MOVING FROM MICROCREDIT TO LIVELIHOOD FINANCE




A report prepared by CARE India
in collaboration with the FAO Livelihood Support Programme

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Preface

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

Livelihood Support Programme (LSP)
An inter-departmental programme for improving support for enhancing livelihoods of the rural poor

The Livelihood Support Programme (LSP) evolved from the belief that FAO could have a greater impact on reducing poverty and food insecurity, if its wealth of talent and experience were integrated into a more flexible and demand-responsive team approach.

The LSP works through teams of FAO staff members, who are attracted to specific themes being worked on in a sustainable livelihoods context. These cross-departmental and cross-disciplinary teams act to integrate sustainable livelihoods principles in FAO's work, at headquarters and in the field. These approaches build on experiences within FAO and other development agencies.

The programme is functioning as a testing ground for both team approaches and sustainable livelihoods principles.

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The Livelihood Diversification and Enterprise Development sub-programme

The Livelihood Diversification and Enterprise Development (LDED) sub-programme aims to improve the effectiveness of FAO in addressing the needs and interests of poor people in livelihood diversification programmes and projects. The objectives of LDED are:

a. To appraise inhibiting and enabling factors, and approaches supporting livelihoods diversification and enterprise development.
b. To catalyse and facilitate innovative practices for supporting livelihoods diversification.
c. To increase inter-disciplinarity and learning in FAO and partner agencies for supporting livelihoods diversification and enterprise development

The Mainstreaming Sustainable Livelihood Approaches in the Field sub-programme

The Mainstreaming Sustainable Livelihood Approaches in the Field sub-programme aims to support efforts by FAO and partner agencies to mainstream sustainable livelihoods principles into the design, or redesign, and implementation of projects in the field. The sub-programme is based on the belief that in order to make a difference, sustainable livelihoods approaches have to move beyond concepts and theories to practical applications. Experiences and lessons learned are shared within FAO with cross-sectoral, inter-disciplinary, country and project backstopping teams.

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Executive Summary

1. Introduction

Some basic facts about India

The population in 2001 was 1025 million and is growing at about 1.7% pa. Although India is the world's fourth largest economy, more than 40 % of the population live below the international $1 per day poverty line at Purchasing Power Parity (PPP). The total workforce in India is 403 million; 77 % of which are in rural India. About 65% of the workforce is engaged in the primary sectors, 80% of which are in agriculture. Unemployment and under-employment is a major cause of poverty. Improving and upgrading existing livelihoods and generating new livelihoods is essential in India.

Defining "livelihood"

A livelihood is any set of economic activities through which a household meets its basic needs and earns some cash income. When carried out on a repetitive basis, these tend to become a "way of life". The vast majority of people make a living through self-employment or wage-employment in the informal sector.

Typically in India the livelihoods of the poor can be characterized as follows:

In the agriculture and allied sectors (>70%)

- Cultivators, particularly small and marginal farmers
- Landless labourers
- Livestock-rearers and fishermen

Rural non-farm sector (~12%)

- Artisans, e.g. Weaving, Pottery, Bamboo Basket Work
- Those running household industry or service sector micro-enterprises, e.g. Wood Workshop, Metal Workshop; Brick kilns, Construction material; Cycle/ Motorcycle Repair, Rental, Spare parts; Video Rental, Repair, TV Servicing; Small Tea Stall, Hotels, Cold Drink Shop; Grocers and General Merchants

In the urban informal sector (~16%)

- Those running household industry or service sector micro-enterprises
- Vendors
- STD booth (long distance telephone booths)

Trends

Agriculture is over-crowded with increasing number of landless labourers and marginal farmers with holdings below 2.5 acres. People are moving into the rural non-farm sector but not in sufficient numbers to absorb the growth in the labour force. Thus the urban informal sector becomes the "employment of last resort". Millions of rural people migrate every year to cities for work, in construction, transport, tea-shops, hawking… The wages and incomes in the urban informal sector are barely above the rural subsistence level, if incremental costs of migratory living are taken into account.

The role of finance

The experience of poverty is often felt in the presence or absence of cash in the lives of a household. Some basic needs can be met by direct production, fishing or gathering usable products (fruit, fodder, fuel wood, building material, dung) but many needs require cash to facilitate the payments and transactions involved. Thus all households have the problem of managing variable cash flows - matching income and expenditure requirements by saving and borrowing.

It is well known that many mechanisms have evolved within communities to facilitate this, e.g.:

- Informal user-owned devices: ROSCAs, savings clubs, mutual insurance funds, building societies, share-cropping
- Private informal services for profit: deposit takers, lenders, pawnbrokers, chit funds, hire purchase, credit from retailers

Formal, regulated systems to facilitate money management have also evolved and are present in all countries but not always in all towns and villages. These include:

- Credit unions and cooperative banks
- Commercial banks
- State banks
- Post office savings banks
- Multi-purpose cooperatives
- Non-bank financial institutions

These formal financial service providers are rarely used by poor people who often find they do not fulfil the conditions to use the products on offer. Other reasons are that people simply find the institutions too intimidating or too far away from where they live.

Microfinance

The importance of being able to manage money in order to improve your life and potentially work your way out of poverty, has led to the growth of agencies offering or promoting financial services specifically for the poor. These are usually some form of non-governmental organization (NGO) with a development oriented remit. The model that has become widespread in India is that of promoting the development of self-help groups (SHG) where members save together and give each other loans. Most SHG members are women. The SHGs are able to link directly to banks to deposit savings and take loans, provided the banks are satisfied with their record-keeping and management. This is popularly known as linkage banking model supported by NABARD, the apex rural finance institution in India. In some states, SHGs also form apex organizations which may act as wholesalers of funds for on-lending.

There are also a number of NGOs who provide credit products direct to individuals, using the joint guarantee and joint liability system to reduce risk. These are generally known as microfinance institutions or MFIs.

The Indian microfinance movement is identified with having reached a remarkable scale of outreach (nearly 35 million households), achieved largely through the mechanism of SHGs linked with formal sector financial institutions. The SHG bank linkage channel, however, provides borrowers with low levels of credit (approximately Rs3900 or $84 per capita - one of the lowest in the world) mostly through a two-year term loan at the SHG level. Neither the amounts nor the product offered are conducive to SHG members diversifying their livelihoods and growing or sustaining their enterprises.

In fact a recent study by CARE illustrates that informal sources of credit, which traditionally served largely consumption related, lifecycle (marriage/festivals) related or emergency related requirements, have now shifted to meeting investment related needs of poor households, while microfinance has taken up the role of meeting to a significant extent consumption expenditure or at best minimal working capital requirements of certain kinds of traditional enterprises. Unless higher per capita loans are able to flow to microfinance clients, this aberration is likely to continue.

CASHE

CARE India has been implementing a project called Credit and Savings for Household Enterprises (CASHE). This fairly large project ran from 1999 to the end of 2006 in four states -

West Bengal, Orissa, Madhya Pradesh and Andhra Pradesh - and was funded by DFID. Under CASHE 33 NGO-MFIs in the four states were mentored through which 728,431 clients were brought under the fold of microfinance services and linked to financial services to the extent of Rs2,391 million. The core aims were:

- To support the development of community-owned and managed microfinance organisations
- To build capacities of partner organisations to deliver innovative microfinance products and services to the poor
- To help identify and incubate microfinance innovations
- To help build a pro-poor institutional framework through influencing policy and regulation at both state and national levels

CASHE was a multi-level programme, targeting diverse stakeholders across the sector from village to block, district, state and national levels. At block and district level CASHE personnel worked directly with local NGO-MFI partners, providing them with financial and technical support. To promote the growth of the microfinance sector as a whole, they worked with self help promoting institutions, capacity building institutions, technical service providers, government agencies and other related departments at district and state level. At regional and national levels, CASHE engaged with the government, banks and other policy-making bodies to influence the development of an appropriate legislative and policy environment.

Through the implementation of this programme CARE became a leader in the field of microfinance and enterprise development in India and was well aware of the limitations and constraints. One of these was the difficulty of bringing real change to people's livelihoods through the current model of microcredit delivery through self help groups.

Livelihood Finance

The poor tend to operate not just with one but with several livelihood activities, often switching from one to the other within the same day and also by seasons. Thus they maintain a diversified portfolio of subsistence activities. For example a marginal farmer may also rear livestock, gather forest produce, twist rope, work as a mason and so on. Their lives are also hedged around by their personal circumstances - their family situation, their health, their social status, their inheritance, their strengths and their weaknesses. Their options are governed by the natural environment in which they live and the developments which have occurred - some negative like land degradation, some positive like new roads and market outlets.

Thus improving or changing a livelihood means taking all these factors into account and determining where something can be improved and how it can be done. Finance, of course, will be an issue both at household and the wider community level. Poor households cannot solve problems of water supply, soil erosion, electricity supply, marketing and so on individually. However, by working together they may be able to address some of these problems. So to change lives, individuals and groups will need to organise themselves and as always, money will be required to pay for things. People will need the skills to plan and work out how things can be financed, e.g. by saving or pooling savings or borrowing, and how cash flows can be managed in the longer term, especially according to the livelihood related cash flows.

The SHG microfinance approach solves a very small part of livelihood finance. It particularly focuses on the women members of the household and helps them to manage the cash flows of immediate concern for basic survival. It is important because it helps to change the status, confidence and position of women in the household and local community. Some of them manage to start new livelihood activities using the resources available through the SHG.

The purpose of this study is to consider how a broader approach to livelihood finance can be introduced that will have a bigger impact on changing lives and reducing poverty.

2. Livelihood Strategies - A Case Study from Andhra Pradesh

CARE India elected to use one of their CASHE operational areas to study the prospects of facilitating and financing improvements in people's livelihoods. Research was conducted in four villages located in the CASHE operational area of Andhra Pradesh. The villages were chosen based on presence of a varied resource base, active SHGs and potential for enlarging livelihood options of households. Two CARE partner organizations, namely MARI in Warangal and Krushi in Karimnagar, are active in these villages.

Background Information

District	Selected villages	Population	No. of Households	No. of SHGs
Warangal	Kamaram	882	186	8
	Konkapaka	1,478	376	42
Karimnagar	Gallipalli	2,874	758	35
	Katkur	1,800	452	20

A team of local consultants[1] spent two days in each of the four locations. The team interacted with the field staff of the NGOs, SHG members, key persons in the village, selected households, office bearers of the SHG federations or MACS (Mutually Aided Cooperative Societies), officers of the bank branch, local merchants, informal lenders and government officials involved in extension/development. They studied the economic profiles of 37 households.

2.1 Overview of Local Economy

Most of the households cultivate paddy either on owned or leased lands. In the villages in Karimnagar, dairying has emerged as the mainstay during the prolonged drought. Agricultural labour is the other major occupation – with large seasonal variation and differential wages for certain skilled operations like cotton weeding or picking. Gathering and processing non-timber forest products can provide supplementary income for consumption expenses or emergencies. When health problems and old age prevents agricultural and construction labour, small enterprises may be set up. Women manage these enterprises, especially if the money comes from an SHG loan.

The local economy falls into distinct segments:

The *outer shell* connects the village with the regional economy. It deals with the goods and services brought in from or given to the world outside. Typically this would include larger farmers who would buy significant quantities of fertilizers, farm implements or white goods. They would also be selling significant quantities of cash crops or seeds, which met certification standards. The active players in this layer are those with significant access to resources and control over outputs. The population of the village directly participating in the outer shell would be less than 10% in a typical village. In this study, Kamaram was an exception to this norm. Around 40% of the households were participating in the regional economy as employees and 'jobbers'.

The *inner core* is a disaggregated production and consumption system, with relatively small volumes of goods and services exchanged through retailing mechanisms. The active players in this core of the village economy are "prosumer-like" in their economic behaviour. This

[1] ThinkSoft Consultants, Hyderabad

production-exchange-consumption system is relatively under-monetised. Many basic needs are satisfied by exchanges without conversion to cash in the inner core. For example the carpenter in Kamaram makes ploughs and is paid in grain. Wages are paid partly in cash and partly in grain. The population of a village forming the inner core could be up to 90%. It includes small and marginal farmers, agricultural labourers, weavers, artisans and traditional craftsmen and women.

The *common spaces* are the mechanisms which link these two layers, such as government services, financial services and basic commodity processing units. There were many examples of such common spaces in the study area. For example, paddy cultivators, both large and small, went to the mill to process their output. The rice mill served farmers in several villages in the vicinity. It provided the access channel for inner core producers to reach the outer layers. Similarly the dairy cooperative set up recently in Katkoor has become a facility for any household wishing to sell surplus milk in the larger regional market.

The regional economic system controls the local economy both financially and socio-politically. Households in the inner core produce little saleable surplus. Often their output does not have a shelf life. They are forced to accept the terms, prices and other conditions that are offered by the few local buyers. Social custom and relationships strongly influence these transactions.

Cash surpluses that are generated are invested in gold or land, rather than in liquid financial assets. The formal financial sector finds it unviable to service the large volume of these small transactions and is regulated to suit the conditions in the regional and larger market. It has been providing crop /dairy loans and such services to farmers with a good repayment record. These loans often require that the households finance part of the investment from their own resources. Loans from the informal sector are easily obtained. The lenders are from the villages and operate through social and economic relationships. Repayments are often built into the sale of outputs (like grain, handloom or beedi leaves).

