

A background note from a non honcho member in the context of the draft background paper circulated.

1. Summary:The draft background paper circulated to the members proposes the following major thrusts in the restructuring of SGSY :

- i)** to build the capacity of SHGs (pg23) – what this means is not spelled out and is perhaps the major lacuna. Experience of SGSY shows clearly that the major hurdle encountered by SGSY is the lack of institutional capacity building of SHGs for which Rs 10,000/ was budgeted in the SGSY program for each SHG, but not used for the purpose intended. This has left the SHGs weak in terms of a)creating the habit of thrift, b) creating empowerment which arises from the dynamics of active participation in the group to come up with rules and regulation, to resolve problems, to take decisions that on loans to agree to a code of conduct, to ensure that minutes if decisions and books of accounts are maintained and updated, to build a vision and mission and manage their affairs instead of becoming the last link in the delivery chain of Government. and NGO programs. As a result the SHGs formed under SGSY are weak ad this is the major reason why Bankers are not willing to lend to them a;
- ii)** to focus on skills to use credit productively and to get jobs for those who are not self employed and do not want to be.

Convergence among various Government Departments and partnership with the Private Sector (and NGOs) are recommended as part of the implementation strategy which is in “Mission Mode” and the entire program is expected to be “demand driven”

Mission Mode: It is clear that any program where institution building and empowerment of the poor is concerned cannot be promoted by regular Line Departments no matter how committed the top Officials are. Therefore a new structure has to be created in which the Private Sector and NGOs should be involved at National, State and District levels. However the Paper does not appear to reflect this. The first mention on non government actors is on pg 7.

Convergence has to be linked to the “demand driven approach”. Convergence from on top – among various Departments – has been attempted for several years. The experience shows that unless orders come from the very top, convergence among Departments does not start. The real convergence will be achieved if the demand is driven by people. This requires a shift of power from government’s delivery systems to peoples institutions. But these institutions need to be promoted and nurtured so that they are in a position to demand services they require, at the time they require them and of good quality; they must set the agenda and drive convergence. Any structure set up under a Mission mode should foster this demand driven bottom up convergence. The Private sector and NGOs (and I mean those who are committed to the causes promoted by SGSY)) have the potential to promote a demand driven approach; the former because their survival is based on demand and the latter because their role is to empower people to build their institutions and change power relations that keep them poor. For example, if the Private

Sector is to be involved in skills training, the syllabus, schedule etc should be left to a Management Committee of the Technical Institutes in which the Private sector has a place and not standardised by Government. Similarly if experienced NGOs are given support to build institutions of the poor (SHGs, Watershed groups etc) their quality will improve

There are two major programs described in the draft paper, both claiming to use/promote the SHG approach. A brief description of both is required to highlight the differences and to provide the background for any restructuring of the SGSY program.

2. The SHG-Bank Linkage program.

SHGs emerged in 1984 when the Cooperative Societies of Myrada broke down; the poor members decided to break away as they were being exploited. They formed their own groups, self selected the members, started savings regularly. Myrada trained them to draw up a meeting agenda, to resolve conflict, to foster participation, leadership and collective decision making, to understand the importance of developing a Vision/Mission and a strategy to achieve it, how to draw up rules, to keep records and accounts, the importance of financial and social audit (Myrada staff kept the accounts and minutes meetings in the beginning; later they hired educated youth), how to analyse local credit sources and the power structures in society, how to make a self assessment etc. There were 24 modules focused on **Institutional Capacity Building- ICB** (NOT ON ICT or TECHNICAL SKILLS WHICH CAME LATER).

In 1986 Myrada approached NABARD for a grant to match the savings of the group and to provide ICB to each group. NABARD sanctioned Rs 1 million (thanks to PR Nayak the then Chairman). From 1988 to 1990 NABARD conducted several studies related to the progress of the grant and to transaction costs between three models: 1) Lending to individuals as in the IRDP; 2) lending to individuals in groups like in the Joint Liability model where each member of a group submits a separate application to the Bank where decisions are taken and 3) where NABARD funds were given as one loan to the entire group leaving the group free to decide on the purpose, size etc of loans to individual members. The study also included the respective rates of recovery. Model 3 won hands down. Myrada initially called these groups Credit Management Groups with a focus on management of credit. With NABARD's entry the name was changed to Self Help Groups.

