Report of the Committee on

# CREDIT RELATED ISSUES UNDER SGSY

Department of Rural Development
Ministry of Rural Development
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# Preface

India had experimented with numerous self-employment programmes. These were modified, consolidated and integrated into *Swarnjayanti Gram Swarojgar Yojana* (SGSY) in April 1999. Since then, SGSY has made rapid progress over time covering more than 31 lakh SHGs. However, only 22 per cent of the SHGs were provided with bank finance for undertaking income generating activities including micro enterprises. What is worse, the bank assistance was abysmally low leading to low level of investment activity. This shortcoming has been attributed to failure of public intervention to enhance the credit absorption capacity of SHGs as well as to the failures of credit delivery systems to reach the poor.

Since most of the SHGs were engaged in low technology and less productive traditional activities, the income gains to SHGs were very meagre. Hence, SGSY had not been able to make substantial impact on the living standards of the *swarojgaris.* The proposed two pronged strategy of universalization of coverage of SHGs with doubling the proportion of SHGs assisted by bank credit and providing skills at least to one youth of a BPL family necessitates restructuring of SGSY. There is also need to strengthen the capabilities of the poor for bringing them into mainstream of development as active partners.

It is in this context, the Ministry of Rural Development, Government of India, constituted a Committee on Credit Related Issues under SGSY in April 2008 to analyze the constraints in the adequate flow of credit to

Self-Help Groups of SGSY and to suggest measures and strategies for promoting effective credit linkages to the Self-help Groups (vide MoRD Letter No. 1-12011/5/08-SGSY-Credit). The Committee is mandated to analyze innovative experiments initiated by the government as well as Non-Government Organizations, and also examine the issue of provision of interest subsidy in place of capital subsidy. The members of the Committee comprised of government functionaries dealing with rural development both from the Centre and States and representatives of the Planning Commission, RBI, NABARD and SBI. The Chairman of the Committee invited Prof. G S Bhalla, Prof. D Narsimha Reddy and Dr. S L Shetty to be co-opted members of the Committee.

The Committee set about its task in full recognition to the fact that the constraints in the flow of credit related to absorption capacity of the SHGs as well as shortcomings of the credit delivery system. Moreover, the constraints across regions are embedded in their specific institutional structures. The Committee has constituted seven sub-committees to analyze some of the critical issues. The sub-committees, in course of their work had a series of meetings with different stakeholders and made field visits in Andhra Pradesh, Assam, Kerala, Manipur, Meghalaya and Uttar Pradesh. The discussions with the various stakeholders and field visits were insightful. The Committee also commissioned a few papers.

The work of the Drafting Committee involved frequent meetings, discussion of commissioned papers and reports of the various sub-committees and abstracting basic issues from the proceedings of the meetings of the main committee as well as the sub-committees. The

participation of experts in the meetings of the Drafting Committee enriched the deliberations. The Drafting Committee benefited immensely from its discussions with Dr. Y V Reddy, former Governor of RBI, Shri B K Sinha, Director General, NIRD and Dr. T Vijayakumar, CEO of SERP. The participation of Dr. Rita Sharma, Secretary, MoRD in some of the Committee meetings clarified many intricate issues relating to strategy. Discussions on Kerala Model with Dr. Prabhath Patnaik, Deputy Chairman, State Planning Board, Government of Kerala and with Dr. S Mehrothra, Senior Adviser, Planning Commission, Government of India on international experiences were helpful.

The Committee places on record its appreciation of the deep involvement of Dr.P Purushotham, Dr. B Sambi Reddy, Dr. C P Nagi Reddy and Dr. Srijit Mishra in drafting the report. Mrs. Rose Mary Sabestian, RBI provided the necessary data clarifications. Dr.Purushotham and his team looked after the logistics at NIRD, Dr. N Upadhyay and his team co-ordinated the North-East visits and meetings and Mrs. Vanitha Sharma and Shri J D Singh looked after the logistics at MoRD besides participating in the deliberations of the Committee meetings. The Committee places on record the excellent secretarial assistance provided by Shri P Srinivasa Murthy.

R. Radhakrishna<br>
Chairman<br>
Committee on “Credit Related Issues Under SGSY”

# Abbreviations

| | |
|---|---|
| ADS | Area Development Society |
| AGVB | Assam Gramin Vikas Bank |
| APDDCF | Andhra Pradesh Dairy Development Cooperative Federation |
| APRPRP | Andhra Pradesh Rural Poverty Reduction Project |
| BC | Banking Correspondent |
| BF | Banking Facilitation |
| BLCC | Block Level Coordination Committee |
| BMCU | Bulk Milk Chilling Unit |
| BPLR | Benchmark Prime Lending Rate |
| CBO | Community Based Organization |
| CDS | Community Development Society |
| CEO | Chief Executive Officer |
| CMSA | Community Managed Sustainable Agriculture |
| CRP | Community Resource Person |
| CSS | Centrally Sponsored Scheme |
| DCCB | District Cooperative Credit Bank |
| DCP | District Credit Plan |
| DLCC | District Level Coordination Committee |
| DPLP | District Poverty Initiatives Project |
| DRDA | District Rural Development Authority |
| DWACRA | Development of Women and Children in Rural Areas. |
| FIF | Financial Inclusion Fund |
| FITF | Financial Inclusion Technologies Fund |
| GOI | Government of India |
| IBA | Indian Bankers' Association |
| IDBRT | Institute of Development Banking Research and Technology |
| IFAD | International Fund for Agricultural Development |
| IGNOU | Indira Gandhi National Open University |
| IRDP | Integrated Rural Development Programme |
| IT | Information Technology |
| LBS | Lead Bank Scheme |
| LDM | Lead District Manager |
| LSG | Local Self Government |
| MCP | Micro Credit Plan |
| MFI | Micro-Finance Institutions |
| MMI | Mandal Level Marketing Institutions |
| MMS | Mandal Mahila Samakhya |
| MoDoNER | Ministry of Development of North Eastern Region |
| MoRD | Ministry of Rural Development, GOI |
| MSCAB | Meghalaya State Cooperative Apex Bank |
| MSP | Minimum Support Price |

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|---|---|
| MWS | Million Wells Scheme |
| NABARD | National Bank for Agriculture and Rural Development |
| NEC | North Eastern Council |
| NER | North – East Region |
| NERCRMP | North Eastern Region Community Resource Management Project |
| NES | North – East States |
| NGO | Non-Governmental Organisation |
| NHG | Neighborhood Group |
| NIRD | National Institute of Rural Development |
| NPM | Non-Pesticide Management |
| NREGP | National Rural Employment Guarantee Programme |
| NRLM | National Rural Livelihood Mission |
| NRMG | National Resource Management Group. |
| PACS | Primary Agricultural Cooperative Societies |
| PD | Project Director |
| PDS | Public Distribution System |
| PLR | Prime Lending Rate |
| PRI | Panchayat Raj Institutions |
| RBI | Reserve Bank of India |
| RIDF | Rural Infrastructure Development Fund |
| RRB | Regional Rural Bank |
| RUDSETI | Rural Development and Self Employment Training Institute |
| SAPAP | South Asia Poverty Alleviation Project |
| SBI | State Bank of India |
| SC | Scheduled Caste |
| SERP | Society for the Elimination of Rural Poverty (Andhra Pradesh) |
| SGSY | Swarnajayanti Gram Swarojgar Yojana |
| SHG | Self Help Group |
| SHPI | Self Help Promoting Institution |
| SIRD | State Institute of Rural Development |
| SITRA | Supply of Improved Tools for Rural Actions |
| SLBC | Ate Level Banking Committee |
| ST | Scheduled Tribe |
| TRYSEM | Training of Rural Youth for Self-Employment |
| VC | Village Council |
| VDB | Village Development Board |
| VO | Village Organization |
| WDC | Women Development Cell |
| ZS | Zilla Samakhaya |

# RECOMMENDATIONS

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## 0.1 The Background

0.1.1 The Ministry of Rural Development (MoRD), Government of India, constituted a Committee to review the credit flow to Self Help Groups (SHGs) under *Swarnajayanti Gram Swarojgar Yojana* (SGSY) including policy environment, guidelines and to suggest measures and strategies for effective and adequate credit linkages to the SHGs. The Committee, in the course of its work, had a series of meetings with different stakeholders and made field visits to several parts of the country which have been of great value in addressing the issues.

0.1.2 Credit flow under SGSY is expected to strengthen the income generating capacities and the livelihoods of the poor. Prior to SHG-Bank Linkage, substantial preparatory work will have to be done for bringing the poor together through a process of social mobilization, formation of sustainable SHGs, training them to pool their individual savings into a common pool for lending it among the needy. It also includes equipping them with skills to manage corpus fund created with their own savings, interest earned from lending and revolving fund contributed by the government. In SGSY, the programme implementing agencies of the government are expected to carry out the requisite social engineering. The SHG-bank linkage envisages the involvement of local banks right from the beginning and also involvement of Non-Governmental Organizations (NGOs) as facilitators.

0.1.3 The role of credit in livelihood promotion requires simultaneous expansion of the supply of quality credit as well as credit absorption capacity of the SHGs. The Committee's recommendations cover institutional architecture, banking infrastructure, new financial products, subsidy, training and capacity building.

[*] Numbers in the parentheses indicate paragraph numbers of the text of the Report.

## 0.2 Institutional Architecture

### Restructuring and National Agency

0.2.1 Poor households earn income from multiple sources which include self-employment and wage employment. More opportunities should be explored through assistance to self-employment and skill-development for wage/salary employment. While placement-linked skill development is likely to be brought under National Skill Development Mission, there is urgent need for similar National Agency for Self-Employment as well (1.6.2, 4.8.1 and 4.8.2).

### National Rural Livelihood Mission

0.2.2 The Committee recommends the creation of a national agency, namely, National Rural Livelihood Mission (NRLM) for rapid increase in the coverage of rural poor households under self-employment. The National Agency should coordinate with the state agencies implementing pro-poor programmes. It should provide professional and technical support to the state agencies by seeking and disseminating pro-poor technologies and institutional innovations through research and development. The NRLM should study the best practices across the country and support replication of the same in other parts of the country. It should provide and promote training facilitators. The NRLM should have capability to analyze the impact of macro-economic policies on the poor and share their findings with appropriate policy making authorities. Besides, it should independently get the impact of the programmes assessed periodically. The NRLM should build up effective data bank and information system on poverty eradication programmes in general and self-employment programmes in particular (4.8.2).

0.2.3 The Committee recommends the creation of a Rural Livelihood Fund with an initial corpus of Rs.1,000 crore for providing financial assistance to states for supporting state and district level organizations for poverty reduction. This fund will be available to such states which come up with comprehensive time-bound poverty reduction plans based on social mobilization and community empowerment approach (4.8.3).

### State Level Agency or Umbrella Organization

0.2.4 **State Agency:** For effective reach of poverty eradication programmes in general and income generating self-employment programmes in particular, poor need to be organized into self-help groups of their own. Social mobilization that brings poor together to discuss their common livelihood problems, builds confidence and makes them aware of their entitlement and economic opportunities, as well as learn to work together in improving their condition is an essential pre-requisite for effective organization of the poor. The banks and District Rural Development Agencies (DRDAs) are presently ill-equipped in terms of professionalism and manpower for social mobilization of the poor. NGOs may not have enduring interest, and need direction. Therefore, the Committee recommends an "agency" or "an umbrella organization" at the State level for helping in the formation of SHGs, nurturing them through hand-holding and providing professional guidance (4.9.1).

0.2.5 **Due Autonomy and Authority:** The state level agency should be endowed with due autonomy and authority to function effectively. The Committee recommends that the agency be in the form of a 'society' of which the Chief Minister should be the Chairperson (4.9.2).

0.2.6 **Federal Structure:** The Committee recommends that this agency should ensure that an appropriate federal structure of SHGs evolves and functions with a self-generating agenda of activities at various levels of federations (4.9.3).

0.2.7 **Professional Functioning:** The Committee recommends that the agency should draw upon a select team of senior administrators who could build professional cadres to mobilize, motivate and build internal structures towards capacity building of SHGs. The agency would not only be a team of professionals but also those who could work in liaison with line departments and banks (4.9.4).

0.2.8 **Phased Process:** The Committee recommends that in states where there is limited progress in developing SHG federations, the agency may speed up the process in a phased manner by drawing on the experiences (4.9.5).

**DRDA**

0.2.9 The poverty alleviation programmes require social mobilization of the poor on an intensive scale. SGSY is a process oriented scheme. Presently, the DRDA, block officials and village level functionaries are over-burdened with multiple activities. The Committee recommends creation of a separate dedicated unit under DRDA for managing all the processes under SGSY at the district level (2.4.5, 3.7.1 and 6.2.2).

## 0.3 Pro-Poor Financial Services

### Financial Inclusion

0.3.1 The Committee recommends intensive drive in order to achieve total financial inclusion in a time bound manner:

(i) Increase the branch network by scheduled commercial banks and RRBs, particularly in un-banked blocks (2.7.1)

(ii) Introduce agency banking (Business Facilitators and Business Correspondents) (2.7.2)

(iii) Increase coverage under mobile banking and satellite banking (2.7.2)

(iv) Augment agency arrangements between commercial banks and primary cooperatives as well as with postal authorities (2.7.2)

(v) Make effective use of Information Technology (IT) solutions (2.7.2 and 2.7.3), and

(vi) Reinvigorate the Lead Bank Scheme (LBS) for promoting various banking activities in individual districts (2.4.1 - 2.4.5).

0.3.2 The Committee recommends that in order to encourage banks to open branches in remote areas which are considered unviable, government may provide suitable incentives (2.7.1).

**Interest Rates**

0.3.3 The Committee has observed in a number of places that banks are violating the RBI guidelines including charging interest rates more than the Prime Lending Rates (PLRs) for the loans upto Rs.2 lakh.. The Committee recommends that under no circumstances the interest rates charged for SHGs should not be more than PLR (2.5.1 and 2.5.2).

**Financial Support Services**

0.3.4 Staff shortage, particularly in rural branches, makes it difficult for addressing needs of illiterate or semi-literate customers. The Committee recommends that this could be partially addressed through the *Bank Mithra* as in the case of Andhra Pradesh (2.7.4 and 4.5.3).

**Risk Mitigation**

0.3.5 Though there is a provision for group life insurance and asset insurance under SGSY, the Committee has observed that only a very few poor households are getting the insurance cover. The Committee recommends that there should be universal coverage of all the poor households for life and asset insurance and adequate resource provision be made by MoRD (4.5.3).

**IT Solutions**

0.3.6 The Committee recommends that Financial Inclusion Technology Fund (FITF) should be used to extend the outreach of banks through IT solutions (2.4.3).

**Lead Bank Scheme**

0.3.7 The role of the LBS should be enhanced so as to dovetail it into the multiple objectives of agency banking, financial inclusion and implementation of special government-sponsored programmes. To improve the effectiveness of the Lead District Manager (LDM), it is necessary to post a motivated officer of the minimum rank of Scale V. The LDM's office should have adequate infrastructure with a minimum of two officers, clerical support, a messenger and a vehicle. The office of the LDMs should serve as an information hub; they should have their own website (2.4.4).

0.3.8 Since LBS is the forum for coordination between banks and Government agencies, it should, therefore, provide the thrust within the banking system to ensure and monitor the progress in implementation of the credit disbursed under SGSY by the banks. Similarly, it should also monitor recoveries under the scheme (2.4.1)

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0.3.9 The LBS should play a useful role to monitor the implementation of IT initiatives and solutions in improving the banking outreach through Business Facilitators (BFs)/Business Correspondents (BCs) etc. To take this forward, in all deliberations at the block and district levels, the grassroot-level institutions have to be involved (2.4.2).

0.3.10 The Banks and the DRDAs should have a system of performance assessment to ensure the objectives laid down are achieved. The performance assessment should be conducted by a third party such as retired bank officials, professors from universities, etc. The selection of the party to carry out the performance assessment will be decided by the SLBC at which officials of both Government and Banks are present (2.4.7).

### Capital and Interest Subsidy

0.3.11 **Capital Subsidy:** The Committee finds that capital subsidy to poor households continues to be relevant to induce them towards income generating activities and recommends its continuation (2.6.1).

0.3.12 **Delivery of Capital Subsidy:** The Committee observes that there was switch over from front-end to back-end capital subsidy in 1993 on the basis of recommendations of Mehta Committee (RBI). In the course of Committees' field visits several anomalies associated with back-end subsidy were brought to its notice (2.6.1).

0.3.13 **Pilfer-proof Delivery of Subsidy:** The search for alternative pilfer-proof capital subsidy suggests that the total entitlement subsidy could be in half-yearly installments spread over the repayment period. The Committee recommends that the subsidy part be transferred to the beneficiary half-yearly during the repayment period. Further, the Committee recommends that the initial disbursement of the loan to the SHGs should include both the subsidy and credit components to cover total investment. (The Main Report provides the details of the scheme of delivery of subsidy recommended to be administered by the DRDA). The Committee observes the ceiling on subsidy was fixed way back in April 1999. The Committee recommends that the upper limit on the subsidy should be increased from Rs.7,500 to Rs.15,000 for non-Scheduled Caste (SC)/Scheduled Tribe (ST) and from Rs.10,000 to Rs.20,000 for SC/ST and people with disabilities (2.6.2 and 2.6.3).

0.3.14 **Interest Subsidy:** The Committee recommends uniform rate of interest of seven per cent on all loans to SHGs. The bank should charge the PLR. The difference between seven per cent and PLR should be subsidized by the government. The delivery of the interest subsidy should be managed by the DRDA to be provided to the poor household for every loan accessed from the banks, provided the repayment is prompt (2.6.4).

0.3.15 **Revolving Fund:** The Committee recommends that the Revolving Fund should be increased from Rs.10,000 to Rs.15,000 per SHG (2.6.5).

**'Un-banked Areas' with Special Reference to North-East States (NESs)**

0.3.16 There is need for increasing the spread of banking facilities in the North East States by taking advantage of the special incentives initiated by the RBI. First, there should be substantial increase in the branch banking, and States should be assisted in providing physical facilities and security arrangements wherever necessary. Second, because of the terrain, in all these regions high priority should be given by the banks and the Central Government in investing in new banking innovations like the provision of Smart Card, promoting institutions like 'Business Facilitator', 'Business Correspondent', Mobile Banking etc (3.4.3).

0.3.17 In the context of the North-East, where 84 per cent of people live in rural areas and most of them survive at subsistence level, there is need for flexibility in organizing them into SHGs or recognizing them as poor by the village level institutions. Flexible coverage of all rural people under programmes like SGSY in the NES may be necessary (3.6.6).

0.3.18 The capital base and manpower capacity of the Regional Rural Banks (RRBs) should be improved as a special drive by appropriate financial assistance. The RRBs, as it is evident from Assam, Meghalaya, Mizoram and Tripura are much better suited in the region for reaching the poor (2.2.5 and 3.6.4).

0.3.19 One of the long-unfulfilled demand of the region, and also the one well recognized by the RBI Committee for NER (2006), is the use of "community based organizations in these States" as financial intermediaries. The Pilot Project of Nagaland (which is being extended to the entire State presently) in linking bank credit to Village Development Board is a success that needs to be extended to other States like Meghalaya, Mizoram, and Manipur. One feature observed is the positive, in fact pro-active, disposition of top administrators of some of these States towards utilization of community-based institutions in financial services as much as in other development functions. For more effective functioning of these institutions as financial intermediaries, there is need for special financial assistance towards capacity building by way of awareness creation as well as capability improvement training of both functionaries of village institutions and the bank branch managers (3.9.6 and 3.9.7).

0.3.20 There is need for a State level agency in each of the NESs to identify different institutional arrangements for linking SHGs and the Community-based Institutions with financial services, and nurture them with appropriate training and capacity building support (3.10.2).

## 0.4 Training and Capacity Building of SHG Members

0.4.1 Concerted efforts should be made by the Ministry of Rural Development (MoRD) for developing alternative models of training the SHG members at the grassroot level, functionaries of SHG federations, etc. The MoRD may fund research on specific issues in partnerships with National Institute of Rural Development (NIRD) (5.4.2).

0.4.2 A dedicated team of professionals at the District Rural Development Agency (DRDA) level should be entrusted with the responsibility of developing training modules and training strategies for the SHG members. In addition to regular trainings, the SHGs may be exposed to a few well-functioning groups for cross learning. Adequate budgets for deploying dedicated human resource, conduct of training including exposure visits may be provided (5.3.4).

0.4.3 The successful experiments of Society for Elimination of Rural Poverty (SERP) in Andhra Pradesh in building a cadre of Community Resource Persons (CRPs) from among the SHGs and utilizing their services for social mobilization, formation of SHGs and building up of functioning capabilities of SHGs, etc., should be replicated (Box 5.1 and 5.3.1).

0.4.4 The DRDAs in partnership with Non-governmental Organizations (NGOs) should organize short duration training programmes in relevant fields such as banking, accounting, insurance, marketing, technology, etc (5.3.4).

0.4.5 The SHG members should be given continuous training for enabling them to secure better returns from their livelihood activities (5.3.1).

0.4.6 Certificate courses should be designed for SHG members possessing educational qualifications for working as *Bank Mithra,* business correspondents, business facilitators, insurance agents, etc. MoRD may negotiate with Indira Gandhi National Open University (IGNOU) and Schools of Distance Education for developing certificate courses tailored to the needs of self-managed institutions and of their clientele (5.4.4).

**Skill Development for Placement**

0.4.7 The present SGSY guidelines do not provide assistance for skill development. Restructuring of the programme include not only self-employment but also skill-based wage employment, skill development and placement should become an important component. The demand for wide-range of new skills that are evident in recent years should find place in these skill development programmes (5.5.1).

0.4.8 MoRD should facilitate the replication of skill-development programmes being implemented by *Zilla Samakhyas* in Andhra Pradesh and very innovative experiments of State Institute of Rural Development (SIRD) in Assam for imparting skills along with the use of best technologies developed in the Centres of Excellence (5.5.4).

0.4.9 NIRD should develop multi-media material on successful innovations and make them available on-line to users. MoRD may provide a one-time grant to NIRD for developing the multi-media material (5.5.3).

0.4.10 NIRD should evaluate the training programmes, course curricula and quality of instructions and disseminate the findings among the stakeholders (5.4.2).

**Delivery System**

0.4.11 Awareness of the project guidelines issued by MoRD and RBI regulations among various stakeholders including officials of rural bank branches is completely lacking. MoRD should address these deficiencies urgently (2.5.2)

0.4.12 MoRD should negotiate with IGNOU for introducing on-line certificate courses on Project Planning, Project Monitoring and Evaluation, Computer Applications, Rural Management, etc. The functionaries may be incentivized to enroll in the courses and to upgrade their knowledge and skills (5.3.3)

0.4.13 NIRD should facilitate interaction among Chief Executive Officers (CEOs) of state level Rural Livelihood Projects for generation of new ideas and sharing experiences (5.4.2).

## 0.5 Financial Allocation for SGSY

0.5.1 The Committee is of the firm view that the present allocation under SGSY is inadequate. To achieve the poverty reduction and skill development objectives in a time bound manner, the allocation under SGSY should be increased substantially (1.5.2 and 2.3.1).

## Chapter 1

# Public Intervention in Poverty Elimination and the SGSY

### 1.1 Introduction

1.1.1 Poverty reduction has been one of the major goals of development planning since independence and the planning process has been sensitive to the needs of the poor. Accordingly, the development efforts have been directed in creating adequate livelihoods and provision of services for a better quality of life for the poor. It is recognized that poverty is an outcome of multiple deprivations and it is not simply a matter of inadequate income but also a matter of low literacy, short life expectation and lack of basic needs such as drinking water. Since these deprivations are inter-related, a comprehensive approach alone can eliminate poverty and ensure optimal utilization of human resources for sustainable development. Thus, multi-pronged and convergent approaches with proper targeting are deemed essential for elimination of poverty. It is also recognized that poverty is not only an economic phenomenon but also a social one. Well designed poverty alleviation programmes, if effectively implemented, not only supplement the poverty reducing effects of growth but also could promote pro-poor growth.

1.1.2 Several poverty alleviation programmes have been in place for a long time now. The programmes and schemes have been modified, consolidated, expanded and improved over time. The targeted programmes fall into four broad categories: (i) self-employment programmes, (ii) wage employment programmes, (iii) direct cash transfers to the targeted groups and (iv) public distribution system. There are numerous centrally sponsored schemes (CSS) under the first three categories which are designed by the Centre, administered by the Ministry of Rural Development, but implemented by the States, with States generally contributing 25 per cent to their cost. In addition, some State governments have their own poverty-reduction schemes. There has been multiplicity of programmes on the grounds of multi-dimensionality of poverty, heterogeneity of the poor and inter-state variations in the efficacy of the delivery system.

