India has a population of 130 crores with 26.6% (35 crores) of the population living below the poverty line. Although many formal and informal credit and banking system is prevalent in India since time immemorial, of late microfinance has emerged as the most promising option for poverty eradication.

4.1 EVOLUTION OF MICROFINANCE IN INDIA

Need of microfinance was realized during the peasant riots in the late 19th Century on account of coercive alienation of land by moneylenders. The policy response of the then British Government to this problem of rural indebtedness was to initiate the process of organization of cooperative societies as alternative institutions for providing credit to the farmers as also to ensure settled conditions in the rural areas, so necessary for a colonial power to sustain itself.

In the development strategy adopted by independent India, institutional credit was perceived as a powerful instrument for enhancing production and productivity and for alleviating poverty. The formal view was that lending to the poor should be a part of the normal business of banks.

To achieve the objectives of production, productivity and poverty alleviation, the stance of policy on rural credit was to ensure that sufficient and timely credit was reached as expeditiously as possible to as large a segment of the rural population at reasonable rates of interest.

The strategy devised for this purpose comprised

- Expansion of the institutional structure,
- Directed lending to disadvantaged borrowers and sectors and
- Interest rates supported by subsidies.

The institutional vehicles chosen for this were cooperatives, commercial banks and Regional Rural Banks [RRBs]. Between 1950 & 1969, the emphasis was on the
promotion of Cooperatives. The nationalization of the major commercial banks in 1969 marks a watershed in shifting focus from the cooperatives as the sole providers of rural credit to the multi agency approach. This also marks the beginning of the phenomenal expansion of the institutional structure in terms of commercial bank branch expansion in the rural and semi-urban areas. For the next decade and half, the Indian banking scene was dominated by this expansion. However, even as this expansion was taking place, doubts were being raised about the capability of banks to reach the poor. Regional Rural Banks were set up in 1976 as low cost institutions mandated to reach the poorest in the credit-deficient areas of the country. In hindsight it may not be wrong to say that RRBs are perhaps the only institutions in the Indian context which were created with a specific poverty alleviation i.e. microfinance - mandate.

During this period, intervention of the Central Bank (Reserve Bank of India) was essential to enable the system to overcome factors, which were perceived as discouraging the flow of credit to the rural sector such as absence of collateral among the poor, high cost of servicing, geographically dispersed customers, lack of trained and motivated rural bankers, etc. The policy response was multi dimensional and included special credit programmes for channeling subsidized credit to the rural sector and operationalising the concept of “priority sector”. The latter was evolved in the late sixties to focus attention on the credit needs of neglected sectors and underprivileged borrowers. There is a general consensus that the strategies followed helped to build a broad based institutional infrastructure for the delivery and deployment of credit and ensured a wider physical access of financial services to the poor.

But there is lot of regional disparity. Microfinance activity is most pronounced in the southern states of the country. The southern states account for 63 percent of the SHGs linked and 79 percent of the SHG bank credit. This has developed an inequality of the credit available to other states. On recommendation of Swaminathan Committee in the year 1991 & 1998 the banks area working in a market dynamics and no more rural
credit is a priority of the banks. So an alternative mechanism has to be developed to supplement the need of the credit in the rural sector.

Besides the disparity in the volume of credit available to individuals is also is a matter of concern. On an average the borrower-taking loan from SGSY scheme gets two and half times more loan than the person, taking loan than the SHG financing through bank.¹ This will create loss of interest to the movement of micro finance. There is a clear cut loss of focus on a macro level while providing opportunities of micro credit to the poor. The macro level development in terms of creation of asset and infrastructure for further enhancement of livelihood projects are forgotten. This is termed as the demand side issue of micro finance by Tara S. Nair.

4.2 THE INDIAN POSITION

The Human Development Classification Index published by UNDP classifies the countries into three clusters by achievement in Human Development i.e. a) High Human Development b) Medium Human Development c) Low Human Development.

Human Development Index of India vis a vis few other countries are explained in next page ²

34.7 % population of India earn less than 1$ a day and 79.9 % of the population earn less than 2$ a day.

