the costs of living for the poor and also the costs of their production. In other words the benefits of financial inclusion are too many and go far beyond new income generation activities and new assets creation/ acquisition or ‘self’ employment generation.

Macro data also confirm the positive correlation between financial inclusion and poverty reduction. Table – 5.1 shows the status of different states in terms of financial exclusion and rural poverty rates. Andhra Pradesh, which has the highest financial inclusion (> 75%) in the country, has one of the lowest rural poverty rates of 11.2%. The poverty in the state has declined from 29.75% in 1983 to 11% in 2004-05. During the same time the poverty rate has declined from 44.93% to 28.27% at national level. Unlike the all India trend, in AP the decline in the poverty rate between 1983 and 2004-05 is more steep in rural areas (16.46% points) compared to urban areas (12.08% points) (Dev 2007). Other *major* states also show a positive correlation between poverty rates and financial exclusion.

**Table – 5.1: Status of different states in terms of financial exclusion and rural poverty rate in 2004 – 05**

S. No	Sate/ Union Territory	Rural poverty rate (%)	% of Financial Exclusion
1	Andhra Pradesh	11.2	< 25
2	Arunachal Pradesh	22.3	> 75
3	Assam	22.3	> 75
4	Bihar	42.1	50 to 75
5	Chattisgarh	40.8	50 to 75
6	Delhi	6.9	NA
7	Goa	5.4	NA
8	Gujarat	19.1	NA
9	Haryana	13.6	NA
10	Himachal Pradesh	10.7	50 to 75
11	Jammu and Kashmir	4.6	50 to 75
12	Jharkhand	46.3	> 75

13	Karnataka	20.8	25 to 50
14	Kerala	13.2	25 to 50
15	Madhya Pradesh	36.9	25 to 50
16	Maharashtra	29.6	25 to 50
17	Manipur	22.3	> 75
18	Meghalaya	22.3	> 75
19	Mizoram	22.3	> 75
20	Nagaland	22.3	50 to 75
21	Orissa	46.8	50 to 75
22	Punjab	9.1	25 to 50
23	Rajasthan	18.7	NA
24	Sikkim	22.3	50 to 75
25	Tamil Nadu	22.8	25 to 50
26	Tripura	22.3	50 to 75
27	Uttar Pradesh	33.4	50 to 75
28	Uttaranchal	40.8	> 75
29	West Bengal	28.6	25 to 50
	All-India	28.3	NA

Source: Poverty figures are adopted from Chatterjee 2009 and Financial exclusion figures from a PPT by Karmarker (down loaded from the net).

### 5.1.1. SHG banking

SHG banking proved to be the most effective model for financial inclusion, benefiting not only the clients but also the banks (see e.g. APMAS, 2007 and 2008). At the same time it should be kept in mind that SHG banking has not penetrated all parts of the country evenly. It not yet met even a small fraction of credit/ financial needs of the poor. Hence, SHG banking should be promoted to deepen and widen the financial inclusion in the country. The following measures may be taken to promote SHG institutions and SHG banking.

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

1. New SHGs may be promoted to cover all rural households, who are willing to join.
2. SHG Federations from village level to district level may be promoted to promote new SHGs, wherever necessary and to promote and manage quality in the existing SHGs. Investment may also be made to strengthen existing federations.
3. Federations could also take up the activities, which the SHGs cannot take up independently.
4. 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 should be identified and trained from among the SHGs to form and strengthen SHGs.

5. 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.
6. 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 bearers, staff, etc. Funds necessary for formation, training, exposure visits and nurturing of SHGs may 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 8-10 years. An allocation of Rs.15,000 per SHGs over a period of 8-10 years may be required as promotional funds. In regions that have high incidence of poverty, higher promotional funds would be needed.
7. A large body of evidence from different parts of the country over the last 10 years suggests 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, institution building and preparation of social capital.
8. NRLM may introduce interest subsidy linked to regular repayment of bank loans.
9. If, after meeting all above mentioned investments and interest subsidy, NRLM still is keen to provide subsidies, they could be provided as seed capital to SHG federations. Federations may use the money as corpus and use the interest income to cover its operational costs; for on-lending, wherever there is need; and to set up small or medium enterprises.
10. Wherever the banking system is not accessible or indifferent to SHGs, the federations could be prepared to take up financial intermediation.