### 1.2 Swarnjayanti Gram Swarozgar Yojana (SGSY)

1.2.1 In April 1999, the Integrated Rural Development Programme (IRDP) was restructured and combined with Training of Rural Youth for Self-Employment (TRYSEM), Supply of Improved Tools for Rural Artisans (SITRA), Ganga Kalyan Yojana, Million Wells Scheme (MWS) and Development of Women and Children in Rural Areas (DWCRA), and a single self-employment programme known as Swarnajayanthi Gram Swarojgar Yojana (SGSY) was put in place. The basic objective of SGSY is to bring the assisted poor families above poverty line by providing them income-generating assets through bank credit and government subsidy. Formation of organizations of the poor at the grassroots level through a process of social mobilization for poverty reduction is central to the programme. The approach of SGSY is based on SHGs that have to act as a financial intermediary and in many cases there are women- SHGs which are also expected to serve as vehicle for women empowerment. Non-Government organizations (NGOs) are expected to facilitate the formation of these groups. The community involvement as emphasized in SGSY, in contrast to IRDP, is reflected in the mobilization for the formation of SHG groups.

1.2.2 SGSY has been conceived as a holistic self-governing programme covering all aspects of self-employment of the rural poor such as organization of the poor into SHGs, their capacity building, selection of key activities, planning of activity clusters, infrastructure build-up, technology and market support (See Box-1). The main tenets of the SGSY are: (a) key activities, (b) cluster approach, and (c) group method. The first reduces the number of activities; the second shrinks the geographical spread to fewer contiguous or selected villages; and the third reduces the number of clients from a large number of individuals to a small number of groups and enables peer group monitoring associated with self-governing institutions. All these are expected to reduce the burden of follow-up and the extension inputs for providing backward and forward linkages. The programme aims at establishing a large number of micro enterprises by the poor in rural areas by augmenting the ability of the poor in a manner appropriate to the potential of each area. Financial assistance under SGSY is given in the form of subsidy by government and credit by the banks.

**Box 1.1**

## Salient Features of SGSY

- **SGSY:** A Centrally sponsored self-employment scheme. Funding is shared between the Centre and the State in the ratio of 75:25. For North-Eastern States, the ratio is 90:10.

- The scheme is implemented by District Rural Development Agency (DRDAs) / Zilla Parishads through Panchayat Samithis with active involvement of Panchayats based on the funds provided for the SGSY.

- NGOs, CBOs and Self Help Promoting Institutions (SHPIs) are assisted upto Rs.10,000 per group by government for the formation and development of Self Help Groups (SHGs)

- DRDA may incur a maximum amount of 10 per cent of allocation towards training and capacity building

- SGSY Infrastructure Fund comprises upto 20 per cent of the allocation to States and 25 percent in the case of North Eastern States.

- DRDA provides Rs.10,000 to each SHG as Revolving Fund, banks provide cash credit of Rs.15,000 for Grade-I SHGs.

- Banks provide loans to Grade-II SHGs with minimum repayment period of three to five years depending on the nature of scheme.

- Subsidy under SGSY is uniform at 30 per cent of the project cost, subject to a maximum of Rs.7,500 per swarojgari (Rs.10,000 for SC/ST / disabled swarojgari)

- *Swarojgaris* are not entitled for benefit of subsidy if the loan is fully repaid before the lock-in period

- The programme envisages establishing a large number of micro-enterprises by the poor in rural areas with an emphasis on four to five key activities identified at the block level based on resources, occupational skills of the people and availability of markets.

## 1.3 Coverage of SGSY

1.3.1 Nearly 31 lakh SHGs were formed over a period of ten years since 1999-00 (**Table 1.1)**. Out of them, 20 lakh obtained the status of Grade I and 9.5 lakh Grade II. But only about seven lakh SHGs could obtain credit for undertaking economic activities. Thus the proportion of SHGs taking up economic activities financed by bank credit and supported by subsidy was only 22 per cent. The programme since inception assisted 1.06 crore *swarojgaris*. Social composition of the assisted *swarojgaris* was in favour of the most vulnerable groups, such as scheduled tribes and scheduled castes, which accounted for nearly half of the assisted *swarojgaris* in 2007-08. Women accounted for 66 per cent, disabled two percent and minorities 8.4 per cent.

1.3.2 The relatively small number of assisted *swarojgaris* indicates the modest scale of the programme when compared with the huge rural workforce in need of livelihoods outside agriculture. Nevertheless, the programme has been able to create a productive base among the most disadvantaged persons in rural areas. The efficacy of SGSY could be improved in the years ahead if its experiences are reviewed, lessons are drawn for the future and it is appropriately restructured. The MoRD proposal for universalizing the SHG coverage of all poor households by 2013 and increasing the proportion of assisted persons among *swarojgaris* to 50 per cent from the existing 22 per cent is a welcome initiative in this direction (MoRD, *Poverty Eradication in India by 2015, Government of India, 15th November 2008)*.

1.3.3 Since most of the rural poor are crowded in the low productivity primary sector activities, the success of the programme depends on raising their ability to diversify into other high productive activities. Most of the assisted SHGs were engaged in primary sector with little diversification in their livelihood base (**Figure-1.1)**. In 2007-08, about two-thirds of the assisted *swarojgaris* were engaged in primary sector, with dairy activity alone accounting for 50 per cent. Even in the better performing State of Andhra Pradesh, the income gain to a *swarojgari* from enterprise activities under SGSY was a mere Rs.1,228 per month (P. Purushotham, *Institutional Credit for Rural Livelihoods: A Study of SGSY in the Regions of High Poverty, NIRD,* 2008). The small income gain to swarojgaris from enterprise activities was due to low productive traditional activities in which the *swarojgaris* were engaged in and also due to low absorption of technology. Unless at least one member of the family acquires skills and engages in high value addition activities, a BPL family may not move out of poverty. It is in this context, the proposal of MoRD to cover 1.7 crore BPL households by 2015 under skill development and placement is to be seen as an encouraging step (MoRD, op cit).

**Table 1.1**
**Physical Progress under SGSY since inception**

**(thousands)**

| Years | Self-help Groups (SHG) Formed | No. of SHGs Passed Grade –I | No. of SHGs Passed Grade –II | SHGs Taking up Economic Activities | SHG Swarozgaris Assisted | Individual Swarozgaris Assisted |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1999-2000 | 292 | 125 | 74 | 29 | 35 | 586 |
| 2000-2001 | 223 | 214 | | 26 | 319 | 687 |
| 2001-2002 | 434 | 176 | 54 | 31 | 365 | 573 |
| 2002-2003 | 399 | 190 | 95 | 36 | 414 | 412 |
| 2003-3004 | 392 | 205 | 91 | 51 | 578 | 320 |
| 2004-2005 | 266 | 220 | 106 | 68 | 789 | 327 |
| 2005-2006 | 276 | 211 | 92 | 80 | 873 | 278 |
| 2006-2007 | 246 | 222 | 156 | 138 | 1472 | 220 |
| 2007-2008 | 306 | 251 | 117 | 181 | 1154 | 254 |
| 2008-2009 (up to October 2008) | 298 | 201 | 62 | 46 | 557 | 117 |
| **Total** | **3,134** | **2,014** | **948** | **685** | **6,869** | **3,772** |

Source: MoRD, 2008

## 1.4 Funds

1.4.1 For the implementation of a nation-wide centrally sponsored programme like SGSY, adequate resource allocation is essential. In 1999-2000, the first year of launching SGSY, the funds available were Rs.1,962 crore, but it declined to Rs. 1,608 crore in the very next year and varied between Rs.1200 to Rs.1400 crore per year between 2001-02 and 2005-06 (**Table 1.2)**. Though the fund showed an increasing trend since 2004-05, it could not cross the 1999-

00 level till 2008-09. The total fund available for the programme over the ten years of the programme was Rs 16,188 crore but the utilization was only 74 per cent (Rs.11,963 crore) during this period. Clearly, the utilization of funds improved over the years from 49 per cent in 1999-00 to over 80 per cent in recent years. The resource allocation to SGSY has been on a very modest scale, compared to the recent wage employment programme like the NREGP for which a sum of Rs.35,583 crore was released over the last two and a half years and a budget allocation of Rs.28,000 crore for just one year, 2009-10. The under-utilization of available funds could be due to lack of motivation on the part of poor as well as inability to shift from wage employment to self-employment. This suggests that the capacity of the poor to take up self-employment activities needs to be strengthened considerably to pursue viable self-employment.

**Table 1.2**

**Total Funds Available and Utilization**

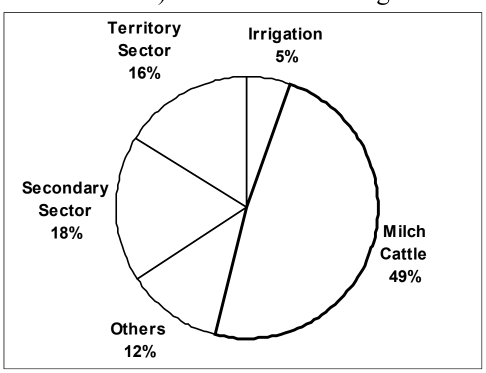
| Year | Govt. (Central+State) Allocation (Rs.crore) | Total Funds Available (Rs.crore) | Total Funds Utilised (Rs.crore) | %Utilised to Funds Available | Percentage utilization of Funds on: | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Subsidy | Revolving Fund | Infrastructure Dev. | Training/ Capacity Building | Others |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| 1999-2000 | 1472 | 1962 | 960 | 49 | 36.79 | 5.06 | 22.16 | 4.65 | 0.79 |
| 2000-2001 | 1332 | 1608 | 1118 | 70 | 52.67 | 6.73 | 24.45 | 4.32 | 0.82 |
| 2001-2002 | 775 | 1300 | 970 | 75 | 86.16 | 8.79 | 15.79 | 4.97 | 1.05 |
| 2002-2003 | 756 | 1178 | 921 | 78 | 65.78 | 12.58 | 14.79 | 4.47 | 1.76 |
| 2003-2004 | 1066 | 1215 | 1043 | 86 | 68.37 | 15.14 | 14.47 | 4.91 | 2.34 |
| 2004-2005 | 1333 | 1511 | 1291 | 85 | 66.52 | 10.79 | 14.10 | 5.90 | 2.06 |
| 2005-2006 | 1333 | 1558 | 1339 | 86 | 67.59 | 11.08 | 13.30 | 6.31 | 2.16 |
| 2006-2007 | 1466 | 1725 | 1424 | 83 | 68.18 | 9.86 | 12.99 | 7.26 | 2.15 |
| 2007-2008 | 2269 | 2394 | 1966 | 82 | 65.57 | 9.52 | 15.98 | 9.76 | 5.48 |
| *Average for 5 years* (2003-08) | *1493* | *1681* | *1413* | *84* | *67.25* | *11.28* | *14.17* | *6.83* | *2.84* |
| 2008-2009 (Upto October) | 2666 | 1737 | 930 | 54 | 76.42 | 13.87 | 14.23 | 9.24 | 0.21 |
| Total | 14467 | 16188 | 11963 | 74 | 65.40 | 10.34 | 16.23 | 6.18 | 1.88 |

Source: Ministry of Rural Development, Government of India, 2008

1.4.2 The ground reality is that only six per cent of the total SGSY funds were utilized for training and capacity building during the past one decade (**Table 1.2)**. Its share remained at a low level of about six per cent and only recently it is close to the expected ten per cent. Similarly, only 16 per cent of the total funds were utilized for infrastructure development over the ten year period. Still worse, the over all utilization rate declined over the years. Almost two-thirds of the funds went for subsidy, thus earning an epithet that SGSY is subsidy-driven! Ill-trained groups in SGSY would be a severe handicap in moving towards the Eleventh Five Year Plan goal of inclusive growth. In the case of hard core poor, priority should be for providing handholding till they escape poverty.

**Fig 1.1: Distribution of *Swarojgariss* by Sector, 2007-08**

a) Number of Swarozgaris Assisted




b) Funds Utilisation (Rs.)

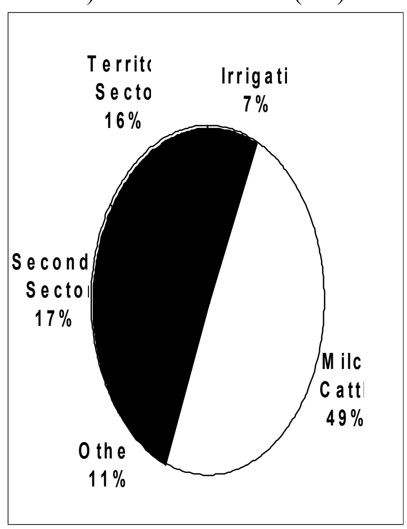
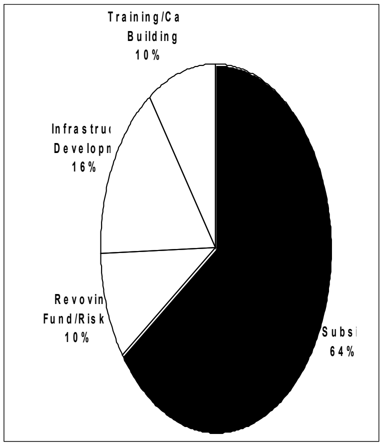
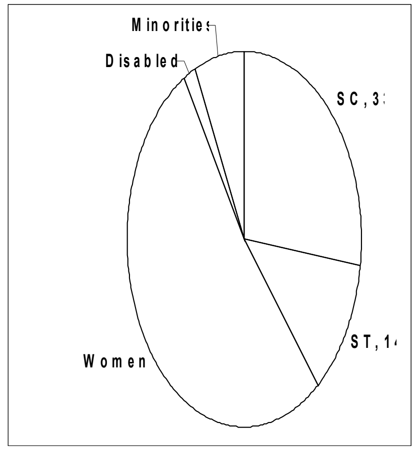



Fig 1.2: Utilization of SGSY Funds – 2007-08

Fig1.3: Coverage of Disadvantaged Groups(%),2007-08




1.4.3. **Credit**: The failure in the spread of the programme and the limited absorbing capacity kept even the targets of credit more or less at a constant level. The target for credit under SGSY increased very moderately from Rs.3,205 crore in 1999-00 to over Rs.3,744 crore in 2007-08 at current prises (**Table 1.3). C**redit actually mobilized was only Rs.1,056 crore in 1999-2000 and rose to Rs.2,760 crore in 2007-08 but still much below the target. It is important to find out the reasons for the persistent wide gap between the credit targets set and the actual mobilization of credit. The ratio of credit to subsidy was about two during the period and did not vary much from year to year. Thus, credit-subsidy ratio remained much below the target ratio of 3:1. This is partly due to failure to strengthen the demand side of the credit by improving the capacity of the poor to absorb credit for income generating activities. But it is also due to supply side failures. The financial services did not have the systems and procedures suited to the poor. On the whole, credit and related indicators show that SGSY-bank linkage is yet to take off from the perspective of credit facilitating the growth of micro enterprises. It signifies the failure of both credit delivery systems to reach the poor as well as that of public intervention to promote credit-worthy *swarojgaris*.

**Table 1.3**
**Credit Mobilization and Disbursement under SGSY since Inception**

(In Rs. crore)

| Year | Total Credit Target | Total Credit Mobilised | Credit Mobilised as % of Target | Credit Disbursed to SHGs | Credit Disbursed to Individuals | Total Subsidy Disbursed | Subsidy Disbursed to SHGs | Subsidy Disbursed to Individuals | Total Credit+ Subsidy | Ratio of Credit to Subsidy |
|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| 1999-2000 | 3205 | 1056 | 33 | 187 | 869 | 542 | 125 | 417 | 1598 | 1.9 |
| 2000-2001 | 3205 | 1459 | 46 | 257 | 1202 | 702 | 168 | 534 | 2161 | 2.1 |
| 2001-2002 | 3201 | 1330 | 42 | 318 | 1011 | 666 | 210 | 456 | 1995 | 2.0 |
| 2002-2003 | 2525 | 1184 | 47 | 459 | 725 | 606 | 283 | 323 | 1790 | 2.0 |
| 2003-2004* | 2129 | 1302 | 61 | 708 | 594 | 713 | 444 | 269 | 2015 | 1..8 |
| 2004-2005 | 2508 | 1658 | 66 | 1028 | 631 | 859 | 586 | 273 | 2517 | 1.9 |
| 2005-2006 | 2516 | 1823 | 72 | 1275 | 548 | 905 | 671 | 234 | 2728 | 2.0 |
| 2006-2007 | 2869 | 2291 | 80 | 1803 | 488 | 971 | 771 | 200 | 3262 | 2.4 |
| 2007-2008 | 3744 | 2760 | 74 | 2091 | 670 | 1289 | 991 | 298 | 4049 | 2.1 |
| Average for 5 years (2003-08) | ***2753*** | ***1967*** | ***71*** | ***1381*** | ***586*** | ***947*** | ***693*** | ***255*** | ***2914*** | ***2.1*** |
| **Total ( 9 years) (1999-00 to 2007-08)** | **25901** | **14865** | **57** | **8126** | **6739** | **7252** | **4248** | **3004** | **23664** | **2.0** |
| 2008-2009 (Upto October) | 3930 | 1547 | 39 | 1136 | 412 | 711 | 461 | 250 | 711 | 2.2 |
| **Total** | **29831** | **16412** | **56** | **9262** | **7151** | **7963** | **4709** | **3254** | **24375** | **2.1** |

Source: Department of Rural Development, MoRD, GoI, 2008 * Time series show discontinuity after 2002-03

1.4.4 *Investment:* The cumulative investment (credit + subsidy) over the period of ten years was Rs 24,375 crore, consisting of Rs 16,412 crore of credit and Rs.7,963 crore as subsidy (**Tabale 1.3**). The annual investment increased from Rs. 1600 crore in 1999-2000 to Rs 4,049 crore in 2007-08. As compared to the target of Rs.25,000, the average per beneficiary investment during the period was Rs.22,995. This low level of investment might be the reason for the low income gains accrued to swarjgaris engaged in enterprise activities catering to local markets. There is need to raise productivity levels of SHGs by increasing the investment level along with better technology. Relaxing economic norms, especially bank lending to poor, would be justifiable in the case of these programmes so long as they serve their priority objective of getting the poor out of the poverty trap. However, micro-enterprises under SGSY need to be judged strictly by productivity and viability.

### 1.5 Performance of SGSY

1.5.1 The experiences of some states show that with proper institutional architecture, the SHG mode of collective action by the poor from the primary level (SHGs at village level) to the district level (SHG federations) has been successful in mobilizing the poor. SHG federations and their supporting institutions also facilitate more effective interaction with the government and banking agencies. In many states, in the absence of appropriate pro-poor institutions, SHGs are unable to achieve upward mobility with their own initiatives. Further, poverty-reduction programmes such as SGSY often end up in the poor becoming dependent on the government or other external interventions. The test of empowerment of the poor lies in their ability to utilize effectively the programmes meant for their development. Such programmes, collectively, should operate like a conveyor belt receiving the hardcore poor at one end and releasing the empowered poor at the other end.

1.5.2 Results of evaluation of the SGSY, (Planning Commission, 2005: *Mid-Term Appraisal of 10th Five Year Plan 2002-07,* pp.238-242) show inadequate infrastructure and insufficient capacity building as main constraints. Most of the factors responsible for its poor performance relate to weaknesses in delivery systems. Cluster approach has also been a non-starter in many of the states. DRDAs and the line departments of most of the state governments have failed in providing non-credit inputs to the *swarojgaris*. Above all, the building up of gender perspective in the programme has been conspicuously absent in many parts of the country. While the proportion of about 15 per cent of funds earmarked for infrastructure development may not be small, it is the total budgetary allocation made and the funds made available for the scheme which appear to be too meagre. The budgetary allocation to SGSY will have to be increased and utilized efficiently if significant impact on poverty is to be made. The utilization of six per cent to seven per cent for training and capacity building falls short of the target of 10 per cent. Funds for training and capacity building should be substantially raised along with larger budgetary allocations for the SGSY as a whole.

1.5.3 The performance of SGSY was unsatisfactory in the states with high incidence of poverty such as Assam, Madhya Pradesh, Orissa, Jharkhand, Chattisgarh, West Bengal and

Bihar. The constraints underline their poor performance mostly relate to the delivery system. In most of the above States, functionaries of DRDAs and BDOs did not possess adequate knowledge of the programme and also banks had little interest in it, line departments were hardly involved in planning, implementation and monitoring of the programme (*Purushotham, 2008 op cit*). Consequently, very few *swarojgaris* could avail adequate level of bank credit for investment. For instance, bank credit in Assam was as low as Rs.665 per *swarojgari*. The poor performance of SGSY in East and North-east can be seen in **Table 1.4.** In East and North-East, the credit disbursed as a proportion of credit targeted in 2007-08 was low at about 40 per cent as against to the all India's 73 percent. Consequently, per *swarojgari* investment (credit plus subsidy) was low at Rs.19,700. The Ministry of Rural Development sponsored study on "Evaluation of Functioning and Implementation of SGSY", though dated, brings out a number of deficiencies in the delivery system (**Box-1.2).**

**Table 1.4 :**
**Financial and Physical Performance of SGSY Programme in 2007-08 – Region-Wise**

*(Percentages to All India )*

| Region Rural areas of: | Population | Poor Persons | Swarojgariss assisted | Total Allocation | Total Releases | Total Credit Disbursed | % Credit Disbursed to Target | Total Subsidy Disbursed | Total Credit + Subsidy | Amount of investment per Swarozgari* |
|---|---|---|---|---|---|---|---|---|---|---|
| North | 11.9 | 6.1 | 6.2 | 5.9 | 6.2 | 9.5 | 119.2 | 6.3 | 8.5 | 39354 |
| Central | 27.3 | 33.8 | 29.8 | 27.8 | 30.1 | 34.6 | 91.6 | 38.5 | 35.8 | 34518 |
| East | 25.1 | 34.6 | 21.1 | 30.0 | 25.0 | 16.8 | 40.9 | 20.2 | 17.9 | 24165 |
| North East | 4.4 | 2.5 | 9.11 | 10.6 | 10.3 | 5.5 | 38.7 | 7.5 | 6.1 | 19658 |
| West | 11.8 | 10.7 | 11.1 | 9.9 | 10.8 | 10.2 | 75.4 | 11.2 | 10.5 | 27222 |
| South | 19.5 | 11.3 | 21.3 | 15.8 | 17.7 | 23.4 | 109.0 | 16.3 | 21.2 | 26810 |
| All India | 100 | 100 | 100 | 100 | 100 | 100 | 73.5 | 100 | 100 | 28722 |

Regions: Unlike the usual perception, the regional classification used here is as per per the bankers grouping of states as the following:

| | |
|---|---|
| **North** | Haryana, H.P, J&K, Punjab and Rajasthan |
| **Central** | Chattisgarh, M.P., U.P. and Uttaranchal |
| **East** | Bihar, Jharkhand, Orissa, West Bengal and A&N Islanda |
| **North-East** | Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura |
| **West**: | Goa, Gujarat, Maharashtra, D&N Haveli and Daman & Diu |
| **South** | Andhra Prdesh, Karnataka, Kerala, Tamilnadu, Lakshadeep and Pondicherry |

** includes credit, subsidy, cost of training, capacity building, etc.*

**Box 1.2**

**What Went Wrong?**

**Delivery System**

- Delay in sanctioning of loans, non-cooperation of the banks and lack of proper guidance were creating problems
- There was lack of coordination between bank branches and block officials
- No effective monitoring was being made after sanctioning loans
- A number of SHGs were formed with the intension of availing the revolving fund and subsidy and no economic activity was carried out
- In most of the areas, especially in Bihar and Uttar Pradesh, influential persons in the village were found to own a group

**Project Outcomes**

- Most of the assets (46%) created under SGSY were livestock assets.
- 67% of the beneficiaries were women, and 47% were from the social group of SC/ST and physically handicapped were 2.4%
- 46% SHGs achieved improvement in their incomes through SGSY activities
- 40% SHGs reported increase in savings

*Source: rural.nic/in/annual/0203/chapter-5/pdf.*

1.5.4 In contrast to the Eastern states, Andhra Pradesh, Kerala and Tamil Nadu show successful implementation of the programme largely because of the existence of umbrella organizations at the state level. These organizations promote formation of SHGs, ensure thrift, establish bank linkage and facilitate capacity building. Also, they federate the SHGs into effective self-governing organizations with a hierarchy of appropriate functions, including ensuring coordination with the line departments. The *Kudumbashree* in Kerala with active linkages with the PRI and the AP model which relies on federations of SHGs have acquired the shape of effective organizations of the poor. Federations acting as financial intermediary which is a high skill activity require investments in training for enhancing their skill base. This also involves institutional partnerships between SHGs / federations with the bankers. The ideal institutional strategy could be based on the experiences of Kerala, Andhra Pradesh or Tamil Nadu. However, for a country like India, no single strategy may be suitable, and alternatives need to be developed where appropriate.

### 1.6 Self-employment and wage-employment

1.6.1 The preceding discussion brings out that the poor performance of SGSY is due to poor quality of SHGs. Giving the poor viable livelihood in self-employment activities is an extremely challenging and time-taking task. The programme should now move forward with a two-pronged strategy of extending the base and activating the economy of the hardcore poor to integrate it with the mainstream economy. Extending the base is relatively easy, particularly in target-driven programmes. Integrating the economy of the hardcore poor with the mainstream by giving them viable livelihoods with potential for upward mobility is a far more challenging task. SGSY should team up with other programmes and development oriented line departments to look beyond its own targets.