India stands at 126 positions among 177 countries of the world in terms of Human Development Index. But the development of Human Development Index over the years is quite encouraging.
### Table 4.1 - Human Life Development Index

<table>
<thead>
<tr>
<th>Name of Country</th>
<th>Human Development Index</th>
<th>Life Expectancy at Birth (Years)</th>
<th>Adult Literacy Rate (percentage)</th>
<th>GDP per Capita ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Human Development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>0.965</td>
<td>79.6</td>
<td>99</td>
<td>38454</td>
</tr>
<tr>
<td>United States</td>
<td>0.948</td>
<td>77.5</td>
<td>99</td>
<td>49676</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.947</td>
<td>80.7</td>
<td>99</td>
<td>33040</td>
</tr>
<tr>
<td><strong>Medium Human Development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>0.792</td>
<td>70.8</td>
<td>88.6</td>
<td>8195</td>
</tr>
<tr>
<td>China</td>
<td>0.768</td>
<td>71.9</td>
<td>90.9</td>
<td>5896</td>
</tr>
<tr>
<td>India</td>
<td>0.611</td>
<td>63.6</td>
<td>61.0</td>
<td>3139</td>
</tr>
<tr>
<td><strong>Low Human Development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burundi</td>
<td>0.384</td>
<td>44.0</td>
<td>59.3</td>
<td>677</td>
</tr>
<tr>
<td>Congo</td>
<td>0.391</td>
<td>43.5</td>
<td>67.2</td>
<td>705</td>
</tr>
<tr>
<td>Niger</td>
<td>0.311</td>
<td>44.6</td>
<td>28.7</td>
<td>779</td>
</tr>
</tbody>
</table>
Table 4.2. Human Life Development Index over the years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>0.477</td>
</tr>
<tr>
<td>1990</td>
<td>0.515</td>
</tr>
<tr>
<td>1995</td>
<td>0.548</td>
</tr>
<tr>
<td>2000</td>
<td>0.577</td>
</tr>
<tr>
<td>2004</td>
<td>0.611</td>
</tr>
</tbody>
</table>

Source: UNDP Human Development Report 2006

When we compare India with the developed countries the challenge of achievement in terms of overall quality of life is well imaginable. On further discussion we will find that if economic development has got anything to do with financial management of the country, India stands in a comfortable position in terms of banking sector outreach. But when it is not translated into visible results, we understand that some thing is lacking, the planners will have to act.

One among the major reasons of indomitable poverty in India is the exclusion of women in the development process. Microfinance has come as an instrument to remove this lacuna and facilitate quick growth of the country. The Indian Government has initiated inclusion of an identifiable women component plan in the programmes of the respective ministries right from the planning process to monitoring and implementing of programmes. It is expected to ensure the reach of benefit to women. The ninth plan document (1997-2000) also laid emphasis on the participation of people in the planning process and the promotion of self-help groups. Empowerment of women was one among the nine primary objective of the ninth plan. The government has adopted Gender Budgeting in the Annual Budget 2006-07. It envisages enlargement of the statement on gender budgeting by including schemes where the
entire allocation is for the benefit of women as well as the schemes where as 30 percent allocation is aimed at enhancing women's quality of life. The statement now covers 24 demands for grants and 18 ministries and five Union Territories and scheme with an outlay of Rs 28737 crores. It also includes gender budgeting cells at 32 ministries and departments.

4.3 FINANCIAL OVERVIEW

India has the world's most extensive banking infrastructure. Today there are more than 160000 retail credit outlets in the cooperatives and banking sectors augmented by another 25000 or so NBFCs. In addition there are some 94000 cooperative societies or branches of cooperative banks, around 60000 branches of 27 public sector commercial banks and 196 regional rural banks (RRBs).

There is at least one retail credit outlet on an average for about 5000 rural people or for every 1000 households. This is remarkable and extensive network capable of meeting the financial needs of the entire population. But however the credit deposit ratios (except in case of the primary agricultural credit societies), unsustainable lending and high level of non-performing assets often cripple much of this infrastructure.