### **Promotion of SHG banking**

11. 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.
12. NRLM could provide interest subsidy, as it is being implemented in Andhra Pradesh. It would improve the repayment rate and encourage the banks to increase their exposure to SHG banking, as it was noticed in Andhra Pradesh.
13. 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 of bankers is central to the success of SHG – Bank linkage. NABARD can play a key role in the bankers training and 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.

14. 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 rumours during elections apparently have led to a significant drop in the repayment rate of SHG loans. The NRLM should see such signals do not go out in the future.

### 5.1.2. Other measures for financial inclusion

The financial inclusion program could also encourage other measures like branch expansion, smart card, etc, to increase the financial inclusion.

### 5.2. Livelihood promotion/ employment transformation

One of the guiding principles of livelihood promotion should be to obtain employment transformation close to that obtained in developed countries. It is the obvious choice, as India embraced economic liberalization and is moving in the direction of developed countries. The employment structure of different groups of countries is given in Table – 5.2. In developed economies, over 95% of workers are employed in the non-primary sectors compared to about 50% in South Asia. Similarly in developed countries over 6% are employers/ entrepreneurs. The same in South Asia is 1%. The proportion of self employed/ vulnerable workers is 9.4% in developed countries and the same is 78.2% in South Asia. Needless to say, that India has South Asia’s characteristics in terms of employment structure. It has to move in the direction of developed economies.

**Table – 5.2: Nature of the employment in different groups of countries (% of total employment or ‘row totals’)**

Country Group	Employer (A)	Wage workers (B)	Own account workers (C)	Family Labour (D)	Vulnerable workers (C+D)	Non-primary workers
World	2.9	46.9	33.0	17.2	50.2	63.9
<b>Developed economies and EU</b>	<b>6.3</b>	<b>84.3</b>	<b>7.8</b>	<b>1.6</b>	<b>9.4</b>	<b>95.9</b>
Non-EU Europe and CIS	3.8	76.6	16.1	3.6	19.7	
East Asia	1.2	42.6	38.2	18.0	56.2	59.1
SE Asia and Pacific	2.1	38.8	35.2	23.9	59.1	54.6
<b>South Asia</b>	<b>1.0</b>	<b>20.8</b>	<b>47.4</b>	<b>30.8</b>	<b>78.2</b>	<b>50.6</b>
Latin America	4.7	62.7	27.1	5.5	32.6	80.4
North Africa	9.6	58.3	16.2	15.9	32.1	65.6
Sub-Saharan Africa	3.0	22.9	48.7	25.4	74.1	34.1
Middle East	5.2	61.5	22.6	10.6	33.2	81.9

Source: adopted from Majumder, Rajarshi (2008)

### 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.

1. SHG federations could promote enterprises. 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 facilities to organize weekly markets.
2. Appropriate institutions like ‘commodity cooperatives’ and ‘producer companies’ may be promoted under SHG federations to take up small and medium enterprises 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 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.
3. Federations may be helped to have ‘state of the art’ enterprises. Profession consultancy firms could be hired to provide complete service packages from market survey, identification of appropriate units, appropriate technologies, building of units, trail run, to tie ups with suppliers and marketing of production, etc on a turn-key basis.
4. These units may be promoted only for non-financial federations, which are of good quality and willing to take up these kinds of units.
5. 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.
6. NRLM could also undertake employment promotional 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.
7. 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.