### Need for Restructuring SGSY

1.6.2 The experience of the SGSY brings out that with the best of the efforts in social mobilization, organizing SHGs, building up their capacities and putting in place effective federal organizations of the poor, even in Kerala and Andhra Pradesh, only about one-fourth of the SHGs could actually undertake self-employment activities. Even among these self-employment activities, the average monthly earnings per *swarojgari* in better performing states of Andhra Pradesh and Kerala is observed to be as low as Rs.2,000 per month and there has been an element of self-exploitation among women involved. This draws attention to the fact that poor households depend on multiple sources of income which may include wage-employment and self-employment. Creating high productive self-employment opportunities is not only a time taking process but also such opportunities may not exist in all places. Hence, paying attention to only self-employment as a means of poverty reduction will miss a large proportion of poor households. Therefore, there is a strong case for combining skill-based wage-employment with self-employment programmes. SGSY should be restructured so as to include training in skills which enables placement-based wage-employment, in addition to generating self-employment.

## Chapter 2

## Credit Flow to SHGs and Individual *Swarojgaris* under SGSY

### 2.1 The Backdrop

2.1.1 Credit constitutes a crucial component under the *Swarnjayanti Gram Swarojgar Yojana* (SGSY). Prior to obtaining bank credit, substantial preparatory work is expected to be undertaken at the grassroot level through a process of social mobilisation. The District Rural Development Agency (DRDA) is the implementing agency that ought to initiate, sustain and help this process. In states where an umbrella organization exists, it oversees the process with the assistance of DRDA. The process requires formation of Self-Help Groups (SHGs) among individuals, bringing together individual savings and thrift under a common pool, building their capacity for handling money and managing income generating projects, helping in the selection of key activities, planning of activity clusters, providing infrastructure, technological and market support among others. With the formation of SHG, group corpus gets created which consists of members' own thrift, revolving fund given to members and interest earned on internal lending. After demonstrating the potential of being a viable group (Grade-I), SHG receives the revolving fund from DRDA and thereby expanding the group corpus. At this stage, the concerned bank is expected to sanction a cash credit facility, which is roughly four times the corpus, and after the group attains maturity (Grade-II), the SHG becomes eligible for assistance for income generating activity. Towards this purpose, the DRDA releases subsidy linked with the bank loan to the group to start a micro enterprise.

2.1.2 The role of bank credit lies not just in providing finance for a chosen project. The programme envisages the involvement of the local bank from the inception of SHG or with an investment project conceived by an individual *swarozgari*. To begin with, DRDAs help in the formation of SHGs or promoting individual investment projects, bring the beneficiaries into contact with local banks through the opening of savings bank account. Banks, along with DRDAs, get involved in grading of SHGs, which will facilitate the granting of revolving fund by the DRDA and provision of cash credit facility by the banks. After the SHGs attain Grade-II, the micro-enterprise proposals will decide the size of the loan which in turn determine the amount of subsidy that would be forthcoming from the government (DRDA). The programme further envisages that there shall be multiple doses of bank credit as one-time assistance of credit injection might not help the s*warozgaris* to cross the poverty line. Multiple doses of credit are supposed to be extended only after continuous monitoring and follow-up at the level of DRDAs, Non Governmental Organisations (NGOs) as well as banks. The banks have to be actively involved in the District SGSY Committee which will ensure, on a continuous basis, the availability of infrastructure in the project area in terms of service and training facilities. However, the current mechanism of assistance to the SHGs through a graded system has some problems. The rate of attrition between the Grade-I and II indicates that a large number of SHGs fizzle out mid-way after availing the revolving fund. Further, the SHGs that have cleared the Grade-II stage seem to wait for long periods for availing the loan and subsidy assistance. In many instances, there have been inordinate delays in releasing the amounts to the SHGs even after sanctioning of the loans.

*Loan and Subsidy*

2.1.3 Government support to the programme beneficiaries under SGSY is extended in the form of back-ended subsidy of 30 per cent of the capital cost subject to a limit of Rs.7,500 per member (Rs.10,000 for Scheduled Caste / Scheduled Tribe) or Rs.1,25,000 per SHG. Each SHG is also provided with Rs 10,000 as revolving fund by the government and cash credit facility by the banks. Banks monitor the SHGs' capacity for internal lending and utilization of revolving fund. Banks are expected to give credit upto four times the group's corpus for income generating activities.

## 2.2 State-wise Flow of SGSY Credit and Other Resources

2.2.1 The resources flowing to SGSY have two important components viz. i. the government allocation for the SGSY and ii. investment credit by the banking sector to micro-enterprises. Besides these two components, the banks also provide cash credit linked to the corpus of SHGs. The first component viz, the government allocations for the SGSY, as discussed in Chapter-1, is meant mainly for capital subsidy, revolving fund, infrastructure development and training and capacity building. As the composition suggests, the government allocations are aimed at strengthening the demand side of SGSY by building up credit worthiness and credit absorbing capacity of the poor. Thus, the government allocations under SGSY build the base for mobilizing and effective utilization of credit. The second component, viz, credit flow from the financial institutions depends upon the extent of their spread and preparedness to lend to the poor households as much as the demand side build up by the government allocations. The status of targets and achievements of government allocations and credit for SGSY across the country is discussed below.

*2.2.2 Region-wise Allocation*: The provisional figures for 2007-08 indicate that at the all India level, an amount of Rs.2288.8 crore was allocated and the fund available was Rs.2427.6 crore. However, the utilization was Rs.1951.2 crore. The total subsidy disbursed was Rs.1278.8 crore (77 percent of it for SHGs and the remaining for individual *swarojgaris)*. Across regions, there were variations in the utilization as a percentage of funds allocated as well as other indicators (Table 2.1)**.**

Table 2.1
Share of Regions in the Utilization of Funds, Credit and Subsidy under SGSY (2007-08)

*(Percentage)*

| Regions | Share in Allocation of Funds | Share in Utilization of Funds | Percentage Utilization to Total Funds Available | Share in Total Credit Disbursed | Percentage of Credit Disbursed to Target | Share in Total Subsidy Disbursed | Share in Total Investment Disbursed | Credit Subsidy Ratio | Share of Poor (2004-05) | Credit S assi |
|---|---|---|---|---|---|---|---|---|---|---|
| North | 5.9 | 6.0 | 78.4 | 9.5 | 119.20 | 6.3 | 8.5 | 3.26 | 6.1 | 1,48, |
| North-East | 10.6 | 9.0 | 68.8 | 5.5 | 38.73 | 7.5 | 6.1 | 1.58 | 2.5 | 50, |
| East | 30.0 | 24.5 | 66.0 | 16.8 | 40.87 | 20.2 | 17.9 | 1.78 | 34.6 | 22, |
| Central | 27.8 | 29.9 | 86.1 | 34.6 | 91.59 | 38.5 | 35.8 | 1.94 | 33.8 | 1,06, |
| West | 9.9 | 11.6 | 95.4 | 10.2 | 75.45 | 11.2 | 10.5 | 1.95 | 10.7 | 41, |
| South | 15.8 | 19.0 | 96.6 | 23.4 | 109.04 | 16.3 | 21.2 | 3.10 | 11.3 | 85, |
| All India | 100.0 | 100.0 | 80.4 | 100.0 | 73.54 | 100.0 | 100.0 | 2.15 | 100.0 | 57, |
| **Total (Rs. Crore)** | | **Utilization of Funds** | **Funds Available** | **Credit Disbursed** | | **Subsidy disbursed** | **Investment** | | | |
| | | **1951.2** | **2427.6** | **2752.9** | | **1278.8** | **4031.7** | | | |

Note: The data for 2007-08 are provisional. For states, see Table A2
Source: Ministry of Rural Development, Govt. of India

2.2.3 The budgetary allocation to states under SGSY was, by and large, made on the basis of the proportion of poor households in the respective states. Eastern and Central regions which had the highest concentration of rural poor (34.6 per cent and 33.8 per cent, respectively) also had high budgetary allocations (about 30 per cent and 27-28 per cent). Considering the special category of the North-East region, both allocations (9 to 10 per cent) and credit targets set (also around 10 per cent) were much higher than the region's share in the country's head count ratio of the poor in rural areas (2.5 per cent). The Southern region attracted relatively more funds (16 per cent to 20 per cent over years) compared to its share (11 per cent) in All India rural poverty, essentially because the region enjoys better social mobilization and funds/credit absorption capacity. The actual utilization of funds was also better in the Southern region. Even the Central region had shown better performance. In other words, the Southern and Central regions performed better in achieving the targets. On the other hand, the Eastern and North-East regions lagged behind their targets.

2.2.4 *Banking Institutions and Regional Pattern in the SGSY Credit Disbursement*: At the national level, the overall credit achievement under the SGSY was very low. From the inception in 1999 till October 2008, against the target of Rs.29,831 crore, only about 55 per cent (Rs.16,412 crore) was mobilized. Even as recently as 2007-08, against the target of a sum of Rs.3743.55 crore, only Rs.2752.87 crore was disbursed (76 per cent for SHGs and the remaining for individual *swarojgaris*).

2.2.5 There were substantial inter-state disparities in the flow of credit under the programme. For instance, East, with a share of 34.7 per cent of the poor, accounted for 16.7 per cent of the credit disbursed, which was less than half its share in the poor. Within the Eastern region, credit disbursement as a proportion of target was relatively better in Orissa (79 per cent) but very low in Jharkhand (50 per cent), Sikkim (37 per cent) and West Bengal (17 per cent). In the North-East, Assam (46 per cent) and Tripura (43 per cent) were the exceptions and the other five states had credit disbursement less than five per cent of the target. Overall, credit absorption was low in the East and North-East. Taking into account estimates of poor in 2004-05, one can see that credit per poor household under SGSY was as low as Rs.60 in East as against the national average of Rs.125. While South accounted for 11.3 per cent of the poor, it accounted for 23.4 per cent of the credit disbursed. The differences in regional and state-wise performances, to an extent, can be attributed to the relative strength of banking institutions. Moreover, in the Eastern region, there was a steady decline in the share of credit mobilised in recent years. While the Western region's share remained almost at around 10 per cent, the Southern region's share significantly increased in recent years, obviously as a result of better social mobilisation and credit absorption capacity. The region also had better banking network.

**Table 2.2**

**Share of Regions in Credit Mobilization under SGSY since Inception**

**(Percentage)**

| Regions | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08* | All Years | Per cent of Credit Utilized to Target |
|---|---|---|---|---|---|---|---|---|---|---|---|
| North | 11.6 | 16.7 | 14.2 | 12.0 | 12.0 | 11.5 | 10.7 | 9.9 | 9.7 | 11.7 | 94.0 |
| North East | 1.9 | 1.4 | 2.4 | 4.6 | 5.4 | 4.9 | 4.5 | 4.9 | 5.5 | 4.2 | 34.3 |
| East | 26.1 | 22.2 | 24.6 | 29.2 | 27.9 | 25.0 | 22.8 | 18.2 | 16.7 | 22.5 | 44.2 |
| Central | 19.9 | 26.3 | 30.2 | 27.1 | 27.4 | 33.0 | 34.0 | 28.5 | 34.5 | 29.9 | 59.2 |
| West | 16.7 | 14.6 | 12.1 | 10.3 | 10.2 | 9.2 | 9.4 | 8.5 | 10.2 | 10.8 | 59.0 |
| South | 23.8 | 18.8 | 16.5 | 16.8 | 17.1 | 16.4 | 18.6 | 30.0 | 23.4 | 20.9 | 70.2 |
| All India | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 57.4 |
| **Total (Rs. Crore))** | **1056.5** | **1459.4** | **1329.7** | **1184.3** | **1302.1** | **1658.2** | **1823.2** | **2291.2** | **2760.3** | **14864.8** | **15925.3** |

Note: The data for 2007-08 are provisional. For state wise see Table A3
Source: Ministry of Rural Development, Government of India

2.2.6 For the country as a whole, in the SGSY credit disbursed during 2007-08, commercial banks accounted for 61.4 per cent, RRBs 30 per cent and cooperatives 7.9 per cent (Table 2.3). Regional Rural Banks (RRBs) had better presence in Central, East and North-East and Cooperatives in North. In the poorer Eastern and Central regions, more than one third of the credit was disbursed through RRBs, whereas in all other regions except the West it is about one-fourth. Nearly 15 per cent of the credit was disbursed through Cooperatives in the North and West, whereas it was a little more than 10 per cent in South. Given the fact that credit under SGSY is addressed to the rural poor households, commercial banks *per se* may not be adequate to reach out to all the poor. Strengthening RRBs in poorer states by higher capitalization and increase in staff may be necessary to improve the reach of credit to poor.

**Table 2.3**

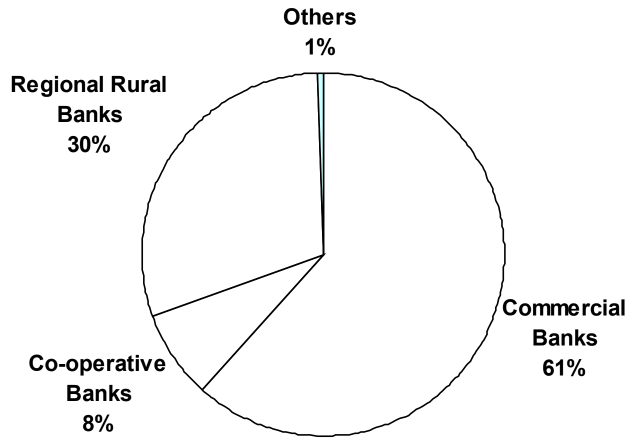
**Source-wise Distribution of Credit to *Swarojgaris* in Different Regions, 2007-08**

**(Percentage)**

| Region | Commercial Banks | Cooperatives | Regional Rural Banks | Others | Total | Total (Rs crore) |
|---|---|---|---|---|---|---|
| North | 59.4 | 15.1 | 23.9 | 1.5 | 100 | 242.3 |
| North-East | 63.1 | 8.2 | 28.6 | 0.1 | 100 | 150.5 |
| East | 63.1 | 3.0 | 33.9 | 0.0 | 100 | 446.1 |
| Central | 56.3 | 4.8 | 37.8 | 1.1 | 100 | 952.1 |
| West | 73.1 | 14.1 | 12.6 | 0.2 | 100 | 280.5 |
| South | 63.4 | 10.2 | 25.7 | 0.7 | 100 | 644.7 |
| All India | 61.4 | 7.9 | 30.0 | 0.7 | 100 | 27162.2 |

Note : The data for 2007-08 are provisional. Total credit disbursed by sources does not match with that by purpose given in Tables 2.1 and 2.2. For state wise see Table A4
Source: Ministry of Rural Development, Government of India

**Fig 2.1: Disbursement of Credit by Type of Bank, 2007-08**



## 2.3 **Augmenting Allocation for SGSY**

2.3.1 Budgetary resources allocated to the SGSY as well as the credit provided to the *swarojgaris* was abysmally low. According to the available estimates, if a poor household were to earn a level of income from self-employment that would lift it above poverty, there is need for a micro-enterprise with an investment of at least one lakh rupees. If an average poor household were to absorb a credit of that level, it requires considerable training and capacity building, besides improvement in infrastructure and market facilities. Even if financial inclusion of the rural poor makes progress, credit flow to the poor may remain inadequate if there is no substantial improvement in the credit absorption capacity. Therefore, as a precondition to substantial increase in the credit flow to the SGSY, the government allocation for the programme should be substantially increased. One of the sources for augmenting allocations for the SGSY could be from the shortfall in bank credit to weaker sections under priority sector lending.

2.3.2 *Shortfalls in Priority Sector and Weaker Section Advance*: The overall priority sector targets remain at 40 per cent for the domestic (public and private sector) banks and at 32 per cent for foreign banks. For domestic banks, there also exist sub-targets of 18 per cent for agriculture and 10 per cent for weaker sections. The shortfalls in the fulfilment of credit flow to weaker sections under priority sector lending are particularly high in case of private sector banks (Table 2.4). However, such targets ought to be fulfilled independently by each bank including fulfilling the sub-target.

Table 2.4

**Proportions of Weaker Section Loans to Net Bank Credit (or ANBC)**

***(Percentage)***

| End of March | Public Sector Banks | | | Private Sector Banks |
|---|---|---|---|---|
| | All PSBs | Nationalised Banks | SBI Group | |
| 2005 | 8.9 | 5.2 | 10.1 | 1.2 |
| 2006 | 7.7 | 7.5 | 8.2 | 1.6 |
| 2007 | 7.2 | 7.1 | 7.3 | 1.6 |
| 2008 | 9.3 | 9.2 | 9.6 | 2.1 |

Source: RBI, 2007-08

2.3.3 Individual bank performances show that as far as weaker sections are concerned, as many as 15 public sector banks and all the 23 private sector banks did not achieve the stipulated 10 per cent target as on March 2008. Based on this, the inferential estimation provides an aggregate shortfall of about Rs.45,335 crore for weaker sections (Table 2.5).

**Table 2.5**
**Shortfall from Priority Sector Lending by Sub-target and Bank Groups**

| Sub-target | Bank group | Rs. crore |
|---|---|---|
| Agricultural Advances (15%) | State Bank Group | 2,480 |
| | Other Public Sector Banks | 19,313 |
| | Private Sector Banks | 10,312 |
| | Total | 32,105 |
| Advances to Weaker Sections (10%) | State Bank Group | 3,087 |
| | Other Public Sector Banks | 16,995 |
| | Private Sector Banks | 25,354 |
| | Total | 45,436 |

Note: The advances to small and marginal farmers would be considered under agriculture as also weaker sections and because of this overlap, the shortfalls from the two categories should not be combined.

Source: Calculation based on RBI's Report on Trend and Progress of Banking in India, 2007-08

2.3.4 Presently, part of the priority sector lending shortfalls of the banks is allocated to Rural Infrastructure Development Fund (RIDF) which is managed by NABARD for the purpose of lending to states for investment in their rural infrastructure development projects. Considering the fact that lending to weaker sections is much below the target, and the fact that not all the shortfall is diverted to RIDF, it could be seen as one of the important sources of mobilizing funds for the proposed restructured SGSY.

### 2.4. Reforming the Lead Bank Scheme

2.4.1 Besides expanding the network of banking institutions, there is need for effective planning of credit delivery at district level in a coordinated manner to reach the poor. Lead Bank Scheme (LBS) is ideally suited for this task. There is a strong case for continuing it with an upgraded status and with infusion of added focus, greater vigour and dynamism in the scheme's operations. Its working has thrown up a number of experiences which provide useful lessons for further revitalising the system.

2.4.2 First, the role of the Lead District Manger (LDM) has to be redefined in the context of the renewed emphasis on correcting the situation of financial exclusion that is admittedly widely prevalent, particularly amongst small and marginal farmers, small entrepreneurs and vulnerable groups of men and women. In this respect, many new institutional devices have been conceived and being put in place, such as expansion in rural bank branches in selected states and regions, the adoption of agency banking through the systems of Business Facilitators (BFs) and Business Correspondents (BCs), the use of NGOs and SHGs for group-based banking programmes, and for all of these, the setting up and maintenance of technology-enabled solutions including village kiosks by public agencies. This is all the more so because of the enormous amount of regional and sectoral diversification taking place in the economy throwing up vast business opportunities for banks even in rural areas; there is thus a strong case for treating LDMs as integral parts of the overall business plans of banks and making them serve as catalytic agents for expanding banking activities in the district, which is mutually beneficial for the banking system as a whole, particularly in the context of financial inclusion as an avowed policy objective.

2.4.3 Second, in such a scheme of things, the office of the LDMs would serve as an information hub duly interconnected with other banks operating in the area based on Information Technology (IT) solutions, which almost all banks are pursuing now. The hub will have to generate and exchange information among banks - information which is generated in the normal course of banking business. The nature of information which is to be disseminated and exchanged on the hub will have to be mutually agreed upon. It is also necessary that all LDMs initiatives and maintain *websites* of their own so that the other banks and the public at large may get access to the functioning of the lead bank scheme in each district.

2.4.4 Third, with a view to facilitating the performance of the somewhat superior role in the business plan of the banks by the LDM with planning, coordination and monitoring responsibilities in the changed context of greater social role for the banks in SHGs and other poverty elimination programmes, above all, the policy of financial inclusion, it is necessary to post an officer of the minimum rank of Scale V in that position. Associated with this, LDMs should be provided with minimum office facilities including two staff members, a computer operator, one messenger and a vehicle. In addition, commensurate infrastructural facilities like fax, internet and computers should be provided to the LDM.

2.4.5 Fourth, the importance of DRDAs in supporting the preparation of district plans, dovetailing them with District Credit Plan (DCPs) and monitoring them - all in coordination with line departments and the LDM – cannot be over-emphaiszed. This can be better achieved if DRDAs emerge as activist agencies manned by qualified professionals (planners, economists, etc.).

2.4.6 In the same vein, it is necessary to accommodate representatives of grassroots level institutions, amongst them like BFs, BCs, MFs, NGOs and SHG federations including farmers' federations, in the deliberations of the formal District-Level Coordination Committees (DLCCs) and Block-Level Coordination Committees (BLCCs).

2.4.7 *Performance Budgeting:* The performance of LDM and DRDA should be assessed through performance budgeting carried out by independent agencies. The report should be put on a website and widely publicized among the SHGs. Better performing LDMs and PDs should be properly rewarded and worst performing LDMs and PDs should be re-trained and motivated.

**2.5 Need for Uniform Rates of Interest on SGSY Credit**

*2.5.1. PLRs and Actual Interest Rates Charged:* One of the incongruous situations faced in the course of implementation of the SGSY is that different banks charge different rates of interest in the same region. This is because the lending rate of each bank is linked to its own Prime Lending Rate (PLR) and PLRs vary from bank to bank. A brief look at the background would make it clear why PLRs of banks differ. Subsequent to the freeing interest rates, a system of Prime Lending Rare (PLR) was introduced in April 1997. For some time, there was a maximum spread of four percentage points below or above the PLR. Banks were then given the freedom to operate their own PLR along with a maximum spread. Banks were also given the freedom to offer tender-linked PLR and finally to offer lending rates on a fixed rate or on a floating rate basis. Banks are generally allowed to align the pricing of credit to their own assessment of credit risk. In November 2005, the Indian Bankers Association (IBA) advised its member banks to announce a Benchmark PLR (BPLR) taking into account (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and (iv) provision for profit margin, with the approval of their Boards keeping in view the operational requirements.

2.5.2 Given the limited ability of small borrowers to manage interest rate risk and for ensuring credit availability at reasonable rates, a ceiling at BPLR was prescribed for small loans up to Rs. 2 lakh. Currently, the BPLR practices differ from bank to bank. Amongst the public sector banks, BPLR ranges from 13.75 per cent to 14.50 per cent but there is a vast divergence in the actual rates charged by banks; the maximum rates themselves are astonishingly high (Table 2.6). The Committee observed that in a number of places, the RBI guidelines were violated and interest rates over and above the PLRs were charged for loans under SGSY. The Committee recommends that under no circumstance the interest rates charged for credit under SGSY should be more than the PLR.

**Table 2.6**
**Range of Interest Rates on Advances (above Rs.2 lakh) Other Than Export Credit for the Quarter ended September, 2008**

| Banks | Interest Rate Range Excluding 5 per cent of business contracted at Extreme Rate | | Interest Rate Ranges at which at least 60 per cent business is contracted | |
|---|---|---|---|---|
| | **Demand Loans** | **Term Loans** | **Demand Loans** | **Term Loans** |
| Public Sector Banks | 6.00 – 18.75 | 6.50 – 18.75 | 7.00 – 17.75 | 6.50 – 17.50 |
| Foreign Banks | 5.40 – 23.53 | 5.00 – 25.50 | 7.28 – 20.00 | 7.00 – 21.00 |
| Private Banks | 5.50 – 22.00 | 5.06 – 23.00 | 9.00 – 18.25 | 9.00 – 18.49 |

Note: (i) Data pertain to 76 banks, of which 27 are public sector banks, 27 are foreign banks and 22 are private sector banks. (2) The median interest rate range has been worked out by taking into account separately the medium values of minimum and maximum lending rates charged by banks.
Source: RBI

## 2.6 Capital versus Interest Subsidy

2.6.1 *Capital Subsidy*: There has been considerable debate on subsidies as a part of the programmes for income generating activities of the poor. There were instances where front-end capital subsidies were misused by formulating projects with the objective of availing subsidy rather than pursuing productive activities. The back-end capital subsidy too is often found to reduce the SGSY essentially oriented towards fulfilment of targets set in terms of subsidy delivery. The Committee observed that there was switch over from front-end to back-end capital subsidy in 1993 on the basis of recommendations of Mehta Committee (RBI). However, in the course of the Committee's field visit, several anomalies associated with back-end subsidy were brought to its notice. The anomalies associated with the delivery of capital subsidy have resulted in subsidy to poor itself as undesirable and inefficient way of addressing poverty elimination. Based on this, suggestions are made that subsidies are an aberration in the times of fast-growing economy with market opening up of opportunities for all, including the poor. However, taking into consideration the pressures of marginalization under the economic reforms and the emphasis in the Eleventh Plan on inclusive growth, the Committee finds that capital subsidy to poor households continues to be relevant to induce them towards income generating activities and recommends its continuation. Presently, only

25 per cent of the *swarojgaris* are able to avail the investment facility and the related capital subsidy. Further, most of the *swarojgaris* are first time investors and, therefore, are vulnerable to risks and insurmountable problems in accessing markets. The borrowers are involved in a process of learning by doing. Even after successful investment, most of the activities for which credit is provided fetch them very modest earnings. However, capital subsidy should be confined only to the first investment loan and should not apply to repeat investment loans.