Examples of livelihood activities found in the study area are set out in the following table:

Village	Agriculture	Dairying	Wage Labour	Beedi Rolling	Retailing	Toddy Tapping	Others
Warangal							
Kamaram	Paddy	✓	✓		✓		Forest produce, goats, sheep, poultry
Konkapaka	Paddy cotton		✓		✓	✓	Tailoring, sheep rearing
Karimnagar							
Gallipalli	Cotton Maize	✓	✓	✓	✓	✓	Migrant labour
Katkur	Paddy cotton maize	✓	✓	✓	✓	✓	Migrant labour

2.2 *Characteristics of typical livelihood activities*

i. **Paddy cultivation** takes place in smallholdings of 2-5 acres with irrigation from bore wells, local tanks, check dams, etc. Men usually plan the cultivation while women contribute their labour. The yield per acre is reportedly between 20 and 30 bags per acre. Most paddy growers were not interested in the idea of switching to alternative crops. They saw paddy cultivation as their main safety device for family food security.

   Typical costs associated with paddy cultivation:

Land	Rs 30-50,000 per acre
Bullock	Rs 10,000
Plough	Rs 5,000
Borewell	Rs 50,000
Inputs	Rs 10-12,000 per acre

ii. Small scale **dairying** can be represented by the following examples:
   a. The household of an agricultural labourer with no land and one non-descript local cow. The household consumes about 50 percent of its milk production and sells the rest to the local milkman. Off-farm employment contributes 80 percent of the family income; dairy provides only 4 percent.
   b. A farmer keeping three local buffaloes on 3 ha of land, of which 1.4 are rain fed. From the irrigated 1.6 ha, 0.4 ha are used to grow paddy (one crop a year), while the rest is used to grow crops like maize, castor or chickpeas depending on the rainfall pattern. Animals are mostly grazed on public land and own fallow land. Over 70 percent of the milk produced is sold to the milk vendor and/or the local cooperative.

   Typical costs associated with dairying:

Buffalo	Rs10-15,000
Fodder	Rs1-2,000 per year
Veterinary expenses	Rs2-300 per year
Milking equipment	Rs500 per year

iii. In households dependent on **agricultural labour**, all members of a family (including children) work as labourers during the agricultural season. Households engaged in agricultural labour have at least one other source of income as the work is seasonal. A man can earn up to Rs. 40 per day and a woman Rs. 25 per day by working on paddy fields. The wage for working in cotton fields is higher - Rs. 60 for men Rs. 40 for women. Dalit[2] families depend largely on agricultural labour, especially cotton crops.

   There are many households where family members (usually young men) have migrated to other areas for work. Construction activity is well paid, particularly if there is some level of skill involved (like centering for roofing, supervising construction etc.).

iv. **Beedi[3] rolling** is a common activity in Karimnagar. It is a home-based activity and provides a supplementary source of income, which is available throughout the year. It is undertaken in the house and perceived as women's work exclusively. However a lot of children are also involved with this activity. Beedi companies supply the materials and collect the production. It is an important stream of income for households, taking CARE of day-to-day needs such

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[2] Scheduled castes

[3] A **beedi** (from Hindi, pronounced "bee-dee"; also known as bidi or biri) is a thin, often flavoured, Indian cigarette made of tobacco wrapped in a tendu (or temburini; *Diospyros melonoxylon roxb*.) leaf and secured with coloured thread at one end.

as expenses for schooling, vegetables, small festivals, minor health problems and so on, but the work can lead to ill health due to prolonged exposure to tobacco. Beedi companies have pension schemes for their workers.

v. **Retailing** is a popular enterprise option for women. The families that could combine this activity with some other means of income generation were relatively comfortable. Some small shops were found to generate a surplus of around Rs 9,000. This would be inadequate to meet the entire requirements of a family but was a useful buffer when agriculture was not giving adequate returns.

To set up a shop women generally borrow between Rs 10-20,000.

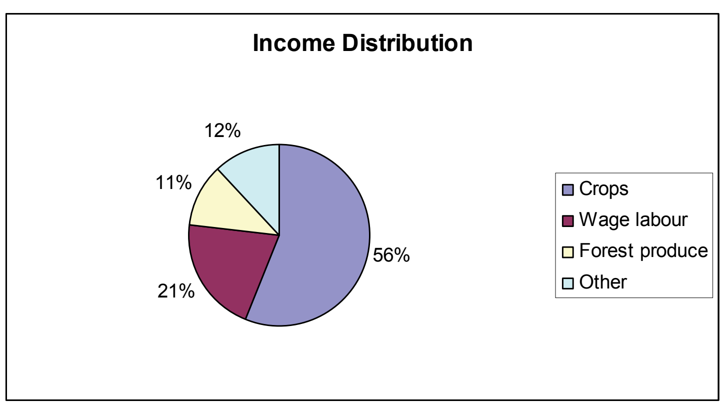
2.3 Livelihood strategies

All families in the study area followed a "diversified portfolio" approach as a livelihood strategy to a greater or lesser extent. Among the families who were interviewed, however, the researchers identified four sub-categories based on different attitudes to risk. They described these strategies as follows:

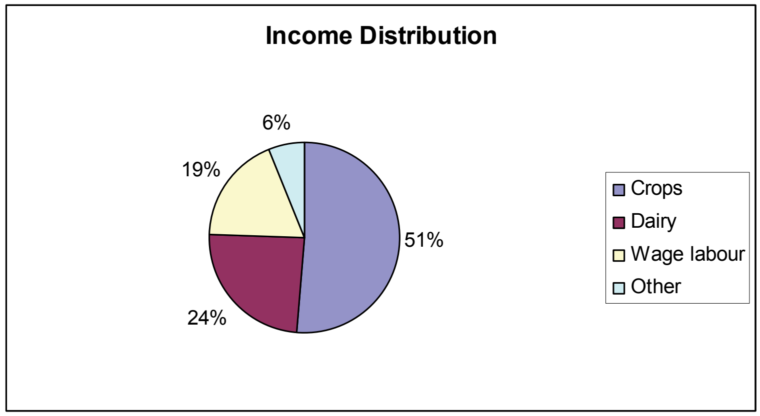
RISK	HIGH	A head-on "invest more" approach	A non-farm enterprise approach
	LOW	A subsistence approach	A diversification approach
		LOW	HIGH
		RETURN	

Families following the *subsistence approach* were reliant on paddy for consumption and sale and supplemented this with agricultural and other wage labour, and collection of forest produce. The average income distribution pattern of this group was:

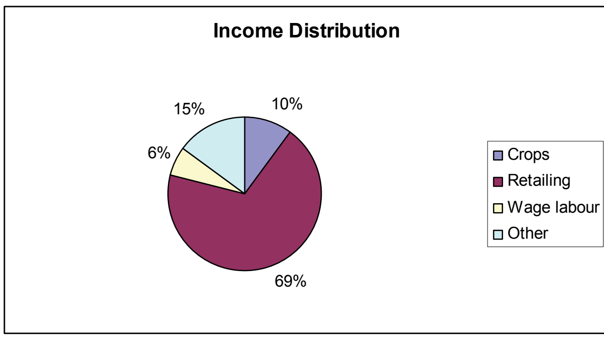
Families following the *diversification approach* had mostly incorporated dairying into their livelihood strategy, selling milk to the local dairy cooperative. Some produced cotton but most depended significantly on migrant labour and activities such as beedi rolling. The average income distribution pattern of this group is presented in the figure.

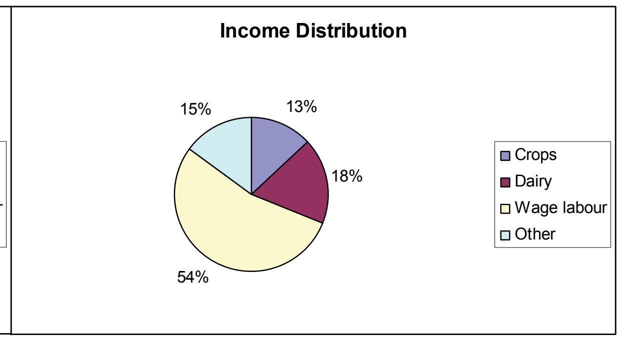


Families addressing the crisis with a *head-on approach* were increasing investment in land and sinking boreholes to ensure more reliable and higher yielding crops. To pursue this strategy required substantial borrowing by the families. An example income distribution from this group was:



Families adopting the *non-farm enterprise approach* had largely introduced a retail activity into their livelihood strategy. This then seemed to become the major form of income for those families. The average income distribution pattern of this group was:

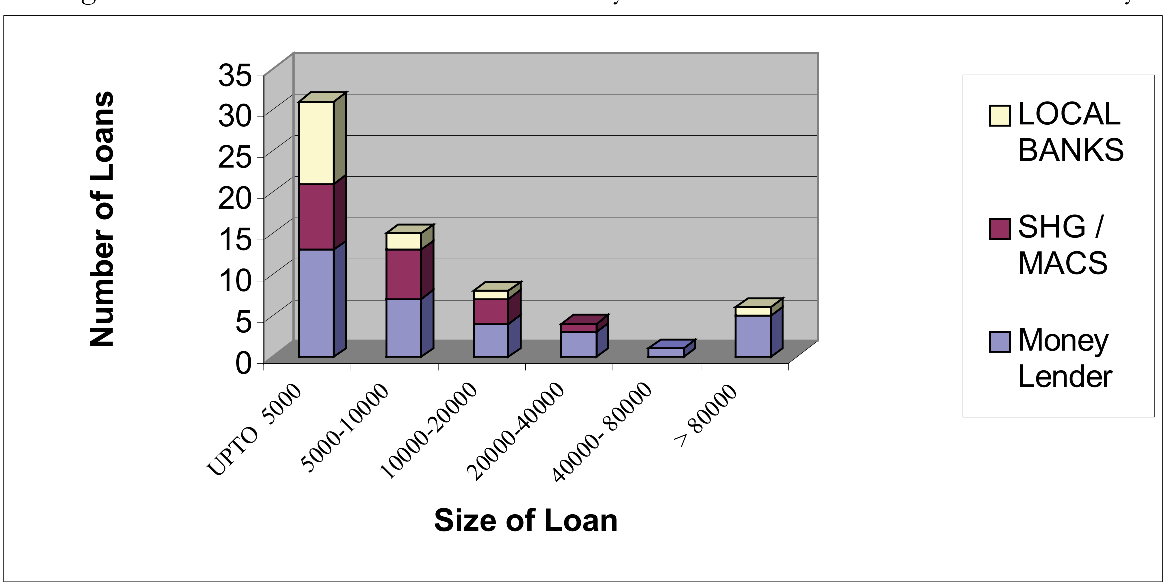




All families had similar basic expenditure patterns on food, health CARE, clothing and education. The higher risk approaches involved higher spending on investments and business expenses.

2.4 Financial management

Most of the families interviewed used credit as part of their livelihood management. The following chart indicates the distribution of loans by size and source in the households surveyed:



It is clear that the majority of loans are less than Rs 5,000 (~$110). Bank loans above Rs. 5,000 are scarce but SHG loans and informal loans up to Rs.10,000 are quite common. There are very few large loans and they have been taken from moneylenders or as a secured loan from the bank.

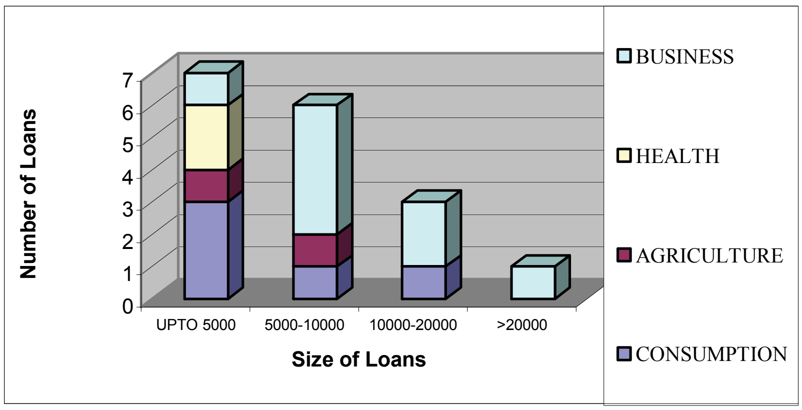
To obtain cash quickly the households relied on:

- Sale of livestock or some other asset (usually for emergencies)
- Small loans from informal sources or SHG (for consumption)
- Loans against produce (for input purchase and emergency expenses)

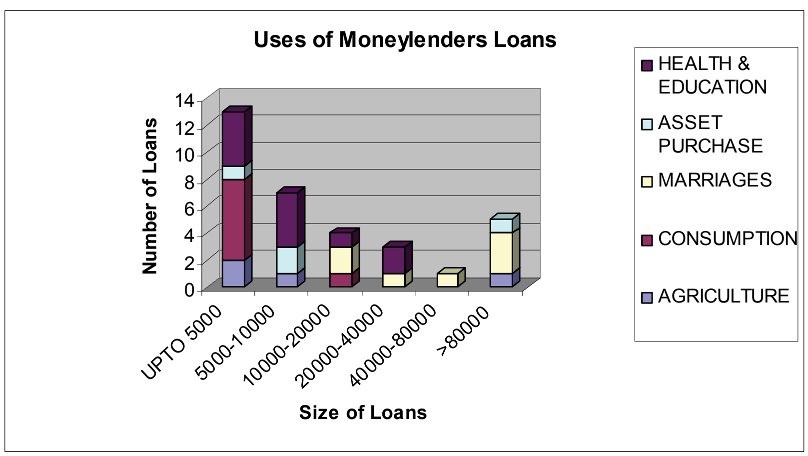
Larger loans are used for marriage expenses and business investment.