### **5.3. Implementation mechanism**

The exact nature of the implementation mechanism would follow the program design. BIRD’s (2007) study elaborated on the implementation mechanism. The Prof. Radhakrishna Committee cited the Andhra and Kerala models as appropriate mechanisms in weak PRI and strong PRI states respectively. As the Kerala kind of PRIs can’t be found in many states, the Andhra model is more applicable in most of the states. The Andhra model evolved on its own with very little prior experience. Though there is potential for a number of errors and pitfalls in the evolution, its journey is rather smooth thanks to its visionary leadership, especially by Mr. K. Raju and Mr. T. Vijay Kumar, the former and present Chief Executive Officers of SERP respectively. However, one of the shortcomings of the Andhra Model is that apparently there is no clear role transformation road map. Without a clear role transformation strategy on the part of promoting agencies, the community based organizations can never become ‘the member owned, member

governed institutions serving members' felt needs'. Other states, while adopting the Andhra model could look into this aspect.

## Chapter – 6: Summary and conclusions

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### ii. Context

- a. Though SHGs proved to be a most effective model for financial inclusion, benefiting not only the clients but also the banks, the support for SHGs is declining in recent years. The potential patrons could be the Government of India and state governments. However, the Government of India's SGSY program proved to be the antithesis of SHGs in many states.

### iii. Purpose of the paper

- a. To get the SGSY program redesigned so that its adverse impact on SHG banking is eliminated and to get government's constructive support to the SHGs in the country

### iv. Major findings

- a. The Program is stagnating (due to non-cooperation of banks)
- b. Very small percentage of units surviving
- c. Low income realization from survived units
- d. The program is not able to focus on the poorest and targeted sections
- e. Persistent and magnified implementation related problems due to strategic behaviour of different stakeholders, such as:
  1. Banks are not cooperating due to increasing NPA
  2. Pilferage in every stage of implementation
  3. Primary stakeholders not creating assets or disposing the created assets; reason could be that they do not want additional self employment
- f. Strategic behaviour of different stakeholders is a result of design problems of the SGSY program
  1. With an x unemployment rate of about 2.6% and a poverty rate of about 26%, India's major challenge is *poverty among working* people. Working poor need increase in their productivity and remuneration for their labour.
  2. As per international experience, self employment is neither superior nor preferred by the poor
  3. Integration of Government subsidy and bank credit proved to be ineffective to SGSY and detrimental to SHG banking
  4. Other components of the program, viz. cluster approach, key activity and group approach have certain limitations
- g. The MoRD's proposed redesign measures do not address the key problems of the SGSY program

### v. Suggestions for designing the NRLM

- a. As three-fourths of households in the country are either poor or vulnerable, NRLM may cover all willing rural households, irrespective their BPL or APL status, in the SHG program for effective financial inclusion.

- b. It may be divided into two sub-programs, viz. Financial Inclusion and Livelihood promotion.
- c. The two programs may be implemented sequentially. The first five years may be totally focusing on promotion and strengthening of SHG institutions and later focus may be on setting up of small and medium enterprises under SHG federations.

**vi. *Suggestions to promote Financial Inclusion***

1. SHG banking may be allowed to function as core banking activity without any outside interference like target fixing, interest cap, loan size, etc.
2. The Government may promote quality SHGs through village/ cluster level; sub-district/ block level and district level federations.
3. Wherever banks are not accessible or not responsive, federations may be prepared to take up financial intermediation
4. Promoting agencies play a crucial role in developing quality institutions. Promoting agencies may be given adequate financial and capacity building resources and timeframe. Available evidence indicate that investment of about Rs.15,000 per SHG for 8 to 10 years is required to promote quality SHGs with strong federations and effective livelihood opportunities.
5. Promoting agencies should have a clear role transformation strategy and should implement the same in letter and spirit
6. NRLM may work on sensitization and orientation to bankers about the commercial value of SHG banking.
7. NRLM may understand the banks' concerns such as quality of groups, political interference in functioning of federations, wrong signals like loan waivers, etc and address them.
8. NRLM may provide interest subsidy as given in AP.

**vii. *Suggestions for promotion of small and medium enterprises***

To obtain desirable employment transformation and to take full advantage of booming secondary and tertiary sectors, NRLM may focus on manufacturing and service sectors. The small and medium enterprises may be promoted to village/ cluster; sub-district/ block and district level SHG federations.