*2.6.2 Pilfer-Proof Delivery of Modified Capital Subsidy:* The search for alternative pilfer-proof capital subsidy suggests that the total entitlement of subsidy under SGSY could be delivered in half-yearly instalments spread over the entire loan repayment period of three years. The Committee recommends that subsidy part of the investment be transferred to the SHG or *swarojgaris* half-yearly during the repayment period, and the delivery of subsidy be administered by the DRDA. Further, the Committee recommends that the entire investment amount, which includes first loan and subsidy components be delivered front-end. The banks will treat the entire investment as loan and charge interest on the sum. Based on the repayment performance of the SHG or *swarojgaris*, the DRDA would ensure transfer of subsidy in half-yearly instalments. (A comparative discussion of the present back-end subsidy delivery and the proposed New Scheme of delivering capital subsidy in instalments are presented in Annexure 2.1)

*2.6.3 Revision of Upper Limit on Capital Subsidy*: The Committee observed that the ceiling on the amount of subsidy was fixed way back in April 1999. The Committee recommends that the upper limit on the subsidy should be enhanced as suggested below:

i) For individual *swarojgaris*, 30 per cent of project cost subject to a maximum of Rs.15,000 (in place of Rs.7,500 earlier). In case of SC/ST and disabled, 50 per cent of project cost or Rs.20,000 (in place of Rs.10,000 earlier) whichever is less.

ii) For SHGs, 50 per cent of project cost subject to a ceiling of Rs. 2.50 lakh or Rs. 20,000 per SHG member in place of Rs. 10,000 earlier whichever is less.

2.6.4 *Interest Subsidy***:** Given the fact that the SGSY target groups are rural poor, the lending rates are on the higher side compared to the other priority sector borrowers such as farmers. Besides, the interest rates charged by different banks vary in the same area**.** The Committee recommends an interest rate of seven per cent for every loan accessed, including repeat loans, from the banks by the SHGs under SGSY provided the repayment is prompt. The banks will charge the PLR. The difference between the PLRs charged by the banks and seven per cent should be subsidized by the government through the DRDAs.

2.6.5 *Revolving Fund*: The Committee recommends that the Revolving Fund should be increased from Rs. 10,000 to Rs. 15,000 per SHG.

2.6.6 *Advantages of Modified Subsidy:* The switch in the delivery system from back-end capital subsidy to the proposed new scheme of disbursing capital subsidy in half-yearly instalments spread over the repayment period of the loan provides the following advantages:

i) The new scheme removes the stigma that SGSY is a 'target oriented' programme. It removes room for anomalies associated with back-end or front-end subsidy.

ii) The Scheme makes the credit and subsidy more demand driven being linked to micro-credit plans. This would bring the implementing agencies like DRDA to work with SHGs over the entire credit cycle rather than treating the credit and subsidy delivery as one time measure.

iii) It also removes the reservation of the banking sector looking upon subsidies as distorting credit markets. The SHGs will repay the loan with interest to the banks and receive their share of subsidy disbursed by the DRDA every half-yearly.

iv) Since the entire sum of credit and subsidy equivalent to investment is extended to the SHGs in the beginning itself for meeting the investment need, the SHGs need not seek high interest-bearing loans from the informal agencies for working capital, as they have been doing when the capital subsidy is held back-end.

v) Since the delivery of capital subsidy is linked to repayment of loan instalments, it rewards good performance and better compliance.

vi) Further, since the cap on the capital credit is to be removed, the income generating projects would be designed keeping in view viability rather than limits placed on the subsidy.

**2.7 Use of Technology for Credit Reach**

2.7.1 The Committee feels that in places where credit absorption capacities are low, an environment should be created to improve the same. This should, however, go hand in hand with increasing the credit outreach. In un-banked regions, say, blocks without banks, special attention is needed. Incentives and appropriate support facilities may be given to commercial banks and RRBs to increase the branch network especially in un-banked blocks.

2.7.2 The RBI has also been taking a number of initiatives to enable financial inclusion for excluded groups/regions. Use of mobile (van) banking, allowing banks to utilize services of Non-governmental Organisations (NGOs), Micro Finance Institutions (MFIs) and civil society organisations as intermediaries through the use of Business Correspondents (BCs) and Business Facilitators (BFs) as part of agency banking. The Institute of Development Banking Research and Technology (IDBRT), Hyderabad (established by RBI), has been working on several cost-effective Information Technology (IT) solutions. Use of mobile (phone) banking as part of core banking facility is being allowed without compromising on security, confidentiality, integrity and authenticity. Smart cards are suggested for payment to beneficiaries of various government programmes.

2.7.3 The Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) can be used to (i) fund support for capacity building of BCs and BFs and render promotional support for SHGs and other grassroot level institutions; and (ii) financial support for rural kiosks, IT and such other technological solutions for financial services in rural India in general and excluded groups/regions in particular.

2.7.4 The SHG-federation model of Andhra Pradesh has come up with the concept of *Bank Mithra*, a financially literate member. The designated person is stationed at the bank where she helps various SHG members coming to the bank in their paper work for which she receives some remuneration from the SHGs. The banks have also benefited from this initiative, as it reduces their work load and also increases business.

2.7.5 There is need to design financial instruments that would help people to reduce their risk and vulnerability whether it is for smoothening incomes or ensuring higher education for family members or reducing exposure to health shocks.

## Annexure 2.1

## Delivery of Modified Capital Subsidy

Under the present SGSY a *swarojgari* is eligible for a back end capital subsidy of 30% on the investment subject to a maximum of Rs.7, 500 (Rs.10, 000 for Scheduled Caste (SC)/Scheduled Tribe (ST)/physically challenged). For instance, if the total investment is Rs.25, 000, a *swarojgari* is provided a loan component of Rs.17,500 front-end, and the subsidy component of Rs.7,500 is retained as a deposit with the lending bank to be adjusted back-end. For the *swarojgari* the repayment at PLR (say 12 per cent) involves a total sum of Rs.20,568 (Rs.17,500 loan amount + Rs.3068 interest). Further, the *swarojgari* receives an interest (say at 10%) of Rs.2,611 on the subsidy part deposited with the lending bank. Thus, an investment of Rs.25,000, the *swarojgari* repayment, including net interest burden (the difference between interest paid on loan and the interest received on subsidy) amounts to (Rs.20, 568 – 2,611) Rs.17, 957. But one major problem with the present method of back-end subsidy is that the *swarojgaris* gets only two-thirds of the estimated amount of investment in the beginning, i.e. if estimated investment is Rs.25,000, he/she gets only Rs.17,500. The rest of the investment, viz. Rs.7,500 which comes as subsidy is retained with the bank to be adjusted back-end. This often forces the *swarojgaris* to choose a low investment involving activity which also yields less income and also compels them to go in for informal credit sources for meeting the shortfall in investment as well as working capital requirements which involves high interest burden.

Under the restructured delivery of capital subsidy, the *swarojgaris* gets the entire project cost as a loan from the bank in the beginning itself. The delivery of the subsidy component of the investment is spread over the repayment period - usually three years - of the loan and the subsidy is paid to the beneficiary in half-yearly instalments.

For instance, under the new scheme, if the total amount of investment is Rs.25, 000, then the entire amount is disbursed as loan in the beginning itself. If the rate of interest is 7 per cent, the total interest on the loan comes to Rs.2,678 and the total amount to be repaid works out to Rs.27,678. The total amount of capital subsidy received in half-yearly instalments amounts

Rs.7,500. Therefore, under the new scheme the net repayment (Rs.27,678–Rs.7,500) works out to Rs.20,178. Apparently, the net repayment commitment of *swarojgaris* under the new scheme is higher (Rs.20,178 – Rs.17,957) by Rs.2,221. But a close look shows that under the new scheme, net benefit of Rs.1,009 accrues to the *swarojgaris* (see row 9 of Table A1). Besides, it is pilfer-proof and comes with a combination of interest subsidy on cash credit. Further, the upper limit on capital subsidy is doubled and the upper limit on cash credit component is increased by 50 per cent and the interest rate on cash credit is to be subsidised at 7 per cent.

**Table A1**
**Explanatory statement on the present and the proposed scheme of subsidy delivery**

| S.No | Item | Present Scheme | Proposed Scheme |
|---|---|---|---|
| 1 | Project Cost | 25,000 | 25,000 |
| 2 | Loan in Beginning | 17,500 | 25,000 |
| 3 | Subsidy Back-end | 7,500 | - |
| 4 | Subsidy in Instalment | - | 7,500 |
| 5 | Interest on the Loan | 3,068 | 2,678 |
| 6 | Interest on the Subsidy | 2,611 | - |
| 7 | Total Amount of Repayment<br>Loan (2) + Interest (5) | (17,500+3,068)<br>-2,611=17,957 | (25,000+4,590)-<br>(7,500)=20,178 |
| 8 | Interest on Rs.7,500 @ 12% | 3,230 | - |
| 9 | Net Benefit under proposed scheme | (17,957 + 3,230)<br>=21,187 – 20,178<br>=Rs.1,009 | |

*Nominal difference between the Total Repayment under the Present Scheme and New Scheme:Rs.2,221

| | | | |
|---|---|---|---|
| Assumptions: | Project Cost | Rs.25,000 | |
| | Repayment period: | 3 Years | |
| | | Present | Proposed |
| | Interest rate on loan | 12% | 7% |
| | Interest rate on subsidy | 10% | - |

* It is referred as "Nominal" since it does not take into account the costs of borrowing from informal sources in the earlier scheme under which subsidy is retained with the bank

**Table A2**
**State-wise Utilization of Funds, Credit and Subsidy under SGSY in 2007-08**

| Regions | Funds Utilized Rs. crore | Total Funds Available Rs.crore | Share of Utilization of Funds | Percentage of Utilization to Total Funds Available | Share of Total Credit Disbursed | Percentage of Credit Disbursed to Target | Share of Total Subsidy Disbursed | Share of Total Investment Disbursed | Credit Subsidy Ratio | Share of Rural Poor (2004-05) | Credit per Rural Poor (Rs.) | Credit per assisted SHG (Rs.) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **North** | **116.3** | **148.4** | **6.0** | **78.4** | **9.5** | **121.9** | **6.3** | **8.5** | **3.26** | **6.1** | **199.0** | **148671** |
| Haryana | 26.8 | 26.9 | 1.4 | 99.8 | 2.0 | 123.4 | 1.6 | 1.8 | 2.64 | 1.0 | 251.2 | 102675 |
| Himachal Pradesh | 8.5 | 12.9 | 0.4 | 66.2 | 0.8 | 117.6 | 0.4 | 0.7 | 4.30 | 0.3 | 352.9 | 216412 |
| J&K | 7.2 | 11.6 | 0.4 | 62.6 | 0.9 | 106.8 | 0.5 | 0.8 | 3.95 | 0.2 | 664.7 | 64860 |
| Punjab | 13.2 | 13.5 | 0.7 | 97.7 | 1.1 | 148.5 | 0.9 | 1.1 | 2.68 | 0.7 | 208.8 | 52902 |
| Rajasthan | 60.5 | 83.6 | 3.1 | 72.5 | 4.9 | 120.1 | 3.0 | 4.3 | 3.51 | 4.0 | 155.7 | 258583 |
| **North-East** | **175.2** | **254.6** | **9.0** | **68.8** | **5.5** | **39.1** | **7.5** | **6.1** | **1.50** | **3.4** | **202.0** | **50487** |
| Arunachal Pradesh | 1.4 | 4.2 | 0.1 | 33.6 | 0.0 | 11.6 | 0.3 | 0.1 | 0.31 | 0.1 | 65.8 | 79542 |
| Assam | 150.8 | 207.8 | 7.7 | 72.6 | 4.8 | 46.4 | 6.3 | 5.3 | 1.64 | 2.5 | 242.4 | 53148 |
| Manipur | 2.2 | 3.0 | 0.1 | 71.6 | 0.1 | 8.2 | 0.1 | 0.1 | 1.10 | 0.2 | 41.5 | - |
| Meghalaya | 3.2 | 6.8 | 0.2 | 46.9 | 0.1 | 8.7 | 0.2 | 0.1 | 0.79 | 0.2 | 42.9 | 45757 |
| Mizoram | 2.6 | 3.5 | 0.1 | 73.0 | 0.0 | 17.8 | 0.1 | 0.1 | 0.72 | 0.0 | 86.0 | 27145 |
| Nagaland | 2.4 | 5.2 | 0.1 | 46.1 | 0.0 | 2.2 | 0.1 | 0.0 | 0.43 | 0.2 | 8.5 | 10819 |
| Tripura | 12.7 | 24.1 | 0.6 | 52.6 | 0.5 | 42.7 | 1.0 | 0.7 | 1.10 | 0.3 | 238.5 | 79746 |
| **East** | **478.8** | **725.4** | **24.5** | **66.0** | **16.8** | **40.9** | **20.2** | **17.9** | **1.78** | **34.7** | **60.3** | **22028** |
| Bihar | 151.1 | 314.9 | 7.7 | 48.0 | 5.5 | 32.1 | 7.5 | 6.1 | 1.56 | 15.2 | 44.8 | 21870 |
| Jharkhand | 81.4 | 120.2 | 4.2 | 67.7 | 3.2 | 50.0 | 4.2 | 3.5 | 1.63 | 4.7 | 85.9 | 15008 |
| Orissa | 116.9 | 133.2 | 6.0 | 87.8 | 6.4 | 78.5 | 6.1 | 6.3 | 2.26 | 6.9 | 116.9 | 83850 |
| Sikkim | 2.8 | 3.3 | 0.1 | 84.9 | 0.1 | 37.1 | 0.1 | 0.1 | 1.24 | 0.1 | 181.8 | 18072 |
| West Bengal | 126.5 | 153.2 | 6.5 | 82.6 | 1.6 | 17.2 | 2.1 | 1.7 | 1.58 | 7.8 | 24.9 | 6098 |
| A&N Islands | 0.1 | 0.7 | 0.0 | 7.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.00 | 0.0 | 0.0 | 74538 |
| **Central** | **583.2** | **677.8** | **29.9** | **86.1** | **3465** | **91.6** | **38.7** | **35.8** | **1.94** | **33.8** | **127.5** | **106508** |
| Chattisgar | 65.3 | 66.4 | 3.3 | 98.4 | 3.6 | 96.1 | 3.8 | 3.7 | 2.05 | 3.2 | 140.3 | 41740 |
| Madhya Pradesh | 131.8 | 142.9 | 6.8 | 92.3 | 9.6 | 118.7 | 11.9 | 10.3 | 1.73 | 8.0 | 151.2 | 82604 |
| Uttar Pradesh | 366.1 | 445.6 | 18.8 | 82.2 | 20.1 | 82.1 | 21.4 | 20.5 | 2.01 | 21.4 | 117.4 | 129640 |
| Uttarakand | 20.0 | 23.0 | 1.0 | 87.3 | 1.1 | 88.2 | 1.1 | 1.1 | 2.30 | 1.2 | 115.8 | 142406 |
| **West** | **226.4** | **237.3** | **11.6** | **95.4** | **10.2** | **75.4** | **11.2** | **10.5** | **1.95** | **10.7** | **119.0** | **41264** |
| Goa | 0.5 | 0.9 | 0.0 | 53.8 | 0.0 | 73.9 | 0.0 | 0.0 | 3.20 | 0.0 | 334.8 | 27450 |
| Gujarath | 43.5 | 47.4 | 2.2 | 91.8 | 2.3 | 85.1 | 2.4 | 2.3 | 2.07 | 2.9 | 99.6 | 44347 |
| Maharastra | 182.4 | 188.0 | 9.3 | 97.0 | 7.8 | 73.2 | 8.8 | 8.1 | 1.91 | 7.7 | 126.2 | 41018 |
| D & N haveli | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - | 0.0 | 0.0 | - |
| Daman & Diu | 0.0 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - | 0.0 | 0.0 | - |
| **South** | **371.2** | **384.2** | **19.0** | **96.6** | **23.4** | **109.0** | **16.3** | **21.2** | **3.10** | **11.3** | **258.4** | **85261** |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 123.8 | 126.6 | 6.3 | 97.8 | 10.1 | 140.5 | 4.1 | 8.2 | 5.20 | 2.9 | 429.1 | 65382 |
| Karnataka | 98.8 | 104.2 | 5.1 | 94.8 | 5.6 | 103.5 | 5.2 | 5.5 | 2.30 | 3.4 | 205.8 | 79509 |
| Kerala | 39.3 | 40.6 | 2.0 | 96.8 | 2.4 | 97.6 | 2.2 | 2.3 | 2.29 | 1.5 | 201.6 | 110278 |
| Tamilnadu | 108.1 | 110.3 | 5.5 | 98.0 | 5.3 | 83.1 | 4.5 | 5.0 | 2.49 | 3.5 | 189.7 | 117437 |
| Lakshadweep | 0.3 | 0.4 | 0.0 | 66.6 | 0.0 | 100.5 | 0.0 | 0.0 | 2.62 | 0.0 | 745.2 | - |
| Pondicherry | 1.0 | 2.1 | 0.1 | 46.0 | 0.1 | 70.5 | 0.1 | 0.1 | 2.62 | 0.0 | 222.7 | 138163 |
| All India | 1951.2 | 2427.6 | 100.0 | 80.4 | 100.0 | 73.7 | 100.0 | 100.0 | 2.14 | 100.0 | 124.9 | 57634 |
| Total (Rs crore) | | | 1951.2 | | 2760.3 | | 1289.1 | 4049.4 | | | | |

Note: The data for 2007-08 are provisional. J&K denotes Jammu & Kashmir, D & N denote, Dadra & Nagar Source: Ministry of Rural Development, Govt. of India

**Table A3**
**State-wise Share of Credit Mobilized in SGSY since Inception**

**(Per cent)**

| Regions | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08* | Total | Per cent of Target |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***North*** | **11.6** | **16.7** | **14.2** | **12.0** | **12.0** | **11.5** | **10.7** | **9.9** | **9.7** | **11.7** | **94.0** |
| Haryana | 2.8 | 4.0 | 2.4 | 2.0 | 1.9 | 1.7 | 1.9 | 1.7 | 2.0 | 2.2 | 87.8 |
| Himachal Pr | 2.1 | 1.5 | 1.5 | 1.1 | 1.4 | 1.4 | 1.3 | 0.7 | 0.8 | 1.2 | 99.2 |
| J&K | 0.7 | 1.0 | 1.5 | 1.0 | 1.5 | 1.4 | 1.1 | 1.0 | 0.9 | 1.1 | 70.5 |
| Punjab | 0.2 | 1.8 | 1.1 | 1.1 | 1.1 | 0.7 | 0.7 | 1.1 | 1.1 | 1.0 | 91.4 |
| Rajasthan | 5.8 | 8.5 | 7.7 | 6.7 | 6.1 | 6.2 | 5.7 | 5.5 | 4.9 | 6.2 | 102.0 |
| ***North-East*** | **1.9** | **1.4** | **2.4** | **4.6** | **5.4** | **4.9** | **4.5** | **4.9** | **5.5** | **4.2** | **34.3** |
| Arunachal Pr | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 16.1 |
| Assam | 0.8 | 0.5 | 1.2 | 2.9 | 3.5 | 3.7 | 3.3 | 3.9 | 4.8 | 3.1 | 35.5 |
| Manipur | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 7.7 |
| Meghalaya | 0.1 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 10.9 |
| Mizoram | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 19.1 |
| Nagaland | 0.1 | 0.0 | 0.1 | 0.1 | 0.2 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 11.9 |
| Tripura | 0.9 | 0.8 | 1.0 | 1.4 | 1.4 | 0.9 | 0.8 | 0.7 | 0.5 | 0.9 | 69.1 |
| ***East*** | **26.1** | **22.2** | **24.6** | **29.3** | **27.9** | **25.0** | **22.8** | **18.2** | **16.7** | **22.5** | **44.2** |
| Bihar | 10.3 | 9.2 | 12.0 | 15.2 | 14.3 | 13.0 | 11.5 | 7.8 | 5.5 | 10.2 | 45.8 |
| Jharkhand | 0.0 | 3.8 | 4.7 | 4.7 | 4.8 | 4.1 | 4.1 | 2.9 | 3.2 | 3.6 | 51.2 |
| Orissa | 8.9 | 8.5 | 6.2 | 5.8 | 6.0 | 5.9 | 5.9 | 6.1 | 6.4 | 6.5 | 63.3 |
| Sikkim | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 53.8 |
| West Bengal | 6.8 | 0.5 | 1.5 | 3.5 | 2.7 | 2.0 | 1.2 | 1.4 | 1.6 | 2.1 | 18.7 |
| A&N Islands | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.6 |
| ***Central*** | **19.9** | **26.3** | **30.2** | **27.1** | **27.4** | **33.0** | **34.0** | **28.5** | **34.5** | **29.9** | **59.2** |
| Chhattisgarh | 0.0 | 2.5 | 3.6 | 3.9 | 3.0 | 2.8 | 2.7 | 3.1 | 3.6 | 2.9 | 67.9 |
| Madhya Pradesh | 10.3 | 8.3 | 9.8 | 9.0 | 7.5 | 6.7 | 7.8 | 6.5 | 9.6 | 8.3 | 70.1 |
| Uttar Pradesh | 9.7 | 14.6 | 15.3 | 13.1 | 15.7 | 22.3 | 21.7 | 17.9 | 20.1 | 17.6 | 53.9 |
| Uttaranchal | 0.0 | 1.0 | 1.5 | 1.1 | 1.2 | 1.2 | 1.8 | 0.9 | 1.1 | 1.1 | 62.5 |
| ***West*** | **16.7** | **14.5** | **12.1** | **10.3** | **10.2** | **9.2** | **9.4** | **8.5** | **10.2** | **10.8** | **59.0** |
| Goa | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 45.1 |
| Gujarat | 2.1 | 2.6 | 2.1 | 2.2 | 2.5 | 2.5 | 2.9 | 2.1 | 2.3 | 2.4 | 61.9 |
| Maharashtra | 14.6 | 11.9 | 9.9 | 8.0 | 7.6 | 6.7 | 6.4 | 6.3 | 7.8 | 8.4 | 58.7 |
| D&N Haveli | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.8 |
| Daman & Diu | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.2 |
| ***South*** | **23.8** | **18.8** | **16.5** | **16.8** | **17.0** | **16.4** | **18.5** | **30.0** | **23.4** | **20.9** | **70.2** |
| Andhra Pradesh | 8.9 | 5.3 | 5.2 | 6.2 | 6.9 | 5.8 | 8.3 | 20.6 | 10.1 | 9.4 | 91.9 |
| Karnataka | 3.2 | 3.7 | 5.9 | 5.3 | 5.0 | 4.6 | 4.4 | 3.7 | 5.6 | 4.6 | 62.3 |
| Kerala | 4.7 | 4.1 | 2.3 | 2.5 | 1.9 | 1.8 | 1.9 | 1.7 | 2.4 | 2.5 | 68.6 |
| Tamil Nadu | 7.0 | 5.6 | 3.1 | 2.7 | 3.2 | 4.1 | 3.9 | 3.9 | 5.3 | 4.3 | 51.9 |
| Lakshadweep | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 7.0 |
| Pondicherry | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 64.7 |
| **All-India** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **57.4** |
| Total (Rs crore) | 1056.5 | 1459.4 | 1329.7 | 1184.3 | 1302.1 | 1658.2 | 1823.2 | 2291.2 | 2760.3 | 14864.8 | |

Note: The data for 2007-08 are provisional. Pr denotes Pradesh, J&K denotes Jammu & Kashmir, D&N denotes Dadra & Nagar.
Source: Ministry of Rural Development, Government of India.

