OCCASIONAL PAPERS
Knowledge for development effectiveness

History and spread of the self-help affinity group movement in India

The role played by IFAD

by
Aloysius P. Fernandez
Executive Director
MYRADA

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Enabling the rural poor to overcome poverty

IFAD

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Acronyms

CBO	community-based organization
CMRC	community-managed resource centre
FI	finance institution
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit (German Agency for Technical Cooperation)
MDG	Millennium Development Goal
MFI	microfinance institution
MYRADA	formerly acronym of Mysore Resettlement and Development Agency, now full name
NABARD	National Bank for Agriculture and Rural Development
NGO	non-governmental organization
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SAG	self-help affinity group
SBI	State Bank of India
SC	scheduled caste
SGSY	Swarnajayanthi Grameen Swarozgar Yojana
SHG	self-help group
SIDBI	Small Industries Development Bank of India
ST	scheduled tribe

Abstract

This paper traces the origins and progress of the self-help group (SHG) movement in India from 1985 to March 2006. It looks at the roles, in order of their entry into the movement, of NGOs, the National Bank for Agriculture and Rural Development (NABARD), other banks, IFAD and central and state governments. The paper was commissioned by IFAD and thus focuses also on IFAD's role.

The SHG-Bank Linkage Programme began in 1992. Official data are presented from NABARD on this programme – perhaps the only reliable source on the progress of the SHG movement. However, the data understandably focus on financial management and loans for livelihoods, while the SHG movement is equally an instrument for the empowerment of poor and marginalized sectors. Many case studies have been done on the role of SHGs in initiating change in social, political and economic relations. Unfortunately, to do justice to this dimension would require a very long document.

In a way, the strength of numbers, which dominate the financial sector, lies in their perceived objectiveness – and definitely in their brevity. This partly explains why the financial dimension of the SHG movement is reported more extensively.

The present paper does not refer to the recent origins and growth of microfinance institutions in India, which include NGO-microfinance institutions, companies, trusts and registered societies – this is another story.

Foreword

One of IFAD's strategic objectives in contributing to the goal of reducing rural poverty is to provide improved financial and related non-financial services in rural areas. In fact, two thirds of the Fund's current projects have a rural finance component and approximately one fifth of the Fund's resources are dedicated to rural finance. Rural finance interventions provide small-scale credit and other financial services to poor households and very small, informal businesses. They provide a mechanism for poor people to smooth the effects of income shocks on consumption, find safe and affordable repositories for their savings, take advantage of profitable investment opportunities and insure against risk.

Experience worldwide shows that when microfinance services reach women, the benefits are particularly sustainable. Savings rates are higher; group life is more intensive; repayment rates are remarkable; enterprise growth and graduation are stronger; and there are measurable improvements in child nutrition and education, family health and household sanitation, shelter and general welfare.

Self-help groups (SHGs) were piloted by NGOs, notably MYRADA in India in the mid-1980s, in order to provide financial services to poor people. What started as a pilot programme has now become a movement for social empowerment – particularly for rural poor women. The number of SHGs linked to banks has increased from about 500 in the early 1990s to more than 1.6 million in 2006.

This paper documents the beginnings and progress of the self-help group movement in India and the roles played by NGOs, banks, IFAD and central and state governments in promoting SHGs. It analyses major factors contributing to or limiting the rapid expansion of SHGs in India. Finally, it assesses the contribution made by the SHG movement towards the achievement of the Millennium Development Goals.

We believe that the study will be of interest to policy-makers, development practitioners, academics and civil society and will enrich our understanding of the SHG movement in India and of the roles played by different partners in the process.

Ganesh Thapa
Regional Economist
Asia and the Pacific Division

Thomas Elhaut
Director
Asia and the Pacific Division

I. The early years

Self-help groups (SHGs) first emerged in MYRADA[1] in 1985. In 1986/87 there were some 300 SHGs in MYRADA's projects. Many had emerged from the breakdown of the large cooperatives organized by MYRADA.[2] In these areas, a number of members asked MYRADA to revive the credit system. They usually came in groups of 15-20. When reminded of the loans they had taken out from the cooperative, they offered to return them to MYRADA, but not to the cooperative, which in their experience was dominated by a few individuals. MYRADA staff suggested that they return the money to themselves – in other words to the members who had come in a group to present their case to MYRADA. After some hesitation, they decided to continue meeting in these smaller groups.

MYRADA staff realized that they would need training: how to organize a meeting, set an agenda, keep minutes, etc. Efforts were made to train the members systematically. On analysis it emerged that the members were linked together by a degree of affinity based on relationships of trust and support; they were also often homogeneous in terms of income or of occupation (for example, agricultural labourers), but not always. Caste and creed played a role, but in several groups affinity relationships and economic homogeneity were stronger; as a result, several groups included different castes and creeds.

From the time that the first SHGs emerged in 1985 to the inclusion of the SHG strategy in the annual plan for 2000/01 (Government of India, 2000), several important steps were taken by the National Bank for Agriculture and Rural Development (NABARD), the Reserve Bank of India (RBI) and leading NGOs, as well as by multilateral agencies, particularly IFAD.[3] The SHG strategy is an important component of the Government's overall thrust to mitigate poverty and has been included in every annual plan since 2000. This period of 20 years can be divided broadly into two phases.

1 MYRADA was originally the acronym of the Mysore Resettlement and Development Agency, but the official name is now MYRADA. It is a large NGO with 487 staff working directly with 1.5 million poor people. "Building poor people's institutions" is its short mission statement. It manages 15 major projects in three Indian states and has major involvement in three others, where it has seconded staff to government or conducts regular training and visits. Its major activities are: promotion of self-help affinity groups; watershed, water and wasteland management; forestry; community management of sanitation and drinking water, housing and habitat; improvement of primary school education; technical skills for school dropouts; microenterprise generation; preventative health care and a major HIV/AIDS prevention programme.

MYRADA has founded a microfinance institution (MFI) called Sanghamithra, which lends exclusively and directly to SHGs. It is also involved with bilateral and multilateral organizations in Myanmar, Cambodia, Indonesia, East Timor, Viet Nam and Bangladesh, largely in promoting the self-help group strategy and participatory approaches to natural resources management (www.myrada.org).

2 Others emerged when people were motivated to perform a common activity such as building a protective trench around their fields or desilting a tank. In such cases, when left to organize themselves, they formed groups based on affinity among the members.

3 As of 1 June 2007, IFAD has supported 21 projects in India, seven of which are ongoing.

II. Phase I: From 1987 to 1992

During this phase – largely omitted in recent studies – NABARD focused on supporting NGO initiatives to promote SHGs and on analysing their potential and performance. In 1987 NABARD first put funds into the SHG/SAG[4] movement (in response to a proposal from MYRADA submitted in 1986). In 1987 it provided MYRADA with a grant of 1 million Indian rupees (Rs)[5] to enable it to invest resources to identify affinity groups, build their capacity and match their savings after a period of 3-6 months. The grant was based on MYRADA's experience in promoting SHGs since 1985 and the initiative of the NABARD chairperson at that time, Shri P.R. Nayak.

As a result of the feedback from this initiative, in 1989 NABARD launched an action research project in which similar grants were provided to other NGOs. After an analysis of this action research, and owing to the efforts of successive NABARD chairpersons and senior management, in 1990 RBI accepted the SHG strategy as an alternative credit model. NABARD (1992) issued guidelines to provide the framework for a strategy that would allow banks to lend directly to SHGs. Based on these initial experiences, the SHG-Bank Linkage Programme was launched in 1992 (this second phase is described in Section III). Since then – and on the basis of its extensive network of officers – NABARD has promoted and monitored the SHG programme, provided funds for capacity building and innovation, and helped change policy to create an enabling environment.

The Tamil Nadu Women's Empowerment Project, an IFAD-supported project implemented through the Tamil Nadu Women's Development Corporation, was the first project in the country, in about 1990, to incorporate the SHG concept into a state-sponsored programme. MYRADA was asked to play a lead role, which it agreed to do in Dharmapuri District. This was a year or more before the launch of the SHG-Bank Linkage Programme. The empowerment of women was sought both through SHG strengthening, with capacity-building modules, and through the provision of credit for income-generating activities.

4 When these affinity groups emerged in MYRADA projects in 1984, largely as a result of the breakdown of the cooperative societies organized by MYRADA in its rehabilitation projects, they were called credit management groups and focused on the management rather than the provision of credit. When MYRADA entered into an agreement with NABARD to launch the research-and-development initiative related to these groups, the name was changed to self-help groups. NABARD provided MYRADA Rs 1 million in 1987 for this purpose.

MYRADA continued to stress that members should be linked by affinity (mutual trust and support) and not simply because they were eligible beneficiaries. After 1999, when MYRADA realized that SHGs were being promoted without any concern for affinity and with little or no training to build their institutional capacity, MYRADA changed the name of the groups it promoted to 'self-help affinity groups' or SAGs. In the present document, the term SAG will be used throughout, except where it refers to the NABARD SHG-Bank Linkage Programme and in quotations.