Details of how loans from different sources were used by the surveyed households are provided in the following three diagrams:

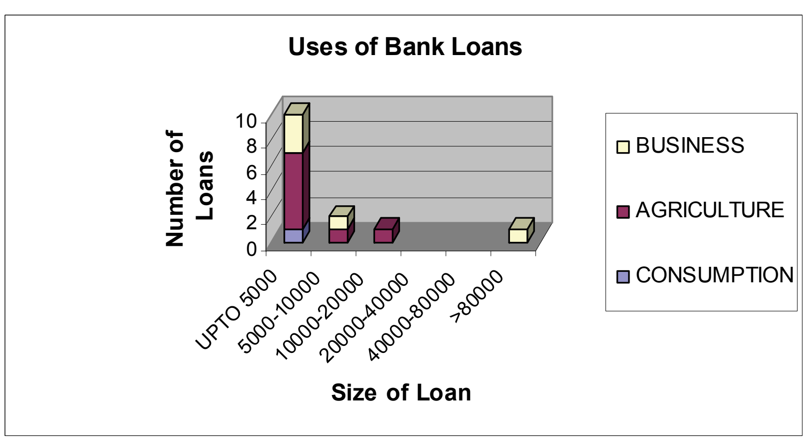
i. SHGs



ii. Moneylenders



iii. Banks



The loan usage patterns of the households reflect the perceptions of households about the different loan sources. Likewise bank clients are mostly men, while SHG clients are women. Decisions to prioritize repayments may be driven by relative costs and the social and other pressures that arise in case of defaults.

Most women that are members of an SHG save between Rs. 30-50 per month with the SHG. Other than this, families may save anywhere between Rs. 100 to Rs. 2,000 in banks, chit funds or in the house, depending on their net income. Savings schemes in the informal sector can be unreliable and risky[4].

Despite the high risks associated with livelihood strategies employed in these villages, little use is made of insurance products. A few men have life insurance, paying an average of Rs 1860 as a premium, and a number of people had livestock insurance which is mandatory when buying animals using bank or SHG/MACS loans.

2.5 Responding to change and improving livelihoods

It is clear from the information provided that people adapt to changing circumstances and seek to improve the sustainability and quality of their livelihood strategies. What has not been established is how they do this on their own. We do not know the decision-making processes that families have gone through before deciding to invest in a new activity or additional resources for existing activities and we do not know exactly why a family continuing with a subsistence strategy, do so. It is certain, however, that they will not make any financial calculations to evaluate the risks of any investment or to see whether they will be able to meet ongoing costs of new enterprises, for example. The incentive to change will come largely from seeing what others do and the ambition of family members or, in some cases, be driven by the absolute necessity of alleviating hunger.

Looking at the examples in these villages in Andhra Pradesh, the impact of participation in SHGs and the intervention of local NGOs has clearly influenced livelihood decisions.

The *SHG methodology* whereby the members meet regularly to deposit their savings or make loan repayments, and take decisions about new loans to members, provides ample opportunity for members to discuss their problems among themselves and with their advisor (usually the NGO staff). Most SHGs are formed as a result of encouragement by a promoter and this person normally remains associated with the group to teach them the necessary book-keeping skills and help the leaders manage their operations. According to NABARD[5] guidelines any of the following could become a SHG promoter:

- A retired school teacher or a retired government servant, who is well known locally.
- A health worker, field officer or staff member of a development agency or department of the State Government.
- The field officer or staff member of a commercial bank / regional rural bank or field staff from the local co-operative bank or society.
- A field level functionary of an NGO.

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[4] In Konkapaka, one of the Registered Medical Practioners (RMP), who had been working in the village for about 7 years, decided to start taking savings from people and promised to give them a good rate of interest. He collected more than Rs 8 lakhs as savings from the villagers over a period of two years. However after collecting for two years, the RMP absconded. A lot of families lost more than Rs 40,000 in savings. Frequency of such incidents highlights the fact that there is huge untapped saving potential in the village.

[5] National Bank for Agriculture and Rural Development

- An unemployed educated local person, having an inclination to help others.
- A member/participant in the Farmers' Club Programme of NABARD.

As noted earlier, a total of 105 SHGs in the villages were covered in this study. Thus participation in these groups is obviously an important influence on livelihood strategies. The purchase of buffaloes or setting up a small shop is probably a direct result of women being members of a SHG. Participating in the group will give women the confidence to do what others have done and the opportunity to get a loan will be another key factor. There is no evidence that within the group any detailed financial appraisal is made of members' investment proposals.

The SHGs operating in these villages were promoted by NGO staff. Thus the potential influence of these organisations on the livelihood strategies of SHG members can be determined by looking at their objectives and the skills of their employees.

Krushi[6] started out as an NGO specializing in land rights for marginalised communities. They soon realised that land rights alone are not enough. Communities can benefit only if they can make their land productive. So about ten years ago, several Krushi staff attended workshops and exposure visits on sustainable agriculture. After this, they started preparing plans with the local community to develop their land and adapt their farming techniques.

The Rayalaseema Watershed Area Development Programme (RWDP) trained Krushi staff in watershed management and they managed to combine their approach emphasizing rights and empowerment of marginalised communities with the technical aspects of the watershed project. First farmers identified the boundaries of the watershed, and divided it into three mini-watersheds. They also identified 10–12 ha micro-watersheds, each cultivated by 10–15 farmers.

Krushi team members then visited each family to discuss their farm's individual needs and to help them prepare farm plans. Typically plans included these types of activities:
- De-silt open wells, prevent them from silting up again, and recharge them with water.
- Construct bunds to control runoff and erosion on fields.
- Plant fruits trees such as jamun (Eugenia jambolana), mango, custard apple, sapota (Manilkara zapota) and papaya.
- Plant trees for fuel and timber.
- Plant fodder crops such as gliricidia, leucaena (subabul), stylo grass (Stylosanthes hamata) and local maize.
- Dig low-cost percolation tanks, farm ponds, sunken pits and other structures to structures to harvest and conserve water and increase the amount of moisture in the soil.
- Construct diversion channels, gully plugs, contour trenches, earthen bunds and weirs to combat soil erosion.

Krushi organised a series of meetings with all the families in each hamlet. At these meetings they consolidated the individual farmers' plans, worked out the total costs and decided on community-level works such as:
- Building water-control and conservation structures on a stream to raise the water table in open wells and tubewells.
- Building a water percolation tank upslope to feed the wells.
- Planning the use of community-owned waste lands: planting them with trees to yield timber, fodder, fuel and fruit.
- Constructing percolation tanks to recharge open shallow wells for irrigation.

[6] Information about Krushi's activities was obtained from "Sustainable Agriculture - a pathway out of poverty for India's rural poor" published by Sustainet: http://www.mamud.com/sustainet_india.htm

The meetings discussed with each of micro-watershed groups about how to solve their common problems, for example, by controlling erosion, digging channels to divert water or treating streams.

The plans for all six hamlets were consolidated at the central level with representatives from each hamlet. Krushi then held training courses for men and women in the community on the concept of watersheds and on the skills needed to manage them. It also organized exposure visits to successful watersheds assisted by Myrada, an NGO operating in Karnataka. The Krushi team used every opportunity to strengthen the knowledge of both the farmers and of the team itself. Since this was also a new venture for Krushi, the organization involved all its staff members from time to time to familiarize them with the process that was followed.

Krushi found that watershed activities, such as constructing soil and water conservation works, are labour intensive, so they help to combat the unemployment problem. The organisation has also moved into promoting women's self help groups. Apart from the savings and credit activities, the members have gained an opportunity to discuss issues among themselves and have challenged problems such as discrimination and violence against women. They have been able to increase their access to credit by tapping their own group savings, a watershed revolving fund to support the livelihoods of landless and single headed families, the Mutually Aided Women Savings and Credit Cooperative Society and banks.

Examples of results Krushi has achieved are as follows:

- Through the project, the villagers treated 100% of the marginal land with soil and water conservation measures. All 54 shallow wells now have water for irrigation; the water table has risen and the wells contain water throughout the year. There was no drinking water problem even in the 5 continuous drought years between 1998 and 2003.
- The villagers can collect fodder and fuelwood close by, from the bunds on their farms and from community-owned lands. They are spared the time and drudgery of fetching them from far way.
- Crop production has risen: for example, production of groundnuts rose from 675 kg/ha to 1375 kg/ha. More intercropping produced more pulses, a greater variety of food, and better nutrition.
- Small-scale and marginal farmers have brought an extra 16.4 ha into irrigated cultivation. They lift water to their fields with pumps and scoops. They have also brought 36 ha of fallow land back into cultivation after treating it with proper soil and water conservation measures. The farmers consumed most of the grain they produced, but grew vegetables and fruits to sell.
- People have stopped migrating in search of work. They can find enough work in the village itself, for example in brick making, construction work, or farming land as tenants.
- Discrimination against women has fallen. Women have formed self-help groups, have engaged in income-generating activities as groups, and now earn equal wages.
- The number of livestock has risen, and the animals are in better health. For example the number of Jersey cows has gone up from 14 to 63, sheep and goats from 530 to 1560, and chickens from 201 to 2560. A trained paravet visits the farms to attend to the animals' health.

It is clear from this account of the sort of work that Krushi has been involved in that their staff have the potential to assist people to improve their livelihoods. What is less clear is how finance has facilitated the process other than the availability of credit through the SHG / MACS mechanism.

In one of the villages studied by ThinkSoft, Krushi facilitated the formation of a dairy cooperative with members of a SHG. The cooperative collects milk from members and a linkage has been established with the state owned Vijaya Dairy. The milk is sold at Rs 10 – 12 per litre depending on the fat content. Milk-testing equipment has been purchased with the assistance of a grant from DRDA. The members now get feed and advice on how to maintain animals from the cooperative, and they can get loans to purchase animals from the bank or the MACS.

MARI (Modern Architects for Rural India) was started by a group of young professionals in 1988 with the mission of enhancing the livelihood conditions of the needy, downtrodden and weaker sections of the society. It believes that the natural resources, their distribution and management along with access to education determine standards of living in the rural and tribal areas. Its operations are currently spread over 4 mandals[7] of Warangal district.

MARI became involved with SHGs when the District Rural Development Agency (DRDA) asked them to adopt and improve the quality of some under performing SHGs. Since then MARI has become a partner of the CASHE project and has promoted a 3-tier (SHGs, MACS and Apex Federation MACS) structure of community led micro finance organizations.

It has promoted 14 mutually aided cooperative societies, out of which 8 have achieved operational sustainability. Through these institutions it offers diversified financial services that also include insurance and housing credit schemes to its clients.

Apart from this MARI is involved a range of projects, e.g. strengthening of Panchayat Raj institutions, **sustainable management of natural resources, sustainable agriculture, i**ntegrated watershed development, community forest management, tank restoration and chilli processing.

MARI expects to continue promoting SHGs among women but also to start initiating them among poor farmers. They believe there is a vacuum when it comes to organising the small and marginal farmers, who are facing difficulties in meeting their credit needs. According to MARI no one is working with these farmers and since they have an excellent relationship with many of them through their tank restoration and sustainable agriculture projects, they intend to bring them into a microfinance structure.

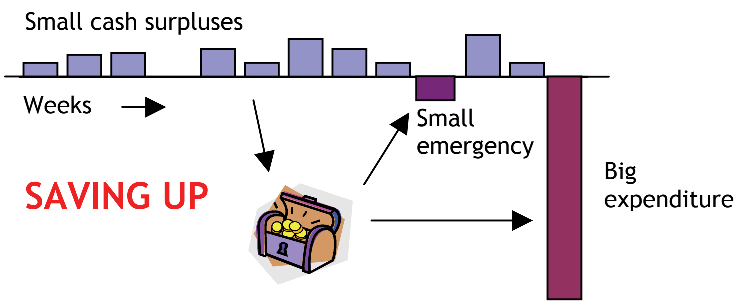
It is thus a key ambition of MARI to integrate microfinance objectives with the objectives of other ongoing development projects and speed up the development process of their target communities. Can they do this and how can the capacity of the men and women that will be involved in their groups, to plan and finance more significant livelihood change be improved?

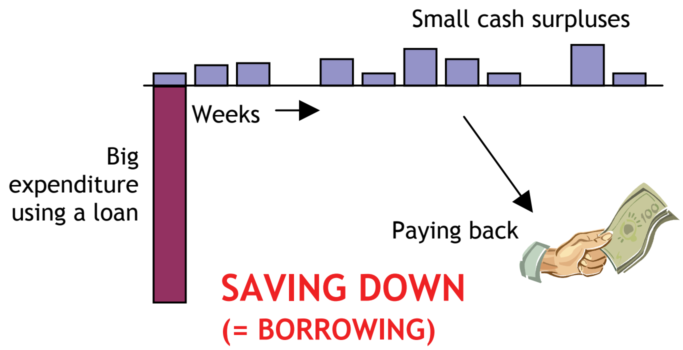
[7] A mandal is a sub-division of a district normally incorporating around 30 villages.