**Table A4**
**Distribution of Credit Disbursed by Source across States, 2007-08**

**(Percentage)**

| Regions | Comm-ercial Banks | Cooper-atives | Regional Rural Banks | Others | Total | Total (Rs crore) |
|---|---|---|---|---|---|---|
| ***North*** | **59.4** | **15.1** | **23.9** | **1.5** | **100.0** | **242.3** |
| Haryana | 70.0 | 10.5 | 19.5 | 0.0 | 100.0 | 52.1 |
| Himachal Pradesh | 54.2 | 29.1 | 16.1 | 0.6 | 100.0 | 16.5 |
| J&K | 57.2 | 19.1 | 13.1 | 10.5 | 100.0 | 27.0 |
| Punjab | 26.9 | 31.5 | 41.4 | 0.2 | 100.0 | 10.6 |
| Rajasthan | 58.9 | 13.1 | 27.4 | 0.5 | 100.0 | 136.1 |
| ***North-East*** | **63.1** | **8.2** | **28.7** | **0.1** | **100.0** | **150.5** |
| Arunachal Pradesh | 100.0 | 0.0 | 0.0 | 0.0 | 100.0 | 0.1 |
| Assam | 65.3 | 8.5 | 26.3 | 0.0 | 100.0 | 124.2 |
| Manipur | 99.3 | 0.1 | 0.0 | 0.7 | 100.0 | 1.5 |
| Meghalaya | 33.1 | 17.8 | 45.0 | 4.1 | 100.0 | 1.9 |
| Mizoram | 8.3 | 43.2 | 48.5 | 0.0 | 100.0 | 1.7 |
| Nagaland | 85.2 | 0.0 | 14.8 | 0.0 | 100.0 | 0.2 |
| Tripura | 54.2 | 3.4 | 42.4 | 0.0 | 100.0 | 21.0 |
| ***East*** | **63.1** | **3.0** | **33.9** | **0.0** | **100.0** | **446.1** |
| Bihar | 56.6 | 0.0 | 43.4 | 0.0 | 100.0 | 127.7 |
| Jharkhand | 77.5 | 0.0 | 22.4 | 0.1 | 100.0 | 95.9 |
| Orissa | 57.1 | 7.2 | 35.6 | 0.0 | 100.0 | 177.3 |
| Sikkim | 90.2 | 9.8 | 0.0 | 0.0 | 100.0 | 2.0 |
| West Bengal | 73.6 | 1.0 | 25.3 | 0.0 | 100.0 | 43.0 |
| A&N Islands | 14.9 | 85.1 | 0.0 | 0.0 | 100.0 | 0.1 |
| ***Central*** | **56.3** | **4.8** | **37.9** | **1.1** | **100.0** | **952.1** |
| Chhattisgarh | 62.2 | 4.2 | 32.1 | 1.5 | 100.0 | 100.3 |
| Madhya Pradesh | 72.8 | 4.8 | 22.3 | 0.1 | 100.0 | 248.0 |
| Uttar Pradesh | 48.0 | 3.8 | 46.8 | 1.5 | 100.0 | 572.5 |
| Uttaranchal | 57.5 | 26.3 | 15.9 | 0.3 | 100.0 | 31.4 |
| ***West*** | **73.1** | **14.1** | **12.7** | **0.2** | **100.0** | **280.5** |
| Goa | 93.1 | 6.9 | 0.0 | 0.0 | 100.0 | 1.2 |
| Gujarat | 73.3 | 4.3 | 22.3 | 0.1 | 100.0 | 63.3 |
| Maharashtra | 72.9 | 16.9 | 9.9 | 0.2 | 100.0 | 216.0 |
| D&N Haveli | - | - | - | - | - | 0.0 |
| Daman & Diu | - | - | - | - | - | 0.0 |
| ***South*** | **63.4** | **10.2** | **25.8** | **0.7** | **100.0** | **644.7** |
| Andhra Pradesh | 61.3 | 1.2 | 37.1 | 0.4 | 100.0 | 277.6 |
| Karnataka | 51.7 | 15.9 | 30.9 | 1.5 | 100.0 | 154.5 |
| Kerala | 68.9 | 21.5 | 9.7 | 0.0 | 100.0 | 65.4 |
| Tamil Nadu | 76.9 | 16.2 | 6.4 | 0.5 | 100.0 | 145.1 |
| Lakshadweep | 100.0 | 0.0 | 0.0 | 0.0 | 100.0 | 0.4 |
| Pondicherry | 85.1 | 14.9 | 0.0 | 0.0 | 100.0 | 1.7 |
| **All-India** | **61.5** | **7.9** | **30.0** | **0.7** | **100.0** | **2716.2** |

Note: The data for 2007-08 are provisional. Total credit disbursed by sources does not match with that by purpose given in Tables A2.1 and A2.2. Pr denotes Pradesh, J&K denotes Jammu & Kashmir, D&N denotes Dadra & Nagar.
Source: Ministry of Rural Development, Government of India

# Chapter 3

## SGSY IN NORTH-EAST STATES

### 3.1 Introduction

3.1.1 The performance of SGSY has been, as noted earlier, very uneven across the regions in the country. Existence of large tracts of un-banked areas in the Central, East and North-East States is one of the factors hindering the progress of the programme. In addition to poor banking facilities, North-East States also suffer from lack of efforts to fully utilise the potential of indigenous institutions which distinguish this region from the rest of the country in terms of diversity. This chapter, entirely devoted to the North-East States, analyses the SGSY strategy, credit flow situation and the potential of community institutions as financial intermediaries.

3.1.2 The earlier grouping of the North-East (NE) consisting of the 'seven sisters' – Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura - is now extended to include Skkim[1]. The region, rich in natural resources and cultural diversity, remained one of the most backward regions of the country due to history and geo-politics. The 1947 partition was the worst trauma inflicted on it. It isolated the region, sealed both land and sea routes for commerce and trade, and severed access to traditional markets in the East and South East Asia by shutting the gateway, Chittogong port (now in Bangladesh). It distanced the approach to the rest of India by confining connectivity to a narrow Siliguri corridor, making it a 'remote land' and constraining access for movement of goods and people. With 96 per cent of the boundary of the region forming international borders, and the uneasy relationship with most of the neighbouring countries, flow of investment to this region has shied away.

3.1.3 The Constitution of India by appropriate amendments provides for diverse administrative structures for the regions. There is provision for Autonomous Councils within Assam as much as in parts of Manipur, Meghalaya, Mizoram and Tripura. The whole of Meghalaya and the Hill areas of Tripura are covered under the provisions of the Sixth Schedule, while Article 371A covers Nagaland and Article 371G covers Mizoram.

3.1.4 Including Sikkim, North East States cover 7.9 per cent of the area of the country but only 3.8 per cent of population (2001). Of course, 68 per cent of the population of the region is in Assam alone. The population density varies from 13 per Sq.Km. in Arunachal Pradesh to 340 in Assam. Except Assam, the terrain is predominantly hilly, and host to overwhelming proportion of tribal population ranging from 19.3 per cent in Assam to 94.5 per cent in Mizoram. The region has over 160 scheduled tribes and over 400 other tribal and sub-tribal communities and groups. It is predominantly rural with over 84 per cent of the population living in the countryside. The forest cover in the region is about 52 per cent of the geographical area and with the exception of Brahmaputra, Barak and Imphal Valleys, almost two-thirds of the area is hilly terrain.

## 3.2 Commercial Banks in North-East States

3.2.1 The RBI Committee (RBI, 2006) looking into the financial sector of the North-East region identified a long list of factors impeding banking and financial development in the region, and these include sparse settlement of population, harsh topography, infrastructure bottlenecks like transport, communications and power, low level of commercialization, lack of entrepreneurship, law and order conditions in some places, community based land tenure system especially in the hilly regions. In spite of these factors, during the 1970s and 1980s, immediately following the bank nationalisation, like in the rest of the country, NE also witnessed growth in commercial bank branches. Yet, it is widely acknowledged that banking facilities in the North-East States are still much behind the rest of the country. **Table 3.1** shows that a large number of blocks in the region still do not have any bank branches. The situation is worse in Arunachal Pradesh, Manipur and Nagaland. Some of the basic indicators of banking show the facilities are very poor in the NE (Table 3.2). The average population per bank office is 20,000 for the region compared to a branch for every 15,000 for the rest of the country. The commercial bank branch spread is very sparse especially in Manipur, Nagaland and north-west Assam. In Assam, 11 out of 23 districts have one bank branch for 20,000 to 45,000 population. In two of 8 districts in Manipur as well as Nagaland, one branch serves more than 45,000 population! The credit-deposit ratio for the region is almost half of the national average. Similarly, the credit accounts per 100 adult population, which is considered as a better measure of financial inclusion, is 6.7, which again is half the national average (13.3). The per borrower credit is as low as

**Table 3.1**
**Number of Un-banked Blocks in North-East States.**

| Sl.No | State | Un-banked Blocks |
|---|---|---|
| 1 | Arunachal Pradesh | 41 |
| 2 | Assam | 5 |
| 3 | Manipur | 22 |
| 4 | Meghalaya | 9 |
| 5 | Mizoram | 2 |
| 6 | Nagaland | 21 |
| 7 | Tripura | 5 |
| | NE | 94 |

Source: Based on the list provided by MoRD, December, 2008

Rs.2000 in the region compared to almost five times that amount for the rest of the country. In Tripura, the per borrower commercial bank credit is in the range of Rs. 1500 to Rs. 5000, and in Manipur and Nagaland about 75 per cent of credit is less than Rs. 1500, and another 25 per cent in the range of Rs. 1500 to Rs. 5000. Except for about 12.5 per cent in Assam and Meghalaya, in none of the North-East States the per borrower credit exceeds Rs. 10,000. In the post-reform period, there was actually shrinkage in the share of small accounts as well as the share of the amount of credit to small borrowers. Though similar tendency is found in the rest of the country as well, it is a serious cause for concern in the NE because most of the economic activities either in agriculture or in non-agriculture are small and tiny in nature in the region. Aversion to lend to these small producers, who are often engaged in family-based activities, would seriously undermine the prospects of improving their livelihoods. Table 4.3 shows the decline in the share of number of accounts as well as the amount of credit to those borrowing less than Rs. 25,000 during the period between 1996 and 2005.

**Table 3.2**
**Indicators of Banking Development in the North-East States**

| State | Population (M) | Literacy (%) | APPBO | CD Ratio | Current and Savings A/C per 100 Adults | Credit A/C per 100 Adults (FI)* | Per Capita Deposits | Per Capita Credit | Credit/ NSDP Ratio | Access** % |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Arunachal Pradesh | 1.1 | 60 | 16000 | 22 | 38 | 6.2 | 11000 | 2000 | 17 | 37.3 |
| 2. Assam | 26.7 | 71 | 21000 | 35 | 39 | 5.3 | 7000 | 2000 | 26 | 20.5 |
| 3. Manipur | 2.2 | 75 | 30000 | 42 | 20 | 4.0 | 4000 | 2000 | 11 | 8.7 |
| 4. Meghalaya | 2.3 | 77 | 13000 | 44 | 41 | 8.3 | 13000 | 5000 | 41 | 20.8 |
| 5. Mizoram | 0.9 | 89 | 11000 | 48 | 29 | 7.7 | 9000 | 4000 | NA | 31.8 |
| 6. Nagaland | 1.99 | 78 | 28000 | 23 | 20 | 3.6 | 6000 | 1000 | 9 | 15.9 |
| 7. Tripura | 3.2 | 74 | 17000 | 29 | 37 | 13.6 | 8000 | 2000 | 18 | 26.5 |
| North-East | | | 20000 | 35 | 38 | 6.7 | 7000 | 2000 | NA | 21.1 |
| All India | | | 15000 | 66 | 55 | 13.3 | 17000 | 10000 | 62 | 35.5 |

*FI: Financial Inclusion **Access: Proportion of Households Availing Banking Services (2001)
Source: RBI (2006) & GoI, MoDoNER (2008)

**Table 3.3**
**Shrinkage in the Share of Small Accounts 1996-2005**

| State | 1996 | | 2005 | |
|---|---|---|---|---|
| | Proportion of Loan A/cs under Rs. 25000 | Proportion of Amount A/cs under Credit limit Rs. 25000 | Proportion of Loan A/cs under Rs. 25000 | Proportion of Amount A/cs under Credit limit Rs. 25000 |
| 1. Arunachal Pradesh | 89.2 | 11.8 | 52.59 | 6.17 |
| 2. Assam | 93.1 | 31.1 | 47.62 | 5.86 |
| 3. Manipur | 84.8 | 30.9 | 44.86 | 6.04 |
| 4. Meghalaya | 94.0 | 26.8 | 49.51 | 1.69 |
| 5. Mizoram | 89.5 | 29.5 | 42.89 | 4.94 |
| 6. Nagaland | 92.1 | 26.0 | 44.23 | 7.30 |
| 7. Tripura | 98.5 | 62.8 | 74.51 | 17.96 |
| North-East | 93.9 | 32.8 | 52.57 | 5.74 |
| **All India** | **95.3** | **15.6** | **50.2** | **5.4** |

Source: DSACs, RBI as in GoI, MoDoNER, 2008

## 3.3 Regional Rural Banks (RRBs)

3.3.1 In rural areas with the concentration of the poor and weaker sections, Regional Rural Banks are conceived as better suited banking institutions to cater to the small and weaker section households. Presently, in the North-East there are eight RRBs, two in Assam and one each in the other six States. RRBs with 645 branches account for 30 per cent of total bank branches in North-East. However, RRBs have not emerged to fulfil the needs of the poorly banked States within North-East. RRBs in Arunachal Pradesh, Manipur and Nagaland perform very poorly. In Assam, however, RRBs have come to perform very well. The Assam Gramin Vikas Bank (AGVB) with 354 branches is the largest in the region and is one of the best performing RRBs in the country, both in credit performance and involvement in bank linkage with SHGs for lending to self-employment activities. However, even in this case, there has been a distinct decline of credit for small accounts of less than Rs. 25,000. This phenomenon again is the consequence of banking reforms and the shift in RRBs lending from small-weaker sections to reaching out to more profitable avenues. Such shift in RRBs does not auger well for the small borrower needs in North-East.

### 3.4 Cooperative Banks in North-East

3.4.1 There are seven State Cooperative Apex Banks, one each, in the seven North-East States. The cooperative banks in North-East have a two-tier structure, with Apex Bank at the State level and Primary Agricultural Cooperative Societies (PACS) at the village level. There are no district cooperative banks (DCCBs) in the North-East. Except in Mizoram and Meghalaya, State Cooperative banks in all the five other States are in the red, largely because of almost defunct PACS. The Mizoram State Cooperative Apex Bank assumes second place in the State in SHG-bank linkage.

3.4.2 The Meghalaya State Cooperative Apex Bank (MSCAB) has been performing well and has taken several proactive initiatives. It is claimed that it is the first cooperative bank in India to open exclusive women branches- Mawkhar (East Khasi Hills) and Chaudrani (West Garo Hills). MSCAB introduced Mobile Banking in rural areas of East Khasi Hills District since 1993 covering nine centres and has mobilised deposits through over 2300 accounts. The Bank has opened over 4000 'no frills' accounts so far. The MSCAB has been implementing SGSY scheme since the year 2000 and a total 736 SHGs have been savings linked, of which 112 have been able to achieve credit linkage. With assistance from NABARD, the Bank has constituted a Women Development Cell (WDC) for increasing credit flow to women on a sustainable basis. Various capacity building, skill development and up-gradation programmes are being arranged under this cell. Presently, the women clientele account for 32 per cent of the total customer base of the bank. The Bank has recently been enrolled as a Self Help Promoting Institution (SHPI) with the support and guidance of NABARD. The Bank has also taken upon itself the task of achieving 100 per cent financial inclusions in Ri Bhoi district of Meghalaya. In terms of the magnitude of credit flow, the Bank is still a small player compared to commercial banks. But in terms of innovations and initiatives in reaching out to small savers and borrowers, the MSCAB has demonstrated very high potential in Meghalaya.

3.4.3 The Committee recommends increase in the spread of banking facilities in the North-East States by taking advantage of the special incentives initiated by the RBI. First, there should be increase in the branch banking, and States should be assisted in providing physical facilities and security arrangements wherever necessary. Second, because of the terrain, in all these regions high priority should be given by the banks and the Central Government in investing in new banking innovations like the provision of Smart Card, promoting institutions like 'Banking Facilitator', 'Banking Correspondent', Mobile Banking etc.

## 3.5 SHGs and Bank Linkage in North-East States

3.5.1 The progress of SHG-bank linkage programme has been very poor in the North-East States. This is partly due to the poor spread of banking facilities in these States. The number of SHGs increased from a mere five in 1998 to 62517 by March 2006. Table 3.4 shows a spurt in SHGs since 2003-04 but much of the spread has been in Assam. Taking the country as a whole, the share of the North-East Region in the number of SHGs and amount of credit disbursed stand at 2.79 per cent and 1.45 per cent, respectively, even in 2005-06. An interesting feature is that while in the country as a whole the SHG bank linkage programme is driven by commercial banks, Table 3.5 shows that in the North-East States it is RRBs which are in forefront. However, most of the RRBs as well as SHGs are concentrated in Assam. Table 3.6 shows that 90 per cent of

**Table 3.4**
**Number of SHGs and Amount of Credit Provided in North-East States**
**(1997-98 to 2005-06)**

| Year | Number of SHGs* India | Number of SHGs* NER | Bank Loan (Rs. lakh) India | Bank Loan (Rs. lakh) NER | No. of SHGs (% to India) | Bank Loan (% to India) |
|---|---|---|---|---|---|---|
| March '98 | 5719 | 5 | 1192.3 | 1.4 | 0.09 | 0.12 |
| March '99 | 18678 | 49 | 330.1 | 13.4 | 0.26 | 0.40 |
| March '00 | 61650 | 96 | 13591.1 | 13.0 | 0.16 | 0.10 |
| March '01 | 140198 | 160 | 28788.6 | 49.0 | 0.11 | 0.17 |
| March '02 | 461478 | 1490 | 102633.9 | 254.0 | 0.32 | 0.25 |
| March '03 | 717360 | 4069 | 204867.7 | 603.2 | 0.57 | 0.29 |
| March '04 | 1079091 | 12278 | 390420.8 | 2021.4 | 1.14 | 0.52 |
| March '05 | 1618456 | 34238 | 689846.0 | 10196.1 | 2.12 | 1.48 |
| March '06 | 2238565 | 62517 | 1139754.3 | 16570.1 | 2.79 | 1.45 |

* Bank-linked SHGs only
Source: NABARD Documents on micro finance 1996-2005.

**Table 3.5**
**The Share of Different Banking Institutions in SHG Portfolio for the Region North-East and India**

(Percentages)

| | | 2001 | | 2006 | |
|---|---|---|---|---|---|
| | | Nos. | Amt | Nos. | Amt |
| North-East Region | Comm. Banks | 15.19 | 22.61 | 38.18 | 61.65 |
| | RRBs | 84.24 | 68.26 | 56.16 | 34.45 |
| | Co-op Banks | 0.57 | 9.13 | 5.67 | 3.90 |
| INDIA | Comm. Banks | 52.9 | 58.0 | 53.1 | 61.4 |
| | RRBs | 41.7 | 32.0 | 33.1 | 29.2 |
| | Co-op Banks | 5.4 | 10.0 | 13.8 | 9.5 |

Source: NABARD Statistics.

the SHGs and 86 per cent of the loans disbursed under bank-linkage are in Assam. Within Assam too, there is no wider spread of SHGs but concentration in some districts. For instance, two erstwhile districts of Kamrup and Darrang account for 45 per cent of all the SHGs in the North-East region. Other States lag much behind. For instance, Meghalaya with a share of 6 per cent in population in the region accounts for only one per cent of SHGs. Given the diversity of not only the geopolitical situation, but also cultural contexts, SHGs may not be the only solution in all the States of the region. In states such as Nagaland and Manipur where the local community institutions are strong; these could be seen as alternatives to SHGs.

**Table 3.6**
**Spatial Distribution of SHGs and Poor among North-East States**

(Percentage)

| States | SHGs (00-01) | | SHGs (02-03) | | SHGs (04-05) | | Share of Poor People |
|---|---|---|---|---|---|---|---|
| | No. | Amt | No. | Amt | No. | Amt | % |
| Assam | 61.89 | 44.43 | 91.23 | 92.37 | 90.29 | 85.94 | 69.3 |
| Arunachal Pradesh | 0.00 | 0.00 | 0.82 | 1.17 | 0.55 | 0.81 | 2.9 |
| Manipur | 1.43 | 5.68 | 2.32 | 2.95 | 2.35 | 4.34 | 5.3 |
| Meghalaya | 33.81 | 45.10 | 0.73 | 0.76 | 1.18 | 0.98 | 6.0 |
| Mizoram | 0.00 | 0.00 | 0.08 | 0.28 | 1.56 | 3.87 | 1.4 |
| Nagaland | 0.00 | 0.00 | 0.27 | 0.46 | 0.68 | 2.07 | 4.0 |
| Sikkim | 1.43 | 1.22 | 0.12 | 0.13 | 0.20 | 0.11 | 1.5 |
| Tripura | 1.43 | 3.56 | 4.42 | 1.87 | 3.19 | 1.88 | 9.5 |
| North-East | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: GoI , MoDoNER, 2008.

## 3.6 Performance of SGSY in North-East States

**3.6.1** Bank-linked *SHGs under SGSY and Direct–SHGs*: Since 1999 all governments in the region have been sponsoring SHGs for credit linkage under the SGSY. Simultaneously, the NABARD has been promoting 'direct-SHGs' for bank linkage. Table 3.7 shows that overall the government sponsored SGSY-SHGs have grown faster in the region than direct-SHGs. The direct-SHGs, though small in number, are more prominent in Nagaland, Mizoram and Manipur. These are the States where overall SHG movement as such has not picked up much. This is, as mentioned earlier, because of the poor spread of bank branches in these States. Second, and more important, these States are rich in traditional institutions, some of which are involved in financing. May be there is a lesson that there is no need to look upon SHGs as the only institution for SGSY in these States, but it would be desirable to bank on traditional institutions to fill the role as financial intermediaries. The cause for concern is the very highly uneven distribution of SHGs and the credit in the region, with concentration in one state, viz Assam accounting for 93 per cent of all SHGs and 89 per cent of all the credit disbursed. This means, there is hardly any headway in SGSY in all the North-East states.

**Table 3.7**
**Distribution of SGSY and Direct SHGs and Credit in North-East**

(Rs. Lakh)

| State | SGSY-SHGs | | Direct-SHGs | | Total | |
|---|---|---|---|---|---|---|
| | **No.** | **Credit Amt** | **No.** | **Credit Amt** | **No.** | **Credit Amt** |
| Tripura | 1295 | 2090.95 | 663 | 215.76 | 1958 | 2306.71 |
| Nagaland | 349 | 143.82 | 347 | 295.05 | 696 | 438.87 |
| Mizoram | 249 | 174.88 | 377 | 341.5 | 626 | 516.38 |
| Assam | 48235 | 25024.66 | 46117 | 13367.7 | 94352 | 38392.36 |
| Manipur | 1287 | 463.33 | 2981 | 946.52 | 4268 | 1409.85 |
| Meghalaya | 1907 | 929.2 | NA | NA | NA | NA |
| Arunachal Pradesh | 229 | 58.01 | NA | NA | NA | NA |
| Total NER | 53322 | 28826.84 | 50485 | 15166.53 | 101900 | 43064.17 |

**S**ource: SLBC Reports, 2004-05, 2005-06

3.6.2 Even in Assam the fulfilment of the SGSY target is very low at 43.57 per cent but it shines by contrast because of the dismal performance of other North-East States (Table 3.8). In terms of credit-subsidy ratio, all States, except Tripura, are much below the national average of 2.15. The very low credit-subsidy ratio is often cited as one instance as to how the SGSY is often approached with an eye on availing subsidy rather than promoting economic activity. The share of training and capacity building in Meghalaya and Nagaland show higher proportion, but a closer look reveals that actual disbursal of credit in these states is dismally poor.

**Table 3.8**
**Financial Indicators of SGSY in North-East States (2007-08)**

| State | Credit Proposed (Rs. Lakh) | Disbursal to Target (%) | Credit-Subsidy Ratio | Utilization to Allocation (%) | Share of Training/ Capacity Building* (%) |
|---|---|---|---|---|---|
| 1. Arunachal Pradesh | 1097 | 0.53 | 0.19 | 21.28 | 5.04 |
| 2. Assam | 28493 | 43.57 | 1.64 | 87.33 | 9.16 |
| 3. Manipur | 1910 | 7.99 | 1.10 | 18.79 | 4.79 |
| 4. Meghalaya | 2140 | 5.28 | 0.73 | 24.64 | 11.93 |
| 5. Mizoram | 495 | 34.38 | 0.72 | 85.64 | 9.41 |
| 6. Nagaland | 1468 | 1.61 | 0.30 | 27.04 | 11.83 |
| 7. Tripura | 3449 | 42.64 | 2.14 | 60.61 | 5.58 |
| All India | | 72.00 | 2.15 | 86.00 | 9.80 |

*Share in the total expenditure on SGSY.
Source: GoI, MoRD, (2008).

### 3.6.3 SGSY and Intra–Regional Variation in Mainstream Banking Institutions

The diversity within the North East States is also reflected in the differences in the role of financial institutions in different states in financing SHGs under SGSY. Table 3.9 shows, as observed earlier, the RRBs play an important role in reaching the poor households. In Meghalaya and Mizoram RRBs account for highest share of credit under SGSY, and occupy second place in Assam and Tripura. RRBs are totally absent in Arunachal and Manipur. Co-operatives have an important role in Mizoram, Meghalaya and Assam, in that order, but cooperatives are totally absent in Arunachal, Manipur and Nagaland. Arunachal, Manipur, Meghalaya and Nagaland show very poor performance in terms of the share of actual disbursement of credit under SGSY compared to the targets set. These are also the states where there is high potential of community institutions for extending financial services to the poor.