Most of the borrowers depend upon the non-formal financing system of lenders. Of late micro finance institutes have came out as an alternative means of financing. NABARD started a pilot project of financing 500 SHGs in 1992 and on the success of this experiment RBI encouraged the banks in 1996 to cover SHG financing in the mainstream activity under their priority sector-lending portfolio.

4.3.1 VOLUME OF FINANCE

There are around 1000 private microfinance institutions in India out of which only 10 have a membership of more than 100000 members. Majority of the organizations have 500-1500 clients. Interest rate of 12 to 36 per cent per annum is also a impediment in the progress of microfinance activities

The indicators speak for themselves.
1) Access in terms of rural branches increased from 1,833 in 1969 to around 32,200 at present.

2) The population per rural branch declined from 2,01,854 in 1969 to around 16,000 at present.

3) The proportion of borrowings of rural households from institutional sources increased from 7 per cent in 1951 to more than 60 per cent at present.

### Table 4.3: Self-help group-bank linkage programme Cumulative progress

<table>
<thead>
<tr>
<th>Year (end-March)</th>
<th>No. of SHGs linked</th>
<th>Bank loan</th>
<th>Refinance assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>255</td>
<td>.29</td>
<td>.27</td>
</tr>
<tr>
<td>1993-94</td>
<td>620</td>
<td>.65</td>
<td>.46</td>
</tr>
<tr>
<td>1994-95</td>
<td>2122</td>
<td>2.44</td>
<td>2.13</td>
</tr>
<tr>
<td>1995-96</td>
<td>4757</td>
<td>6.06</td>
<td>5.66</td>
</tr>
<tr>
<td>1996-97</td>
<td>8598</td>
<td>11.84</td>
<td>10.65</td>
</tr>
<tr>
<td>1997-98</td>
<td>14317</td>
<td>23.76</td>
<td>21.39</td>
</tr>
<tr>
<td>1998-99</td>
<td>32995</td>
<td>57.07</td>
<td>52.06</td>
</tr>
<tr>
<td>1999-00</td>
<td>114775</td>
<td>192.98</td>
<td>150.13</td>
</tr>
<tr>
<td>2000-01</td>
<td>263825</td>
<td>480.87</td>
<td>394.98</td>
</tr>
<tr>
<td>2001-02</td>
<td>461478</td>
<td>1026.34</td>
<td>790.24</td>
</tr>
<tr>
<td>2002-03</td>
<td>717360</td>
<td>2048.67</td>
<td>1412.71</td>
</tr>
<tr>
<td>2003-04</td>
<td>1079091</td>
<td>3904.20</td>
<td>2118.15</td>
</tr>
<tr>
<td>2004-05</td>
<td>1618456</td>
<td>6898.46</td>
<td>3085.91</td>
</tr>
<tr>
<td>2005-06 P</td>
<td>2238565</td>
<td>11397.55</td>
<td>4153.63</td>
</tr>
</tbody>
</table>

P: Provisional. Source: NABARD www.rbi.org.in/scripts/AnnualPublications- Table -71
CHAPTER 4  National Scenario

Table 4.4. Bank Linkage In India As On 31.03.2006

<table>
<thead>
<tr>
<th>Name of Banks</th>
<th>Amount Rs/Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Bank</td>
<td>842.90</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>830.55</td>
</tr>
<tr>
<td>IOB</td>
<td>425.90</td>
</tr>
<tr>
<td>SBI</td>
<td>2047.09</td>
</tr>
<tr>
<td>State Bank of Hyderabad</td>
<td>335.31</td>
</tr>
<tr>
<td>Syndicate Bank</td>
<td>254.75</td>
</tr>
<tr>
<td>Private Banks</td>
<td>547.77</td>
</tr>
<tr>
<td>Other Nationalized Banks</td>
<td>1703.18</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>3322.15</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>1087.95</td>
</tr>
<tr>
<td>Total</td>
<td>11397.54</td>
</tr>
</tbody>
</table>