5 The exchange rate has ranged from US$ 1 = Rs 48/49 in the early-to-mid-1990s to US$ 1 = Rs 41/42 today.

Although an enabling policy framework was not yet in place for the SHG-Bank Linkage Programme, RBI nevertheless decided to extend credit to the groups, with some modifications in the design and paperwork. As a result, this became the first state-supported project to initiate the SHG-bank linkage strategy. This experience also contributed to the initiatives undertaken by NABARD to shape policy on microfinance models, which resulted in the launching of the SHG-Bank Linkage Programme through a pilot project.

III. Phase II: From 1992 onwards – the SHG-Bank Linkage Programme

The programme began in 1992 with a two-year pilot project to link 500 SHGs. It was indeed the pilot of the SHG-Bank Linkage Programme, although not of the SHG movement, with which NABARD had already been involved since 1987. Without that 1987 investment, the SHG movement would not have had official recognition and ownership. The SHG-Bank Linkage Programme was slow to take off, but has been speeding along since 1999. It has received unstinting support from RBI, the central and several state governments of India – notably Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka[6] – and thousands of NGOs and the banking sector, as well as multilateral agencies, notably IFAD. This paper focuses on the progress of the SHG movement as reported by official documents, which understandably highlight the SHG-Bank Linkage Programme.

Although the data are difficult to verify, reports indicate that as of March 2006 there were about three million SHGs in India. Of these, about 1.6 million are linked to banks. NABARD (2005) provides data on the SHG-Bank Linkage Programme. It is an official publication into which NABARD has invested much work and care and it will be used as a reliable source of information, with the following clarifications. The report provides information only on the 1.6 million SHGs/SAGs linked to banks. Its data only cover cases in which refinancing is requested by the banks. The report also focuses, understandably, on the financial management of SHGs.

However, SHGs are also an instrument for the empowerment of poor and marginalized sectors. They have proved to be an effective instrument for changing oppressive relationships in the home (gender- and tradition-related) and in society. This is especially true for those relationships arising from caste, class and political power, which have made it difficult for poor people to build a sustainable base for their livelihoods and to grow holistically.

Owing to this social impact, MYRADA has pointed out that the SHG movement does not focus on the provision of credit, rather it focuses on the management of savings and credit. It is the experience of managing finance that gives poor people the confidence and skills to initiate and manage change in society. The SHG movement arises from the belief that it is not enough to teach people to fish when they cannot reach the river. There are hurdles in their way (class, caste and political) that the SHGs have been able to overcome. NABARD has also financed case studies focusing on these social issues and on the changes that SHGs have been able to initiate.

The SHG-Bank Linkage Programme is the major component of the SHG movement for which official data are available. Such data give a reliable overview of the progress of the movement in India. One can assume that the majority of well-functioning SHGs have been advanced loans by banks; however, this may not be the case in parts of the country in which banks have been slow to initiate the linkage.

6 States and countries are listed in the order in which they took up the programme.

By March 2005, the programme had provided credit to 1 618 456 SHGs with a membership of over 24 million poor families or about 120 million poor people, making it the largest microfinance initiative in the world. There are, however, many more SHGs in India than those to which the banks have advanced loans. Many banks have lent to SHGs, but have not asked for NABARD refinancing because they have ample funds or can mobilize funds at lower rates of interest. Hence these linkages are not reflected in NABARD's data.

Many of the SHGs that are functioning well have not approached banks for their own reasons – some, for example, have adequate savings and grants provided by NGOs to meet their requirements. In some areas, banks are located too far away from the SHGs. A number of SHGs are too young to access bank loans, while others are functioning poorly and are thus ineligible. Hence the number of SHGs is greater than that reported in the NABARD document: other reports indicate that they number some 3 million, including the good, the average and the bad.

Tables 1-4 and Figures 1 and 2 provide data on the SHG-Bank Linkage Programme. They were taken from NABARD (2005).

Table 3 helps provide a clearer picture of the level of outreach that can be achieved in a year (in terms of new SHGs and financing).

Table 1: SHG coverage in India 1992/93-2004/05

Cumulative number of SHGs financed by banks	1 618 456
Number of poor families that have accessed bank credit	24.3 million
Estimated number of poor people assisted	121.5 million

Table 2: Bank loans (in Rs) 1992/93-2004/2005

Cumulative bank loans disbursed to SHGs	More than 68 billion
On-time repayment reported by participating banks	Over 95%

Table 3: Outreach in 2004/05

Number of new SHGs formed by formal agencies	352 575
Number of new SHGs formed by NGOs	716 122
Number of new SHGs financed by banks	539 365
Number of existing SHGs provided repeat financing by banks	258 092
Number of poor families accessing bank credit, including repeat financing	11.2 million

Note: 90 per cent of SHGs consisted of women members only.

Table 4: Amount of loans (in Rs) disbursed by banks to SHGs in 2004/05

Bank loans disbursed to new SHGs	17 266 million
Repeat loans disbursed by banks to existing SHGs	12 676 million
Increase in credit flow to SHGs over the previous year	61%

While progress was slow from 1992 to 2001, the linkage programme really gained momentum over the past five years (Figure 1).

Figure 1: Number of new SHGs financed by banks during last five years

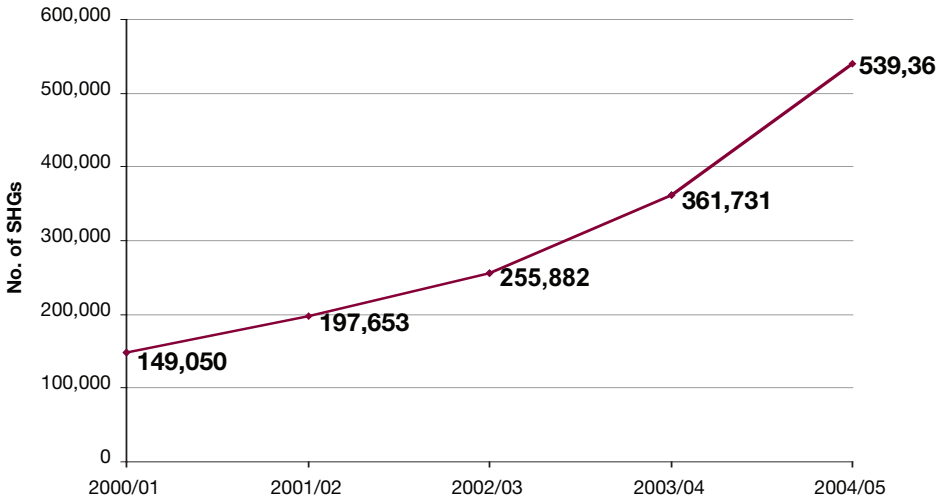

Figure 2: Bank loans provided during last five years

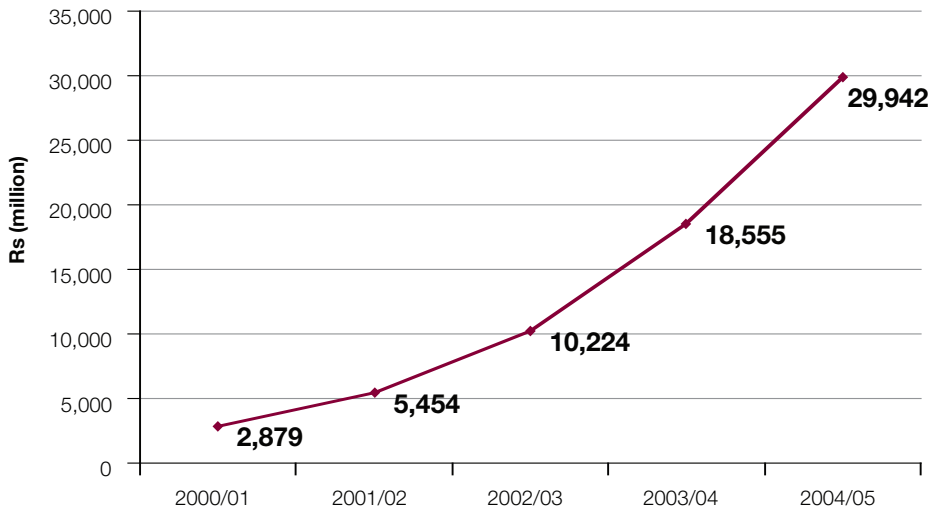

Figure 2 does not project a true picture of the total credit loaned by SHGs to their members for two reasons. First, the common fund of each SHG from which loans are given to members includes not only bank loans, but also savings, interest earned, etc. A breakdown of the total common fund (as of 31 December 2005) of the 9 715 SHGs in MYRADA's projects gives the following picture: the total common fund amounts to Rs 1 126 million, of which Rs 513 million is savings and Rs 485 million is the interest earned by SHGs on lending; the remaining Rs 128 million consists of bank loans, fines and contributions. Second, many banks that have extended loans to SHGs have not claimed refinancing from NABARD. Thus the total credit from SHGs to its members is actually far higher than the total amount lent by banks to SHGs.