3. Providing Livelihood Finance

3.1 The demand perspective

Individuals and families
The case study in Andhra Pradesh seems to confirm the belief that for most poor households livelihood finance is about managing cash flows. As Stuart Rutherford[8] so graphically explained, you can "save up", "save down" or "save through".





Saving "through" is just a mixture of saving up and saving down. What is clear from this description is that borrowing is just advance use of savings.

So "finance" does not just mean credit. You can finance what you want to do from savings if you have them. Livelihood finance from a demand perspective should be as much about convenient savings as it is about loans. Savings are the first line of defence against risk. When faced with losses or crises arising from illness, for example, the existence of savings help to prevent severe distress.

Savings are also the mainstay of informal finance. It is only possible to borrow from family members, friends and neighbours if they have some savings. The story of the medical practitioner in Konkapaka who absconded with some Rs800,000 ($17,390) of people's savings showed both the desire people have to save and the risk of informal savings methods. But many moneylenders acquire funds in this way, making financial intermediation between savers and borrowers their business.

There is no virtue in the argument about whether it is better to borrow or save up. As explained above, people have to save even if they borrow. It is all about managing variable flows of money and dealing with lumpy expenditures which occur at intervals. It is very nice if one does not have

[8] Stuart Rutherford, "The Poor and their Money" 2001 OUP

to borrow but for most, credit is an essential part of the managing process, even though they have to pay interest on borrowings.

The demand for credit according to the study in Andhra Pradesh is characterised firstly by a need for relatively small amounts. This would accord with the assumption that families' basic requirement is to manage short term variable cash flows.

Lumpy expenditures may arise from purchasing any of the following items:

- Housing materials
- Carts or rickshaws
- Land
- Irrigation pumps
- Ploughs or cultivators
- Bullocks or other livestock
- Seeds and fertilisers
- Storage sheds
- Milking equipment
- Bicycle
- Inventory for a shop

The list could continue - these are just examples. People may need credit for all or part of the cost of such purchases. What they also need is repayment terms that they can match by their income flows.

Most lenders make assumptions that credit for income generating items is repaid from the income flow generated by the item, whereas the borrower will not distinguish between income flows and only requires to be able to repay at the times when he has sufficient income from any source. This is the nature of a diversified portfolio of livelihood activities and the cash flows from different livelihood activities are managed like a basket of cash available.

So from a demand perspective, loan conditions need to match people's livelihood repayment potential, which can only be determined by estimating cash income and cash expenditure on a daily, weekly or monthly basis for an appropriate time period. Weekly repayments are only possible if there are weekly incomes, unless people make recourse to savings or borrow elsewhere to repay. However simple assumptions that a loan used to purchase crop inputs cannot be repaid until that crop is harvested, fail to take into account other income flows or expenditure requirements.

Ideal livelihood finance would take a holistic approach to saving, borrowing and repayment strategies. This could be achieved through a simple bank account in which deposits and withdrawals can be made as required and into which loan funds can be put and repayments withdrawn either in the form of an overdraft or as term loans of some kind. However, distances from banks may still preclude this option and people are likely to continue having to identify the saving and loan products that best suit their livelihood requirements from a range of different service providers.

In this situation some of the options may be rejected or ignored as a result of misinformation or lack of information and this could be remedied. People may rule out the use of bank products through ignorance and be completely unaware of insurance. They may not know about the availability of grants to support investments in water management techniques or land improvements from government programmes. If individuals can perceive how to improve their livelihoods, they also need to work out the optimal way of financing the change and managing their cash flows.

One aspect that requires further thought is whether it is logical to think of livelihood finance as an individual or family issue. Most loans or accounts are in the names of individuals - men or women. Is this compatible with a livelihood approach? There are good reasons why it was beneficial for women to develop a separate financing system for themselves. Livelihood finance may require a move towards joint responsibility. As is evident from many studies that in many cases the loan from women is passed on to men or the livelihood activity are jointly managed with men doing the purchase for the activity.

Group enterprises

One of the commoner strategies for improving incomes of rural producers is to encourage the formation of groups to undertake certain activities such as marketing of produce or small scale processing to add value or bulk purchase and retailing of inputs. For example a milk producer group can carry out a range of activities: milk collection, milk processing, marketing of milk products, organising the supply of animal feed and veterinary services, etc. Groups may also start completely new enterprises which may be an attractive option for women who may not have the confidence or capital to start something by themselves. This also enhances availability of larger cash amounts for the enterprise and distribution of risk.

It should always be remembered that group enterprises are not an easy thing to manage and they should not be embarked upon lightly. There have been many failed experiences (e.g. DWACRA programme) in the past, and it is largely abandoned as a strategy. A group needs to agree on their reasons for starting the activity and what expectations they have from it. People generally think that they will be able to secure better prices for their products by cutting out middlemen but they have to appreciate that marketing has a cost and will take up more of their time and they have to be sure that they will end up better off not worse off. Group members are always happy to share extra profits but are they just as happy to share any losses and take specific responsibilities?

A group enterprise is a business undertaking and should be planned as such. Unless the individual members benefit in the form of an improved income, there is no point in participating. So ideas should be fully researched and investigated, and estimates made of start-up costs and working capital requirements, as well as potential profit. With this done the problem of finance will arise. There are only two places that money can come from to start a business and they are the group members' own contributions or share capital, which derives from their personal savings, and loan capital. No business should be started entirely with loan capital but if a group enterprise is chosen as a strategy to improve people's livelihoods, it will generally need some loan capital. Enterprises involving investment in fixed assets may need medium or long term loans in addition to short term working capital loans. They also need an account in which to deposit and manage the enterprise cash flow and in this respect have similar needs to individual households.

Some of the difficulties that a group may face in obtaining loan capital are the need to be a legal entity, the absence of any track record for the enterprise, the lack of experience of those proposing to run the enterprise, the lack of collateral and so on. Some of these limitations may be overcome by producing a well thought out business plan and budgets, but some financial providers may still want a guarantee of some kind.

Community development

Improving livelihoods in many rural areas may need community level action to prevent damage to natural resources or to restore resources that have already been damaged. This might mean investment in erosion control methods, tree planting, tank renovation, irrigation channels and so on. Similarly activities such as constructing a grain bank, access road or local market may have significant benefits to local communities.

Such initiatives require finance and since they do not directly benefit just one family or household but all the residents of a village or catchment area, they are normally assumed to depend on government budgets and are, thus, financed by taxation. In principle there is no reason why a community cannot decide to raise its own "local taxation", which may be called a contribution or subscription, and invest this in the restoration or maintenance of water storage mechanisms or other form of infrastructure if it is deemed to be of great benefit to everyone. Village organisations or self help groups could initiate such actions and contribute through labour donation if not in monetary terms.

3.2 The supply perspective

Moneylenders, merchants and pawnbrokers

Moneylenders are common in larger villages and small towns. A large village with a population of say 5,000 may have 5 or 6 such lenders. They serve the population in the village as well as in the surrounding hamlets and smaller habitations.

Data from the household survey in Andhra Pradesh reveals the continuing importance of moneylenders in people's livelihoods. A poor family turns to this source of help in most emergencies. The major economic operations of many households are also frequently serviced with loans from moneylenders. Sometimes all the essential requirements for a livelihood activity such as inputs, market linkages and cash are integrated into their loan products for paddy cultivators or handloom weavers.

The moneylender of Illanthakunta

Venu is a moneylender in Illanthakunta mandal of Karimnagar district who lends money directly to farmers. He also runs a fertilizer and pesticide shop and sells on credit. He lends money without collateral security. The borrower can either repay in cash or kind. He lends only to those whom he has known for a long time and can trust. He says though demand for the loan is always higher than the supply; he has no interest in expanding. When people repay in kind, he sells the produce in the markets in Guntur (for cotton) or Sircilla (maize). The size of the loan varies form Rs.10,000 to Rs.200,000. The loans can be for wedding expenses, to purchase land or investment in land improvement, health, education. People repay when they have money. The recovery is usually 100%. Sometimes he even writes off loans; as he did in the past couple of years when there was severe drought.

He has a regular clientele of around 150 – 200 families. He also says that he has faced no decline in demand for loans even though other sources such as SHGs and MACS have come up. The fact that loans are available at very short notice without any paper work is what makes these loans attractive to people despite the high interest rate. The interest rate is about 24% simple interest per annum. He visits the borrowers regularly to assess the situation. In 2006 he has not lent much as the water situation has not improved and it would be very hard to recover the loans.

Interview by ThinkSoft Consultants

In many ways the moneylender meets the conditions that would typify livelihood finance but they frequently do so at a significant financial and social cost to their customers.

Merchants, traders or buying agents providing inputs against contractual claims on the producers' outputs are also providing livelihood finance. These arrangements usually have the advantage of convenience to the producers but may not necessarily have the best result in terms of the margin between input costs and output prices. This source of finance is likely to remain important to rural households but may face competition if producers manage to organise themselves to aggregate and market larger quantities direct to processors or exporters.

The variety of other informal financial services that exist in India and help people manage their money and solve cash crises is considerable and will not be reviewed in full here. An example of a pawnbroker is given on the following page. The important thing is to appreciate that people use all these mechanisms and they, therefore, form part of livelihood finance. Those giving guidance need to remember this. There is also a diversity of rotating savings and credit associations (ROSCAs) in India from small clubs to large chit funds. These too may play a part in livelihood finance.

A Pawnbroker in Western India

Residents of the slums of Vijayawada use their local pawnbroker when they need money quickly. He is reliably available at his goldsmithing shop and his terms are set. He charges 3% a month for loans pledged against gold, 5% for silver and 9% for brass. The inclusion of brass means that even the very poor can get a small advance by pawning kitchen pots and pans. He lends up to about two thirds the value of the pawn. He gives a receipt, and the borrower can be sure of getting her pawn back when she repays the loan, so she can risk pawning objects of sentimental value. Unlike those who lend without collateral the broker does not need to know his clients well: the unambiguous collateral provided by the pawn means that the broker can lend to more or less anyone at any time, though he has to be CAREful to avoid taking stolen goods. Many of the pawnbrokers also manage ROSCAs.

From "A Critical Typology of Financial Services for the Poor" S. Rutherford 1996

Post offices[9]

India has by far the world's most extensive postal savings network and the oldest one among developing countries. Some 154,000 post offices all offer postal financial services even in small and remote villages; overall it is estimated that they service some 116 million account holders with some Rs. 1,817 billion on deposit (approximately $42 billion). Originally organized during British rule in 1883, since India's independence in 1947 the Post Office Savings Bank (POSB) has offered an extensive array of postal savings schemes and other financial products, acting as an agent of the National Savings Organization (NSO), a division of the Ministry of Finance.

The social mandate of postal savings is to offer access to financial services to all population groups. They have an array of savings products. A simple savings account can be opened by a

[9] Information obtained from "Postal Savings and the Provision of Financial Services" M.J.Scher 2001 and the Indiapost website: http://www.indiapost.gov.in/Netscape/Banking.html

single adult or two-three adults jointly, with a minimum deposit of Rs. 20. The maximum that can be held by one person is Rs 100,000. There is no lock-in / maturity period prescribed. Any amount can be withdrawn subject to keeping a minimum balance of Rs. 50 in the account. A depositor is provided with a pass book in which entries of all transactions will be entered and duly stamped by the post Office. Interest is calculated on monthly balances and credited annually. Post offices also have time deposit accounts ranging from 1 - 5 year maturities. These can be opened with a minimum of Rs. 200.

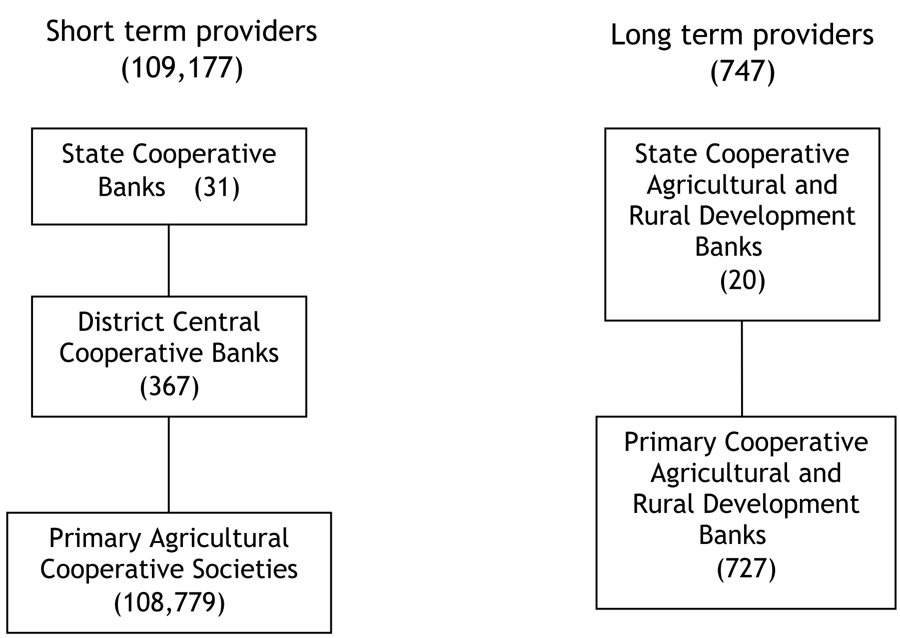
Government policy on the investment of postal savings funds is historically predicated on maintaining the public's confidence in the safety of postal savings funds. So they are typically restricted to investing in government bonds and government-guaranteed securities. In India, fully 80 per cent of the funds collected are distributed by the Ministry of Finance to the Governments of the States in which the deposits were made. The Union Government retains the other 20 per cent.