Source: NABARD Annual Report

Fig 4.1

Bank Linkage as on 31-3-2006

4) This significant increase in the credit flow from institutional sources gave rise to a strong sense of expectation from the state agencies. However, this expectation could not be sustained because the emphasis, among others, was on achieving certain quantitative targets. As a result, inadequate attention was paid to the
qualitative aspects of lending, leading to loan defaults and erosion of repayment ethics by all categories of borrowers. The end result was a disturbing growth in over dues, which not only hampered the recycling of scarce resources of banks, but also affected profitability and viability of financial institutions. This not only blunted the desire of banks to lend to the poor but also the development impact of rural finance. This was the position on the eve of reforms, which marks the second watershed, in the history of rural credit.

5) The basic aim of the financial sector reforms was to improve the efficiency and productivity of all credit institutions including rural financial institutions (RFIs) whose financial health was far from satisfactory. In regard to RFIs, the reforms sought to enhance the areas of commercial freedom, increase their outreach to the poor and stimulate additional flows to the sector. The reforms included far reaching changes in the incentive regime through liberalizing interest rates for cooperatives and RRBs, relaxing controls on where, for what purpose and for whom RFIs could lend, reworking the sub-heads under the priority sector, introducing prudential norms and restructuring and recapitalizing of RRBs.

6) Between the concern of the policy makers and the quality of the effort, however, there has been a gap. The efforts made were not able to achieve the success envisaged for a variety of reasons mainly, defects in policy design, infirmities in implementation and the inability of the government of the day to desist from resorting to measures such as loan waivers.

4.3.2 LINKAGE MODELS
In India banks primarily follow three types of models in microfinance

Bank Partnership Model
This model is an innovative way of financing MFIs. The bank is the lender and the MFI acts as an agent for handling items of work relating to credit monitoring, supervision and recovery. In other words, the MFI acts as an agent and takes care of all relationships with the client, from first contact to final repayment. The model has the potential to significantly increase the amount of funding that MFIs can leverage on a relatively small equity base.
A sub-variation of this model is where the MFI, as an NBFC, holds the individual loans on its books for a while before securitizing them and selling them to the bank. Such refinancing through securitization enables the MFI enlarged funding access. If the MFI fulfils the "true sale" criteria, the exposure of the bank is treated as being to the individual borrower and the prudential exposure norms do not then inhibit such funding of MFIs by commercial banks through the securitization structure.

Banking Correspondents
The proposal of "banking correspondents" could take this model a step further extending it to savings. It would allow MFIs to collect savings deposits from the poor on behalf of the bank. It would use the ability of the MFI to get close to poor clients while relying on the financial strength of the bank to safeguard the deposits. Currently, RBI regulations do not allow banks to employ agents for liability - i.e. deposit - products. This regulation evolved at a time when there were genuine fears that fly-by-night agents purporting to act on behalf of banks in which the people have confidence could mobilize savings of gullible public and then vanish with the money. It remains to be seen whether the mechanics of such relationships can be worked out in a way that minimizes the risk of misuse.

Service Company Model
The Service Company Model developed by ACCION and used in some of the Latin American Countries is interesting. The model may hold significant interest for state owned banks and private banks with large branch networks. Under this model, the bank forms its own MFI, perhaps as an NBFC, and then works hand in hand with that MFI to extend loans and other services. On paper, the model is similar to the partnership model: the MFI originates the loans and the bank books them.

But in fact, this model has two very different and interesting operational features: The MFI uses the branch network of the bank as its outlets to reach clients. This allows the client to be reached at lower cost than in the case of a stand-alone MFI. In case of banks which have large branch networks, it also allows rapid scale up. In the partnership model, MFIs may contact with many banks in an arms length relationship.

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In the service company model, the MFI works specifically for the bank and develops an intensive operational cooperation between them to their mutual advantage. The Partnership model uses both the financial and infrastructure strength of the bank to create lower cost and faster growth. The Service Company Model has the potential to take the burden of overseeing microfinance operations off the management of the bank and put it in the hands of MFI managers who are focused on microfinance to introduce additional products, such as individual loans for SHG graduates, remittances and so on without disrupting bank operations and provide a more advantageous cost structure for microfinance.