NABARD/GTZ (2002) documents that the SHG-Bank Linkage Model has also served the banks well:

- non-performing loans under SHG-Bank Linkage Programme: none;
- returns on average assets of SHG banking: 1.4-7.5 per cent;
- operational self-sufficiency of SHG banking: 110-165 per cent;
- average repayment rates: over 90 per cent;
- many intangible social benefits to SHG members arising from contact with banks and management of credit transactions.

The above data look very impressive. However, a note of caution should be added when data on the performance of repayment from SHGs to banks are collected from the banks. A recent visit by this writer to several SHGs in the state of Uttar Pradesh in northern India gave a different picture.

The SHGs were formed by government officials (Gram Panchayat secretaries). Each was controlled by one or two powerful women members and very little or no training was given to the SHGs. The Gram Panchayat secretary was paid to form the group. He received another payment to open a bank account and a further payment when the bank lent to the SHG. The visit showed that, in most SHGs, the dominant members controlled all funds, including the loan. In many cases they lent to people outside the SHG at very high interest rates. They ensured that the bank loan was repaid, and thus the banks reported excellent performance.

IV. SHG contribution to agriculture and on-farm credit

The largest number of loans given by SHGs to members is for agriculture and on-farm related activities.[7] An overview of IFAD projects in which the SHG strategy has been adopted indicates that these loans for agriculture do not find a place in the project reports that IFAD management and evaluators produce. The reports provide data only on the amount budgeted for agriculture in the annual plans and budgets and on the amount spent. Loans by SHGs for agriculture are not a budget line expenditure. In fact, an analysis of the purposes of loans by SHGs in several IFAD-supported projects indicates that both the number and the amount of loans for agriculture are several times higher than those budgeted for agriculture under the line item in annual plans.

It may be useful to compare the SHG contribution in this sector with the overall performance of government programmes promoting agricultural credit through the formal sector (banks and cooperatives), other than through SHGs.

The 59th round of the National Sample Survey (Government of India, 2005) revealed that only 27 per cent of the total number of farming households received credit from the formal sector (banks and cooperatives) – this does not include the SHG route. The NABARD report (Figure 2) indicates that bank loans to SHGs increased from Rs 2 879 million to 29 942 million from 2000 to 2005. The figure indicates an increase of some 90 per cent year-on-year for the first three years, 82 per cent in 2003/04 over the previous year and 61 per cent in 2004/05. This compares very favourably with the annual increase in credit from the formal sector to the agriculture sector, which is about 15 per cent year-on-year (with the exception of 2004/05, when it jumped to 32 per cent due to government pressure).

The macro picture is also cause for concern. For example, surveys (NABARD, 2003) have shown that the capital formation in agriculture as a proportion of total growth in capital formation has fallen from 9.4 per cent in 2003/04 to 8 per cent in 2004/05. Both the public sector (which contributes about 30 per cent) and the private sector (which contributes about 70 per cent) seem reluctant to invest in agriculture.

7 An analysis of the purposes of the loans given by SHGs to members in MYRADA's projects (MYRADA, 2003a) shows that 42 per cent of the total number of loans are invested in agriculture-related activities (including purchase of inputs, land development, repayment of high-cost loans to money lenders and redemption of mortgaged assets, mainly land and trees) and 20 per cent in non-farm activities such as trading, cottage industries and small businesses. The remaining loans are for essential needs, for which members would otherwise have borrowed from private moneylenders at exorbitant interest rates; these essential needs include food, education, housing, health and sanitation (mainly toilets). Unfortunately, a breakdown of the purposes of the loans given by SHGs linked to Indian banks is not available.

Interest on farm loans

As for the latest national annual plan (Government of India, 2006), there is a budgeted increase of Rs 9 000 million for the Ministry of Agriculture and Rs 210 million for the Ministry of Agro and Rural Industries. About 90 per cent of these budgeted amounts go towards revenue expenditure (running costs). The plan seems to continue to place its bets on reducing interest rates as a major contribution to farmers. (Short term rural credit up to Rs 300 000 will now be provided at 7 per cent interest.) This is more a political statement than an answer to the real situation on the ground.

It has long been proved that farmers are willing to pay up to 15 per cent interest, instead of the high interest rates levied by moneylenders (over 50 per cent). What they need, however, is ready access to credit and to quality inputs, an effective procurement/marketing system and working cooperatives and financial institutions; they need assurance that the prices they get for their produce will cover costs and give them a reasonable profit. In fact, the opposite has happened. For example, the price of cotton has fallen by over 30 per cent during the past five years in Maharashtra, while the cost of inputs has doubled.

It may actually be a better strategy to do away with short-term credit for agriculture, especially in dryland areas, where there are two good crops in five years. All agricultural credit should be repayable over three to five years; the pressure on farmers to repay both interest and capital within a year is what causes distress. Paying interest alone would not be a problem.

A comparison of the annual increase in credit from the formal sector with that from SAGs clearly shows that the SHG/SAG channel records the highest growth rate among all initiatives offering credit to farmers for agriculture and related livelihood activities. Given that SHG members are all poor (they may not be 'the poorest' people … but that is another story), it is clear that the contribution of the SHG model to poor farming communities for these activities has been the highest among all such vehicles employed in the strategy to reduce poverty.

V. Reasons for the rapid spread of the SHG movement

- There are thousands of promoting institutions involved – government, banks and NGOs – not just one or two institutions with ambitions to grow. For example, in 2004/05 there were 573 banks (commercial, regional rural and cooperative) lending to SHGs through 41 323 bank branches. Many of them were also promoting SHGs. Further, there were 4 323 NGOs and other agencies involved in training and mentoring of SHGs. This massive network of institutions supports the SHG movement, each entity in its own way. (The large number of diverse institutions also represented a weakness, which will be discussed in Section VI).
- There has been much investment in the capacity-building of SHGs. It comes from private NGO donors, multilateral agencies such as IFAD and some bilateral agencies, from NABARD, the Small Industries Development Bank of India (SIDBI) and state governments. Capacity-building is largely done through NGOs, whose main role is to identify affinity groups and build their institutional capacity. Identifying these groups requires close rapport with a village. It is normally done, first, by using participatory methods through which poor people are identified, then conducting a short session to explain the meaning and need for affinity as the basis for group formation and, finally, leaving poor people thus identified to form their own groups.

  Affinity exists before the NGO enters; it is the NGO's role to identify and build on it, not to destroy it. This, unfortunately, is being done by some government programmes that provide subsidies at different rates to scheduled castes and scheduled tribes, even though they may be in one SHG – and by some microfinance institutions (MFIs) that break up good SHGs into joint liability groups or extend loans to individual members in an SHG without a consultative process with the groups. Once an affinity group has been identified, a major training programme is scheduled, which includes at least 23 modules spread over a year and a half.[8]
- Training and exposure for bankers was provided. Formerly they were accustomed to assessing proposals submitted by individuals under anti-poverty schemes such as the Integrated Rural Development Programme (which, incidentally, could claim to be the first microfinance programme, as it was begun in 1980). This was relatively easy, because the unit costs and project profiles for each activity or asset were standardized. Now they had to be trained to assess SHGs as institutions – training that was supported extensively by NABARD.

8 Capacity-building modules include: (i) Structural analysis of society; (ii) Analysis of local credit sources; (iii) Self-help affinity groups – a concept; (iv) How a meeting of the community-based organization is conducted; (v) Communication; (vi) Affinity; (vii) Vision-building; (viii) Organizational goals; (ix) Planning resource mobilization, implementation, monitoring and evaluation (PRIME); (x) Rules and regulations; (xi) Responsibilities of group members; (xii) Book-keeping and auditing; (xiii) Leadership; (xiv) Conflict resolution; (xv) Collective decision-making; (xvi) Common fund management; (xvii) Self-assessment; (xviii) Group graduation; (xix) Linkages with other institutions; (xx) Building credit linkages; (xxi) Federations; (xxii) Credit plus; and (xxiii) Analysing gender relations in the family and community.

- An alternative model to mainstreaming was accepted. The official system accepted the rules and regulations adopted by each SHG – related to size and purpose of loans, interest and repayment schedules – without imposing its own practices or standardizing SHG functions. The official system provided guidelines and a framework, but did not attempt to standardize practices (for example, that loans should be only for assets) or to impose its own norms and procedures related to interest rates and repayment schedules.

  This acceptance is a crucial feature of the SHG model. For example: (i) RBI changed policy to allow banks to lend to SHGs even though they were not registered, provided they functioned well (the SHGs refused to be registered; they claimed that they would be vulnerable to the machinations of petty government officials); and (ii) banks were allowed to lend to SHGs without asking the purpose for which the SHG would on-lend to its members. The data would be collected later, after the SHG had met and made these decisions.