**Table 3.9**
**Credit Disbursed under SGSY by Different Categories of Banks in North East States 2007-08 (Provisional)**

*(Rs.Lakh)*

| Sl.No 1 | State 2 | Commercial Banks 3 | Cooperative Banks 4 | Regional Rural Banks 5 | Others 6 | Total Disbursed 7 | Total Credit target 8 | Actual disbursed as % of Target (7 as % of 8) 9 |
|---|---|---|---|---|---|---|---|---|
| 1 | Arunachal Pradesh | 6 (100) | 0 (-) | 0 (-) | 0 (-) | 6 (100) | 1079 | 0.53 |
| 2 | Assam | 8101 (62.25) | 1051 (8.46) | 3263 (26.28) | 0 (-) | 12415 (100) | 28493 | 43.57 |
| 3 | Manipur | 152 (100) | 0 (-) | 0 (-) | 1 (-) | 153 (100) | 1910 | 7.99 |
| 4 | Meghalaya | 24 (21.24) | 20 (17.70) | 61 (53.98) | 8 (7.08) | 113 (100) | 2140 | 5.28 |
| 5 | Mizoram | 14 (8.24) | 74 (43.53) | 83 (48.82) | 0 (-) | 170 (100) | 495 | 34.38 |
| 6 | Nagaland | 20 (83.33) | 0 (-) | 3 (12.5) | 0 (-) | 24 (100) | 1468 | 1.61 |
| 7 | Tripura | 848 (57.69) | 18 (1.22) | 605 (41.16) | 0 (-) | 1470 (100) | 3449 | 42.64 |
| | North-East | 9165 (63.86) | 1162 (8.11) | 4015 (27.98) | 9 (-) | 14351 (100) | 39052 | 36.75 |
| | All India | 166202 (61.54) | 21145 (7.83) | 81108 (30.03) | 1612 (0.60) | 270067 (100) | 374355 | 72.14 |

Source: Based on the MoRD data, 2008.

3.6.4 Recognising the capacity of the Regional Rural Banks (RRBs) in reaching out to poor in rural areas, the Committee feels that their fuller potential is not utilised because of poor resource provision, over burdening of the branches with multiple functions and failure to provide adequate manpower. The RRBs, as it is evident from Table 3.9, could play much better role especially in Assam, Meghalaya, Mizoram and Tripura in reaching out to poor. The Committee recommends that the capital base and staff position of RRBs in these States should be improved as a special drive by infusion of more resources.

3.6.5 One of the major criticisms against the SGSY in the country as a whole, and more so in North East, is that it is target driven and credit targets are in proportion to the subsidy to be distributed. The association of SGSY as a government programme has often created a moral hazard of undue laxity in repayment often resulting in non-repayment of loans. Table 3.10 shows the recovery rates under SGSY which ranges from 14.37% in Nagaland to 48% in Manipur. Of course, both the States are known for poor progress of SHGs. What is interesting to note is that recovery rate among direct-SHGs is more than 80 per cent in spite of the fact that interest rates charged under direct-SHGs are higher than the SGSY-SHGs. There is a warning that if the SGSY-SHGs do not improve their performance, it may affect the SHG movement in the region.

**Table 3.10**
**Recovery of SHGs under the SGSY**

(Rs. Lakh)

| State | No. of A/C | Amount Outstanding | Demand Raised | Recovery Amount | Recovery % | Overdues Amount |
|---|---|---|---|---|---|---|
| Nagaland | 3187 | 944.92 | 307.41 | 44.17 | 14.4 | 263.24 |
| Arunachal Pradesh | 3836 | 907.32 | 422.04 | | 32 | 285.49 |
| Meghalaya | NA | NA | 428.19 | 152.99 | 35.7 | 275.58 |
| Assam | 29420 | 11990.27 | 3724.8 | 1429.9 | 38 | 2294.9 |
| Manipur | 1014 | 290.37 | 80.89 | 38.78 | 48 | 42.11 |
| Tripura | NA | NA | 22.77 | 6.68 | 30 | 16.09 |
| **Total North-East** | **37457** | **14132.88** | **4986.1** | **1672.52** | **33.54** | **3177.41** |

Source: SLBC reports.

3.6.6 Lack of progress in SGSY is due to institutional constraints and the difficulties posed by the unclear line drawn between BPL and APL in North-East States. There is need for flexibility in organizing them into SHGs or in recognizing them as poor by the village level institutions. Flexible coverage of all rural people under programmes like SGSY in the NES may be necessary. For instance, Assam did not have a BPL survey. In other states the community base of landed assets and the limited opportunities for non-farm activities render most of the households in a vulnerable position. Therefore, the Committee feels that the SGSY be implemented as a universal programme in all the States of North East.

## 3.7 Critical Weaknesses of SGSY in North-East

3.7.1 A close analysis of the implementation of the SGSY in the North- East reveals certain critical weaknesses in the SHGs formed, the flow of credit and development of income generating activities under self-employment. The involvement of commercial banks in the formation of SGSY-SHGs is limited. Wherever such SHGs were formed, the bank response was guarded. DRDAs were more often limited to the formation of SHGs and linking them with banks for credit and subsidy to fulfil the targets for disbursement of subsidy. Banks were always defensive in lending full amount of the loan sanctioned. Often, inordinate delays rendered the potential beneficiaries to lose interest in the programme. There was inadequate attention by the DRDAs in building up the capacity of the SHGs or in orienting banks towards the SGSY. Banks' own initiatives to help SHGs to acquire proper training were limited and NABARD's role did not change the situation substantially.

3.7.2 The formation of SHGs under SGSY often ended up as an adhoc process. There was hardly any effort at linkages between SHGs and the line departments on the one hand and the banking institutions on the other. While it is true that banks' reluctance to lend to the poor betrays their unhelpful attitude to the SGSY, the banks also complain that DRDAs do not evince as much interest in monitoring the SGSY activities in participating in the recovery of the loans, as they do in getting the loans sanctioned. The absence of an institutional architecture that would sustain SHGs as a network of poor people's organisations is a serious draw back. There is no overall agency to build and sustain the SHGs for income generating activities. The absence of an agency to coordinate a network of SHGs is also coterminous with failure to evolve a need based approach to credit flow under SGSY.

3.7.3 The adhocism in SHG formation under SGSY is also seen a result of target oriented approach. The target orientation tied to subsidy-disbursement orientation has resulted in the public image that SGSY is a government programme where one could take liberties with repayment. It also resulted in banking agencies exercisinge extra caution by delaying the release of sanctioned loans and looking upon back-end subsidies as that which could be held back as security against default. A critical weakness is also reflected in the failure to build on the demand side of credit.

### 3.8 Some Promising Initiatives in Credit Flow to Self-Employment

3.8.1 Over the years, there emerged an impression that the North East is a problematic region because of its special ethnic, topographical and geopolitical characteristics. There has been acceptance of public programmes without any critical evaluation and the need for alternative approaches appropriate to the region. However, a close examination of credit flow to rural self-employment programme reveals that there have been instances of successful initiatives from which lessons could be drawn for evolving appropriate approaches. Here we describe briefly four such initiatives viz. i. State Institute of Rural Development (Assam) Cluster-approach to self-employment through SHGs, ii. Sonitpur Model of building SHGs for thrift and self-employment, iii. North Eastern Region Community Resource Management Project (NERCRMP, also known as

'IFAD Project') and IV. Traditional Institutions as Financial Intermediaries (Pilot Project of Village Development Boards (VDBs) as banking intermediaries in Nagaland).

**i. SIRD Cluster-Approach to SHGs for Self-Employment**

3.8.2 The State Institute of Rural Development (SIRD), Assam has been playing a proactive role in designing and implementing cluster-based self-employment activities by forming SHGs under the Special SGSY programmes. The identification of an area for the location of the clusters is made on the basis of resource, occupational and skill base. Once the activity to be promoted is identified, SHGs are formed and the members are provided training both in capacity to maintain their own records and communications as well as appropriate skills in running the activities. In designing the cluster and in training the SHG members in the requisite skills, collaboration is obtained from the institutions of excellence in the country. Here, we provide instances of a few clusters promoted by the SIRD.

3.8.3 The SIRD promoted 'Agricultural Diversification' or what is sometimes referred to as 'Agricultural Mechanisation' cluster of small-marginal farmers in Upper Assam as Special SGSY. In designing the 'Agricultural Cluster', the help of RITES (an engineering consulting firm of the Ministry of Railways, GOI) was taken. Groups of small-marginal farmers are formed. Each group would acquire a power tiller or sometimes a tractor. Banks are linked under an understanding of one-bank one-cluster. To overcome marketing problems, groups are formed to buy transportation vehicles, with one group operating one vehicle. Similarly, input supply groups are formed in each cluster. The SIRD adopted a two-pronged approach by training the SHG members in the skills needed and by coordinating with the DRDA authorities in enabling them to get access to credit under SGSY. In all an estimated 25,000 small-marginal farmers, mostly youth, were enabled to earn improved income from agriculture.

3.8.4 Another successful cluster is the 'Diversification of Handloom Products'. The SIRD promoted SHGs. Simultaneously, it created common training facilities for improving the designs of handlooms to suit the changing tastes and market demand by collaborating with the National Institute of Fashion Technology. The SIRD 'Dairy Clusters' are promoted by involving the National Institute of Dairy Research, Karnal in the SHGs selecting appropriate breeds of milch animals that would adopt to local conditions and provide optimum yields. Yet another Assam SIRD initiative is the SHG clusters of cane and bamboo products by collaborating with the National Institute of Design, Ahmedabad, in designing the products and in training the SHG members. Further, the SIRD brought technical help from MICO-Bosch of Bangalore in designing appropriate power tools to replace traditional tools in their furniture and woodwork clusters. Similar initiatives are seen in forming SHGs in clusters of 'Backyard Duck Rearing' which helps as many as 15,000 rural women, agro-processing and oyster mushroom growing and in promoting rural computer centres.

**ii. Sonitpur Model of SHG Promotion in Assam**

3.8.5 Until 2000-01, the SHG formation in the North East was very tardy and all the SHGs in the region accounted for just 0.11% of the SHGs in the country. But by 2003-04, there was a manifold increase to 0.57 per cent (though still very low and mostly in Assam). This substantial increase is attributed to the concerted efforts made by a Deputy Commissioner of erstwhile Sonitpur District. He created a strong incentive mechanism for the formation of SHGs. To begin with, the SHGs linked to the banks would be eligible for direct loans by the banks. Once the group repays, it would be eligible for the Revolving Fund and, thereafter, the subsidy. Thus, the Revolving Fund and subsidy flow only after the group repays a direct loan. This instance, in the case of Assam, did establish the possibilities of SHGs being formed with a genuine interest in thrift and investment for income generation.

**iii. North Eastern Region Community Resource Management Project for Upland Areas (NERCRMP or IFAD Project) [3]**

3.8.6 The NERCRM Project was a collaborative project between the IFAD and the DoNER, implemented in six districts spread over three North East States of Assam (Karbi-Anglong & North Cachar Hills), Manipur (Senapati and Ukhrul) and Meghalaya (West Garo Hills and West Khasi Hills). The project was started in 2000 and by 2007 when project ended, the SHGs were on their own. The key element of the project is its federal structure and capacity building. At the apex level, covering all the six districts in the three states, a Regional Society was formed and below that there were District Societies. In each State, a Coordination Committee of Government Activities (SCCGA) was established to coordinate between Regional Societies, District Societies and the line-departments. Each District Society is linked to village level Natural Resource

Management Group (NRMG) which serves as a Village Development Board and all families at the rate of one male and one female member per family are represented on it. As a part of the NRMGs, each village had 3 or 4 SHGs and 15 to 25 SHGs were federated into an SHG Federation which were registered as Societies. By the end of 2007, there were 1012 NRMGs, 3168 SHGs and 103 SHG Federations. The thrust of the project was on capacity building of the communities in book keeping and accounts, and organising a series of training programmes at different levels. Initially NGOs played a key role in social mobilisation but as the SHG capacity improved, there were resource persons from within these organizations. The evaluations suggest NERCRM Project has become one of the model projects for income generation activities in otherwise difficult States like Assam, Manipur and Meghalaya largely because of its stable institutional structure and dedicated improvement in the capabilities of the SHG members.

**iv. Potential of Traditional Institutions as Financial Intermediaries**

3.8.7 There is a wide recognition that in the North East, the traditional village based institutions are very strong with considerable egalitarian and self-governing lnstitutions. It is because of this recognition that the 73rd Amendment of the Constitution is not extended to most of the parts of the North East which are part of the VI Schedule. The traditional village level institutions like Village Councils and Village Development Boards function as local governments. For instance, in Nagaland and Mizoram, the Village Councils and Village Development Boards and in parts of Meghalaya like Khasi and Jaintia Hills four-tier traditional self-governing institutions exist. In Manipur, where commercial banks perform poorly, the traditional institution, 'Marup' performs the role of financial institution meeting the credit requirements of thousands of women traders. Since these institutions not only command the confidence of the local people but also ideal in understanding the needs of the local people, there have been suggestions that these traditional institutions could effectively function as financial intermediaries. This is particularly important since in many parts of North East land is still a community property and banks hesitate to lend to people who do not have private property. Banks continue to be reluctant to lend in spite of the RBI instructions not to insist on collateral for lending to small borrowers even upto rupees two lakh. The failure of Cooperatives and the defunct nature of most of the PACS in the region (except Meghalaya) is largely due to their inability to integrate with local institutions. The RBI Committee on Financial Sector Plan for North East Region (RBI 2006) recognised these specificities and also the potential of traditional institutions in the financial sector in the North-East and observed:

> *"Vaidynathan Committee may revisit the position of NER to explore the possibility of channelling resources available under the revival package to* <u>*alternative local community based organisations*</u> *in those States where primary cooperatives are not assessed as having the potential to deliver credit services"(RBI 2008-09, emphasis added ).*

One concrete step towards making traditional local institutions as financial intermediaries is the initiative of the Government of Nagaland in 2004-05 in launching a Pilot Project of Village Development Boards (VDBs) as Financial Intermediaries ('microfinance agencies'). This is discussed in the following section.

## 3.9 Village Councils(VCs)/Village Development Boards (VDBs)/Traditional Institutions as Financial Intermediaries

*3.9.1 VDB Pilot Project in Nagaland :* A pilot project for accelerating the flow of credit in the State of Nagaland through the traditional institution of Village Development Boards was launched in 2004-05. Nagaland at the local level is governed by 1110 Village Development Councils / Boards. To begin with, the Pilot Project was launched in 25 VDBs. An MOU was entered into by the NABARD, Government of Nagaland and the State Bank of India for this purpose. According to the MoU there will be a corpus of Rs. 1 lakh for which the contribution made should be 40% by VDB, 20% by State Government, 20% by NABARD and 20% by the Central Government. The corpus will be deposited with the SBI which was expected to grant a loan in multiples of the corpus deposited, to begin with in the corpus-credit ratio of 1 : 1 and later up to 1 : 4. The initial processes took sometime but by the end of the year, each of the VDBs was provided with a loan of Rs. 2 lakhs. The main function of the VDB is to allocate the loan at the village level and also recover the same.

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3.9.2 The SBI provided loans to the VDBs at 8.5% interest rate and a ceiling of 18% was fixed on the VDB lending rate to members. However, most of the VDBs, including the one at Khuzama visited by the Sub-Committee, charged only 10%. The difference of 1.5% between the rate of borrowing and lending is used by the VDBs for internal maintenance charges. The experience of recovery of the loans in pilot villages was more than 80% as reported by the Nagaland government and more than 90% in the VDB visited by the Sub-Committee.

3.9.3 Encouraged by the success of the Pilot Project, the Government of Nagaland decided to extend the scheme to all the VDBs in the State in quick phases. By 2007-08, it was already in operation in 367 VDBs. During 2008-09, the Government targeted to extend the financial intermediation function to 485 VDBs. And very soon all the 1110 VDBs in the state are expected to be linked with the banks.

3.9.4 The State Government and the VDBs are convinced about the success of the VDB financial intermediation. The Nagaland Government was hopeful that some of the minor hurdles would be overcome. For instance, the Union Government (MoRD) commitment of Rs 1 lakh to each VDB as a corpus during the Pilot Project could be extended to all the VDBs. This may not pose any financial constraint since there are not many SHGs in the State to avail cash credit and revolving fund at present. Second, the SBI should in all the VDBs under the scheme increase the loan amount in multiples of corpus as agreed under the Pilot Project. There are undue delays in providing new loans even when the VDBs have repaid the loan and this situation should improve. Third, and more important, one lacunae observed in the pilot project is inadequate effort towards awareness creation and capacity building at the VDB level, for the government and bank functionaries, which are an essential requirements in a new initiative of this kind. One visualises that with the commitment of the Government of Nagaland, these hurdles could be overcome and a long neglected dimension of traditional institutions assuming the role of financial intermediaries would become a reality and improve the flow of credit to self-employment in North-East.

*3.9.5 Other Potential Traditional Institutions*: There are also Village Councils in Mizoram, Khasi-Garo-Jayantia Hills of Meghalaya which could be explored as potential institutions. Similarly, 'Marup' is a financial institution in Manipur which has been playing critical role in meeting the financial needs of thousands of self-employed women in trade and other activities. 'Marup' has not seen any bank link up so far, but with appropriate modifications, it holds the promise as an alternative financial intermediary in Manipur where vast areas are left without any proper banking facilities.

3.9.6 There are similar traditional institutions in other States of North East with a potential to serve as financial agencies. For instance, in Assam 'Namghars', which are Committees of village elders that extend loans to villagers from money saved out of funds collected for various common village social purposes and could be a traditional institution that could get linked up with banks. Such institutions are also in vogue among Bodo communities, the Missings, the Rabhas, the Garos etc. Since formal banks are not available, the local communities have worked out a system wherein small loans can be made available to people. These institutions could be used as Banking Correspondents (BCs) and Banking Facilitators (BFs) by evolving appropriate norms and guidelines in consultation with these institutions. There is a wide disaffection among people that often many official reports make perfunctory remarks about the strengths of the traditional institutions' role but no concrete efforts are made to pursue operationalization through Pilot Projects. NABARD can play a critical role in this regard by initiating Pilot Projects, identifying the right institutions and also in building capacity of these institutions to play the role of financial intermediaries.

3.9.7 One of the long-unfulfilled demand of the region, and also the one well recognized by the RBI Committee for NER (2006), is the use of "community based organizations in these states" to act as financial intermediaries. The Committee recommends that the Pilot Project of Nagaland (which is being extended to the entire State presently) in linking bank credit to Village Development Board (VDB) is a success that needs to be extended not only to all VDBs in Nagaland but also to explore such schemes in other States like Meghalaya and Mizoram where such institutions exist. One positive feature observed is a disposition of top administrators of some of these States towards utilization of community- based institutions in financial services as much as in other development functions. For more effective functioning of these institutions as financial intermediaries, there is need for special financial assistance to create awareness and capacity building by providing training to functionaries of village institutions, of the bank branches and of the DRDAs.

**3.10 Concluding Observations**

3.10.1 It is true that several factors like topography, sparse settlements, poor infrastructure, low level of commercialisation; collective land tenurial systems, law and order problems etc. impede the development of banking and financial sector in North East States. But it is equally true that women are more actively involved in economic activities in North East states than in other areas, that most of their financial needs are small amounts and that the region is rich in traditional institutions. These factors call for special attention and alternative institutional approach to suit the diversity and differences of the region.

3.10.2 If the saying 'one size does not fit all' is apt for a country of diversity of India is true, it is much more true of the States in the North East. There is need for diversity of approaches to financing the needs of the small borrowers in the North East. Besides alternative institutional approach mentioned above, the Committee recommends a State level agency in each of the North East states to identify different institutional arrangements for linking with financial services and for nurturing these institutions with appropriate training and capacity building.

# Chapter 4

# Role of Institutions and Innovations in SGSY

## 4.1 Performance Patterns

4.1.1. Performance of SGSY shows wide variations across the regions of the country which falls into three broad patterns. One is successful implementation of SGSY through rapid expansion of SHG formation and effective bank-linkage as in the Southern region. The second pattern, as in the case of North-East, is poor performance due to very tardy progress in group formation, large number of blocks being devoid of any bank branches and lack of initiatives in utilizing the potential community based organizations as financial intermediaries. The third pattern is the limited and halting expansion of SHGs, inadequate spread of banking facilities resulting in low level of utilization of SGSY allocations and the resulting failure to achieve credit targets as in the case of East and Central regions. And the North and West too come close to the last category.

## 4.2 Role of Institutional Architecture

4.2.1 The remarkable progress in the formation of SHGs of the poor and linking them effectively to bank credit in the South, particularly in Kerala, Andhra Pradesh and Tamil Nadu, owe a great deal, among other things, to two institutional innovations viz the establishment of a 'State-level umbrella agency' to engineer social mobilization of the rural poor by organizing them into SHGs along with building up their economic capacity, and second, the evolution of a federal structure for SHGs enabling them to function as sustainable self-managing organizations of the poor. In redesigning the SGSY the experiences of *Kudumbhasree* in Kerala and the Society for Elimination of Rural Poverty (SERP) in Andhra Pradesh would be of considerable help. Following is a brief description of the institutional architecture and the resulting innovations that have facilitated rapid progress in implementation of SGSY with considerable internal flexibility built into the programme.

### 4.3 ***Kudumbashree* Experience of Kerala**.

4.3.1 *Kudumbhasree* is a State level women based participatory poverty elimination programme of the government of Kerala. It is implemented in cooperation with the Panchayat Raj Institutions by formation of women's groups. Economic empowerment is crucial, but not all pervasive. Social and political space and empowerment of women are given due place. The local self-government (LSG) institutions play a crucial role in the creation and nurture of the groups. The programme is closely linked to the poverty sub-plan and the women's component of the LSG planning process. It is monitored by community based organizations for social audit..

4.3.2 *Three-Tier Federal Structure:* *Kudumbhasree* has a three - tier federal structure (Fig 4.1). The grassroot building block of *Kudumbhasree* is the Neighborhood Group (NHG). One woman each from 10 to 20 vulnerable households in a neighborhood settlement is formed into one NHG. Each NHG is managed by five volunteers selected from the group and each volunteer looks after an activity considered important by the community. All the NHGs in Panchayat ward are federated into an Area Development

Society (ADS). The ADSs are in turn federated into an apex body viz Community Development Society (CDS) at the Panchayat level. The CDS is registered under the Societies Act.

*Figure 4.1*

4.3.3 *Functional Focus of Kudumbasree*: The main functions of *Kudumbashree* are the formation of women groups at all levels, capacity building and training for skill up-gradation, etc. Savings and thrift operations, bank linkage, micro-enterprise development and lease land farming are the other important activities promoted under *Kudumbasree.* It also operates schemes specially designed for children and destitutes.

4.3.4 *Phased History of the Programme*: *Kudumbasree* has evolved over a period of time and passed through several phases before it has assumed the present form and functions. The antecedents of *Kudumbashree* date back to state-wide people's campaign organization of women into self-help groups started in 1992 as a Pilot project in Alappuzha with the UNICEF assistance. It was tried in Malappuram for two years during 1994-96 and fully conceptualized during 1996-98. Based on the experience, *Kudumbasree* was launched in 1998. The project was gradually extended to all Panchayati Raj Institutions (PRIs) during 2003-2006. It has acquired the present institutional structure since 2006. There has been integration of *Kudumbasree* with the SGSY and building up of SGSY with *Kudumbashree* also means moving from activity based SHGs to universal organization of the poor. What is to be emphasized here is that *Kudumbasree* has evolved with the strong promotional role played by PRIs and hence the experience is replicable only in regions where PRIs function effectively.

4.3.5 *Institutional Progress*: In Kerala, by the end of the December 2008, about 37 lakh households were covered under *Kudumbasree* through 1.8 lakh NHGs, 17,000 ADSs and 1058 CDSs.