In 1990, three decisions were taken by RBI /NABARD: 1) To allow Banks to lend to unregistered groups provided they functioned like registered bodies; 2) to give one loan to the group without asking for the purpose of loans to individuals; however after the group decided on the purposes and sizes, the data should be collected and 3) to lend without physical collateral. No where in the world has such major policy decisions been taken, yet the role of RBI and NABARD HAS NOT BEEN RECOGNISED. Two reasons for this could perhaps be because no foreign institution (like World Bank) was involved and secondly because the SHG-Bank Linkage program has not been integrated in the over-

all program for poverty alleviation of MoRD because there is no subsidy in the SHG-Bank Linkage program..

In 1992 NABARD launched the SHG-Bank Linkage program based on the three policy decisions. **However only well functioning SHGs with the following features were linked to Banks:**

2.1 Features of SHGs and SHG-Bank Linkage:

- i)The SHG groups are based on affinity (relations of trust and mutual support) of poor members who self select themselves. Several groups are composed of STs, OBCs because they are all landless labourers and have helped one another;
- ii) In keeping with the culture of SELF HELP, there were no subsidies given for purchase of the asset. Instead funds were provided to build the institutional capacity of the group. The amount provided by NABARD for ICB ranged from Rs 2000 to Rs 5000.
- iii) The SHG members had to save weekly –to cultivate the habit of thrift. They had to lend from their savings to prove they could manage funds. They were free to levy any rate of interest and to lend for any purpose. Only after 6-8 months of lending were they eligible for the SHG Bank Linkage Program
- iv)Under the SHG Bank Linkage program the Banks lend about twice or thrice their savings after assessing the strengths of the group...not the individual viability of loans. Several criteria were provided to assess the group. (Regular savings and lending, good recovery, taking up social issues, proper maintenance of books, rotation of leadership, adequate Institutional Capacity Building training etc). These criteria were all related to the group not to the asset which was not subsidised.

In 2000 the SHG program was adopted as a National program for poverty alleviation. Targets were set. The numbers jumped from 7 lakhs to 3.5 million within 8 years **but the quality deteriorated**. The SHGs were used to implement Government programs. No institutional capacity building training was given and the program overlapped with the SGSY. It reverted to individual loans in groups in many places because Banks were asked to collect data on SCs, STs and because the subsidy differed .

2.2 MoRDs role in the SHG-Bank Linkage Program: Since there is no subsidy component involved, MoRD has not much to do with the SHG-Bank Linkage program. NABARD provides funds for training each SHG and for training NGOs, Bankers ; it compiles the Annual report. However MoRD needs to take into account the impact of the SHG-Bank Linkage Program on inclusion of the poor in the Banking system. Over 50 million families who are members in the SHGs are taking loans from their common fund which includes savings, interest and loans from banks. They take loans for a variety of livelihood activities (agriculture, horticulture, animal husbandry, trading, cottage industries, processing, repaying high cost loans, education, food and clothes, for learning practical skills and for construction of houses and toilets. **I see no reference to or inclusion of the SHG-Bank Linkage Program in the documents produced by MoRD. nor do I see the learning from the SHG Bank Linkage program integrated into the planning for SGSY restructuring. This is not a good example of “convergence”.**

3. The SGSY Program:

It was launched in 1999 with a worthwhile objective to integrate all former poverty alleviation programs. Briefly at the beginning the components of the SGSY were the following: i) Formation of SHG groups and starting of regular savings; ii) Institutional capacity building for which Rs 10,000/ was provided for each group – the Swa Shakti Manual was to be used; iii) provision of loan (Rs 15,000) and subsidy (Rs 10,000) iv) Assessment of the group “good”, “average” or “poor”. If poor or average, further Institutional Capacity Building training to be provided; v) Provision of major loans and subsidy after 18 months.; the priority of purpose of the loans were given by the District; largely the priority was animal husbandry. These steps were altered as the SGSY progressed or were not implemented as expected. Implementation differed from State to State. Personally, I think that if the SGSY was implemented as envisioned it would have been far more successful than it is.