1. The potential units could be agro-processing units; milk processing units; common service providing units; cold storages; rural warehouses; market yards to organize weekly markets; etc
2. Appropriate institutions like 'commodity cooperatives' and 'producer companies' may be promoted under SHG federations to take up small and medium enterprises as per the pattern of the borrowing from the SHGs.
3. The federations could be assisted to have *state of the art* units by hiring professional consultancy firms, who can provide these units on turnkey basis.
4. NRLM may provide investment and working capital to the federations to set up these units
5. If banks are non-responsive, the apex financial institutions like state finance corporations/ SIDBI/ NABARD could be accessed.

6. Acquired units could be pledged as security to the banks and financial institutions.
7. These units would result in development of entrepreneurship in federations, provide a large number of regular employment opportunities to the members and boost the rural economies.

**viii. Implementation machinery**

Implementation mechanism may follow the design of the program. It may be kept in mind that a proper role transformation strategy and implementation of the same in letter and spirit is essential for the development of people's institutions.

## **Appendix – 1: Details of SGSY program<sup>10</sup>**

### **1. The Scheme**

The SGSY Scheme is operative from 1st April, 1999 in rural areas of the country. SGSY is a holistic Scheme covering all aspects of self employment such as organisation of the poor into Self Help Groups, training, credit, technology, infrastructure and marketing. The scheme will be funded by the Centre and the States in the ratio of 75:25 and will be implemented by Commercial Banks, Regional Rural Banks and Co-operative Banks. Other financial institutions, Panchayat Raj Institutions, District Rural Development Agencies (DRDAs), Non-Government Organisations (NGOs), Technical institutions in the district, will be involved in the process of planning, implementation and monitoring of the scheme. NGO's help may be sought in the formation and nurturing of the Self Help Groups (SHGs) as well as in the monitoring of the progress of the Swarozgaris. Where feasible their services may be utilised in the provision of technology support, quality control of the products and as recovery monitors cum facilitators.

The Scheme aims at establishing a large number of micro enterprises in the rural areas. The list of Below Poverty Line (BPL) households identified through BPL census duly approved by Gram Sabha will form the basis for identification of families for assistance under SGSY. The objective of SGSY is to bring the assisted poor families (Swarozgaris) above the poverty line by ensuring appreciable sustained income over period of time. This objective is to be achieved by interalia organising the rural poor into Self Help Groups (SHGs) through the process of social mobilisation, their training and capacity building and provision of income generating assets. The rural poor such as those with land, landless labour, educated unemployed, rural artisans and disabled are covered under the scheme. The assisted poor families known as Swarozgaris can be either individuals or groups and would be selected from BPL families by a three member team consisting of Block Development Officer (BDO), Banker and Sarpanch. SGSY will focus on vulnerable sections of the rural poor. Accordingly the SC/ST will account for at least 50 percent, Women 40 percent, and the disabled 3 percent of those assisted.

### **2. Skill Up gradation / Training**

Once the person or group of persons has been identified for assistance, their training need also is to be ascertained with reference to Minimum Skill Requirement (MSR). The assessment regarding technical skills would be made by line departments and that of managerial skills by the banker, while scrutinising the loan applications. Swarozgaris possessing skills will be put through basic orientation programme which is mandatory. This programme includes elements of book-keeping, knowledge of market, identification and appraisal, acquaintance with product costing, product pricing, familiarisation with project financing by banks as well as basic skills in the key activity identified. It will be for a short duration of not more than 2 days. BDOs, Bankers and line departments will act as resource persons for imparting the training. The training expenditure incurred by the training institutions for both Basic Orientation and Skill Development Training will be

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<sup>10</sup> Extracts from RBI 2008: Master Circular on Priority Sector Lending- Special Programmes- Swarnajayanti Gram Swarozgar Yojana (SGSY), Reserve Bank of India, Mumbai.

met by DRDAs from out of the SGSY Fund. For those beneficiaries who need additional skill development/upgradation of skills, appropriate training would be organized through Government institutions, ITIs, Polytechnics, Universities, NGOs etc. Swarozgaris will be eligible for loans under SGSY when they possess Minimum Skill Requirement, and it will be disbursed only when they have satisfactorily completed the skill training.