  This feature of the SHG model reduces those transaction costs of banks largely incurred in writing up each individual loan proposal, carrying it to a bank, assessing it, etc. Other group-based microfinance models lend to individuals in groups; they adopt the joint liability model with local variations, but all loan applications are in the name of individual members and are finally approved by the bank branch. In the SHG model, all decisions regarding purpose, size, interest and duration of loans are made within the SHG. This requires that SHGs function well and that they are assessed as institutions before loans are made.[9]
- Regular feedback was obtained by NABARD. Based on it, new procedures and policies were introduced by itself and RBI. Similarly, several in-depth analyses and process documentation studies were made by these institutions. The SHG programme is perhaps the only one that has been fortunate to have the sustained support of a government financial institution, NABARD, over a period of 20 years. NABARD has made every effort at national, state and district levels to collect feedback, analyse progress, remove hurdles, provide funds for training and persuade banks to increase their coverage. It has also made efforts to extend the programme to the more neglected and remote parts of the country. It achieved this through its wide network of offices and of field-level officials, who took up the challenge.
- Several state governments continued the SHG programme after the IFAD-supported project ended. This was mainly because IFAD had involved local governments in the design and implementation and had fostered local ownership throughout the project period. Tamil Nadu, Maharashtra and Andhra Pradesh are good examples. The IFAD contribution will be described in greater detail in Section VII.
- The Swarnajayanthi Grameen Swarozgar Yojana (SGSY) Programme,[10] sponsored by the Government of India, was well designed but poorly implemented. It provided some Rs 10 000 for the capacity-building of each SHG. MYRADA's experience indicates that it costs Rs 8 000-12 000 to train and mentor each SHG for at least two years, depending on the location of the SHG and the experience of the NGO. Mentoring involves visits of NGO staff to SHG meetings and regular guidance.

9 A list of criteria for assessing SHGs as institutions was prepared by MYRADA early in 1990 as a result of experience gained in the IFAD-sponsored project in Tamil Nadu. It was shared extensively through Rural Management Systems Series – Paper 15 (MYRADA, 1990). NABARD prepared a list of criteria based on this and other papers.

- Despite pressure to adopt microfinance models in vogue in other countries, which replicate the banking system and focus on credit provision, Indian financial institutions and most NGOs persevered with the SHG model, which gives SHGs a broader role than simply management of credit. This perseverance, in the face of criticism from major financial institutions with experience in South America and elsewhere, is one reason why the SHG model spread.

  There are several reasons given by multilateral organizations, including the World Bank, for their rejection of the SHG model: it does not conform to the Grameen Bank model, which the World Bank supports strongly; it does not draw a clear line between social and economic matters; it is not managed professionally by NGOs; it is not sustainable as a financial model; it mixes subsidies and loans; financial analysts do not feel comfortable with unregistered groups managing credit; and SHGs provide loans for consumption smoothing rather than for income generation.

  Apart from requiring conformity with the Grameen Bank model and not accepting that other models of outreach and financial inclusion may coexist, the other criticisms are, in fact, valid. However, they are valid only if they are accompanied by a similar assessment of the strengths of the SHG model and an identification of practical actions that can mitigate the above lacunae. In any case, they fail to explain why the Microcredit Summit brought SHGs on board despite these problems.

  It must also be pointed out that the SHG model began in India with no support from major financial institutions based abroad, who thus could not take ownership. The Microcredit Summit consistently refused to recognize the SHG programme in India and to incorporate SHG members into its portfolio of achievements. Interestingly, last year, when the Microcredit Summit realized that it would not be able to achieve its target of reaching 100 million beneficiaries, it decided to add the Indian SHG membership to its portfolio. It then wrote to several Indian institutions asking them to become partners.

  It was the initiative of Indian NGOs, supported by NABARD and RBI, that helped promote this Indian model. Many accepted the challenge of promoting the SHG model, especially among NGOs and banks, and they resisted the pressure to accept models and systems that would have been imposed on all SHGs, thus restricting their freedom and their potential to become instruments of change. Apart from IFAD, which has a policy of recognizing local initiatives and building on them, the only other institution based abroad that supported the SHG-Bank Linkage Programme in the early years was the Foundation for Development Cooperation, based in Brisbane, Australia. This foundation devoted a large part of its limited resources to persuading Indian banks and other institutions of the significance of this model.

10 SGSY provides SHGs with loans-cum-subsidies for investment in income-generating programmes. It is different from the earlier Development of Women and Children in Rural Areas Scheme – a group-based loan-cum-subsidy package in the 1980s – in the following ways: (i) it loans to men's SHGs as well as women's; (ii) it has a variant that also covers SHGs of the poor in urban areas; (iii) it provides a budget for group capacity-building; (iv) it gives a revolving-fund loan to the group prior to the main loan for economic assistance programmes. The management of the revolving fund influences the decision on the larger economic assistance; (v) thus it does not form a group today and finance it tomorrow; it both invests in group strengthening and studies group performance before lending; (vi) it does not insist that all members take out loans for the same purpose; (vii) where SHGs are absent or very weak, it has a provision for lending to individuals; thus there is no compulsion to force people into groups just to take advantage of the scheme. However, while these good features define the scheme in its documentation, in practice many of the critical considerations are bypassed.

- SHGs have the potential to sustain themselves financially and organizationally. In fact, experience has shown that they can sustain themselves after the initial investment to build their institutional capacity. It must be noted that they are not primarily financial institutions or financial intermediaries, as commonly understood, although they are often reduced to this function. Yet they have proved to be capable of managing savings, credit risk and default. The roles of the SHGs, NGOs and MFIs/finance institutions (FIs) are often confused. To clarify them, MYRADA has projected the following scenario for several years. The process of SHG formation requires activities that can be divided into three broad groups:
  (i) identification of an affinity group – this requires experienced NGO staff and does not pay for itself;
  (ii) institutional capacity-building – this requires numerous training models (23 were listed in footnote 8) over 14 sessions. The training must be subsidized and costs Rs 5 000-10 000 per group. This investment in capacity-building (management and livelihood skills, basic numeracy) must be initially made as grants by various institutions. Non-formal education must go beyond just literacy if it is to provide a basis for livelihoods. IFAD has included this investment in all its projects in India since 1995 (and in some other countries, for example Indonesia); and
  (iii) 'loaning activity', which includes visits to the SHG, assessment, etc. The cost of this activity can be covered by the MFI/FI within three to four years. In the case of the MFI Sanghamithra,[11] it took three years. The first two sets of activities must be handled by an NGO or a good promoting institution; the third by the MFI/FI. After breaking even, Sanghamithra invests its surpluses in the first and second set of activities. A not-for-profit MFI is more easily able to make this investment. With this support from the MFI/FI and the apex institutions that the SHGs promote, the groups have survived long after a particular project ended.

MYRADA insists that MFIs/FIs should extend credit to SHGs only in the context of overall development (livelihoods, support services, natural resource management), which could be spearheaded in the area by an NGO or by government. Providing credit in remote areas where the economy is stagnant or based on barter will not achieve much. In fact, MYRADA, which is now well known for its major investment in watershed management covering over 200 000 ha of dry land, went into watershed management in a major way only when it realized that the SHG members were borrowing for dryland agriculture. Thus it was MYRADA's responsibility to lessen the risk of their investments through its watershed management projects. The same holds true for MYRADA's interest in establishing marketing and communication links. It is to IFAD's credit that it includes a major investment in natural resource management in its project designs, including watershed management and marketing and input linkages.

11 Sanghamithra is a not-for-profit MFI that lends only to SAGs, not to individuals. It was formed by MYRADA and other NGOs and promoted by MYRADA.

VI. Features that weakened the SHG movement

There are also features that have undermined the strength and effectiveness of this initiative to promote the SHG movement. As a result, there are several areas in which there was good growth in the number of SHGs but their quality was poor, and many are collapsing as a result. The major features weakening the movement are:

- Government recognition and mainstreaming of an initiative is often pursued by NGOs as an indicator of success, but it is always double-edged. On the one hand, it provides the thrust required to expand an initiative rapidly; on the other, it is vulnerable to government management patterns: high (and often unrealistic) targets, predetermined criteria for identifying beneficiaries and forming groups, without assessing affinity among the members, and perhaps more significantly, the tendency to further separate each caste or community (for example, scheduled castes from scheduled tribes). The programmes do not offer subsidies for some castes, even though the family may be poor and a member of the SHG. Further, they provide different subsidies for castes and tribes, even though many SHGs comprise membership from these groups, based on affinity, that cuts across caste/community and religious boundaries.
- Unfortunately, even where adequate sums were budgeted for capacity-building, the government departments implementing the programme used these funds not for training SHGs, but for other purposes (such as organizing large gatherings with a political agenda or funding infrastructure of training institutions that did little work). Funds for capacity-building of the whole SHG were often used to train only the SHG leaders. As a result, the institutional capacity of the group as a whole did not improve. The gap between leaders and the others also tended to increase, which is not a healthy development.
- Assessment of the performance of SHGs is critical to the growth of an institution. In fact, the centrally sponsored SGSY programme made provision for this. However, the follow-up required to identify who should do this assessment and the methodology to be used was not undertaken. As a result, in no state was this assessment carried out. The criteria used to assess the performance of SHGs were

Transcending caste divisions

For example, this writer had the opportunity to meet with an SHG that had both SCs and STs as members; they were united by a degree of affinity cutting across caste and community. The government officer present offered to provide subsidies if the group took a loan. However, since the subsidy for the SCs was different from that for the STs, he asked them to break up the SHG into two groups (SCs and STs). They refused.