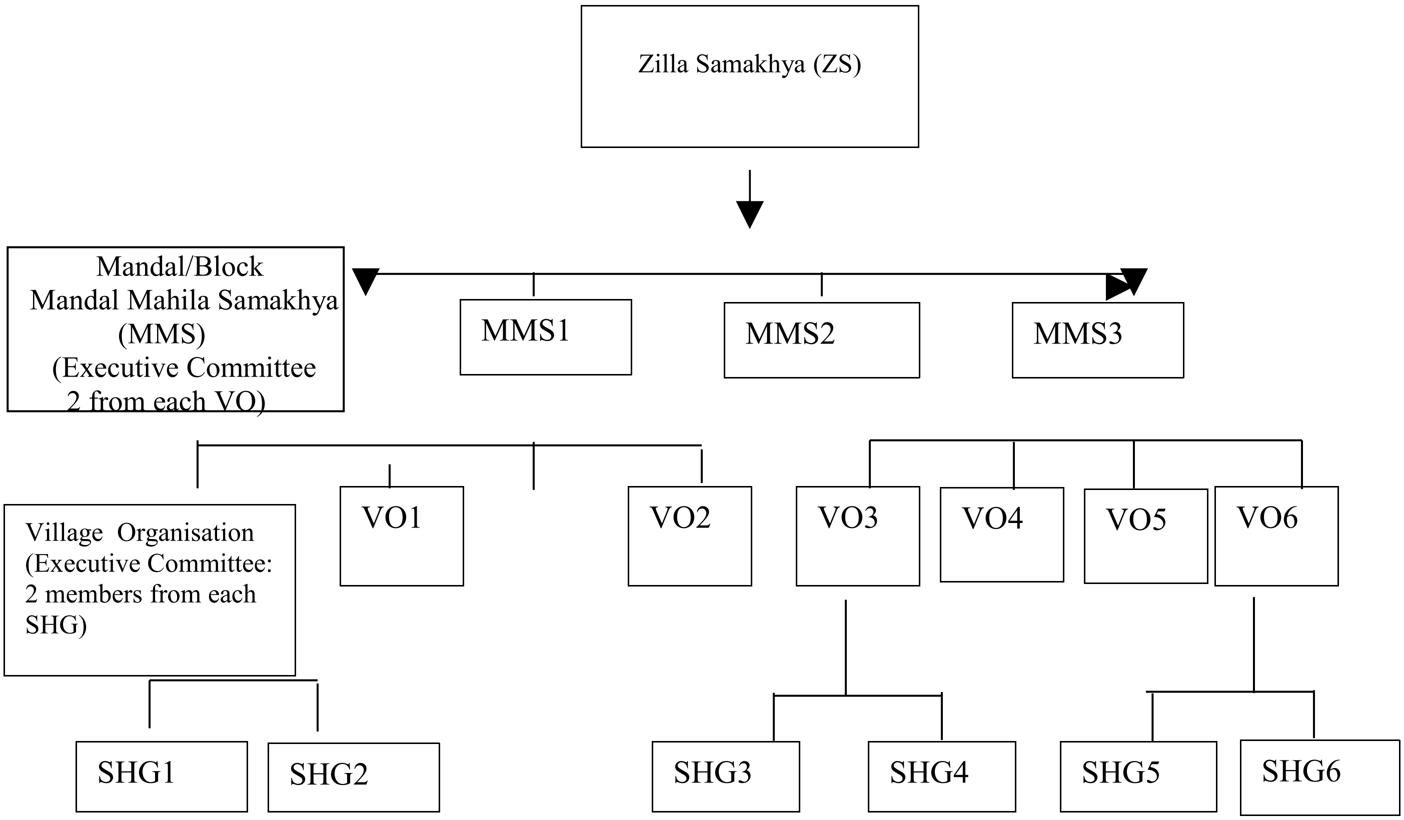
## 4.4 SERP Experience of Andhra Pradesh

4.4.1 In Andhra Pradesh, the Society for Elimination of Rural Poverty (SERP) is an autonomous State-level umbrella agency with the explicit objective of poverty elimination through social mobilization and empowerment of women through community-based organizations. The Chief Minister of the State is the Chairman of SERP and it indicates the political commitment of the agency. The SERP helps poor women to build their institutions beginning with SHGs at the grassroot upto district level organization. SERP operates through a team of professionals with specialized skills in motivation, mobilization and imparting training in various activities. Formation of SHGs and capacity building of the members in managing various functions, promotion of thrift, enabling members in the preparation of micro credit plans, facilitation of bank linkage, collective action, imparting training to SHGs to federate and strengthening of federal structure are some of the critical supporting functions of the SERP. It works in close collaboration with the relevant line departments in resource mobilisation, and extending training facilities. The involvement of banking functionaries at all levels of planning, training and implementation has brought about the required cooperation of the banking sector in mobilization of credit for not only investment but also meeting other needs of the poor households.

4.4.2 *Federal Structure*: Self-Help Groups promoted by the SERP are organized into three-level federal structure. (Fig 4.2) It starts with 10-15 poor women forming into an SHG based on their neighbourhood affinity. In each village there may be 10 or more SHGs which are federated into a Village Organisation (VO). The SHGs are trained in capacities to manage their thrift and credit activities, monitoring of group performance, Micro Credit Planning (MCP) and household investment plans. The VOs work for strengthening of SHGs by arranging a line of credit to them. The VOs also involve in village development activities and undertake marketing and food security related activities. The VOs are federated into Mandal Mahila Samakhyas at Mandal/Block level. The Mandal Mahila Samakhyas (MMSs) play the critical role of securing linkage with the government departments, financial institutions and markets. They also perform the functions of auditing SHGs and arranging finances for the micro-enterprises. The MMSs are federated into Zilla

Samakhya (ZS) at the district level. The ZSs play higher order roles like managing group insurance of the SHG members, providing legal advice and organizing skill-based placement-oriented training for the youth of the households of SHG members.

**Fig 4.2 : Federal Structure of SHGs in Andhra Pradesh**




VO: Village Organization: consists of two representatives from each SHG in a village
MMS: Mandal Mahila Samakhya: consists of two representatives from each VO in a Mandal (Block)
ZS: Zilla Samakhya: consists of two representatives from each Mandal (Block) in a district

*4.4.3 Phased Development of the Programm:* The women's SHG movement in Andhra Pradesh is an off-shoot of mass literacy campaign during 1990-95 which was initiated by the District Collectors. Initially some dedicated NGOs played important role in forming SHGs in the State. In 1992, NABARD started a pilot project for promoting SHGs and linking them with banks. The 1993 report of the Independent South Asia Commission on Poverty Alleviation resulted in the implementation of UNDP – South Asia Poverty Alleviation Project (SAPAP) in a few select places during 1995-2000. The UNDP-SAPAP was based on the social mobilisation of the poor women by organizing them into SHGs and providing them adequate skills and training to enable them to emerge as self-managing institutions. Based on the SHG model of mobilisation of rural poor, Government of Andhra Pradesh initiated in June 2000 'District Poverty Initiatives Project (DPIP) in six districts with the World Bank Aid. The programme was further extended to the remaining 16 rural districts of Andhra Pradesh in the name of Andhra Pradesh Rural Poverty Reduction Project (APRPRP). The Society for Elimination of Rural Poverty (SERP) was created for the implementation of the programme.

*4.4.4 Institutional Progress*: In Andhra Pradesh by October 2008, there were 96.46 lakh members in 8.10 lakh SHGs exclusively for women. A total of 34,852 Village Organisations (VOs), 1098 Mandal Mahila Samakhyas (MMSs) and 22 Zilla Samakhyas have come into existence in all the 22 rural districts. The total savings and corpus of SHG members were Rs.1,755 crore and Rs. 3951 crore respectively.

## 4.5 **Institutional Architecture and Innovations**

4.5.1. In a vast country like India with the kind of diverse social, cultural, political and geographical conditions, any national programme like the SGSY should have adequate flexibility so as to incorporate changes based on the local or regional experiences. Such flexibility, if properly utilized, provides room for innovation often arising from the local initiatives. The adoption of a state level agency for promoting and nurturing the SHGs into sustainable federal structure both in Kerala model of *Kudumbasree* and Andhra Pradesh model of SERP have resulted in several innovations in the implementation of SGSY, which could serve as examples that could be emulated in other parts of the country. Some of the important innovations from Kerala and Andhra Pradesh experience are enumerated here.

4.5.2 *Kudumbashree and Innovative Initiatives:* The *Kudumbashree*'s encouragement to involve volunteers (against no payment), activists, public figures and panchayat leaders in social mobilization of the poor led to the sensitization of all non-SHG stakeholders and building up of a favourable public opinion. In the subsequent phases of SHG movement, this initiative yielded very encouraging results in building the livelihoods through pro active support from panchayat leaders in achieving common property resources, market tie ups with public sector undertakings, line departments, etc. Besides promotion of thrift, bank-linkage and securing of investment credit for the SHG members, the existence of *Kudumbashree* in a state agency and the federal structure of the self-help groups brought about several innovations in form and content of the livelihood activities, some of which are briefly described here.

i) *Samagra:* It is an initiative to promote a cluster in a region wherever there is scope for large scale promotion of one activity. For instance, a banana cluster is promoted in Thiruvananthapuram district as a joint project of *Kudumbashree*, and a private company bringing together 6000 SHG activity groups involved in 2400 ha. of lease farming with technical support and market tie-up by the company. There are similar clusters for 'nature fresh milk' in Idhuki, honey in Pathanamtitta, leather uppers in Kozhikode, ornamental fish in Kottayam, etc.

ii) *Salid Waste Management* (Clean Kerala): There are 230 solid waste management groups from NHGs to collect waste from 28 municipalities and transport the waste to Municipal SWM plants, using tipper auto rickshaws. The earnings of the groups are from Rs.30 user charges paid per month by each household from where the waste is collected.

iii) *Amrutham*: This is an innovative enterprise designed to distribute food supplements to BPL children. It is being implemented under SGSY by NHGs with the technical support from Central Pulses and Cereals Research Institute (CPCRI) .

iv) *Kudumbashree Accounts and Audit Services Society (KASS*) organizes audit groups under the guidance of chartered accountants. Similarly, *Kudumbashree* operates Employment through Knowledge, Skill and Attitudinal change through Training (EKSAT), an initiative to meet training needs of youth, by outsourcing training programmes. Kerala is yet another employment gateway for poor under *Kudumbashree*.

v) *Lease Land Farming*: Bringing fallow land under cultivation is an activity promoted under Kudumbashree initiation.

vi) *Asraya* – Destitute Rehabilitation Programme: This is a programme designed by *Kudumbashree* to address the problems of poorest of the poor – the destitute, who are estimated to constitute about two per cent of Kerala population. Each identified household is intimated to the NHG for continuous handholding.

vii) *Collaboration with Centres of Excellence in Technology*: The *Kudumbashree* links up with institutions like CPCRI, CMFRI, DRHO, CFTRI, RRL, IITs, IIMs, etc., in support of its poverty eradication by drawing technical knowledge in improving quality of products, professional management and organization of clusters.

viii) *Convergence: Kudumbashree* has enabled considerable convergence, between LSG, line-departments, banks, professional institutions in implementing pro-poor programmes. For instance in the implementation of NREGS, Kudumbashree plays an active collaborative role with LSGs. Thus, the existence of a state-level agency like Kudumbashree makes poverty reduction and improvement of livelihoods of the poor a dynamic activity that builds on the lessons and opportunities provided at the village level.

4.5.3 ***Society for Elimination of Rural Poverty (SERP) and Innovative Initiatives****:* The SERP in Andhra Pradesh has played a seminal role in the rapid spread of SHG movements. Besides its major role in institutional and capacity building by promoting a strong federal architecture for the SHGs, by linking them with the banks and promoting creditworthiness of the poor, it encouraged innovation at all levels of the SHG structure. It helped in supporting and operationalizing the initiatives from these self-managing institutions through coordination. Some of the innovations under the aegis of the SERP are sampled here.

i) *Dairy Intervention*: Dairy is a major livelihood opportunity for rural poor in Andhra Pradesh. In addition to financial assistance for buying. milch animals, SHGs were encouraged to operate milk procurement and organization of milk chilling for marketing. The model promoted consists of establishing bulk milk chilling units (BMCUs) to collect and chill milk to desired temperatures. In collaboration with the AP Dairy Development Cooperative Federation (APDDCF), the SHGs and their federations have taken over 144 BMCUs covering 2,760 Village Milk Procurement Centres. The result is substantial increase in the price of the milk supplied by the SHG members.

ii) *Collective Marketing*: One of the innovations with far reaching future potential is the Village Organizations (VOs) and Mandal level Marketing Intervention (MMI) in the form of procurement of grain. It all started a few years back when the market price of maized dropped much below the MSP. The VOs of women groups in several villages procured the grain on behalf of Markfed and thus ensuring price stability. This experiment has become a part of the regular activity of SHG federations now. Presently the marketing operation covers a number of agricultural commodities and also the purchase of agricultural inputs collectively.

iii) *Food Security*: In the lean agricultural season, many of the rural poor have barely one square meal a day. Food security intervention addresses this hunger gap in rural communities. Through this scheme, the VOs encourage SHG members to draw their full PDS quota and the amount due is recovered by the VOs in instalments. In addition to the PDS supplies, additional requirements of other provisions are purchased by the VOs in bulk and sold to SHG members at a price below the retail outlets. The magnitude of the benefits under the scheme could only be seen from the fact that under this initiative, 21.78 lakh families in 1.91 lakh SHGs in 14,722 VOs were provided food security by October 2008.

iv) *Community Managed Sustainable Agriculture (CMSA*)**:** This initiative is a product of severe agrarian crisis in terms of steep rise in input costs, volatile prices, growing risks associated with the new varieties and technologies. The main objectives are reduction in costs, reduction in risks and increase in incomes by adoption of cost saving agricultural practices, especially by small-marginal farmers and women. The emphasis is to promote technologies based on local natural resources and promote local knowledge and innovations. The thrust is on what is called as NPM – Non (Chemical) Pesticide Management. It is spreading considerably and during 2008-09, the NPM is targeted over nine lakh acres in 3,215 villages of the state.

v) *Community Managed Insurance Scheme*: Under this initiative, 38.01 lakh rural landless agricultural labourers are covered under Aam

Admi Bima Yojana (Indira Jivitha Bhima Pathakam), another 18.95 lakh under Janashree Bima Yojana and 23.66 lakh under other group insurance. Thus, a total of 80.62 lakh rural poor persons are covered under different insurance schemes to create social security among the members of the SHGs and their families.

vi) *Other Innovative Initiatives in AP*: Nutrition and health strategies especially for pregnant and lactating women, pre-school facilities and special initiative for the disabled are some of the other interventions emerging as a part of SHG activity under the guidance of the SERP. The SHGs have introduced the innovation of ‘Bank-Mithra’, a trained representative on behalf of a group of VOs placed at bank branches to help out the VO leaders who have limited knowledge in tracking the accounts, processing applications and filling up of bank forms. The ‘Bank-Mitras’ are paid nominally by community based organisations. There are also social sector initiatives like the community managed family counselling centres at the Mandal (Block) level which deal with domestic violence and matters of injustice to women. These counselling centres are managed by legally trained SHG members.

4.6 **Innovations in Other States**

4.6.1 Even without specific 'umbrella institutions', the Department of Rural Development in Tamil Nadu lead the TN Weavers Development Corporation and the DRDAs to take up a large number of pro-active initiatives in livelihood promotion for SHGs. These can be classified into the following categories:

i) providing legitimate access to common property resources (sand, quary, fish ponds, parking lots, business space, etc.) through competitive bidding process,

ii) forging tie-ups with technology providers (for example, sea-weed cultivation, sanitary napkin, mineral water, solar dryers for fish processing)

iii) Tie ups for contract production with private firms (RM garments for corporate firms and poultry for Suguna Poultry, etc.)

iv) Providing employment opportunities for SHG members in the service sector (for example, catering services for corporate establishments), and

iv) Creation of market outlets and design of equal opportunity market access to SHGs.

4.6.2 Among the eastern states, the Rural Development department in West Bengal without any dedicated, specialized institutions has undertaken a few innovations. The noteworthy among these are: a) placing of two matured SHG members with a Gram Panchayat for identifying development priorities, livelihood opportunities, and b) convergence with the line departments such as jails, education, etc., for the products and services of SHGs.

### 4.7 Lessons from Kerala and Andhra Pradesh

4.7.1 It is interesting to note that the *Swarnjayanthi Gram Swarozgar Yojana (SGSY): Guidelines* provided by the MoRD, makes a provision for "Special Projects" " to try out new initiatives which are in the nature of pioneer projects, capable of triggering much needed growth impulses. Such projects would be indicators of possible alternative strategies" (p.50). In a large sense, the initiatives like *Kudumbashree* of Kerala and SERP of Andhra Pradesh belong to such new initiatives that commend themselves for adoption elsewhere, provided not only adequate funds, but also political and administrative constituent is available. The following are the main lessons that could be drawn from these experiences.

4.7.2 *Organization of the Poor*: For effective reach of the poverty elimination programmes and for placing the poor on a path towards self-sustaining livelihood, there is need for an umbrella organization. For the poor to negotiate with their day-to-day and long term engagement with the market, state and social institutions, their organizations should be premised on social mobilization and backed by enabling capacity building.

*4.7.3 State Level Agency:* The experience of most of the states where SGSY has not made adequate progress suggests that of the several factors hindering the programame, the poor SHG motivation has been an important contributing factor. In these states, SHGs are formed just to avail of loan and subsidy facility. SHGs act without any direction and coordination. The result is high mortality of SHGs formed and consequent failure of the micro-enterprises themselves. The reason for failures of SHGs is due to lack of adequate training and capacity provided to these groups. The DRDAs and even NGOs evince interest only till the SHGs get linked with the banks or at the most get eligibility to obtain the loan and subsidy. In contrast, Kerala and Andhra Pradesh experiences suggest that social mobilisation is a central element in SGSY. Social mobilization is a process in which poor come together to discuss their common livelihood problems, acquire confidence, become aware of their entitlements and economic opportunities and learn to act together for improving their conditions. Poor cannot organize themselves and, therefore, need handholding support in building up their capacities. Since the District Rural Development Agency (DRDAs) and NGOs can play a limited role in this, there is need for state level umbrella agency for the formation of SHGs, for providing professional guidance and nurturing internal capabilities of the groups. The agency should put together a team of dedicated professionals to train and build capacity for promoting internal leadership for self-management. The agency will also facilitate coordination between the SHGs, banks and line departments in the implementation of the programme. Investment in building community institutions is an essential condition for the programmes of the poor to succeed.

4.7.4 *Federal Structure of SHGs:* Organizations of the poor can sustain and effectively participate in livelihood promotion of the poor only through well-knit community institutional architecture. It may sound ironical that in many other states, even a few SHGs formed in a district whither away due to lack of handholding support whereas in Kerala and Andhra Pradesh thousands of SHGs flourish because of the strength acquired through their federal structure.

4.8 **Towards Mission Mode**

4.8.1 There is incontrovertible evidence that successful poverty elimination programmes that can take rural poor beyond poverty towards sustainable better livelihoods requires well endowed organization of the poor with appropriate institutional architecture and sound capacity for self-management. And, in building such institutional structure, role of national and state level agencies is essential. If the objective of the Eleventh Five Year Plan is to reduce poverty by half through restructured SGSY that includes not only self-employment but skill-based wage-employment, there is need for putting in place such agencies in all states. In a diverse socio-economic and cultural context that involves varying complexities in approaching poverty as a multi-dimensional problem, the existing mainstream administration lacks necessary wherewithal.

4.8.2 *National Mission:* The Committee recommends setting up of National Rural Livelihoods Mission (NRLM) for the management of the National Rural Poverty Elimination programme. The main objectives of the Mission should be:

i. to promote state level autonomous umbrella agencies by the state governments for providing institutional support for poverty elimination programmes. The NRLM should coordinate with the state agencies in implementing pro-poor programmes

ii. The NRLM should provide professional and technical support to the state agencies by seeking out and disseminating pro-poor technologies and institutional innovations through research and development. The

NRLM should facilitate linkages between the state agencies and the national centres of excellence like National Institute of Design (NID), National Dairy Development Institution (NDDI), Central Food Technology Research Institute (CFTRI), etc., in evolving appropriate designs, technologies and strategies that could be adopted by the organizations of the poor.

iii. The NRLM should study the best practices across the country and support replication of the same in other parts whenever appropriate.

iv. The NRLM should develop suitable modules of training and capacity building of functionaries of the institutions of the poor as well as the agencies, including banks, participating in the poverty elimination programmes and disseminate the same to state agencies.

v. The NRLM should also serve as national agency for the analysis of the impact of macro-economic policies on the poor and provide the same periodically to the appropriate policy making authorities.

vi. The NRLM, besides getting regular monitoring and evaluation as well as impact assessment of the poverty elimination programmes, should also build up a data bank and information system for the restructured poverty elimination programme.

4.8.*3 Rural Livelihood Fund*: The Committee observes that investment in institutional capacity building is an essential pre-requisite for the poverty elimination programmes in reaching the rural poor and investments in institutional capacity should be seen as an important component of the programmes for the poor. The Committee recommends the Creation of a Rural Livelihood Fund with an initial corpus of Rs.1,000 crore for providing financial assistance to the states for supporting state and district level organizations for poverty reduction. The Fund will be available to such states which come up with comprehensive time-bound poverty reduction plans based on social mobilization and community empowerment approach.

### 4.9 State Level Agency or Umbrella Organization

4.9.1 *State Agency*: For effective reach of poverty eradication programmes in general and income generating self-employment programmes in particular, poor need to be organized into self-help groups of their own. Social mobilization that brings poor together to discuss their common livelihood problems, builds confidence and makes them aware of their entitlement and economic opportunities, and learn to act together in improving their condition is an essential pre-requisite for effective organization of the poor. The banks and District Rural Development Agencies (DRDAs) are ill-equipped for social mobilization of the poor. NGOs may not have enduring interest, and need direction. Therefore, the Committee recommends an "agency" or "an umbrella organization" at the State level for helping in the formation of SHGs, nurturing through hand-holding and providing professional guidance.

4.9.2 *Due Autonomy and Authority*: The state level agency, to function effectively, should be endowed with due autonomy and authority. The

Committee recommends that the agency be in the form of a 'society' of which the Chief Minister of the State should be the Chairperson.

4.9.3 *Federal Structure*: The Committee recommends that the agency should ensure that an appropriate federal structure of SHGs evolves and functions with a self-generating agenda of activities at various levels of the federation.

*4.9.4 Professional Functioning*: The Committee recommends that the agency should draw upon a select team of senior administrators who could build professional cadres to mobilize, motivate and build internal structures towards capacity building of SHGs. The agency would not only be a team of professionals but also those who could work in liaison with line departments.

*4.9.5 Phased Process*: The Committee recommends that in states where there is limited progress in developing SHG federations, the agency may extend the process in phased manner by drawing on the experiences.

The Committee reiterates the importance of dedicated and pro-poor institutions in building the capacity of the poor and preparing them for self-employment. The states which are lagging behind in the SHG movement should accord highest priority for putting in place these institutions in order to assist the rural poor under the fold of SHG movement. In the states where the umbrella institutions have already been created, the success in preparing the poor for livelihood in a highly competitive economy, these institutions should engage themselves in continuous innovation and experimentation.

# Chapter 5

## TRAINING, CAPACITY BUILDING AND SKILL DEVELOPMENT

### 5.1 The Problem

5.1.1 *Training Swarojgaris*: The central element of the SGSY programme is to mobilize the poor into self help groups and impart training and extend continuous handholding till *swarojgaris* escape poverty. The approach and methodology of training vary among the various components of the programme. While social mobilization requires training in social engineering, strengthening of livelihoods requires technical skills.

5.1.2 The training and capacity building involves coverage of a large number of SHGs during the Eleventh Five Year Plan period. Further, a large number of poor quality and defunct SHGs need to be retrained. This will be a stupendous task. In the past, under SHG-Bank Linkage programme of NABARD, social mobilization of the poor was entrusted to competent NGOs. Although the efforts of NABARD were successful to a large extent, their coverage was limited. More or less similar approach was adopted by DRDAs under SGSY without ascertaining either the quality of NGOs or their capabilities for social mobilization. NGOs are paid Rs.10,000 for formation of a SHG as an incentive as well as for meeting the costs incurred by them for group formation and training. Evidence suggests that in terms of extent of coverage and quality of training, much needs to be desired. It should be recognized that given the numbers involved, external agencies will not be able to meet the challenge. However, some new initiatives that are emerging from the poor in the form of Self Help Poor Institutions (SHPI) hold promise for providing training to a large number of SHGs.

5.1.3 *Training Functionaries of Delivery System:* There is also need to sensitize and train a broad range of stakeholders including various levels of functionaries in Banks, Government Organizations, Non-Governmental Organizations, Community Leaders, etc. Presently, DRDAs are involved in organizing training programmes to functionaries of the delivery system. Since the DRDAs neither possess adequate training infrastructure nor the required technical expertise, the training programmes have not achieved the desired results.

## 5.2 **Training Funds and Coverage**

5.2.1 Under SGSY, 10 per cent of the programme funds was earmarked for training and capacity building of various stakeholders. However, 3.30 per cent of the available funds was utilized for training and capacity building during 1999-2004 (**Table 5.1**). Although since 2004-05 the utilization rate has been improving, the current utilization rate was lower at 7.03 per cent as against the norm of 10 per cent proposed by the programme guidelines.

5.2.2 Data on inter-state utilization of the funds for training reveals that poorer states spent very small proportions of their funds for training and capacity building. For example, during 2004-08, Jharkhand spent 4.6 per cent, Orissa 4.1 per cent, Rajasthan 6.4 per cent, Uttar Pradesh 4.3 per cent, Chattisgarh 4.8 per cent and Bihar 5.5 per cent. What is worse, the utilization rate in Chattisgarh and Uttar Pradesh in the latter half of the period was lower than that of the first half. The short comings are well known: lack of coordinating agencies at district and state levels, inadequate training, infrastructure, absence of competent professional staff in DRDAs, lack of committed NGOs and so forth. These inadequacies have contributed to the emergence of a large number of either untrained or poorly trained SHGs which could not be sustained in the programme.