### **3. Activity Clusters, Key Activities**

The focus under the scheme should be on development of activity clusters with emphasis on key activities identified in the block, both for group as well as individual assistance. The activity clusters would be in geographic clusters of neighbouring villages within reasonable radius. However assistance is not prohibited for other activities. This is only an enabling provision for exceptional cases and it is expected that the funding of key activities will be the norm. The SGSY Committee will select about 10 activities per block. However, focus should be on 4-5 key activities, which are identified for training and micro enterprise development in a cluster approach for larger number of groups. Care should however be taken that the market is either readily available or there is a potential for market creation for the products. The District SGSY committee is empowered to add or delete any activity in the list of selected key activities with due justification. The DRDAs shall prepare directory of the selected key activities in the District (shelf of projects), which will be consolidated at the State level for preparation of directory of selected key activities. On farm activities to be assisted would include minor irrigation such as open dug well/bore/tube well/lift irrigation/check dam etc. Non-farm activities will include those activities that result in the production of goods/services that have ready market. The unit cost as fixed by the regional Committees of NABARD should be taken into consideration as indicative cost while fixing the unit cost for the farm sector. In regard to loans falling under Industry, Service and Business (ISB) Sector, the responsibility of fixing the unit cost and other techno-economic parameters is of the District SGSY Committee.

### **4. Self-Help Groups (SHGs)**

The Self Help Groups shall be organised by Swarozgaris drawn from the BPL list approved by Gram Sabha. The Scheme provides for formation of Self Help Groups (SHGs), nurturing and their linkages with banks. SHGs may be an informal group or registered under Societies Act, State Co-operative Act or as a partnership firm. The assistance (loan cum subsidy) may be extended to individuals in a group or to all members in the group for taking up income generation activities. Group activities will be given preference and progressively majority of the funding will be for Self Help Groups. Half the groups formed at block level should be exclusively women groups. Self Help Groups go through various stages of evolution viz. Group formation, Group Stabilization, Micro Credit stage and Micro Enterprise Development stage. Under the scheme, generally a Self Help Group may consist of 10-20 persons.

- i. However, in difficult areas like deserts, hills and areas with scattered and sparse population and in case of minor irrigation and disabled persons, this number may vary from 5-20. The difficult areas have to be identified by the

- State Level SGSY Committee and the above relaxation in membership will be permitted only in such areas.
- ii. Generally all members of the group should belong to families below the poverty line (BPL). However, if necessary, a maximum of 20% and in exceptional cases, where essentially required, up to a maximum of 30% of the members in a group may be taken from families marginally above the poverty line living contiguously with BPL families and if they are acceptable to the BPL members of the group.
  - iii. The Above Poverty Line (APL) members will not be eligible for the subsidy under the scheme. The group shall not consist of more than one member from the same family. A person should not be a member of more than one group. The BPL families must actively participate in the management and decision making, which should not ordinarily be entirely in the hands of the APL families. Further, APL members of the SHG shall not become office bearers (Group leader, Assistant Group leader or Treasurer) of the group.
  - iv. The group should operate a group account preferably in their service area bank branch, so as to deposit the balance amounts left with the groups after disbursing loans to its members.
  - v. The group should maintain simple basic records such as minutes book, attendance register, loan ledger, general ledger, cashbook, bank passbook and individual pass books.
  - vi. In case of disabled persons, the groups formed should ideally be disability specific, wherever possible; however, in case sufficient number of people for formation of disability specific groups is not available, a group may comprise of persons with diverse disabilities or a group may comprise of both disabled and non disabled persons below the poverty line.
  - vii. In cases where the size of the SHG is large (as in the case of Neighbourhood Groups (NHGs) under the Kudumbashree programme of Government of Kerala where a neighbourhood group can comprise up to 40 members), banks have been expressing difficulty in extending finance to such large groups. Hence sub groups within the large group may be considered for financing by the banks under the SGSY provided they (or the large group) have satisfied the required grading criteria, possess all the characteristics of a viable and sustainable group and are found credit-worthy by the banks. In States and Union Territories where the formation of SHGs has not taken root, banks may continue to extend credit facilities to eligible individual Swarozgaris.