The problem with grants

Under the Stree Shakti programme (a Karnataka State-sponsored programme based on SHGs), there were many cases in which a grant of Rs 5 000 was given to each group formed under this programme, without adequate training or assessment. In fact, the design of this programme in the late 1990s, which included a grant component, was contrary to all the experience gathered over the previous ten years, which showed clearly that SHGs did not need grants.

On the contrary, the rush to give them grants weakened the groups, which people formed in many cases for the sole purpose of receiving the grant. Experience showed that they disbanded or seldom met thereafter. Provision of grants in the SHG programme is driven more by political imperatives than by any concern for genuine development of poor people. NABARD has repeatedly expressed its reservations about providing grants.

prepared by several NGOs, and the assessment format was vetted and published by NABARD. Nevertheless, the administration did not seem to have a clue as to how to go about it.[12]

- The government target approach of forming SHGs and providing subsidies/grants reveals a serious lack of understanding of the importance of investing in institutional capacity-building, which takes time and is undermined by grants. Capacity-building involves identifying an affinity group, providing training to the entire group and, finally, mentoring it over two years. In many government-driven programmes, this period of formation and strengthening is cut short or omitted completely because the targets – in terms of numbers and disbursement of grants – have to be achieved. As a result, groups are formed without participatory identification of poor people and of affinities, and in many cases, government grants and subsidies are given to these groups within a month of their formation.
- Politicians are keen to translate the success of the SHG movement into political capital. Political parties begin to claim ownership of these groups, instead of realizing that they are 'owned' by the members.

12 The major criteria were the following:
- SHGs had a name and a recorded membership;
- they changed their leaders regularly;
- books (minutes of meetings and accounts) were maintained and audited;
- they fostered the habit of saving (by giving up some non-essential consumption expenditure) and adding the amount weekly to the group's common fund;
- they lent from their savings for at least six months prior to receiving a bank loan;
- they received adequate institutional capacity-building training and mentoring;
- the common fund of each SHG comprised regular savings, and loans were given regularly (the amount of interest was used as an indicator); fines were levied for dysfunctional behaviour (this related to discipline in participating in meetings and in finance management); and evidence of fines was taken as a positive sign that discipline was given importance;
- they had taken action to foster change to promote better gender relations; they had put a priority on education, especially of girl children; they had taken action to reduce wasteful expenditure, especially by their husbands; they had mobilized to promote equity and had lobbied governmental and Panchayat Raj institutions for better services and more transparent management.

Unfortunately, in several programmes launched by the Government of India and some of the state governments, these criteria were not applied before banks were asked to give loans.

An educated vote

One politician who insisted on giving grants to SHGs was very upset when she lost the election, and she considered the SHG members 'ungrateful'. In fact, capacity-building training and mentoring had made them capable of exercising their franchise with greater care and of avoiding external pressure and 'persuasion' to vote for particular people.

It is not uncommon to hear in election speeches that this politician or that was the originator of the SHG movement. In fact, most of them did not even know of the SHG movement until the late 1990s, a good 15 years after it started.

- The bureaucratic practice of using SHGs to implement state-sponsored programmes flows from a culture believing that these SHGs are the final link in the delivery chain – and not institutions with a mission and programme of their own.
- Some banks in some parts of the country have been reluctant to adopt the linkage programme wholeheartedly, and this has been coupled with poor banking infrastructure and performance. (Some states in the north, some central states and most states in the east of the country fall in this category.) However, NABARD has made serious and sustained efforts to correct this balance. These efforts have been helped by IFAD projects in these areas, for example in Assam, Manipur and Meghalaya in the northeast, Uttaranchal and Haryana in the north, and Jharkhand, Chattisgarh, Orissa and Madhya Pradesh in central India. All of these projects include SHG promotion, training and mentoring in their design.
- As the SHG movement spread, promoting institutions had different interpretations of the organizational structure and functions of a self-help group. The SHG concept is also confused with previous groups formed under government programmes on the basis of common activity or of all members being self-employed. This allowed government programmes to provide subsidies and loans for income-generating activities. The SHG group concept is not distinguished from joint liability groups, in which loans are given separately to each member, but the liability to repay is shared. There are also the Grameen Bank groups, in which loans are given to individuals, with the group applying pressure for repayment.

  What MYRADA originally meant by a self-help group is described on page 28. This concept seems to be spreading more integrally, although more slowly, than the numerical spread of SHGs. Evidence for this is the large number of requests being received by MYRADA from various parts of India and abroad – from NGOs, banks and government staff – to share the concept of a self-help affinity group. The SAG strategy is now integrated into development programmes in Sri Lanka, Bangladesh, Myanmar, Indonesia, Cambodia and Timor Leste, with the support of several local NGOs and IFAD, the United Nations Development Programme and the United Nations Office for Project Services.
- Since the major drive to promote SHGs came from financial institutions, their function was largely viewed as financial provision and management. This tended to minimize the major role they have played (or have the potential to play) in empowerment of poor and marginalized sectors. Although this did not inhibit the spread of the SHG movement, it gave it a bias towards financial functions that tended to distort the concept. In its supervision missions, IFAD emphasizes the SHG potential for empowerment.

- As often happens, the SHG strategy was promoted as the answer to the search for a 'one-dimensional' strategy to eradicate poverty. This tended to place undue importance on credit provision, while neglecting the other initiatives required for all-round development. These initiatives create livelihood options and opportunities for the effective use of credit to improve livelihoods in a sustained manner by reducing risk and providing appropriate infrastructure and inputs to increase productivity. When the one-dimensional strategy did not achieve the objective of promoting livelihoods, the SHG approach was discredited.
- The unhealthy competition among states to claim the highest number of SHGs, with no concern for quality, led to a rapid increase in forming these groups. Many were formed by Gram Panchayat secretaries, who had no idea of what an SHG was. Groups were formed on the basis of external criteria (not affinity) and provided matching funds and even loans within the first month, with little or no institutional capacity-building. As a result, many SHGs collapsed, and this in turn led to a certain hesitation on the part of promoting agencies to pursue the programme.
- Several MFIs, particularly those pursuing a high growth curve (often at all costs), have broken up many good SHGs. They have done this by insisting on extending loans to individuals in the SHGs without adequate investment in group capacity-building, as well as by carving out joint liability groups from good SHGs, thus breaking up the SHG into smaller groups for their administrative convenience.

VII. IFAD's role in promoting the SHG movement in India

IFAD's first project in which the SHG strategy was promoted was in Tamil Nadu in 1990. When the project began in the Dharmapuri District of Tamil Nadu, where MYRADA was already involved in 200 villages, the SHG movement had not gained momentum. NGOs and banks were still being trained and many bankers were sceptical. The Dharmapuri project played a critical role at this time. IFAD invested in training and mentoring of SHGs, building their institutional capacity, which was a new dimension in project design. A sum of Rs 8 000-10 000 was spent for each SHG.

NABARD's initiative to persuade banks to adopt this model drew several lessons from Dharmapuri, which provided a field experience with which to convince banks that this may not be just another 'scheme'. In fact, the first training for bankers organized and funded by NABARD was held in the MYRADA training centre in Dharmapuri. Thus the IFAD project helped mainstream the SHG strategy in a state-sponsored programme. After the Tamil Nadu project proved a success, IFAD expanded into other states. Briefly, it could be said that IFAD's role has been to:

- mainstream the SHG strategy in state-sponsored programmes;
- spread the SHG strategy to pockets in several states from 1990 to 1997 (Tamil Nadu, Maharashtra, three states in the northeast, Haryana, and six states through the Swa Shakti Programme, which was originally designed by IFAD). These pockets provided a basis for expansion of the movement into surrounding areas;
- promote SHG strategy not only as an instrument of credit provision, but also (and often with more emphasis) as an instrument of empowerment and social/political and economic change. Several case studies are available that assess this impact (MYRADA, 2005a and b);
- make government aware of the need to invest in the institutional capacity-building of SHGs (and not only in skills training), including the ability to carry out periodic self-assessments; and to
- carry the SHG movement to remote areas in Manipur and the autonomous districts of Assam (Karbi Anglong and North Cachar Hills), Kalahandi District in Orissa, the state of Uttaranchal in the Himalayas and districts in the states of Chattisgarh and Jharkhand with large tribal populations.