Chief among concerns of rural savers, after safety and accessibility to savings, is access to credit, particularly where in-kind savings predominate and are not easily liquidated to meet short-term emergency cash needs. However, the POSB does not give credit. That responsibility was left to agricultural credit cooperatives in the past but is now complemented by banks, SHGs and other microfinance providers. A common situation in the past was for long-term savings to be held in the postal savings system and short-term savings in credit cooperatives. There was generally a rise in the number of time deposits at post offices following a harvest, as farmers saved a portion of their earnings.

Cooperative societies

The cooperative credit structure in India is almost a century old. The cooperatives were the only institutions providing institutional credit to agriculture until commercial banks emerged on the scene in a big way, particularly after their nationalisation in 1969 and social banking became their major thrust. Two types of cooperative credit institutions were developed, one supplying short and medium term credit to the cultivators and the other dispensing long-term credit, at first for debt redemption and subsequently for investment in agriculture. Today credit cooperatives can be found across India and their share in rural credit works out to about 45 per cent of the total credit for the rural sector in the country.

Rural credit cooperatives are organised in a tiered structure, shown here with the numbers of each type in 2005-6:



Historically the following objectives were set for the PACS:

- To raise capital for the purpose of giving loans and supporting the essential activities of the members.
- To collect deposits from members with the objective of improving their savings habit.
- To supply agricultural inputs and services to members at remunerative prices.
- To arrange for supply and development of improved breeds of livestock for the members.
- To make all necessary arrangements for improving irrigation on land owned by members.
- To encourage various income-augmenting activities such as horticulture, animal husbandry, poultry, bee-keeping, pisciculture and cottage industries among the members through supply of necessary inputs and services.

The PACS are generally affiliated to the District Central Co-operative Banks (DCCBs) which perform the following functions:

- Serve as balancing centre in the district central financing agencies
- Organise credit to the primaries
- Carry out banking business
- Sanction, monitor and control implementation of policies

The DCCBs in turn are affiliated to State Co-operative Banks (SCBs), which apart from carrying out banking business, act as leaders and balancing centres for all the cooperatives in their respective States.

Thus cooperative institutions are significant providers of livelihood finance in rural areas. They offer a variety of savings products, e.g.:

- SAVINGS BANK - a facility which enables customers to deposit and withdraw money as per their convenience. Customers can elect whether or not to have a cheque book.
- FIXED DEPOSIT - accounts which offer attractive rates for various maturity periods. There is a facility for drawing interest on a monthly or quarterly basis.
- CASH CERTIFICATE - a cumulative deposit scheme under which interest is accumulated to the principal deposit amount and a lump sum is paid at the end of the investment period. Customers can accrue sizeable amounts by investing small amounts initially. The product is ideally suited to customers saving for a targeted purpose in the future.

There are other deposit schemes and the Cooperative Banks offer current accounts with overdrafts to business and corporate clients.

Although the original intention was that PACS would finance lending by mobilising local resources, most primary societies in the country, perhaps with the notable exception of those in Kerala, have failed to achieve this objective. If refinance from NABARD were not available, most co-operative societies would close down. So loan products are effectively dependent on the schemes and conditions of NABARD. For example NABARD provide a short-term refinance facility, aimed at supporting:

- Agricultural production operations and marketing of crops by farmers and farmers cooperatives
- Marketing and distribution of inputs like fertilizers, seeds and pesticides
- Production and marketing activities of village cottage industries, handicrafts, handlooms, powerlooms, artisans, small scale and tiny industries and other rural non-farm enterprises

The majority of this money is probably used to finance agricultural production with loans that are repayable within 12 months.

In 1999 NABARD devised the Kisan Credit Card scheme in consultation with the major banks. As a pioneering credit delivery innovation, the Kisan Credit Card Scheme aims to provide farmers with a more flexible product which will enable them to purchase inputs in a timely and cost effective manner. Clients are issued with a pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period, a passport size photograph of holder etc., which serves both as an identity card and a means of recording transactions on an ongoing basis. The borrower is required to produce the pass book whenever he/she operates the account.

So these loan products are available through the credit cooperatives, as are others according to the schemes available. For example, a new line of credit was introduced in 2003-04 encompassing loans for agricultural purposes against security of gold and security other than charge on crops, working capital credit for allied agriculture activities, working capital credit for procurement and distribution of agriculture inputs, marketing of agriculture/allied products, collection and marketing of minor forest produce, etc. and short-term credit support provided to cultivators for higher scales of finance for commercialisation of agriculture, exports and value addition. In addition to improving the flow of marketing credit to farmers to increase their capacity to hold on to crops and reduce the incidence of distress sales, NABARD encourages cooperative banks to finance the marketing of crops, through its refinance facility for this purpose.

The crucial issue facing the rural cooperatives is that many of them are not viable. They are no longer "member-driven" enterprises and their leadership has often not been professional, transparent, accountable and functionally effective. In particular the PACS, the institutions with the greatest potential to provide services to rural households, are generally very weak. They suffer from a low volume of business, a low resource base, low borrowing membership, a lack of democratisation and professionalism, a high incidence of overdue loans and a stagnating recovery performance.

Despite this they continue to be a significant source of finance in the rural areas. Unfortunately most loans to farmers are not livelihood based but are determined by standardized information on crop input requirements and the proposed area to be cultivated. However the products currently being promoted by NABARD, particularly those designed to improve marketing at the farm level and beyond, have the potential to be an important contribution to livelihood finance and it is to be hoped that the cooperative structure survives, improves its operations and maintains its accessibility through the primary societies.

Commercial banks

India has a well developed banking sector. At the time of Independence in 1947, there were over 600 commercial banks operating in the country. Soon after Independence, however, the view that the banks from the colonial heritage were biased in favour of working-capital loans for trade and large firms, and against extending credit to small-scale enterprises, agriculture and commoners, gained prominence. So in 1955 the State Bank of India was created and later on, in 1969, the 14 largest public banks were nationalised. The main objectives were rapid branch expansion and channelling credit in line with the priorities of the five-year plans.

As a result of this history of social control over banking, India has an impressive number of bank branches in comparison to many developing countries. Latest figures from the Indian Banking Association show a total of 54,063. A great many of these branches are in rural areas. In 1976 Regional Rural Banks (RRB) were established to further increase the availability of rural banking services. By 2002 there were 196 of these with 14,300 branches. Like the credit cooperatives, the RRBs have had their problems arising from their governance structure and inefficient operation, but many are now viable institutions. So altogether the accessibility of banks in geographic terms has dramatically improved. According to Meyer[10] "The average population covered by each bank branch declined from 65,000 in 1969 to 15,000 in 1998."

There were big changes to the Indian policy environment in the 1990s, such as the deregulation of interest rates, revision of cooperative legislation, restructuring and increasing commercial orientation of banks and promotion of greater private sector participation. The deliberate targeting of credit has nevertheless continued with the result that "millions of rural households have received loans from the commercial, cooperative and regional rural banks"[11], people who presumably did not previously have access to formal sector loans. There has been a downside to this, characterised primarily by high default rates and the creation of unprofitable, and therefore unsustainable, financial institutions. Targeting reduces a banker's discretion in selecting borrowers, erodes their autonomy and makes them less concerned about debt recovery. It also makes them cynical about lending to the poor, an attitude which still prevails to some extent.

In terms of products offered, commercial banks all have deposit schemes with current accounts, savings accounts, fixed term deposit accounts, recurring deposit accounts and so on, similar to the Post Office Savings Bank. They are able to offer crop loans, dairying loans, agricultural term loans, business enterprise loans, housing loans, Kisan Credit Cards, gold loans, education loans, loans to SHGs and more besides. They may also retail crop, health and life insurance.

Broadly speaking the banks lending decisions are based on:

- Set instructions /guidelines for the relevant loan scheme
- Full repayment or one-time settlement of earlier borrowings (if any)
- Assessment of income/ debt servicing capability of the household
- Availability of collateral for loans exceeding Rs. 50,000
- Pressures to fulfil targets under various government programmes (like SGSY[12])

Their procedures can be intimidating to new customers and product conditions may be formidable barriers to the poor. However, Government policies continue to promote efforts that will lead to greater financial inclusion and recent innovations include the introduction of a basic banking "no-frills" account which can be opened with just Rs 50, has no minimum balance requirement and no bank charges, and several banks are piloting biometric ATMs that can read fingerprints and give voice instructions to users in different languages.

SHGs / MACS

The expansion of self help groups in India has been phenomenal. There were well over 2 million of them in 2006. They are informal groups of 10-20 people, the vast majority being women. Most of them have been formed with the encouragement of an outside agency – an NGO, a Government department or a bank. The groups hold regular meetings and the members are expected to bring a small amount of savings to each meeting. In a recent study[13], the average monthly savings in SHGs in Andhra Pradesh was Rs. 36. Members of groups that have been

[10] Meyer, R.L. *Microfinance, Poverty Alleviation and Improving Food Security: Implications for India* Ohio State University 2002
[11] Fisher, T., Mahajan, V., Singha, A. *The Forgotten Sector* IT Publications 1997
[12] Swarnjayanti Gram Swarozgar Yojana - a scheme to provide grants and credit to the rural poor
[13] Self Help Groups in India: a study of the lights and shades EDA/APMAS 2006

meeting for several years were found to have accumulated savings of Rs. 2,400 on average and the total group fund had built up to Rs. 28,900.

Most groups keep their savings in a group account deposited in a local bank. After six months of functioning they become eligible for a bank loan. An initial bank loan can be up to four times the group's savings, commonly about Rs. 10,000 payable within six months to a year. Subsequent loans are given, on repayment of the previous loan, and can reach up to eight times the group's savings. Larger amounts have longer payback periods. The EDA/APMAS study determined that the annual average borrowing per member in Andhra Pradesh was Rs. 6,700. In other states the amount is higher. The average outstanding loan per group was Rs. 60,500 in Andhra Pradesh.

So in terms of livelihood finance, the SHGs are enabling women to borrow small amounts, commonly between Rs 2,000 – 5,000. Although group promoters like to encourage investment in new microenterprises, most of the loans are probably being used to ease cash flow management and meet a variety of household needs. The groups are also enabling women to grow their savings, although they may not have ready access to them.

SHGs have a much wider importance in terms of their social benefits. They provide a platform for women to become active in village affairs and have helped them to tackle problems such as violence against women, the dowry system, schools, water supply, etc. Some groups have started group enterprises.

In Andhra Pradesh a substantial proportion of SHGs are members of networks or federations. "The aim has been to create institutions to facilitate withdrawal of the promoting agencies from some of their functions and roles, in terms of both microfinance – facilitating credit access and repayments, and development – by providing a structure enabling women (and their representatives) to negotiate with wider institutions in society, acting collectively in a way which is not possible for SHGs by themselves as small informal groups of 10-20 women."[14]

The structure of federations varies but usually follows either a two-tier or three-tier model. While SHGs are informal, federations often become formal by adopting an appropriate legal form. In Andhra Pradesh this is normally a Mutually Aided Cooperative Society (MACS). During the field work conducted by CARE for this report, two MACS were visited to assess their role and potential. The SHG members are also members of the MACS and contribute a membership fee either individually or as a group. The MACS use this share capital, together with any external funds that they borrow to give loans to SHG members. Both the MACS had obtained loans from the CARE CASHE revolving fund and one of them had a loan from ICICI Bank.

The MACS in the villages that were studied had been set up by the NGOs, MARI and Krushi, and they still relied significantly on their guidance and support. They were also still obtaining support for staff salaries from the CASHE project. Nevertheless the board members seemed to understand their operations and accounting practices very well. Loan appraisal was based on the past performance of the borrower and familiarity rather than any financial assessment of the repayment capacity. MACS loans were important in establishing the successful dairying cooperative in one of the villages.

Government

[14] Self Help Groups in India: a study of the lights and shades op cit.

Planning has been one of the pillars of the Indian policy since independence and the alleviation of rural poverty has been one of the primary objectives of planned development in India. Many schemes have been implemented, e.g., this group were amalgamated into the current Swaranjayanti Gram Swarozgar Yojana (SGSY) programme:

- the Integrated Rural Development Programme (IRDP),
- the Development of Women and Children in Rural Areas (DWCRA),
- the Supply of Improved Tool-Kits to Rural Artisans (SITRA),
- the Training of Rural Youth for Self Employment (TRYSEM),
- the Ganga Kalyan Yojana (GKY)
- the Million Wells Scheme (MWS)

The Department of Rural Development is responsible for schemes for generation of self employment and wage employment, provision of housing and minor irrigation assets to the rural poor, social assistance to the destitute and improvement of rural roads.