### **5. Revolving Fund**

SHGs that are in existence for about six months and have demonstrated the potential of a viable group enters the third stage, wherein it receives the Revolving Fund from DRDA and banks as cash credit facility. The DRDAs may release subsidy, which is equal to the group corpus with a minimum of Rs. 5000/- and a maximum of Rs. 10000/- linked with bank credit. The banks would sanction credit, which would be in multiples of the group corpus and could go up to four times of the group corpus as cash credit facility based on the absorption capacity and credit worthiness of the group. Subsequently, if it is found that the group has not been able to reach the micro enterprise stage and requires further

financial support to continue in the micro finance stage for some more time, performance of such groups may be got evaluated. In the evaluation if it is observed that the group has been successfully utilising the revolving fund, they could be considered for sanction of further doses of subsidy fund up to a maximum of Rs. 20000/- inclusive of previous doses linked with bank credit. The subsidy of Rs. 20000/- released by DRDA will be adjusted against the loan at the end of the cash credit period on the request of the group. The group corpus would be defined as the total amount available with the group inclusive of cash with the group, amount in Savings Bank account of the group, loans outstanding against members of the group and interest earned on the loans as well as deposits. The revolving fund is provided to the groups to augment the group corpus so as to enable larger number of members to avail loans and also to facilitate increase in the per capita loan available to the members. The revolving fund imparts credit discipline and financial management skills to the members so that they become credit worthy. SHGs that have demonstrated their successful existence, will receive assistance for economic activities under the scheme.

## **6. Lending Norms**

The size of loan under the scheme would depend on the nature of project. There is no investment ceiling other than the unit cost i.e. investment requirement worked out for the project. The loans under the scheme would be composite loan comprising of Term Loan and working capital. The loan component and the admissible subsidy together would be equal to total project cost. Banks may follow model project report set out in key activities of the districts for finalising the project cost of the Swarozgaris. Under any circumstance under financing is to be avoided. Swarozgaris will be given the full amount of loan and subsidy and they will have the freedom to procure the assets themselves. Disbursements up to Rs.10,000/- under Industry, Service and Business (ISB) sector may be made in cash where a number of items are to be bought.

### **6.1 Group loans**

Ideally, under the group loaning, the group should take up single activity, but if there is a necessity, the group could also take up multiple activities under the group loaning. In either case, loan will be sanctioned in the name of the group and the group stands as guarantee to the bank for prompt repayment of loan. The group is entitled to subsidy of 50% of the project cost subject to per capita subsidy of Rs. 10000/- or Rs. 1.25 lakhs, whichever is less.

### **6.2. Multiple doses of credit**

Emphasis is laid on multiple dose of assistance. This would mean assisting a Swarozgari over a period of time with second and subsequent dose(s) of credit enabling him/her to cross the poverty line as also access higher amounts of credit. Subsidy entitlement for all doses taken together should not exceed the limit prescribed for that category. The second and subsequent doses may be granted by the same bank or any other bank during the currency of first/earlier loan provided the bank is satisfied about the financial discipline of the first/earlier dose. Generally, the people who are asset-less and skill-less are poorest of the poor and get left out under the programme. Such category of people may require small doses of multiple credits over a period of time coupled with emphasis on awareness

creation, training and capacity building. The activities which are easier to handle and product is easily marketable could be identified for such category of people to ensure sustainable income, so that, they do not fall into debt trap. DRDAs may ensure that anticipated income as stipulated in the project is realized during the project period in order to enable the Swarozgaries to cross the poverty line.

### **7. Subsidy**

Subsidy under SGSY will be uniform at 30 percent of the project cost, subject to a maximum of Rs. 7,500/-. In respect of SC/STs it will be 50 percent of the project cost subject to a maximum of Rs. 10,000/-. The group is entitled to subsidy of 50% of the project cost subject to per capita subsidy of Rs. 10000/- or Rs. 1.25 lakhs, whichever is less. There will be no monetary limit on subsidy for irrigation projects. Subsidy under SGSY will be back ended. Banks should not charge interest on the subsidy amount. The availability of the benefit of subsidy to Swarozgaris would be contingent on the proper utilisation of loan as also its prompt repayment and maintaining the asset in good condition. The procedure for operation of Subsidy Reserve Fund accounts as detailed in paragraph 4.17 and 4.242 of the SGSY guidelines may please be followed.