A brief description follows of the major IFAD projects incorporating the SHG strategy. Once again, the reports from which these data are taken focus on the financial aspect (MYRADA, 2005a and b). However, the projects have also done several case studies that document the changes that SHGs have promoted in the home (gender relations) and in society (in traditional relations that marginalized sectors of the population). The case studies are not reported here due to their length, but they are available at www.myrada.org.

- The IFAD-supported project in Tamil Nadu, implemented by the Women's Development Corporation, began in January 1990 and ended in 1998. It was the first project to mainstream the SHG strategy in a state-sponsored programme. The state contributed some 30 per cent to the project cost and set up district-level technical support teams. The Indian Bank provided credit to the SHGs. It was the first bank in the country to undertake this linkage on a project scale.

  NGOs were engaged in all districts to provide training and mentoring to SHGs, to help them link with the local bank branch and to provide support for livelihood activities with the backup of the government technical support teams. The SHGs provided the institutional framework for the empowerment of marginalized and poor women and for their livelihood support. The project, which started in Dharmapuri District where MYRADA was the NGO involved, spread to five districts.

  More significantly, the state government and several banks continued to finance a similar project, Mahalir Thittam, in 31 districts after the end of the IFAD project in 1998. Under the IFAD-supported project, 10 850 SHGs were promoted, trained and mentored, and 285 000 SHGs were promoted under the follow-up project. This is a good example of how a strategy triggered by IFAD became mainstreamed in state programmes and expanded on the strength of its success.
- The next major project supported by IFAD with an SHG component, was the Maharashtra Rural Credit Programme, covering 12 districts and 906 villages. It was implemented by Mahila Arthik Vikas Mahamandal (the state Women's Development Corporation), begun in January 1994 and closed in 2002. The state government contributed about 30 per cent of the costs. Over 5 000 SHGs were formed and trained in this project with the help of NGOs. SHG members totalled 65 080. The savings amounted to Rs 81 million, and banks lent a total of Rs 185 million under the SHG-Bank Linkage Programme.

  When the IFAD project ended, the SHG strategy for women's empowerment and livelihood support was incorporated into programmes supported by the state with its own resources, as well as with resources from the Government of India and NABARD. Examples are Swayam Siddha (a Government of India programme), the Special Component Plan for Scheduled Castes (state sponsored) and the NABARD Add-On Programme. This is another example in which the SHG strategy, mainstreamed in an IFAD-supported project, was successfully scaled up.
- The third project was in Haryana, where community-based institutions were weak and NGO strength very limited. The project was implemented by the Mewat Development Agency, started in 1995 and closed in 2005. There was great opposition to the SHG strategy initially. However, once again, IFAD's perseverance paid off. On the request of IFAD and the state government, MYRADA seconded just one staff member to train and mentor NGOs – he stayed in the area for seven years.

  As of January 2006, 1 965 SHGs have been promoted, with 27 181 members in 470 villages. Their total savings amount to Rs 47 million, and total interest earned by SHGs on loans to members is Rs 21 million. Banks have provided loans amounting to Rs 41 million, which together constitute about 80 per cent of the total project outlay. SHG members have taken out 29 526 loans, for a total amount of Rs 213 million. This works out to an average of Rs 7 222 per loan.

- The fourth project moved to states where the SHG movement had made little or no headway. The project covered six districts in three states in the northeast: Assam (the autonomous districts of Karbi Anglong and North Cachar Hills), Manipur (Ukhrul and Senapati Districts) and Meghalaya (West Garo and West Khasi Districts). The project started in 1999 and is expected to close in 2008.

  It was a Herculean task to identify NGOs and train them to form and mentor SAGs and natural resource management groups. Nevertheless, the agencies involved persisted throughout: the North East Council (which coordinated and managed the project), IFAD and the project and government staff in Shillong and in the six districts, and above all the NGOs. There was a two-year lull midway, due to a collapse in overall management, which could be attributed to midpoint fatigue, but the foundations were good and the project overcame this crisis. As a result, the project has made major breakthroughs in these remote areas. There were cases in which the SAGs protected MYRADA staff from threats coming from underground movements.

  Given the difficulties this project had to surmount, it could be rated as the most successful of the projects supported by IFAD in India. Today there are 2 839 SAGs, of which 1 052 are in Maghalaya, 752 in the two autonomous districts of Assam, which are known as project 'graveyards', and 1 035 in Manipur. The SAGs have total savings of Rs 16 million (this is an achievement in an area where the people had no savings habit), and the banks have advanced Rs 29 million in loans. There are some districts that have only one bank branch and banking is not a common habit – so this is a remarkable achievement. The SAG component was also supported by NABARD's district offices and some major banks, particularly the State Bank of India and the Regional Rural Banks.
- In the mid-1990s, IFAD promoted a project covering six states, which came to be known as the Swa-Shakti Project. This was subsequently taken over by the World Bank, but IFAD's design remained. As a result, SHGs were promoted in Uttar Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh and Haryana. These groups provided a base from which the movement spread in these states.
- In 2001 IFAD promoted a project with large tribal populations in Jharkhand and Chattisgarh that will end in 2009. So far, with the assistance of NGOs, 291 SAGs have been formed in Jharkhand and 436 in Chattisgarh (of which 62 are men's groups). This project has built a sound basis for the SAG movement to spread in these two states.
- Since 2003, IFAD has approved new projects in Orissa, Uttaranchal, Meghalaya, Maharasthra and Madhya Pradesh. A major component is the establishment and strengthening of SAGs.

VIII. MYRADA's understanding of self-help affinity groups

The different interpretations of what constitutes an SHG were identified earlier in this paper as one of the reasons the movement is weak in several areas. With apologies for the MYRADA bias, let us dwell briefly on what the agency understood by an SHG when this form emerged in 1985 and thereafter as it developed.

As mentioned, MYRADA believes that it is not enough to teach poor people to fish when they cannot reach the river. Their path is blocked by several hurdles thrown up by caste, class and the power exercised by local elites. They must borrow money to survive on the way and then spend years repaying. As a result, they do not reach the river; they cannot read the directions to the river; and they do not find work opportunities unless the economy is growing in the countryside. Finally, if and when they do reach the river, the fishing rights are already monopolized by others, and even if they are allowed to fish in small areas, they can only sell their catch to contractors.

They need to have the skills, confidence, resources and power to overcome these hurdles. Well-functioning SHGs and their associations provide them with this power, as well as with the confidence and skills to manage the conflicts that usually arise as they meet with the vested groups that have dominated and controlled the social, economic and political domains for years. The provision of credit alone will not suffice to overcome these hurdles.

Besides credit, the NGO/government/private sectors need to invest in the infrastructure required, reduce the risk involved in receiving credit, supply the linkages for inputs and markets and provide new skills. For example, when MYRADA realized that the majority of SHG members took out loans for investment in dryland agriculture, it invested in watershed management and soil improvement and provided technical support and market linkages, which helped lower the risk of crop failure, increase productivity and stabilize income.

The history of the emergence of SHGs may shed some light on MYRADA's understanding of these groups. As described briefly in Section I, from 1983 to 1985 several of the cooperative societies started by MYRADA broke up owing to lack of confidence in the leadership and poor management. Members met MYRADA staff in small groups; they expressed their willingness to repay their loans to MYRADA, but not to the cooperative societies, which were large and heterogeneous groups of over 100 members dominated by one or two individuals. MYRADA informed them that they had not taken out the loans from the agency and thus the issue of repayment to MYRADA did not arise. They were asked, "Why not repay to the small group of people assembled here?" and the members agreed. The large cooperatives broke down into several small groups, and group members repaid their loans to whichever group they chose to join. Thus the first set of self-help affinity groups was born.[13]

On analysis, MYRADA realized that a strong feeling of affinity linked the members of each of these small groups. This affinity involved relationships of trust, relationships

Affinity

In 2001 the SHG strategy was accepted by the Government of India as a major programme in mitigating poverty. Funds were allocated, targets set and groups were promoted by central and state governments all over the country, often without adequate capacity-building. It was then that MYRADA changed the name to self-help affinity groups or SAGs.

This distinction helps focus on the affinity required to bind the members, as well as to distinguish between genuine self-help groups and those that were formed under pressure to achieve targets. These latter were given grants a few days after formation, with little or no investment in institutional capacity-building, and with membership based on external criteria rather than on affinity.

that were non-exploitative. It was based on certain social features (such as a degree of homogeneity among members, of voluntarism and self reliance and willingness to support one another in need), on certain structural features such as a common origin (blood or ancestral village) or the same livelihood base (all daily wage earners, landless or marginal farmers, even though from different castes, religions or communities), or on gender bonds (all women or all men, with about 5 per cent of the groups being mixed).