NABARD was set up as an apex Development Bank in 1982 with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure the prosperity of rural areas. In discharging its role as a facilitator for rural prosperity, NABARD is entrusted with:

a. Providing refinance to lending institutions in rural areas
b. Bringing about or promoting institutional development and
c. Evaluating, monitoring and inspecting the client banks

NABARD lists its current major activities as follows:

- Preparing "potential linked credit plans" which identify exploitable opportunities in agriculture and other activities which may be developed with bank credit.
- Refinancing banks for extending loans for investment and production purpose in rural areas.
- Providing loans to State Government/Non Government Organizations (NGOs)/Panchayati Raj Institutions (PRIs) for developing rural infrastructure.
- Supporting credit innovations of Non Government Organizations (NGOs) and other non-formal agencies.
- Extending formal banking services to the rural poor by evolving a supplementary credit delivery strategy in a cost effective manner through Self Help Groups (SHGs)
- Promoting participatory watershed development for enhancing productivity and profitability of rainfed agriculture in a sustainable manner.
- On-site inspection of cooperative banks and Regional Rural Banks (RRBs) and off-site surveillance over health of cooperatives and RRBs.

Some specific schemes which are receiving NABARD support include:

- Farmers' clubs
- Capacity building
- Livelihood Advancement Business Schools (LABS)
- Cattle development centres
- Agri-clinics and agribusiness centres
- Crop insurance

It is clear from this brief look at some of the development programmes promoted by the Government that finance is available to support activities which affect and hopefully improve people's livelihoods in rural areas. Whether people in the villages know about all the assistance that may be available and how to make use of it is another matter.

Individual States also have their own programmes of intervention to help the rural poor. In Andhra Pradesh, for example, the Velugu programme is a major initiative which aims to enable the rural poor in Andhra Pradesh to improve their livelihoods and quality of life in the following ways:

- by helping to create self-managed grassroots level institutions of the poor, namely Self Help Groups (SHGs), Village Organisations (VOs) and Mandal Samakhyas (MSs).The basic focus is to create social capital for the poor through creation/promotion of strong self-managed institutions, developing activists and paraprofessionals from amongst the poor and enhancing their capacities to manage their resources and also to access public services.
- by building the capacity of established local institutions, especially the Gram Sabha/Gram Panchayat and Government's line departments, to operate in a more inclusive manner in addressing the needs of the poor;
- by supporting investments in sub-projects proposed by grassroot institutions of the poor to accelerate their entry and expand their involvement in social and economic activities. The sub-projects enable the poor to increase the productivity of the assets under their control, enable them to enhance their incomes and opportunities, reduce their expenditures and risks and manage their natural environment.
- by improving access to education for girls to reduce the incidence of child labour among the poor.
- by achieving convergence of all anti-poverty policies, policies, projects and initiatives at state, district, mandal and village levels.

The Velugu programme is financed by UNDP, AUSAID, USAID, NORAD and UNIFEM.

3.3 How the system fails

On the surface the availability of livelihood finance in India is unparalleled. There are mechanisms to save, mechanisms to borrow, a diversity of products to meet all sorts of investment requirements and a myriad of initiatives from government to extend outreach and improve access to services. It is therefore salutary to read in a study conducted by the Indian Institute of Management, Ahmedabad in 2002[15] that the market share of different lending providers observed in a sample of rural households was as follow:

Informal Credit	42%
Banks (including RRBs)	8%
Cooperatives	47%
Microfinance	3%

The report goes on to say: "When one looks at purpose-wise composition of loans for the villages and for different landholding groups, one can see the quantitative dominance of cooperatives in non-microfinance villages, and in the categories of marginal and small farmers. For microfinance villages and for landless households and medium and large farmer category, local informal lenders become the most dominant category of lenders, with co-operatives

[15] Flow of Credit to Small and Marginal Farmers in India Datta, S.K. and Sriram, M.S. Indian Institute of Management, Ahmedabad 2002

relegated to a second position. Banks and RRBs occupy only a third position, with SHGs, NBFCs[16] and chit funds occupying insignificant positions further down the line."

Although this was a relatively small sample and the situation will have changed since 2002, nevertheless, it is still the case that the majority of rural people do not have bank accounts or borrow from banks. There is clearly a great barrier to overcome here, a fact that is not lost on the Reserve Bank of India (RBI) as can be seen in the extracts below from Chapter VII of the "Report on Trend and Progress of Banking in India, 2005-06":

The Reserve Bank has been seriously concerned with regard to the banking practices that tend to exclude vast sections of population. The All-India Debt and Investment Survey (2002) suggests that the dependence of households on institutional finance declined from 64 per cent in 1991 to 57 per cent by 2002 in rural areas, while it increased from 72 per cent to 75 per cent in the urban areas. Rural landlords and moneylenders accounted for over 30 per cent of the household debt compared with 18 per cent in 1991. Thus, notwithstanding the outreach of the banking sector, the formal credit system has not been able to adequately penetrate into informal financial markets. In the past few years, therefore, the Reserve Bank has been advising banks to review their existing practices with a view to aligning them with the objective of financial inclusion. Banks were advised to make available a basic banking "no-frills" account either with "nil" or very low balances as well as charges that would make such accounts accessible to vast sections of the population. Banks were also advised to give wide publicity to the facility of such "no-frills" accounts. According to the information available with the Reserve Bank, about 500,000 "no-frills" accounts have been opened, of which about two thirds are with the public sector and one-third with the private sector banks.

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks have also been allowed to use the services of Non-Government Organisations/Self-Help Groups/Micro-Finance Institutions/Civil Society Organisations, as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models. .... With a view to providing hassle free credit to customers, banks were encouraged to issue GCC (General Credit Cards) akin to *Kisan* credit cards.

As part of ongoing efforts to encourage greater financial inclusion, particular attention has also been paid to issues relating to farmers. A Working Group has been constituted to ensure greater outreach of banking facilities in rural areas and to ensure availability of bank finance at reasonable rates.

While resource limitations experienced by low-income households will continue to constrain their access and use of financial products, the challenge remains for developing appropriate policies, procedures and products that can overcome this difficulty within the bounds of resource constraints.

The question is "Is this predominantly a supply problem or a demand problem?" Given the efforts of banks to make their systems easier and accounts simpler, the problem either lies with the skills and attitudes of the bank staff or with the lack of knowledge, opportunities or confidence of the clients. Geographic distance will always be an issue but is unlikely to be the sole reason for not using a potentially useful financial service.

[16] Non-Bank Finance Companies

Observation 1: The banks have the products but sCARE the people.

The cooperatives are obviously making an important contribution to financing rural livelihoods. Their main problem is turning themselves into truly democratic, autonomous, vibrant, member driven, professionally managed and financially strong institutions that can serve a wider range of clients more effectively. According to the RBI report a common accounting system is being designed for the short term co-operative credit institutions, which will ensure transparency and prudent accounting methods, and training modules are being designed to train the elected directors and staff.

Observation 2: The cooperatives have the products but not the competence.

The SHGs have been the main focus of attention in recent years as the means to extend access to formal financial services to those outside the system. Through the SHG bank linkage programme many women have now had their first dealings with banks and albeit on a group basis have used both deposit and borrowing facilities. It is a start and one that can continue to evolve as individual members or groups develop the capacity to manage their relationships with the banks or cooperatives. The products available through SHGs, however, are limited – savings often cannot be withdrawn and loans are generally very small. The informality of the group structure is what makes it so accessible but also what makes it limited in terms of financial intermediation. They are amateurs in lending and tend to rely significantly on their promoters, the NGOs.

Observation 3: SHGs / MACS open the door to formal finance but not very far.

One unsolved problem is how to address family livelihoods. That it is an issue is exemplified by the case noted during the CARE field research in which a bank refused to sanction a loan for an SHG because the husband of one of the members had defaulted on an agricultural loan. They also noted that a man may get a loan from a bank secured by pledging gold ornaments belonging to his wife or other female relative. The benefits women have obtained from pooling their savings and having access to small amounts of credit is unarguable. Many of the women have proven more than capable of keeping accounts and conducting negotiations with the banks. Does this mean that they should be the conduit for all the financial intermediation required by the family? Should husbands be members too? Should agricultural loans go through SHGs or should banks and cooperatives promote joint accounts more?

Observation 4: Livelihoods involve families, financial services don't.

Meanwhile the informal sector lenders, deposit-takers, ROSCAs, chit funds and others will go on providing services. They always have and probably always will, perhaps fortunately given their continued importance in maintaining rural livelihoods.

Observation 5: Leave well alone.

The one thing that could be addressed across the board of financial service use is the ability of families to assess their options both in terms of livelihood choices and financial intermediation choices. How do you plan an escape from bonded labour? How do you deal with persistent drought? How do you get better prices? Should you diversify or specialise? What technologies are worth considering? How do you decide if a new enterprise is worth doing? Should you join a cooperative? What are the pros and cons of different savings accounts? How do you open a savings account? What grants and loans are available? Which would serve your purposes best? How much is it safe to borrow and be sure of making repayments? Etc.

Observation 6: Competent advisory services could make all the difference to people's livelihoods.

The remaining chapter of this report will look at the guidance and information gap and how it may be addressed.

4. Providing Guidance

As indicated at the end of the last chapter there are many questions relating to improving livelihoods. When life is a struggle, seeing ways to change and having the strength to change is difficult. It does not matter if finance is available, if strategies are not available. But there are strategies available; people may not know about them or, if they do know about them, they may not consider them to be feasible in their personal circumstances. The obvious answer is to provide some form of advisory service, information centre or counselling mechanism which people trust and are able to use.

4.1 The options

Government extension services[17]
Providing advice and information is not a new idea. It has been the rationale for agricultural extension services for decades. As in many other developing countries, agricultural extension services in India have traditionally been funded and delivered by government. Until the 1960s it was purely a function performed by the state Department of Agriculture, although there were a few voluntary organisations doing effective work in some places. The Indian Council of Agricultural Research (ICAR) became involved from 1966 and initiated Krishi Vigyan Kendras or farm science centres in many places. Since the 1960s state agricultural universities have also conducted training programmes for officials and farmers, and organised demonstrations and exhibitions. Throughout this time the objective of extension was to disseminate technologies generated by public sector research organisations. In the non-farm sector, the advisory role was assigned to the District Industries Centres, Small Industries Service Institutions, Weavers Service Centres, among others.

The 1980s saw the emergence and increasing role of NGOs, input suppliers such as fertiliser companies, and agro-processors in extension activities. Farmer associations and cooperatives were also involved in providing advice to members. The State system started to change in the 90s as funding dried up. Experiments included decentralisation (extension planning and control under elected bodies at the district / block level); contracting NGOs; using a group approach; using para-extension workers; setting up agri-clinics and agri-business centres; and the formation of the Agricultural Technology Management Agency (ATMA) to integrate extension delivery at district level. Farmer information advisory centres have been created at block level to act as the operational arm of ATMA, and commodity oriented farmer interest groups have been promoted at block or village level.

[17] Information largely derived from "Extension Services in India: Emerging Challenges and Ways Forward" by Dr. Rasheed Sulaiman Centre for Research on Innovation and Science Policy, Hyderabad

The agri-clinics and agri-business centres scheme was launched in 2003 with the main objective of providing extension services to farmers on a fee paying basis. These centres are manned by agricultural graduates who have undergone additional entrepreneurship training and been given loans to start up the centres as business enterprises. The centres are thus meant to cover their costs and provide an income for the staff. They are intended to supplement the efforts of the public extension system.

Village extension workers (VEWs) of the Department of Agriculture and Cooperatives remain the most widespread information source for farmers in India. However by the Department's own admission "left to themselves, most states, suffering under general financial constraints were unable to effectively carry out extension activities. Several of them were barely able to pay the salaries of their extension functionaries, leave alone, provide funds for demonstrations, mobility, skill upgrading, etc."[18] Another problem is that the VEWs are too busy implementing programmes relating to the distribution of inputs to have time to provide analytical field visits or participatory problem solving with farmers.

To provide livelihood support and guidance, extension staff would need considerable reorientation and a sea change in approach in the Department of Agriculture. According to Dr Sulaiman "...extension needs to tackle a diverse set of objectives that include but go beyond transferring new technology. This includes organising producers and the rural poor and building their capacities; building coalitions of different stakeholders; promoting information flow; experimenting with and learning from new approaches; and acting as a bridging organisation that accesses knowledge, skills and services from a wide range of organisations. Performing these wider roles is important for extension to reinvent its future and to be relevant to the evolving rural context." He notes that to achieve this public sector extension will need more resources and suggests that some of the subsidies currently being spent on farm inputs should be diverted to extension activities.

Other Government programmes

As mentioned in chapter 3 many development programmes and initiatives have been implemented over the years which have been not only a potential source of funds but also a source of advice and promotion of livelihood change. To exemplify this here are some further details of the Velugu programme to eliminate rural poverty in Andhra Pradesh:

Velugu's core strategy is to build people's grassroot institutions. To implement the mandate at the grassroot level, the managing organisation has recruited young committed Social Work and Development professionals as Community Coordinators / Social Organizers who are stationed in villages and work as the chief change agents. A CC is responsible for 1000 families and can help prepare action plans for individual families. He/she also generates community profiles and a village database.