## Appendix – 2: State-wise Utilization of funds, Credit and Subsidy under SGSY in 2007-08

Regions	Funds Utilized Rs.Crore	Total Funds available Rs.crore	Share of Utilisation of funds	Percentage of Utilization to Total funds available	Share of Total Credit Disbursed	Percentage of Credit Disbursed to Target	Share of total Subsidy Disbursed	Share of total investment Disbursed	Credit Subsidy ratio	Share of rural poor (2004-05)	credit per Rural Poor Rs.	Credit per Assisted SHG (RS.)
<b>North</b>	<b>116.3</b>	<b>148.4</b>	<b>6.0</b>	<b>78.4</b>	<b>9.5</b>	<b>121.9</b>	<b>6.3</b>	<b>8.5</b>	<b>3.26</b>	<b>6.1</b>	<b>199.0</b>	<b>148671</b>
Haryana	26.8	26.9	1.4	99.8	2.0	123.4	1.6	1.8	2.64	1.0	251.2	102675
Himachal Pradesh	8.5	12.9	0.4	66.2	0.8	117.6	0.4	0.7	4.30	0.3	352.9	216412
J and K	7.2	11.6	0.4	62.6	0.9	106.8	0.5	0.8	3.95	0.2	664.7	64860
Punjab	13.2	13.5	0.7	97.7	1.1	148.5	0.9	1.1	2.68	0.7	208.8	52902
Rajasthan	60.5	83.6	3.1	72.5	4.9	120.1	3.0	4.3	3.51	4.0	155.7	258583
<b>North-East</b>	<b>175.2</b>	<b>254.6</b>	<b>9.0</b>	<b>68.8</b>	<b>5.5</b>	<b>39.1</b>	<b>7.5</b>	<b>6.1</b>	<b>1.50</b>	<b>3.4</b>	<b>202.0</b>	<b>50487</b>
Arunachal Pr	1.4	4.2	0.1	33.6	0.0	11.6	0.3	0.1	0.31	0.1	65.8	79542
Assam	150.8	207.8	7.7	72.6	4.8	46.4	6.3	5.3	1.64	2.5	242.4	53148
Manipur	2.2	3.0	0.1	71.6	0.1	8.2	0.1	0.1	1.10	0.2	41.5	-
Meghalaya	3.2	6.8	0.2	46.9	0.1	8.7	0.2	0.1	0.79	0.2	42.9	45757
Mizoram	2.6	3.5	0.1	73.0	0.0	17.8	0.1	0.1	0.72	0.0	86.0	27145
Nagaland	2.4	5.2	0.1	46.1	0.0	2.2	0.1	0.0	0.43	0.2	8.5	10819
Tripura	12.7	24.1	0.6	52.6	0.5	42.7	1.0	0.7	1.10	0.3	238.5	79746
<b>East</b>	<b>478.8</b>	<b>725.4</b>	<b>24.5</b>	<b>66.0</b>	<b>16.8</b>	<b>40.9</b>	<b>20.2</b>	<b>17.9</b>	<b>1.78</b>	<b>34.7</b>	<b>60.3</b>	<b>22028</b>
Bihar	151.1	314.9	7.7	48.0	5.5	32.1	7.5	6.1	1.56	15.2	44.8	21870
Jharkhand	81.4	120.2	4.2	67.7	3.2	50.0	4.2	3.5	1.63	4.7	85.9	15008
Orissa	116.9	133.2	6.0	87.8	6.4	78.5	6.1	6.3	2.26	6.9	116.9	83850
Sikkim	2.8	3.3	0.1	84.9	0.1	37.1	0.1	0.1	1.24	0.1	181.8	18072
West Bengal	126.5	153.2	6.5	82.6	1.6	17.2	2.1	1.7	1.58	7.8	24.9	6098
A and N	0.1	0.7	0.0	7.9	0.0	0.0	0.0	0.0	0.00	0.0	0.0	74538