In a few cases, it was based on similar activities (for example, basket weavers – although caste also had a role to play here; a large group of families undertaking a similar activity such as basketry often decided to break up into smaller groups of 10-15 on the basis of affinity). Interestingly, no groups were formed on the basis of political party affiliation. The affinity groups were unpolished diamonds hidden under stones. MYRADA just happened to kick these stones aside by accident: it stopped to look, to learn, to identify people's strengths or the potential of the diamond and then to build on that potential.

It is important to note that the affinity relationships existed before the intervention of an outside agent such as MYRADA, and they were adequate to support traditional actions – mutual help in times of sickness or childcare. However, with new functions emerging in the groups, this traditional capital had to be built up to cope with the demands of effective financial and organizational management, as well as with the social roles the groups were required to play. These included initiating change in society and in the home, protecting and furthering their interests, and establishing linkages with support services and institutions.

Based on existing evidence, it is fair to say that in an affinity group fostered along the lines advocated by MYRADA, the motivation of the members in the initial stage is divided equally between the perceived fulfilment of social needs and the expectation of material gain. In the case of women's self-help groups, however, social needs often tend to have priority. Women need space in our traditional rural societies to meet freely, share concerns, express a sense of togetherness and fellowship. They need a place to call their own, as they are unable to meet (as men are) at the village corner or outside a shop. Places that traditionally provided women with a level of security and privacy have

13 MYRADA has subsequently identified affinity groups through the following process: it conducts a participatory rural appraisal exercise of wealth ranking, which helps people identify who are the poor and poorest in the village. Then sessions are held with this group, the concept of 'affinity' is discussed, and they are requested to form their own groups based on affinity among members.

Self-determination

Institutions, by themselves, do not empower. In fact, they have the potential to disempower if their structure is inappropriate, if they are used as implementers of programmes designed by others, if they are forced to follow the timetable and agenda of the project managers, and if their systems are inflexible and unresponsive to emerging situations (threats and/or opportunities). They disempower if the official organizational and financial management systems are imposed and standardized.

MYRADA holds that people's groups should not be 'mainstreamed' by official institutions; on the contrary, these latter should recognize the emerging groups and respect their systems, provided they are transparent and adequate. Mainstreaming is disempowering when the mainstream imposes its system and culture. Genuine people's institutions provide the space within which poor people can build the confidence and skills to establish relationships with other institutions on an equal footing.

become scarce – such as water points at some distance from the village. Thus the privacy and security of an affinity group meeting is a godsend. This is why women's affinity groups take a strong stand against men trying to interrupt their meetings.

It is interesting to note that when other villagers are asked to express their opinion of a women's self-help group, their assessments focus more on the social habits developed by the members, rather than on their material progress. The most appreciated qualities of the groups include their regular meetings, the ability of members to manage their affairs in an organized and transparent manner, to make collective decisions, to impose and accept sanctions for dysfunctional behaviour and to take the lead in improving their surroundings. These are the features that others appreciate, far more than their capital (which they build up by savings deposited in the groups' common funds) or material progress. These features are also indicators of a well-functioning institution.

IX. Translating theory into practice

Let us take the example of just one project (of the 16 projects managed by MYRADA) in Tamil Nadu. The MYRADA project in Dharmapuri, which began in 1990, was the first IFAD project incorporating SHGs. An analysis of the data from all 1 816 SHGs promoted in this project area may help shed light on how SAGs actually manage finance and how this creates a base for empowerment (Table 5).

The ongoing project that succeeded the IFAD project covers 350 villages and is involved in promoting and financing diverse sectors: management of natural resources, housing and sanitation, management of village schools, health programmes, children's rights and education, microenterprise, and agriculture and animal husbandry. Several types of peoples' institutions are promoted: school management committees, watershed management associations, children's clubs, and companies managing microenterprises. However, the focus is on the SAGs that form the base institution, which are participatory institutions and not representative ones. Let us begin with an analysis of the common fund of the SAGs (Table 6).

Only boldfaced items will be commented on. In keeping with the thrust towards self reliance, SAGs have mobilized Rs 73 million through their savings, out of a total common fund of Rs 174 million (approximately 41 per cent). Interest on loans remains with the respective SAGs; it is not collected by MYRADA and amounts to Rs 53 million, which is 30 per cent of the total fund. When banks or Sanghamithra lend to an SAG, the group is free to levy its own interest rate on each loan to the member. It is usually slightly higher and varies depending on the profit the SAG anticipates from each member loan. The difference, if any, remains with the SAG. Together, the savings and interest amount to 71 per cent of the SAG's common fund. This demonstrates that they rely primarily on their own resources, and this in turn increases their ownership of the common fund and improves the management of financial transactions.

Table 5: MYRADA project in Dharmapuri[a]

Group details	
Total no. of groups	1 816
Total no. of members	28 522
Frequency of meetings	
Weekly	1 730
Fortnightly	6
Monthly	80

[a] SAG information as of 31 December 2003.

Source: NABARD, 2005.

Table 6: Composition of common fund of 1 816 SAGs (in Rs [a])

Membership fees	153 150
Savings	**73 801 060**
Fines	**820 135**
Other	927 640
Donations	180 800
Interest on loans	**53 067 140**
Bank interest	1 997 180
Capital mobilized from government	2 431 960
Capital mobilized from NABARD	20 000
Loans from banks/Sanghamithra	**85 653 370**
Repaid to banks/Sanghamithra	(44 731 975)
Community contribution	785 070
Refunds	(781 320)
Total common fund	174 324 210

a At the time 1 US$ = Rs 46.

Source: NABARD, 2005.

Fines are levied not only for delays in repayment, but also for dysfunctional behaviour related to standards that each SAG adopts. For example, some men's groups have decided that no one will smoke during meetings. This writer asked why, assuming that it had to do with cancer. Their reply startled me: no one smokes alone, they offer "beedies" to all around them and this disturbs the meeting! Some women's SAGs have decided that if any men disturb their meeting or ill treat their wives, they will be fined. Others have resolved to ensure that the girl children of every member attend school; if they are given other tasks by the family, the latter is fined. Punctuality in arriving for meetings and the discipline of informing the group when a member cannot attend are common norms – if broken, fines are levied. Thus fines are an indication of a good group that imposes penalties on dysfunctional behaviour. This is accepted by the member concerned, as s/he realizes that her/his behaviour has undermined the group's strength and cohesion – fines are accepted as well as imposed.

Patterns in lending also bring out certain important features of the SAG model (Table 7).

Each SAG has a group common fund. This fund is the concrete expression of MYRADA's ideology of people's participation in decision-making. The bankers' practice of saying "You cannot take out loans for this, only for that" forces people to be dishonest. In SAGs, loans are given for clothing, food and health, which bankers disallow. Most finance experts consider these purposes to be consumption loans and discourage them; they do not earn any profit, hence how can they be repaid. MYRADA's studies, however, indicate the following:

(i) The percentage of loans for clothing, food, health and socio-religious purposes is comparatively high in the first two years, at times reaching 40 per cent (although usually the amount is not as large – about 20 per cent). MYRADA's study of the trend in loans given by SAGs in its projects indicates that the number of consumption loans declines from the third year. This is because the

Table 7: Patterns in lending

Activity	No. of loans	Amount loaned	Amount recovered	Balance
Clothing	3 773	7 727 499	2 575 093	5 152 406
Education	4 149	7 958 400	5 588 572	2 369 828
Food	10 384	13 940 541	10 603 924	3 336 617
Health	13 591	15 140 980	9 831 549	5 309 431
Household expenses	36 443	49 167 696	36 655 169	12 512 527
House purchase	86	305 450	190 000	115 450
Repayment to moneylenders	6 290	29 113 188	22 487 014	6 626 174
Socio-religious	5 421	19 030 490	13 327 275	5 703 215
Crop loans	36 222	150 166 276	91 649 711	58 516 565
Equipment (agricultural)	56	1 022 150	658 250	363 900
Irrigation	438	579 605	375 920	203 685
Land development	1 256	5 179 450	3 641 006	1 538 444
Bullocks	25	58 490	58 490	0
Cows/buffalo	13 290	62 484 569	43 056 607	19 427 962
Poultry	73	877 540	660 940	216 600
Pigs	22	7 084	7 084	0
Sheep/goats	1 204	3 211 703	2 157 364	1 054 339
Cottage industry	566	3 745 280	2 605 100	1 140 180
Petty business/trading	4 224	30 881 602	20 497 761	10 383 841
Sericulture	210	981 445	617 834	363 611
House construction	6 850	26 695 079	18 629 987	8 065 092
House electrification	702	90 981	61 445	29 536
House repairs	1 826	5 786 029	2 418 210	3 367 819
Rent	12	15 250	15 250	0
Tailoring machines	15	25 000	25 000	0
Total	**147 128**	**434 191 777**	**288 394 555**	**145 797 222**

Source: MYRADA, 2003b.

projects provide support for all-round development in the area, including better infrastructure, linkages, management practices and inputs that help the portfolio of livelihood options grow. As a result, people have been able to address their consumption needs from their incomes.