Reason for Partnership

To the extent that banks incorporate NGOs' activities in mainstreaming their self-help group (SHG) portfolios, they stand to gain. To the extent NGOs reorient their mission, vision and personnel towards the microfinance agenda, as a large number have done in the last decade, they risk drawing themselves away from work they are uniquely suited to do. Some of this work, moreover, would play a critical role in preparing the ground for microfinance among poor people. In other words, NGOs have to move away from pure financial intermediation to investing in human and social capital at the grass roots and bankers have to tap this invaluable experience of NGOs in mobilizing, graduating and enabling rural communities. This will prepare the ground by enhancing credit absorption capacity of SHGs and enhancing their creditworthiness.

In 1997, the World Bank's Sustainable Banking for the Poor (SBP) project completed an ambitious survey.

While NGOs' outreach, on average, was deeper, it was also narrow - NGOs reach some very poor people, but they do not reach many. On the other hand, credit unions and commercial banks also serve some wealthier clients so that their average outreach to the poor is not as deep. Still, the indications are that overall, credit unions and commercial banks serve more under-served poor clients than do NGOs

The four consequences flowing from these facts are:
1) That the banking system - was not able to internalize lending to the poor as a viable activity but only as a social obligation – something that had to be done because the authorities wanted it so.

2) This was translated into the banking language of the day: Loans to the poor were part of social sector lending and not commercial lending; the poor were not borrowers, they were beneficiaries; poor beneficiaries did not avail of loans they availed of assistance.

3) The attitude was that the poor are not bankable, that they can never be bankable, that commercial principles cannot be applied in lending to the poor, that what the poor require are not loans but charity. Once this mindset hardened it became more and more difficult for commercial bankers to accept that lending to the poor could be a viable activity. It is significant to note that the system had to wait for almost a decade for the concept of micro finance to become credible.

4) The financial sector reforms motivated policy planners to search for products and strategies for delivering financial services to the poor -micro finance - in a sustainable manner consistent with high repayment rates. The search for these alternatives started with internal introspection regarding the arrangements which the poor had been traditionally making to meet their financial services needs. It was found and reinforced with the Grameen experience that the poor tended to - and could be induced to - come together in a variety of informal ways for pooling their savings and dispensing small and unsecured loans at varying costs to group members on the basis of need.

4.4 FEATURES OF INDIAN MICROFINANCE

All over the world various different models of microfinance are adopted. Although
India borrows heavily from all models, the Indian experience has its own unique features based on certain tenets as explained under:

**Table 4.5 Features of Indian Microfinance**

<table>
<thead>
<tr>
<th><strong>Decision Making</strong></th>
<th>Members make decisions collectively. SHG concept offers opportunity for participative decision making on conduct of meetings, thrift and credit decisions. The participative process makes the group a responsible borrower.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Services</strong></td>
<td>SHGs provide the needed financial services to the members at their doorstep. The rural poor needs different types of financial services, viz. Savings, consumption credit, production credit, insurance, remittance facilities etc. The platform of SHG provides the possibility to converge these services.</td>
</tr>
<tr>
<td><strong>Supplementary to Formal Banking</strong></td>
<td>SHG linkage does not supplant the existing banking system, but it supplements it thus taking full advantage of the resources and other advantages of the banking system.</td>
</tr>
<tr>
<td><strong>Cutting Costs</strong></td>
<td>SHG linkage cuts costs for both banks and borrowers. In a study sponsored by FDC, Australia, it was observed that the reduction in costs for the bankers is around 40 % as compared to IRDP loans. The poor have a net advantage of 85 % as compared to individual borrowing. Similar finding was also observed in a NABARD study.</td>
</tr>
<tr>
<td><strong>NPA Savvy</strong></td>
<td>The Linkage mechanism has proved that the repayments are as high as 95% - 100 %</td>
</tr>
<tr>
<td><strong>Peer Pressure as Collateral</strong></td>
<td>The SHG linkage emphasizes peer pressure within the group as collateral substitute.</td>
</tr>
<tr>
<td><strong>Quality Clients</strong></td>
<td>The SHGs are turning out to be quality clients in view of better credit management, mobilisation of thrift, low transaction costs and near full repayments.</td>
</tr>
<tr>
<td><strong>Client Preparation</strong></td>
<td>The members of the SHGs could over a period of time, very...</td>
</tr>
</tbody>
</table>
selectively graduate to the stage of micro entrepreneurship and have been prepared with requisite credit discipline.