The people in turn select community leaders which ups the community stakes through a process of informed choice. The Community Activists actively collaborate with the CCs and the groups in the project implementation. They are trained variously as Social / Community / Health / Veterinary Activists and function as para professionals within the communities. Detailed training modules have been prepared for capacity building of the activists.

When community organizations are established, Livelihood Enhancement Action Plans (LEAP) are initiated in all the villages. A LEAP starts with social and resource mapping of the village, followed by analysis of the items traded-in and traded-out and the income and expenditure patterns of the poor. Then value-chain analysis of the major livelihood activities of the poor is

[18] Expenditure Finance Committee Memorandum Dept. of Agriculture and Cooperatives 2002

undertaken. Infrastructure gaps, constraints and structural needs are also figured out, as well as the risks, uncertainties and the best practices. A mechanism for breaking the silence of the poor and communicating their livelihood needs and critical gaps slowly gets institutionalized.

The primary form of grassroot institution promoted by the Velugu programme is women's self help groups. These are amalgamated into Village Organisations, which in turn are federated at the mandal level to form Mandal Samakhyas. However, Velugu recognise the limitations of involving only women: "… it is found that organization of women groups alone would not help either in eliminating poverty or empowering women; the process can be triggered and made sustainable only when all the members of the family are organized." So they regarded the organisation of women's groups as the starting point and have also organised men's groups, youth groups, children's groups, groups for physically challenged, and so on. Some of the men's groups, in cooperation with women's groups, have succeeded in taking on specific issues like reduced pesticide use in agriculture. Groups have been given the flexibility to decide as to whether thrift should be one of their activities or not.

Non-Government programmes

The diversity of NGOs start providing advice, training and encouragement in rural India is immense. The examples of Krushi and MARI who worked with CARE in Andhra Pradesh were highlighted earlier. Some other examples and strategies are outlined below:

Aga Khan Development Network

AKDN's rural development programmes started in the early 1980s when the Aga Khan Rural Support Programme (India) was established in Gujarat. They promote the formation of 'Village Development Committees' comprised of representatives from all communities in the village (including at least 30 percent women's representation). These Committees develop village development plans and work closely with the Panchayat (the lowest unit of the government that functions at the village level). Other community organisations such as farmers' federations and women's self-help groups also facilitate the process of community driven development.

The federations serve as agriculture extension agents and transfer information from agriculture institutes related to cropping practices, thereby ensuring that information reaches farmers in remote areas. Collective marketing of agricultural produce, enabling member institutions to sell their produce at the best price possible is another important activity. These institutions also dialogue with the government and other agencies (including banks) to get access to and benefit from various schemes.

MYRADA

Myrada started in 1968 and for ten years was involved entirely in the resettlement of Tibetan Refugees. Since then it has become involved in broader rural development issues. Myrada initiated a strategy through a network of NGOs, banks and private institutions to foster livelihood strategies through the promotion of Self-Help Affinity Groups (SAGs), Watershed Management Associations, Organic Farming, Integrated Pest Management, technical support for off-farm livelihoods, preventive health and functional literacy, working primarily in southern India. This model has been widely replicated.

During the past few years, 71 Community Managed Resource Centres (CMRC) have emerged in areas from which MYRADA is withdrawing. Each CMRC is staffed by a senior MYRADA staff and managed by a Committee comprising representatives from the community groups. Each

CMRC supports around 120 Community groups, including SAGs and Watershed Management Associations; these community groups pay for the services provided by the CMRCs which include providing information on prices of farm produce, mobilising resources and establishing linkages, offering insurance and counselling services and lobbying for the interests and rights of the poor.

Mahila Abivruddhi Society, Andhra Pradesh
APMAS is a technical and managerial support institution established in 2001 to support the women's self help movement. It works for women's empowerment and poverty alleviation through capacity building, quality assessment, research and advocacy, communication and livelihood promotion on a fee-for-service basis. One of the projects that APMAS has been coordinating is the formation of District Livelihood Resource Centres (DLRCs).

The DLRCs focus on providing livelihood opportunities for small and marginal farmers, the landless and the women in the dry regions of the state. These centres provide information and training services to community institutions, to SHGs, NGOs, and government staff for enhancing and expanding rural livelihoods. Set up as pilots, these centres have been established in partnership with the Government of Andhra Pradesh and are supported by the Aga Khan Foundation.

Access to reliable information and effective training services for various livelihood options at the district level for communities and their organisations, NGOs and government departments are major constraints in enhancing and expanding livelihoods. While there are several state government programmes addressing livelihood issues and successful models available, there is a need for convergence and scaling up. The purpose of DLRCs is to address these critical needs.

Established within the premises of the Training and Technology Development Centres (TTDC) of the state, each DLRC is linked a number of Cluster Livelihood Resource Centres (CLRCs) at the mandal level. These CLRCs work directly with communities and their institutions such as SHGs and their federations.

Financial service providers

Commercial banks
Since 1982 NABARD has encouraged banks to promote Farmers' Clubs in rural areas under the Farmers' Club Programme, earlier known as "Vikas Volunteer Vahini (VVV) Programme". Farmers' Clubs are grassroot level informal forums organised by rural branches of banks with the support and financial assistance of NABARD. The objectives of the Clubs are to:

- Coordinate with banks to ensure credit flow among its members and forge better bank borrower relationship,
- Liaise with input suppliers to purchase bulk inputs on behalf of members,
- Organise or facilitate joint activities like value addition, processing, collective farm produce marketing, etc.; for the benefit of members,
- Undertake socio-economic developmental activities like community works, education, health, environment and natural resource management,
- Market rural produce and products .

Farmers' clubs are supposed to organise a minimum of one meeting per month to which non-members can be invited. At these meetings they are encouraged to invite subject matter specialists in various fields of agriculture and allied activities, e.g. from Agriculture Universities, Development Departments and other related agencies, to talk to them. Experienced farmers from the village or neighbouring villages are also suggested as guest speakers.

Any bank operating in rural area, including Commercial Banks (CB), Regional Rural Banks (RRB), & Cooperative Banks (SCB, SCARDB, PCARDB, DCCB and PACS) can sponsor and organise Farmers' Clubs. They can hire the services of NGOs/ KVKs /Agriculture Universities, if required, to promote the clubs. A basic assumption behind the idea of Farmers' Clubs is that it creates a win-win situation for both the bank and their clients. From the bank's perspective the benefits are expected to be:

- Increased mobilisation of deposits. (All clubs are expected to have a savings bank account with the bank.)
- An increased flow of credit and diversification of lending.
- Generation of new business avenues.
- An improvement in recoveries and decline in non-performing assets.
- Reduction of transaction costs.

Overall the formation of Farmers' Clubs is supposed to lead to better banker-borrower relationships in the area.

There were 17,976 Farmers' Clubs reported to be in existence as at 31 March 2006; 1,812 were recorded in Andhra Pradesh. This study has no information on the quality of their activities.

New financial institutions

BASIX is a pioneering group of financial service and technical assistance companies. It was set up in 1996 and its mission is to promote a large number of sustainable livelihoods, particularly those of the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. BASIX has adopted an approach to micro finance that serves the needs of different segments of customers through different channels. Direct loans are extended to rural producers through a network of village/mandal based Customer Service Agents (CSAs), mandal/district based Field Executives and district-town based Unit Offices. Indirect loans are extended through intermediaries such as seed production organisers, who in turn on-lend to rural producers in their network. BASIX also lends to self-help groups (SHGs) of women set up by non-governmental organisations (NGOs).

BASIX believes that credit is a necessary but not a sufficient condition for generating and sustaining livelihoods. Due to infrastructure disadvantages, remoteness from markets and lack of exposure, BASIX consider it necessary to extend technical assistance and support services to improve livelihoods in rural areas. There are many economic actors operating in the rural areas, who extend a variety of technical assistance to their customers as an integral part of their business. BASIX made conscious efforts to build up a network with some of these agencies for input supply, production enhancement and output marketing linkages. For example, Seed Production Organisers provide technical advice to their customers on improved package of practice for cultivation, as higher seed production enhances his/her income. BASIX collaborates with such parties, as this makes provision of technical assistance much more sustainable.

IGS, the BASIX technical assistance and support services company, works in collaboration with various government, co-operative, non-governmental agencies and private-sector firms, who extend such services as a part of their business. IGS arranges farmer training in collaboration with the local agricultural extension staff, input supply companies and agri-business companies. For example, assistance in designing of irrigation systems is made available with the help of a specialist agency, PRERNA. The APDDCF helps dairy farmers with marketing linkages and get inputs and veterinary assistance. GDS provide guidance to weavers to upgrade their designs, products and production facilities. Accounting training is provided to SHGs and their federations by NGOs and the UNDP Poverty Alleviation Project. The role of IGS in most of these cases is to identify the need for technical assistance, identify reliable suppliers of inputs and expertise and bring the two together systematically.

Cooperative banks
All cooperatives by definition have a responsibility to provide their members with any information and education they need. This would therefore apply to the PACS and Cooperative Banks but it is not known what, if any, member education they undertake. Obviously the widespread existence of PACS provides a structure through which better information could be distributed and discussed in rural communities.

The *MAHILA SEWA Cooperative Bank* in Gujarat is a very special example of a cooperative bank dedicated to improving the livelihood situation of its members. It was set up by the Self-Employed Women's Association (SEWA) in 1974. As part of a policy to introduce client friendly banking they pioneered doorstep banking in 1978 and in 2000 they introduced a team of 'Handholders' and 'Banksaathis' ('Saathi' means companion). Comprised of 15 fieldworkers, each responsible for one area within Ahmedabad city and between 400-500 clients, the handholders are all round counsellers for clients. Besides offering savings, loan and insurance related financial advice, they also counsel women to plan for the future, advise them on SEWA and SEWA Bank's services and products and facilitate their linkage to SEWA's services. In other words, they provide all round advice and friendship to clients at their home or place of work, as well as collecting savings and loan repayments.

The handholders are aided by the "Banksaathis" – a team of community leaders, servicing the financial needs of women in their local area. One of SEWA's key strengths is its leaders who take a keen interest in the day to day running of the institutions and contribute heavily through their time advocacy and example. SEWA Bank's backbone is its team of banksaathis – a cadre of financial community leaders, who aid in collecting cash, informing women about SEWA Bank and all its products and winning people's beliefs. For this work, they are paid a nominal incentive, based on the cash they collect.

SEWA started organizing women agricultural labourers in rural areas in 1977. Since then the strategy in rural areas has been to promote women's savings and credit groups and organise them into district federations. It is similar to the broader SHG bank linkage programme in the rest of India. Once a group is established it becomes eligible for a loan from SEWA Bank. However, they have also recognised the need to take other steps to improve rural livelihoods and SEWA Gram Mahila Haat (SGMH) – a marketing organisation for rural producers was set up in 1999. SGMH provides technical capacity building services, financial management services and marketing services to producer groups through their district associations. SGMH focuses primarily on four sectors: agriculture, salt, gum and handicrafts.

In addition to SGMH and in response to the demand for creating sustainable livelihood strategies for the poorest of the poor women producers, The SEWA Trade Facilitation Centre (STFC) was established as the commercial arm of SEWA in the textiles and handicrafts sector. The vision of STFC was to ensure that craftswomen in the informal sector have socio-economic security and full employment, by building a grassroot business enterprise of the artisans. The STFC achieves this by sustained, profitable, and efficient coordination of the design, production, and marketing of their products and services in mainstream national and global markets.

These initiatives of SEWA show the potential that cooperative organisations and banks may have to enhance rural livelihoods.

SHGs / MACS

The CARE India research focused heavily on the potential of the SHGs and MACS in Andhra Pradesh to provide broader livelihood support to their members. It was concluded by the consultants conducting the study that the SHGs are not equipped to provide to their members advice and support which would enable them to introduce significant improvements to their livelihood activities. They also thought they could not handle the risk assessment associated with larger loans for income generating activities. However, they did think the MACS would have the potential to appraise and manage larger loan requests and to provide marketing and other technical services to improve enterprise results and livelihoods.

> "In our assessment, MACS can emerge as providers of livelihood finance with some attention to the following aspects:
>
> - Business planning based on profitability and sustainability over a long term
> - Loan appraisal based on increased potential for income generation
> - Advisory and support services along with the livelihood loans."
>
> (Thinksoft Consultants, 2006)

Clearly the enormous spread of SHGs, means that they should be considered as one of the means of promoting livelihood change in rural areas and the Velugu programme clearly builds on that assumption.

Private sector businesses

There is an increasing trend for agri-business firms engaged in input supply, processing and exports to provide technical consultancy to farmers as part of a wide range of services. Farmers indirectly pay for these services in all contract farming arrangements. Examples of specific extension initiatives by agri-business companies include:

Tata Kisan Sansars (TKS)
The Tata Group, one of India's largest private-sector business groups have pioneered a project to help small farmers harness sophisticated modern technology, such as satellite mapping and geographical information systems, to enhance the yield from their land. The TKSs, or farm centres, provide end-to-end solutions, right from what crops to grow to how to sell them for the maximum returns. At the helm of this endeavour is Tata Chemicals Limited (TCL), the chemicals and fertilisers company in the Tata Group. TCL's extension services, brought to farmers through the TKS, use remote-sensing technology to analyse soil, inform about crop health, pest attacks and coverage of various crops predicting the final output. This helps farmers adapt quickly to changing conditions. The result: healthier crops, higher yields and enhanced incomes for farmers (and no doubt increased fertiliser and pesticide sales for TCL).