Credit alone is not adequate. People have always taken out loans for consumption, to tide them over in the days that they needed food but had no work, to meet urgent health needs, etc. If SAGs did not provide these loans after becoming operational, people would approach moneylenders, who charge exorbitant rates of interest. This would leave them in perpetual debt, as they would never be able to repay the capital. In fact, SAGs also give loans to members to repay moneylenders from whom previous loans had been taken out at high interest rates.

(ii) In a government/NGO sponsored programme in which the repayment rate was over 75 per cent, a study of loans for assets given by SAGs showed that 60 per cent of the repayments did not come from the asset but from other small

Microenterprise

MYRADA realizes that many of the loans for income-generating programmes are not large enough to provide the entire livelihood needs of a family; they play a supplementary although an important role. To move from income-generating activities to larger microenterprises, several other inputs are required, such as larger loans, improved skills and better marketing linkages, as well as packaging and conservation. MYRADA identifies patterns in the loans for income-generating activities such as cottage industries, trading, cash crops, animal husbandry and off-farm activities. It tries to see whether there is a comparative advantage that makes these activities more profitable in certain areas.

MYRADA works with the people who have taken out loans for these smaller income-generating activities to assess their interest and potential for larger microenterprises. It then brings in skilled trainers, usually local entrepreneurs, who help identify appropriate technologies, establish linkages with input suppliers and markets, increase the scale of these activities, add value to the products and diversify if people so decide. However, not everyone wants to shift to this scale.

livelihood sources such as wage labour. The insistence that people take loans for a 'viable' unit of, say, 20 plus 1 sheep did not ensure that repayments came from that asset. People gave importance to manageability – 2 or 3 sheep, rather than a flock, were considered manageable – while they went about other business. Thus even the so-called asset loans that have been promoted as viable units by financial institutions were not the source of the entire repayments.

(iii) A flexible pattern of managing repayment also makes the entire transaction more transparent and manageable. For example, some members borrow to buy an animal, which is fattened and sold after 6-8 months. In such cases, the SAG does not require repayments to start in instalments immediately after the loan is taken, but in one instalment (sometimes with a comparatively higher interest rate) after the animal is sold. If the borrower were required to pay instalments a week after the loan had been taken out, s/he would have to borrow from elsewhere in the event of inadequate cash flow to cope with the repayments.

(iv) A large number of loans are given for cottage industries, petty business and trading. They are accessed quickly from the SAG and in the amounts required, which are often far less than banks are willing to provide, even under a sanctioned government scheme. Timeliness is also a critical factor – loans from banks take more time.

X. Does the SAG strategy support global efforts to meet the Millennium Development Goals?

While the Millennium Development Goals (MDGs) give the impression of focusing on social development, which is also the primary objective of SAGs, there is no doubt that social development is intrinsically linked to sustainable economic development. SAGs also promote these objectives to differing degrees. They provide not only credit, but also linkages, information and the skills required to strengthen and diversify the livelihood base of poor people.

The first MDG seeks to eradicate extreme hunger and poverty. Most SAG members have been able to ensure adequate food for 12 months after three to four years in a well-functioning SAG. However, the income-generating activities that the SAG enables them to undertake are largely part time, add supplementary income and help tide them over times of urgent consumption needs without becoming bonded to money-lending families. Nevertheless, many SAG members want to go further. They need larger amounts of credit and much more support than SAGs can provide. They require technology, electricity, skills, a regular flow of credit and stable markets so that their income-generating activities, which are usually off-farm, can become full-time occupations. This is the next step.

MYRADA's approach is to identify patterns in the purposes of loans. When people are free to borrow for any purpose, and to decide on the size of the loan, the assumption is that members of SAGs will opt for activities they know they can manage and for which there is a market. The other members of the SAGs also assess these important indicators before agreeing to the loan. Further, patterns of similar purposes indicate that a particular area may have a comparative advantage over others. MYRADA (and community-managed resource centres,[14] with increasing frequency) invites members who have taken loans for similar purposes from each of the SAGs and arranges for training to upgrade their skills, as well as for new technologies and larger loans. Not all of them take the next step, as not all SAG members want to become full-time entrepreneurs. Even if they do go in for larger enterprises, members return to their own SAGs for support. They may form associations to purchase or transport their finished goods in bulk, as some have done, but they retain their membership in their own SAGs, owing to their affinity with the members.

14 Community-managed resource centres (CMRCs): one centre supports 100-150 community-based organizations (CBOs), including SAGs and watershed management associations, which pay a monthly fee for membership and all services rendered. Membership is open to CBOs formed by any NGO or institution, but they are assessed by the management committee of the CMRC before being accepted. They are also rated annually. Each CMRC has its own management committee of representatives from the CBOs, a manager, community resource people and an office furnished with a computer.

MDGs 2 through 6 are largely concerned with education, health and gender equity. The SAGs play a major role here as well. Members are free to take out loans for education and health, and SAGs are involved in setting up and helping school management committees, which also include village leaders and prominent local people. Gender issues are regularly dealt with in SAG meetings, and concerted action is often taken to help resolve the problem when there is domestic violence. SAGs exercise social pressure on men regarding drinking, gambling and womanizing, which are often the cause of arguments leading to such violence. The ability of women to bring in credit and income has enhanced their status both at home and in the community, and the SAGs have given them a space within which to grow in skills and confidence.

MDGs 7 and 8 are related to environmental sustainability and good governance. SAGs need several years and wider associations – such as federations of SAGs or CBOs – in order to achieve these goals. In rural areas, especially where crops are highly vulnerable to erratic rainfall, and given the priority of daily needs, general awareness of the importance of long-term goals is low. This paper has not dealt with the influence of SAGs on watershed management associations for want of space and time, but their impact on those associations' ability to manage their organizations and finances in a transparent and effective manner is well documented by MYRADA.[15] However, there is scope for SAGs to introduce policies at the local level that promote environmental sustainability. Several NGOs have introduced what they call "credit plus" awareness and educational programmes, which are shared with all the SAGs they promote.

As far as good governance is concerned, there is ample evidence in the annual reports (which projects submit to MYRADA) that SAGs have an impact on local governance structures such as Gram Sabhas (at the village level and below) and Gram Panchayats (representing five villages). SAGs set an agenda for every meeting, conduct it in a participatory manner, record all decisions, maintain proper and updated books of accounts and arrange for annual audits. Gram Panchayats usually do not abide by these salutary organizational and financial management practices and are generally dominated by local interests. SAGs have been able to change this situation in many villages. However, their impact at higher levels of the Panchayat Raj system is still limited, although they have intervened in several cases on specific issues when the interests of poor women and children have not been given adequate support in government policy or practice.

In general, it can be said that SAGs have promoted values of equality, solidarity, tolerance and shared responsibility. They have to move further in promoting the values of respect for nature and for good governance; they have the potential to do so if allowed space to grow at their own pace and with their own agenda. NGOs and government should let them do so.

15 Through the annual audited statements of SHGs required by MYRADA; the audited statements of community-managed resource centres by M/s.RSV Associates, Chartered Accounts; and the monthly reports and statements of accounts submitted to the MYRADA head office.

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IFAD

The International Fund for Agricultural Development (IFAD) is an international financial institution and a specialized agency of the United Nations dedicated to eradicating poverty and hunger in rural areas of developing countries. Through low-interest loans and grants, it develops and finances programmes and projects that enable rural poor people to overcome poverty themselves.

MYRADA

MYRADA was originally the acronym of the Mysore Resettlement and Development Agency, but the official name is now MYRADA. It is a large NGO with 487 staff working directly with 1.5 million poor people. "Building poor people's institutions" is its short mission statement. It manages 15 major projects in three Indian states and has major involvement in three others, where it has seconded staff to government or conducts regular training and visits.

MYRADA has founded a microfinance institution (MFI) called Sanghamithra, which lends exclusively and directly to SHGs. It is also involved with bilateral and multilateral organizations in Myanmar, Cambodia, Indonesia, East Timor, Viet Nam and Bangladesh, largely in promoting the self-help group strategy and participatory approaches to natural resources management (www.myrada.org).

Contacts:

Valentina Camaleonte
Asia and the Pacific Division
IFAD
Via del Serafico, 107
00142 Rome, Italy
E-mail: v.camaleonte@ifad.org
Tel: +39 06/54592670
www.ifad.org

Aloysius P. Fernandez, Executive Director
MYRADA
No. 2, Service Road
Domlur Layout
Bangalore 560 071, India
E-mail: myrada@eth.net
Tel: +91 (0)80 25353166/25352028/25354457
www.myrada.org