Table 5.1

**Expenditure on Training and Capacity Building as a proportion of SGSY Funds**

| S.No | States | 1999-04 | 2004-08 |
|---|---|---|---|
| 1 | Andhra Pradesh | 5.48 | 16.01 |
| 2 | Arunachal Pradesh | 2.69 | 4.96 |
| 3 | Assam | 3.89 | 8.46 |
| 4 | Bihar | 4.08 | 5.51 |
| 5 | Chattisgarh | 5.29 | 4.76 |
| 6 | Goa | 0.24 | 5.40 |
| 7 | Gujarat | 4.73 | 6.82 |
| 8 | Haryana | 2.07 | 5.72 |
| 9 | Himachal Pradesh | 2.10 | 3.66 |
| 10 | Jammu & Kashmir | 4.11 | 5.02 |
| 11 | Jharkhand | 0.72 | 4.63 |
| 12 | Karanataka | 4.12 | 8.54 |
| 13 | Kerala | 2.57 | 6.38 |
| 14 | Madhya Pradesh | 4.66 | 7.30 |
| 15 | Maharashtra | 4.81 | 5.68 |
| 16 | Manipur | 0.00 | 3.24 |
| 17 | Meghalaya | 3.29 | 11.02 |
| 18 | Mizoram | 3.85 | 9.41 |
| 19 | Nagaland | 5.17 | 12.28 |
| 20 | Orissa | 2.43 | 4.12 |
| 21 | Punjab | 1.74 | 1.75 |
| 22 | Rajasthan | 1.02 | 6.38 |
| 23 | Sikkim | 8.95 | 11.51 |
| 24 | Tamil Nadu | 8.94 | 8.06 |
| 25 | Tripura | 2.24 | 5.35 |
| 26 | Uttar Pradesh | 5.32 | 4.16 |
| 27 | Uttar Khand | 3.46 | 4.79 |
| 28 | West Bengal | 3.48 | 18.82 |
| 29 | A & N Islands | 5.19 | 18.82 |
| 30 | Dadar&Nagar Haveli | 0.00 | 0.00 |
| 31 | Daman& Diu | 0.00 | 0.00 |
| 32 | Lakshadweep | 0.00 | 10.66 |
| 33 | Pondicherry | 2.09 | 2.94 |
| | All India | 3.30 | 7.03 |

Source: Ministry of Rural Development, Govt of India

5.2.3 The high incidence of untrained SHGs was partly due to low utilization of funds meant for training. A recent survey brought out very disturbing facts **(Table 5-2) :** 35 per cent of SHGs did not receive at least one type of training, 67 per cent did not receive any training in book-keeping and financial management; 73 per cent did not receive any training in income generation activities. Also a greater proportion of SHGs received training in schemes sponsored by NGOs than those of government. The NGOs performed better than government agencies in areas such as legal rights and gender aspects. The reasons for the poor performance of training under government sponsored programmes are same as those described in the preceding paragraphs. These deficiencies should be addressed on priority basis under restructured SGSY.

**Table 5.2**
**Percentage of Self-Help Groups Covered by various Training Inputs**

| Type of Training Input | Govt. Sponsored | NGOs sponsored | |
|---|---|---|---|
| 1. Group Formation | 29.7 | 65.9 | 44.4 |
| 2. Book-Keeping and Financial Management | 19.5 | 51.8 | 32.6 |
| 3. Leadership Development | 26.2 | 60.5 | 40.1 |
| 4. Livelihoods/ Income Generation | 21.3 | 36.1 | 27.3 |
| 5. Health | 16.8 | 48.6 | 29.7 |
| 6. Natural Resources Management | 12.4 | 32.3 | 20.4 |
| 7. Legal Rights | 7.6 | 38.2 | 20.0 |
| 8. Govt. Schemes and Services | 7.6 | 43.6 | 22.1 |
| 9. Gender aspects | 5.6 | 40.8 | 19.8 |
| 10. Groups received at lest one programme input | 53.0 | 83.0 | 65.3 |
| (Sample SHGs covered) | (1100) | (1650) | (2750) |

Note: Government sponsored programmes are from Andhra Pradesh, Gujarat and Uttar Pradesh and NGOs sponsored programmes covered SHGs from 16 major states in India

Source: Archana Dwivedi (2007), "Examining Literacy and Power within Self Help Groups: A Quantitative Study", NIRANTAR, Centre for Gender and Education, New Delhi

## 5.3 **Training Swarojgaris : Innovative Experiments**

**5.3.1** A number of innovative experiments have been successfully attempted for training the swarojgaris at the village level. A case in point is the institution of Community Resource Persons (CRPs) in Andhra Pradesh which has been found to be cost effective and feasible for replication (**See box 5.1**). The CRPs are drawn from successful SHG members who possess multi-faceted skills to train the poor. Since they hail from the same socio-economic background, their acceptability by the community as social mobilizers is better. The Committee is of the view that the practice of training through the CRPs can meet the challenge posed by huge numbers involved. Besides, it may prove to be cost effective and sustainable. There is a need to create a pool of resource persons at the village / block level who could be involved in social mobilization. The resource persons should be continuously trained for upgrading their skills. Some state governments have taken pro-active initiatives and devised unique innovative systems for training CRPs.

Box.5.1

**SUCCESSFUL SHG MEMBERS AS COMMUNITY RESOURCE PERSONS (CRPs)**

**Social mobilization and capacity building of the illiterate/hardly literate rural women can be best accomplished through experiential learning. This has been discovered and employed on a large scale by the Society for Elimination of Rural Poverty (SERP) in Andhra Pradesh. Rural poor women who successfully came out of the poverty with the assistance of SHG movement were identified for training other poor women in their neighbourhood as swarojgaris. This method was found to be cost-effective, replicable and sustainable. This was found to cost about Rs.2,000 to train a SHG as against Rs.10,000 in the conventional method of training. The SERP-AP has identified about 2000 such rural women in Andhra Pradesh and has been utilizing their services as trainers. The CRPs have been training the SHG members on various issues such as social mobilization, book-keeping, micro-credit plan preparation, livelihoods, food security, micro insurance, etc. These CRPs are being deputed to central region (particularly Bihar and UP) for similar training with encouraging results.**

5.3.2 Exposure visits to successful SHGs would be an effective pedagogy. The SHPIs should accord high priority to this approach and depute the potential SHG leaders to the regions / states where they could be exposed to the best practices. Such experience sharing should be seen as investment in human resource development.

5.3.3 In some parts of the country, training institutions have been established by successful SHG Federations. They developed their own training methodologies. These experiments need to be carefully studied and examined for their sustainability and replicability. Full-fledged training institutions may be established in successful village / block / district level federations. These training institutions may be linked with formal training institutions for drawing resource persons . DRDAs and banks may outsource some of their training programmes to training centres of SHG Federations.

5.3.4 The potential trainers of these institutions should be trained before they train others. The Committee recommends the creation of a strong cadre of Community Resource Persons and supporting activists specialized in diverse fields like technology, marketing, micro-finance, insurance, livelihoods, gender, etc. The MoRD should explore with Indira Gandhi National Open University and State Open Universities for the possibility of designing and introducing certificate and diploma courses in distance mode suitable to the SHG trainers .

5.3.5 The importance of encouraging innovations, experiments, documentation and sharing of experiences should be appreciated by the implementing agencies.

The training modules should have adequate scope for dissemination of development experiences using case studies, organizing exposure visits, and facilitating focused group discussions. The pedagogy should be contextual, region-specific and complimented by continuous innovations. It is observed that women groups are found to be very inventive and keep on generating new ideas based on their field experiences. What is required from the umbrella organization is to put in place proper institutions to make the new ideas operational. Evidence of inventiveness was displayed in some parts of the country.

## 5.4 Functionaries of Delivery System: Training Needs and Modes of Training

5.4.1 The areas in which SHPIs and NGOs need to be trained are: formation of SHGs and their Federations, imparting leadership skills, preparation of micro-credit plans, information on bank-linkage, livelihoods and best practices (Table A5). The political executives of PRIs also should be sensitized to the various aspects of SGSY. They should also be sensitized to potential areas of convergence between SGSY and NREGP that benefit both the programmes from synergies. The training needs of the stakeholders are largely location and context-specific. Further, various training components (e.g. training / rating / handholding) should be provided to all the stakeholders in tandem so that every stakeholder would acquire of the 'whole' and understand his/her role and that of other stakeholders. The task can be handled by various training institutions established by banks, NGOs, and SHPIs.

5.4.2 Different modes of training have to be pursued to build the capacity of the stakeholders. Of these, the training of trainers should be singled out as one of the effective mode in terms of the cost and the time factor involved. The state governments may identify senior level officials who could be drafted as resource persons and train them in the complete range of SHG issues. These officers could in turn train the district level officers who further may train the block level and sub-block level functionaries. In a similar way the banking institutions, too, may train the trainers who could further train the lower level bank officials. Such an experiment has been initiated by NIRD. The Committee is of the opinion that the Training of Trainer (ToT) module may be given special focus in the states where the cases of untrained SHGs are large.

5.4.3 Since the number of stakeholders to be trained is huge and as such cannot be covered by the direct method of training, distance mode of training can be used. NGOs, SHG federation members and CRPs could be enrolled in for on-line certificate courses tailored to the needs of SGSY. MoRD may take a pro-active role and contact various schools of distance educations and open universities for designing and implementing certificate courses. The expertise available at IGNOU, NIRD and SIRDs could be tapped.

5.4.4 Some banks and financial institutions have established their own training organizations such as SBIRD, NIBM, BIRD, etc., to train their own staff. The staff could be utilized for training and sensitizing the banks' staff on SGSY.

5.5 **Demand-based Skill Development for Placement**

5.5.1 The rural non-farm sector is generating wide-range of skill-based employment opportunities. The Ministry of Rural Development's strategy paper on "Poverty Eradication in India by 2015" projects an additional demand for 3.2 crore manpower during the Eleventh Five Year Plan in various sub sectors such as energy plantation, bamboo, medicinal plants, food processing, tourism, transport and communication, automotives, etc. More than 75 per cent of these jobs are likely to be at the "lower end of the wage spectrum and require relatively lower levels of education and skills and thus have good potential for absorption of rural BPL youth to earn adequate income to cross poverty line".

5.5.2 Since demand-driven skill development is a major instrument to bring BPL households above the poverty line in a cost-effective and sustainable manner, special emphasis should be given, under SGSY, to identify the skills in demand in different growing sectors, and then train people so that they can get decent wage employment or productive self employment.

5.5.3 The Ministry of Rural Development initiative to establish RUDSETI type of organizations in each of the districts of the country is a step in the right direction. It would be necessary to widen the scope of these RUDSETIs so that they evolve into Training as well as Certifying Agencies till other more specialist organizations emerge in the country to carry out this gigantic task.

5.5.4 The Committee has come across a wide range of best practices and initiatives which need to be carefully documented and widely disseminated. The Committee would like to make a special mention of the innovative experiments being undertaken by SIRD-Assam for disseminating the technologies developed in the advanced research centres of India.

5.5.5. Some of the training programmes may be transferred to better functioning SHG federations. The district level agencies should develop specific skill-based modules and programmes suitable for various socio-economic groups.

5.5.6 In order to create markets and exploit national and international economic opportunities for the poor, proposed Rural Livelihood Mission should promote dedicated marketing organization with functions including marketing information, training, infrastructure for storage, grading, branding, packaging, creation of market channels, etc.

**Table A5**

**Training and Skill Development of Different Stakeholders under SGSY**

| Sl. No | Stakeholders | Skills and Competence requirement | Effective Mode of Training. |
|---|---|---|---|
| 1 | SHG members & Leaders | Social mobilization<br>Pooling of thrift & savings,<br>Internal lending,<br>Book Keeping,<br>Grading<br>Utilization of Revolving Fund.<br>Group Dynamics<br>Preparation of Micro-Credit<br>Bank linkage<br>Knowledge on Insurance, Subsidy, Bank loans.<br>Exposure to development officials<br>Leadership, Communication<br>SHG Federations<br>Knowledge about livelihoods. | Community Resource Persons,<br>Exposure visits<br>Distance Mode |
| 2 | Office Bearers of SHG Federations | Preparation of Micro-Credit plans<br>Financial Management<br>Communication<br>Livelihoods<br>Bank Linkage, SHG networks | Community Resource Persons,<br>Distance Education,<br>Exposure visits |
| 3 | Development Officials | Social mobilization<br>SHG Grading<br>Group Dynamics<br>Preparation of Micro-Credit Plans<br>Bank linkage<br>Knowledge on Insurance, Subsidy, Bank loans.<br>Leadership, Communication<br>SHG federations, SHG Networks<br>Knowledge about livelihoods<br>Communication<br>Livelihoods<br>Pro-active initiatives | Training of Trainers,<br>Distance Mode,<br>Exposure visits |

| | | | |
|---|---|---|---|
| | | Best Practices, Innovations | |
| 4 | Bank Staff | Rural Livelihoods<br>Micro-Credit Plan Preparation<br>Credit need assessment<br>Innovations in Credit delivery<br>(CBRM, Bank Mitra, | Special Programme |
| 5. | NGOs and Spoortidatas | Social mobilization<br>SHG Grading<br>Group Dynamics<br>Preparation of Micro-Credit Plans<br>Bank linkage<br>Knowledge on Insurance, Subsidy, Bank loans.<br>Leadership, Communication<br>SHG federations, SHG Networks<br>Knowledge about livelihoods<br>Communication<br>Livelihoods<br>Pro-active initiatives<br>Best Practices, Innovations | ToT, Distance Mode |
| 6 | PRIs | Role of SHGs in Poverty Alleviation and Implementation of programmes such as NREGP<br>Providing SHGs access to Common Property Resources. | ToT-III<br>Dist Mode. |

# Chapter 6

## TOWARDS RESTRUCTURED POVERTY ELIMINATION PROGRAMME

### 6.1 Emerging Policy Environment.

6.1.1 The emerging national scenario will be favorable to SGSY provided concerted efforts are made to improve its efficacy. Together with NREGS, it can take the poor several more steps towards employment and income security. There is recognition that the social sectors of education, health, nutrition and assistance to disadvantaged groups need highest priority and much larger funds. All these constitute a favourable environment for inclusive rural growth. SGSY is therefore confronted with both challenges and opportunities.

6.1.2 Planning Commission visualizes a major role for SGSY in its Eleventh Five Year Plan. It rightly observes that thrift, internal group lending, identification and pursuit of economic activities have succeeded in states like Andhra Pradesh, Tamil Nadu and Kerala substantially because of the basic processes of social mobilisation and SHG capacity building. As is clear from Chapter 4, the better performance achieved in states like Kerala and Andhra Pradesh has been attributed to the state level agencies and federal structure of SHGs. Commenting on the models of SHGs in different parts of the country, Planning Commission identifies the *Kudumbashree* in Kerala with active linkages with PRIs and the AP model that relies on federations of SHGs as most important experiences of organisation of poor for social mobilisation and economic empowerment.

6.1.3 In terms of priority, saving, followed by risk mitigation and then credit would be the sequence for financial intervention. Federations acting as financial intermediary require high level of skills and hence, it is essential that investments are made on enhancing the skill base of the federations. There is need for promoting institutional partnerships between SHG federations and bankers. Enhancing the credit flow to the poor may call for trying with several strategies and partnerships and not just one for the entire country.

6.1.4 Planning Commission rightly feels that it may not be possible for the SGSY, a pure self-employment programme, to address all the aspects of poverty. From economic security point of view, BPL families might want to have at least one wage earner among them, so as to provide the requisite certainty to their family income. Hence, there may be a case for introducing a placement-oriented skill enhancement model for youth as a sub-set of SGSY. The proposed modifications make SGSY to look like a hy-brid of the self-employment and wage-employment programmes. The sectors that are suggested for placement are construction, textiles, leather, gems and jewellery, retail chains, security services, catering and other services, etc., where there is a shortage of trained labour. Imparting skills by means of short duration training courses, need based curriculum, certification and placement are the essential components of this process.

6.1.5 In line with the approach put forth in the Eleventh Five Year Plan, MoRD has proposed targets for achieving universal coverage of the poor households under SGSY, increasing the coverage of skill development programmes, etc. It has also suggested mission mode strategy and worked out financial implications (MoRD 2008). The Committee endorses the proposed Mission mode strategy.

## 6.2 Tasks Ahead

6.2.1 During the past decade, the overall achievement of credit flow to the rural poor under SGSY has been abysmally low. The process of universalization of the restructured SGSY along with credit worthy SHGs is never simple. It presents many difficult but not unsurmountable questions like which models will be effective in terms of lifting the poor from poverty and empowering them, what is the best way to link SHGs with growing sectors of the economy, how to extend the reach of credit delivery systems and what type of subsidies and assistance are required for strengthening and diversifying the livelihood base with low risk.

### Institutional Architecture

6.2.2 DRDA implements SGSY at the district level. It functions as an independent body that disburses SGSY funds, directs social mobilization, provides technical support to SHGs and involves in training of the various functionaries in the delivery system. Its performance in implementing SGSY leaves much to be desired for a variety of reasons. First, DRDAs are too pre-occupied with numerous central (e.g NREGS, SGRY, IAY) and state level (e.g MLA LAD, MADA) schemes, to concern directly with the social mobilization. Second, social mobilization is a very complex process requiring multiple skills and expertise along with commitment, and DRDAS are ill equipped to handle it. Clearly, an effective poverty eradication strategy has to stand on an appropriate institutional arrangement that involves the poor themselves in the process of implementation of programmes meant for them. The Kudumbashree model of Kerala and Indira Kranti Patham (IKP or SERP) of Andhra Pradesh show the possibility of such accomplishment through the formation of SHGs of poor women as well as SHG federations. The Kerala model is premised on the existence of well functioning Panchayat Raj Institutions (PRIs), which may not be the case with many states. It will work in states such as Kerala, West Bengal, Maharashtra, Gujarat, Karnataka etc where the process of democratic decentralization has taken deeper roots. The AP model commands itself to states where PRIs are weak. Adoption of AP model on Mission mode is a better option in many of these states. However, the adoption could be in stages. The first step is to implement in a few selected districts of a state, test it for its viability, draw lessons and concerted efforts should be made to contextualize the model. In the second stage, the model may be scaled up to the entire state along with appropriate institutional build up.

6.2.3 As recommended earlier, there should be a Rural Livelihood Mission at the National level with appropriate agencies at State and District levels for rapid increase in the coverage of the rural poor households under self-employment as well as under skill-development for wage/salary employment. The Mission at the National level and the agencies at the state and district levels should be supported by technical units having professional expertise. The entire Mission should be managed by young, energetic officers with a minimum assured tenure. The Mission should constantly evolve new approaches to mobilize poor, identify economic opportunities for the poor and create projects and systems in coordination with different players at different levels. It should monitor and synchronise the different sectoral policies from the perspective of inclusive growth. It is desirable that it gives priority to the development of pro-poor technologies and pro-poor institutions. The district level unit should complement DRDA and SHG federations in the implementation of SGSY and liaison with banks, line departments and NABARD and facilitate interaction between the poor and the government machinery for better access to public resources and services.

**Credit Flow**

6.2.4 Credit constitutes the most crucial component of SGSY. Its role in strengthening livelihoods of the SHGs depends on supply of credit along with credit plus services as well as credit worthiness of SHGs. The shortcomings on both sides have been discussed in Chapter 2. Credit constraint is not uniform across states and social groups. In the Southern (Andhra Pradesh, Karnataka, Tamil Nadu and Kerala) and Nothern (Punjab, Haryana, Himachal Pradesh and Jammu & Kashmir) states, credit constraint from the supply side is not very severe. But it is a major supply-side problem in other states particularly in the East and North-East. Concerted efforts should be made in the states to ease these constraints operating on credit supply as well as credit absorption. Some of the successful initiatives of better performing states may be tried out in these states.

6.2.5 Given the banking sector reforms introduced in the post reform period, banks are oriented more towards profit making rather than fulfilling social obligations. It may not be feasible to direct credit distribution of Scheduled Commercial banks beyond priority sector obligations. However, there is substantial scope for improving credit flow to SGSY provided priority sector guidelines and RBI regulations are effectively implemented. There should be effective enforcement of the banks' requirement to achieve the sub-targets both under agriculture and weaker sections. In addition, there are specifications in the RBI guidelines for equitable delivery procedures such as dispensing with collaterals and speedy disbursal within a fortnight. There are reports that there are significant departures from these instructions. There is also a need to ensure that disbursement of RIDF is pro-poor, which at present, is biased against poorer states.

6.2.6 The RBI has taken a number of initiations to facilitate credit flow to excluded groups/regions. These include mobile banking, allowing of banks to utilize services of NGOs, Micro Finance Institutions and Civil Organizations as intermediaries through the mechanisms of Business Components and Business Facilitators as part of agency banking. Some of the SHG federations and traditional community based institutions especially in the North-East may be trained to take up agency banking. The Institute of Development Banking Research and Technology, Hyderabad (founded by RBI), has been working on several cost effective Information Technology solutions. Efforts to benefit from these initiatives should go along with branch expansion in unbanked areas. Incentives may be given if required for inducing banks to locate the branches in remote areas. And the proposed Financial Inclusion fund as well as the fund for Technology for Financial Inclusion should be effectively utilized especially in the East and the North East.

6.2.7 The role of the Lead Bank Manager (LDM) should be redefined in the context of current emphasis on financial inclusion. LDM should serve as a catalytic agent for expanding banking activities in the district by promoting agency banking and IT solutions for financial inclusion. This is beneficial for the banking system since investment activities of SHGs expand banking business.

**SGSY Subsidy**

**6.2.8 Capital Subsidy:** Many anomalies in the implementation of the SGSY are associated with the delivery of capital subsidy. Both back-end and front-end subsidies are often misused and do not reach the targeted poor in entirety. The loopholes in the delivery mechanism do not negate the purpose behind subsidizing the enterprise of the poor. Subsidy under asset creation progrmmes for the poor is concerned both as an incentive to draw the poor households into self employment and as an insurance against the risk of entering in an activity unfamiliar to the poor. Therefore, capital subsidy may be seen as an essential requirement for transitional risks involved when the poor households move from wage employment to self-employment and therefore is necessary at least with the first dose of investment lending to them.

**6.2.9 Interest Subsidy:** Interest subsidy is much simpler and relatively free from any misuse. For this reason, suggestions are made that instead of capital subsidy, interest subsidy may be a better mode of subsidizing the poor. However, these two modes of subsidies are based on different premises. One concern expressed about interest subsidy is that it may distort credit market. However, since interest subsidy is borne by the government and not by the banks, there may not be any distortion to the banking business. Further, interest subsidy to the poor households on par with the priority lending to the farming sector could be seen as a part of financing of poverty elimination programme.

**Towards a Strategy for North-East**

6.2.10 While India is a country of vast diversity, the North-East region itself is a land of many cultures, social formations and ethnic identities. Its topography, geopolitical situation and the lag in infrastructure development have left the region much behind the rest of the country in financial sector development. These specificities require special and innovative institutional intervention in the region. Quite in contrast to the impeding factors, there are equally important positive aspects which bring out the immense untapped potential for appropriate financial initiatives, particularly for the development of household and community based economic activities. The region is rich in skills and crafts ideal for traditional small-scale home and community based economic activities. Women are predominant in work force and most of the economic activities, including small trade and business ventures, are driven by women's enterprise. Besides traditional skills, the levels of education in general and education levels of women in particular are very high in most of the States in the region, and there is widespread demand for training in productive skills. The proud identities and strong traditional clan and community institutions hold potential for involvement in diverse developmental functions including financial intermediation. These conditions also suggest that development of micro enterprises is an ideal development strategy for this region compared to any other area of the country. There is a huge local demand for the products of especially agro-based activities like poultry, piggery, dairy and pisciculture. Also there is growing demand for services like laundry, repairs etc., and all of which are appropriate to innate the poor into income generating activities.

6.2.11 The approach to improve credit flow to SGSY in the North-East requires a multi-pronged strategy. First, there is need to strengthen banking network by increasing the branches, combined with the introduction of new technology like ICT-based smart-cards and innovations like mobile banking, banking facilitators and banking correspondents. Second, in each region build on the strength of the specific banking institutions which have shown better performance like, for instance, Regional Rural Banks (RRBs) in Assam, Meghalaya, Tripura and Mizoram and co-operative banks in Meghalaya. Third, nurture traditional village institutions like Village Councils (VCs) or Village Development Boards (VDBs) as in Nagaland and other hill districts, to function as financial intermediaries. In the second phase of development, these traditional village institutions can also promote women's Self-Help Groups for undertaking income generating activities. Finally, in the North-East too, there is need for an umbrella agency in each state to identify appropriate institutions and build their capacities for self-governance.

**Training and Skill Development**

6.2.12 Of the important lessons from the SGSY implementation experience, the need for institutional capacity building stands out as the most vital requirement. If the Mission mode were to succeed, the basic requirement is building cadre of professionals, a network of training institutions that meets the needs of all levels of functionaries of the SHGs and their federations as much as the needs and functionaries of the implementing agencies, banking institutions and the related line departments. The capacity building process involves several measures like training, workshops, exposure visits, experience sharing, self learning, on-job technical assistance and counselling. The magnitude of the task of training from the levels of Community Resource Persons (CRPs) up to the district level functionaries is enormous. The training institutions promoted by the banks, DRDAs and the MoRD initiative in the form of RUDSETIs are too inadequate to meet the needs of the accelerated expansion in the SHG numbers. Further, the inclusion of training in a range of placement oriented skills as a part of the restructured SGSY necessitates increasing training facilities several fold. Besides the multiplication of institutions of training at all levels by several fold, there is need to identify a range of specialized centres of excellence in knowledge and technology for collaboration. There is need to explore unconventional methods like distance learning through open university system and on-line learning systems to meet the huge demand for training that goes with the restructured Poverty Elimination Strategy.