ITC e-choupals
According to ITC "The immense potential of Indian agriculture is waiting to be unleashed. The endemic constraints that shackle this sector are well known – fragmented farms, weak infrastructure, numerous intermediaries, excessive dependence on the monsoon, and variations between different agro-climatic zones, among many others. These pose their own challenges to improving productivity of land and quality of crops. The unfortunate result is inconsistent quality and uncompetitive prices, making it difficult for the farmer to sell his produce in the world market."

ITC's answer to these problems is the e-Choupal initiative. An e-Choupal is a village internet kiosk which delivers real-time information and customised knowledge to improve the farmer's decision-making ability, thereby better aligning farm output to market demands; securing better quality, productivity and improved price discovery. Since ITC use the kiosks as procurement centres, the model helps aggregate demand in the nature of a virtual producers' co-operative and in the process, facilitates access to higher quality farm inputs at lower costs for the farmer. The e-Choupal initiative thus creates a direct marketing channel, eliminating wasteful intermediation and multiple handling, reducing transaction costs and making logistics efficient. The e-Choupal project is already benefiting over 3.5 million farmers. Over the next decade, the e-Choupal network will cover over 100,000 villages, representing 1/6th of rural India, and create more than 10 million e-farmers.

What can be improved?

This review may not be fully comprehensive but it does give a flavour of a variety of means whereby advice can be channelled to rural households and enable them to make more effective use of financial services to enhance their livelihoods. At first sight the richness of possibilities seems striking and yet, without doubt, one could go to villages all over India and think that no help of any kind is available to the people living there.

So what could be done?

- The status, financing and skills of village extension workers could be improved. Specifically they could be shown how to assess livelihood options, how to do household budgets, how to facilitate collective enterprises and how to explain financial products and services to people.
- In service training with staff of commercial and cooperative banks, particularly those based in rural branches and primary societies, could introduce the importance of helping people make household budgets which incorporate all their diverse livelihood activities and how they should advise people on the use of different financial products.
- Appropriate animation methods for working with farmers' clubs, SHGs, MACS and other community groups with regard to livelihood development strategies, financial planning and use of financial services should be identified and consolidated into reference material for livelihood resource centres. Reference materials should be made available in diverse forms – books, leaflets, posters, films, internet libraries, etc.
- The various models of "livelihood resource centres" (Village Development Committees; Community Managed Resource Centres; e-choupals, etc.) should be assessed and core recommendations formed on the best approaches to follow when creating new or adapting old resource centres. This is particularly apposite for CARE who have recently sponsored the formation of ACCESS Development Services with a specific remit to provide capacity building on micro finance and livelihoods promotion. ACCESS proposes to establish model Livelihood Resource Centre(s) and Business Resource Hubs at the national and regional levels.

4.2 The Tools

It is beyond the scope of this study to provide a comprehensive toolkit for use by those involved in livelihood support interventions. However some indicative information will be provided to show that appropriate material is available and could be drawn into training programmes and the development of resource libraries.

A resource book for livelihood promotion 2nd ed. BASIX 2004
Module 1: An introduction to livelihood promotion

Module 3: A framework for analysing livelihood intervention choices
Available from BASIX as hardcopy or CD-ROM, or download:
Module 1 http://www.ruralfinance.org/id/11801
Module 3 http://www.ruralfinance.org/id/13615

Livelihoods connect http://www.livelihoods.org/ Contains a wide range of materials introducing the sustainable livelihoods approach

The Positive Path – Using appreciative enquiry in rural Indian communities
G.Ashford and S.Patkar IISD / MYRADA 2001
Download: http://www.iisd.org/pdf/2001/ai_the_postive_path.pdf

A resource book for livelihood promotion 2nd ed. BASIX 2004
Module 4: Designing a livelihood intervention and Participatory methodologies for resource analysis at the village level (Annex II) Available from BASIX as hardcopy or CD-ROM
Download: http://www.ruralfinance.org/id/13689

If I were to conduct a village study... D. Joshi PRADAN
Download: http://www.ruralfinance.org/id/9819

Strategy Paper: A Participatory and Area-based Approach to Rural Agroenterprise Development
CIAT Rural Agroenterprise Development: Good Practice Guide 1 2006
Download: http://www.ciat.cgiar.org/agroempresas/pdf/strategy_paper/contents.pdf

Rapid Market Appraisal: A Manual for Entrepreneurs ILO 1999
Download: http://www.ruralfinance.org/id/44671

Guide to Participatory Tools for Forest Communities CIFOR Indonesia 2006
Download: http://www.cifor.cgiar.org/publications/pdf_files/Books/BKristen0601.pdf

Rural – Urban Marketing Linkages An infrastructure identification and survey guide
FAO Agricultural Services Bulletin 161 2005
Download: http://www.fao.org/ag/ags/subjects/en/agmarket/docs/161.pdf

Developing Agricultural Solutions with Smallholder Farmers – How to get started with participatory approaches CIAT 2003
Download: http://www.ciat.cgiar.org/asia/pdf/aciar_monograph99_contents.pdf

An Asset-based Approach to Community Development: A Manual for Village Organisers
Produced for the SEWA Jeevika Project by Coady International Institute 2005
Download: http://www.coady.stfx.ca/resources/abcd/SEWA%20ABCD%20Manual.pdf

Participatory Action Learning System
Website: http://www.lindaswebs.org.uk/Page3_Orglearning/PALS/PALSIntro.htm

Farmer Field School Resource Centre for Community-based Adult Education
Website: http://www.farmerfieldschool.net/

Resource centre manual – how to set up and manage a resource centre
Healthlink Worldwide 2003
Download: http://www.healthlink.org.uk/PDFs/resource-centre-manual.pdf

Manage Your Business Money – Facilitator Manual FFH 2004

Download: http://www.ruralfinance.org/id/43192

Financial Education for SEWA Bank Members – a Facilitator's Guide
SEWA and Coady International Institute 2003
Download:
http://www.coady.stfx.ca/resources/abcd/SEWA%20Financial%20Literacy%20Manual.pdf

Explaining cash flow and savings Talking About Money 1 FAO 2005
Others in this series are planned in 2007
Download: http://www.ruralfinance.org/id/27930

Internal Learning System PRADAN
Download a description: http://www.enterprise-impact.org.uk/pdf/Noponen.pdf

Accounting is a Kid's Game: Introduction to the Dynamics of Financial Statements
ADA / Alternativas Procesos de Participación Social A.C1998 (Web edition: 2006)
Download: http://www.ruralfinance.org/id/32542

The group enterprise resource book FAO 1995
Download: http://www.ruralfinance.org/id/2404

Environmentally sound technologies for women in agriculture IFWA / IIRR
Download: http://nzdl.sadl.uleth.ca/cgi-bin/library?e=q-00000-00---0cdl--00-0--0-10-0---0---0prompt-10---4-----sti--0-1l--11-en-50---20-about-environmentally+sound+technologies+for+women+in+agriculture--00-0-1-00-11-0-0utfZz-8-00&a=d&c=cdl&cl=search&d=HASHc88330c33115c69e2f6724

Farmer-Controlled Economic Initiatives: Starting a Cooperative
Agromisa Foundation 2004
Download: http://www.ruralfinance.org/id/27964

Helping Small Farmers Think About Better Growing and Marketing FAO 2004
Download: http://www.ruralfinance.org/id/29047

Marketing for Small-Scale Producers Agromisa Foundation 2004
Download: http://www.ruralfinance.org/id/24576

Agricultural Cooperative Management ILO study materials
Download: http://www.ruralfinance.org/id/31955

Other materials can be found in the Rural Finance Learning Centre, e.g. under the following topics:

Livelihood promotion http://www.ruralfinance.org/id/9799
Livelihood strategies http://www.ruralfinance.org/id/1012
Marketing http://www.ruralfinance.org/id/21472
Money management http://www.ruralfinance.org/id/1018
Agribusiness http://www.ruralfinance.org/id/34296
Cooperative enterprise http://www.ruralfinance.org/id/1784

There is also a training course on enterprise development for NGO staff taken from the book Empowerment through Enterprise by Malcolm Harper:
http://www.ruralfinance.org/id/6538

This list of examples has concentrated on materials relevant to livelihoods and livelihood development. There are many resources in India that are focused on developing the skills of SHGs and federations in terms of their book-keeping and financial management. Many of the larger promoting agencies have manuals and other forms of guidance, e.g.

Friends of Women's World Banking http://www.fwwb.net/site/#
SEWA Bank http://www.sewabank.org/
Myrada http://www.myrada.org/

There may well be scope for the ACCESS Development Services to put together tools and guidance selected from the varying resources listed above that can be used effectively by staff of livelihood resource centres.

A simple guide for bankers explaining livelihood finance in terms of the cash flow management needs of whole households may be useful.

5. Conclusion and recommendations

India is extraordinary in the range of initiatives to address the prevalence of rural poverty and to make financial services more accessible. This is evident from policies which have led to an increase in rural branches of commercial banks, the creation of regional rural banks, the continued financing of the cooperative credit system, the promotion of self help groups, and so on. Without doubt the dominant policy recently has been that of encouraging the spread of self help groups and channelling funds to them through banks, in order to get more credit to the poor. The Government agency NABARD has been heavily involved in this process and a large number of NGOs promote and channel finance to SHGs. Thus this new source of microcredit is now available to many. Given this success, concern has now turned to whether microcredit alone is enough to improve the lives of the poor.

A brief look at what makes a livelihood reveals the tendency to rely on various income sources. It is also clear that people adopt different strategies when responding to changed circumstances such as reduced yields or falling prices. Some may try to invest more, some may try to diversify, some may migrate looking for work, some are reduced to selling assets or increasing debts. Livelihood finance would need to facilitate all these strategies, so a system providing diverse services to enable people to save for different periods of time, borrow for different purposes and different lengths of time, insure themselves against different risks and transfer money from place to place, would be ideal. If this were complemented by appropriate advice about choosing strategies and planning the financial implications, this would offer real possibilities for improvement.

Could and should the new microcredit providers attempt to fill this need? The evidence shows that, in fact, the majority of livelihood credit and savings needs in rural India are still being met by the informal sector. A significant contribution is being made by the agricultural credit cooperatives and, in terms of savings, by the post office savings bank. Compared to these, the SHGs and other microfinance providers are just scratching the surface. So apparently are the commercial banks when it comes to providing services to the rural poor, despite the best efforts of NABARD and the RBI. At least they have increased their exposure to this sector somewhat, thanks to the SHG-bank linkage programme.

The conclusion reached is that in principle there is not a shortage of options for livelihood finance. So there is no pressing requirement for any one of the service providers to introduce new products. The issue is how to assist people to use the products that are available and identify the best way to invest money to improve their livelihoods. Assisting people to use available products, particularly from the commercial banks, involves breaking down barriers on both sides – the distrust and uncertainty of the people and the dismissive attitudes of bankers. Finding effective ways to invest money requires guidance from advisers who can communicate effectively the pros and cons of different ways of saving; who can explain the benefits of insurance; who can suggest ways to reduce risk through production methods; who can link people to markets and assist them to meet requirements of quantity and quality; who can show people how to plan the use of their money, and so on.

Mechanisms are in place to reach people with advice and for financial institutions to reach out to people, e.g. through farmers' clubs, self help groups, community centres and cooperatives. Catalysts are needed to make these mechanisms more effective and to provide the people involved with the tools and information they need to provide better quality advice and counselling. To show that banks can be directly involved in this, have a look at the financial and life skill activity packs – Money Skills and Money Choices - produced by Barclay's Bank in the UK for use by teachers and youth leaders:

http://www.personal.barclays.co.uk/BRC1/jsp/brccontrol?site=pfs&task=channelFWsocial&value=3737

Some practical recommendations arising from this study include the following:

i. An assessment should be carried out of the operations, strengths and weaknesses of various forms of livelihood resource centres in India with a view to producing guidelines on how these centres can best be structured and managed.

ii. The concept of livelihood resource centres as a source of information, technical and financial advice should be encouraged and as far as possible established at district and block, mandal or cluster level.

iii. All resource centres should be provided with a range of appropriate materials which can be used to facilitate discussion about financial and technical issues relevant to the location.

iv. The concept of farmers' clubs should be revisited and methods found to revitalise their role and create synergies with SHGs, MACS and other local associations.

v. A concerted effort to provide useful and friendly information about financial products from banks, cooperatives and post offices should be made, with distribution of material through SHGs, farmers' clubs, NGOs, cooperatives and resource centres.

vi. A strategy should be devised to improve the ability of village extension workers, SHG leaders and NGO personnel to explain livelihood finance and financial planning to poor households. The simplest visualising tools should be selected, tested and taught via workshops at livelihood resource centres.

vii. Bank and cooperative training institutes should review curricula to determine if changes should be made to incorporate a livelihood approach to analysing the needs of customers and how this might impact on lending decisions. In service training on working with farmers' clubs and SHGs to help their members identify livelihood improvement opportunities and plan the use of their money should be introduced.

There is no doubt that CARE, through the newly created ACCESS Development Services, can lead the way in developing and promoting many of these initiatives.