As a result what actually happened was this: i) Groups were formed on external criteria – not on affinity; ii) the habit of regular savings was not promoted ;iii) No Institutional Capacity Building was provided. The amount of Rs 10,000 per group meant for Institutional Capacity Building was spent in some states to organise large gatherings addressed by politicians, in others it was given to the Secretary of GPs to form and train groups –they had received no training and selected the members of the group starting with the wife of the GP Chairman and Secretary; iv) In some cases the Banks under pressure to reach targets decided to provide the major loans and subsidy immediately since the group had already borrowed under the SHG Bank Linkage program. As a result there is overlapping of the number of groups claimed to be formed under SGSY and SHG-Bank Linkage program.; v) No assessment of groups was done in the first years and patchy in the others; 6) The patterns of lending shifted from lending to the group to lending to individuals. In other words it went back to the old IRDP pattern during implementation.

The major drawback was that the States did not follow the strategy prescribed in SGSY where Rs 10,000/was provided to form the SHGs and to build the institutional capacity of the SHGs. This is best done by NGOs not by Government officials. Secondly no assessment of groups was made in the initial years. Thirdly the purpose of the major loans were decided by each District. For example Dharmapuri a drought prone District gave priority to animal husbandry because the milk route was not viable without asking why it was not viable in the first place.

4. Learning from SHG-Bank Linkage Program:

i). The SHG members have a livelihood strategy which comprises 7 to 8 small activities managed by family members; they do not have one or two large activities which are called “viable” and provided under the SGSY scheme with a subsidy. Many of these larger activities may be viable but are not manageable and do not fit into their livelihood strategy which includes a few self employment activities like agriculture, animal

husbandry and cottage industries, other on farm and small off farm activities including trading , some labour activities,

ii).The SHG members require at least 15 loans over 6-8 years amounting to a total of Rs 150,000 to Rs 300,000 for them to have a sustainable livelihood strategy. As the years progress the number of activities tend to decrease and get larger.

iii).The group must be free to decide on the purpose and size of loans if a realistic picture of peoples priorities is to emerge. Providing subsidies only for assets distorts the “demand driven” culture since people will ask only for those assets for which there is a subsidy even if they cannot manage them. For example Myrada’s analysis of the purposes of loans given by SHGs shows that initially several small loans are given for food, clothes but these decrease as other income generating activities increase.

An analysis of the purposes of loans given by a sample of 238 SHGs in Myrada’s projects – all in rural areas – during a one year period (2003-2004), showed that out of a total of 5,880 loans (amounting to Rs. 26,280,230) advanced to 3558 members during one year (2003-2004), 1,574(27%) loans were for agriculture amounting to Rs. 6,568,397 (25%). Animal husbandry accounted for 457 loans (8%) amounting to Rs. 3,131,854 (12%). **All other loans were for non-farm activities.** The average amount lent for agriculture was Rs. 4,173 which was the lowest when compared to averages of all other non farm purposes except consumption (Rs.2,915). **Hence the new thrust of SGSY to invest in providing off-farm technical skills which have a market is welcome.**

5. Roles of MoRD, Private sector and NGOs in implementing the restructured SGSY:

NGOs are required to identify affinity groups and to train them in INSTITUTION CAPACITY BUILDING. **Affinity is based on relations of mutual trust and support which exists before NGOs intervene; this is the strength of our society –NGOs need to spot it and build on it –it is a strength not a need. Funds are required to build institutional capacity to take on new functions . The amount required to train each SHG ranges from Rs 5000 to Rs 10,000 depending on the area, acceptance of the concept and coverage/experience of the NGO involved.** Credit is not the problem as stated. From my interactions with Bankers across the country it emerges that the Bankers hesitate to give loans to SGSY groups because they are weak. On the other hand they are giving loans to good SHGs as the records show. Therefore lack of institutional capacity building of groups is the major issue.

Experienced NGOs need to be selected and given the responsibility to identify the poor in villages using PRA methods. Once the poor have been identified, they should be briefly exposed to SHGs and then asked to form their own groups –in other words to self select their members. Many States are forming groups with their Government or PR officials. This must be stopped.

Experienced NGOs should be asked to provide institutional capacity building training to each group. The training manual brought out by Swa Shakti (Ministry of Women and Child development) which was based on previous manuals could be used for this purpose.