Regions	Funds Utilized Rs.Crore	Total Funds available Rs.crore	Share of Utilisation of funds	Percentage of Utilization to Total funds available	Share of Total Credit Disbursed	Percentage of Credit Disbursed to Target	Share of total Subsidy Disbursed	Share of total investment Disbursed	Credit Subsidy ratio	Share of rural poor (2004-05)	credit per Rural Poor Rs.	Credit per Assisted SHG (RS.)
Island												
<b>Central</b>	<b>583.2</b>	<b>677.8</b>	<b>29.9</b>	<b>86.1</b>	<b>3465.0</b>	<b>91.6</b>	<b>38.7</b>	<b>35.8</b>	<b>1.94</b>	<b>33.8</b>	<b>127.5</b>	<b>106508</b>
Chattisgarh	65.3	66.4	3.3	98.4	3.6	96.1	3.8	3.7	2.05	3.2	140.3	41740
Madhya Pr	131.8	142.9	6.8	92.3	9.6	118.7	11.9	10.3	1.73	8.0	151.2	82604
Uttar Pr	366.1	445.6	18.8	82.2	20.1	82.1	21.4	20.5	2.01	21.4	117.4	129640
Uttaranchal	20.0	23.0	1.0	87.3	1.1	88.2	1.1	1.1	2.30	1.2	115.8	142406
<b>WEST</b>	<b>226.4</b>	<b>237.3</b>	<b>11.6</b>	<b>95.4</b>	<b>10.2</b>	<b>75.4</b>	<b>11.2</b>	<b>10.5</b>	<b>1.95</b>	<b>10.7</b>	<b>119.0</b>	<b>41264</b>
Goa	0.5	0.9	0.0	53.8	0.0	73.9	0.0	0.0	3.20	0.0	334.8	27450
Gujarat	43.5	47.4	2.2	91.8	2.3	85.1	2.4	2.3	2.07	2.9	99.6	44347
Maharashtra	182.4	188.0	9.3	97.0	7.8	73.2	8.8	8.1	1.91	7.7	126.2	41018
D&N Haveli	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	-
Daman and Diu	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0	0.0	-
<b>South</b>	<b>371.2</b>	<b>384.2</b>	<b>19.0</b>	<b>96.6</b>	<b>23.4</b>	<b>109.0</b>	<b>16.3</b>	<b>21.2</b>	<b>3.10</b>	<b>11.3</b>	<b>258.4</b>	<b>85261</b>
Andhra Pr	123.8	126.6	6.3	97.8	10.1	140.5	4.1	8.2	5.20	2.9	429.1	65382
Karnataka	98.8	104.2	5.1	94.8	5.6	103.5	5.2	5.5	2.30	304.0	205.8	79509
Kerala	39.3	40.6	2.0	96.8	2.4	97.6	2.2	2.3	2.29	105.0	201.6	110278
Tamil Nadu	108.1	110.3	5.5	98.0	5.3	83.1	4.5	5.0	2.49	305.0	189.7	117437
Lakshdweep	0.3	0.4	0.0	66.6	0.0	100.5	0.0	0.0	2.62	0.0	745.2	-
Pondicherry	1.0	2.1	0.1	46.0	0.1	70.5	0.1	0.1	2.62	0.0	222.7	138163
<b>All-India</b>	<b>1951.2</b>	<b>2427.6</b>	<b>100.0</b>	<b>80.4</b>	<b>100.0</b>	<b>73.7</b>	<b>100.0</b>	<b>100</b>	<b>2.14</b>	<b>100.0</b>	<b>124.9</b>	<b>57634</b>
Total (Rs.Crore)			1951.2		2760.3		1289.1	4049.4				

Note: The data for 2007-08 are provisional. Pr denotes Pradesh, J and K denotes Jammu Kashmir, D and N denotes Dadre and Nagar.

Source: Ministry of Rural Development, GoI

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