NGOs should be engaged for at least 3- years to mentor the SHGs. to ensure that minutes and records are kept, that they develop a Mission and Vision of their own and to ensure that they are not reduced to implementers of Government. or NGO programs

The Groups should be encouraged to save and lend over a period of eight months at least; then they should be assessed (criteria already drawn up and used by NABARD) before Rs 25,000/- is provided.. Assessment teams should be placed at District level as part of the Mission structure. Since the revolving fund component of Rs 15,000/- in the present SGSY is not being managed well, it is suggested that the entire amount of Rs 25,000 be given as a grant. (This will also help MoRD's disbursement which will soon become an issue). However this should be done only after the SHG has functioned for 8 to 10 months and after an assessment of its performance. If it is performing well the entire amount of Rs 25,000 can be given. (I know in many cases this is divided equally and the group disbands, but this is largely because it is given too early and without any institutional capacity building). If the group is "average" then Rs 15,000/ plus training can be given and if "poor" –no subsidy ..only INSTITUTION CAPACITY BUILDING. This will introduce a culture of "performance" which will balance the present welfare approach of the program.

An analysis should be made to assess the purpose and size of loans given by SHGs during the first 4-18 months. This analysis indicate peoples choices for a livelihood activities which comprise their livelihood strategy A software has already been developed and is in use;it is called NAB-YUKTI .

Based on this analysis, intervention to upscale or add value should be made through the larger loan/subsidy provided under SGSY.

Federations of SHGs can be promoted after 3-5 years of SHG formation. SHGs performing well only should be admitted to membership. If the culture of self help is to be preserved, the SHGs should pay for membership and in return the federations could provide certain services like the annual audit. Gradually the federations should charge for all services. If you want to see how this works please visit the Myrada Community Managed Resource Centres which have been functioning for 3-4 years and have broken even.

Provision for skills development: Not everyone wants or can be self employed. Hence provision of skills training is essential. The major new thrust in the SGSY program proposed is to invest in providing training in marketable skills. This is to my mind is a priority. The NSSO survey indicates that over 60% of the rural families are involved in agriculture;this does not give a clear picture. The question asked by those who did the survey is: "During the last 365 days have you been involved in agriculture." If the answer

is yes he is listed as a farmer. The implication is that farming is his major livelihood activity. In reality the “farmer” is involved in farming only for 30 days or so. The rest of the time he is involved in labour or other activities for which he has traditional skills or working in sectors where non-traditional skills are required (like welding) as a helper who is exploited till he learns the trade. As visit to several villages in UP showed that 30% to 50% of the youth have migrated and are working in the coal fields, ship breaking yards etc; but they have no training and are paid low wages. They cannot join the ITIs because they are not 10th std passed. This group must have the facility of training in skills for which there is a demand. A large number of construction workers in Bangalore are from North Karnataka. They are treated as casual labour and need to be trained in brick laying, bar bending etc.

A major thrust is required to train youth in marketable skills like construction, garments electronics, plumbing, electricals, metal work etc,(which do not require high school education or English); others who have education can be trained in computers and retail skills as well as for the BPO sector.. Each family in the SHGs should select one member at least for training which can be provided by the various institution listed. However provision must be made to lower the entry level qualifications. For example, instead of insisting on 10th pass for entry into the ITI, it is suggested that basic literacy is sufficient.....or 10th failed. However the technical training course provided should include not just provision of technical skills but also courses in language, maths, accounts, character building, yoga etc

Technical Training Institutes: The model to be adopted is the Public Private partnership one which has already been adopted in several ITIs. However the syllabus should be left to the Management Committee and not standardised by Government.

Other Support required from MoRD”:

Marketing infrastructure and linkages for farm produce including horticulture:

The MoRD should invest in at least 100 more SAFALs like the one in Whitefield outside Bangalore which was promoted by NDDB and is now under the overall responsibility of MoRD (I understand). However the SAFAL model in Bangalore needs to be adapted. It is too large

The Federations should be provided with facilities to exhibit daily information of prices at various markets leaving the farmer to choose on a day to day basis. The federations should also be provided with temporary collection and storage facilities to support aggregation and quality control.

Government (Private sector and NGOs) needs to intervene in order to: i) Lower the risk of people's investment. For example when Myrada's analysis of the purpose of loans taken by members of its 12,000 SHGs showed that a large number of loans are taken for dryland agriculture, it decided to lower the risk of this investment by taking up major watershed management programs; Government departments funding watershed programs should be integrated with SGSY; ii) invest in all round growth including

infrastructure and electricity; unless Government and Private Sector invest in the area thus triggering growth, the options of investment by SHG members is limited; iii) Government especially needs to ensure good governance and security for the SHG movement to flourish. These are areas where convergence among various government departments is essential

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