Available statistics indicate dependency of 35%-40% of rural households on non-institutional sources for credit needs. SHG Linkage offers a better way of dealing with the magnitude of social agenda. Many NGOs/ Governments have recognized the SHG as a vehicle for carrying and deepening of their developmental agenda/ delivery of services.

SHGs have exclusive focus on absolute have-nots, who have been bypassed by the banking system. Social banking does not have any meaning if the lowest strata and the unreached are not focused.

The programme does not envisage any subsidy support from the government in the matter of credit. The issue is to build capabilities and enterprise of the individual members, blending with group cohesion and solidarity through training provided by a SHPI to set the ball rolling for the SHG.

Small and fixed savings made at regular intervals coupled with conditions like compulsory attendance, penal provisions to ensure timely attendance, saving, repayment etc forms a deterrent for the rich to join the SHG system- thereby enables exclusion of the rich.

The members select their own members to form groups. The members residing in the same neighborhood ensure better character screening and tend to exclude deviant behaved ones.

As regular meetings and savings are compulsory ingredients in the product design, it becomes more suitable for the women clients- as group formation and participatory meetings is a natural ally for the women to follow.

The saving first concept enables the poor to gradually understand the importance of saving, appreciate the nuances of credit concept.
| Intra Group Appraisal Systems and Prioritization | using their own money before seeking external support (credit) for fulfilling future needs. The poor tend to understand and respect the terms of credit better. |
| Credit Rationing | Essentials of good credit management like (peer) appraisal for credit needs (checking the antecedents and needs before sanction), (peer) monitoring - end use of credit; (peer sympathy) reschedulement in case of crisis and (peer pressure) collateral in case of willful non-payment etc all seems to coexist in the system - making its one of the best approaches for providing financial services to the poor. |
| Credit Rationing | The approach of prioritization i.e.: meeting critical needs first serves as a useful tool for intra-group lending. This ensures the potential credit takers/users to meticulously follow up credit already dispensed, as future credit disbursals rely on repayments by the existing credit users. |
| Shorter Repayment Terms | Smaller and shorter repayment schedule ensures faster recycling of funds, greater fiscal prudence in the poor and drives away the slackness and complacency that tends to set-in, in long duration credit cycles. |
| Market Rates Of Interest | Self-determined interest rates are normally market related. Sub-market interest rates could spell doom; distort the use and direction of credit. |
| Progressive Lending | The practice of repeat loans and often-higher doses - is followed by SHGs in their intra-group loaning, thereby enticing prompt repayments |
| A Multiple-Eyed Operation | The operations of the SHG are transacted in group meetings thus enabling high trust levels and openness in the SHG system. SHG members facilitating openness and freedom from unfair practices also generally conduct the banking transactions |
1) The first point is that the "poor are bankable", sounds simple, but, when we view this in context of the attitudinal constraints, which characterized bankers on the eve of the linkage programme, one realizes what an immense learning point this has been. But, for this we would still have been in the "middle ages".

2) The second point is that the poor, organized into SHGs, are ready and willing to partner mainstream financial institutions and banks on their part find their SHG portfolios "safe" and "performing".

3) The third point is that despite being contra intuitive, the poor can and do save in a variety of ways and the creative harnessing of such savings is a key design feature and success factor.

4) The fourth point is that successful programmes are those that afford opportunity to stakeholders to contribute to it on their own terms. When this happens, the chances of success multiply manifold. This has been possible in the Bank - SHG linkage programme on account of the space given to each partner and the synergy built in the programme between the informal sector comprising the poor and their SHGs, the semi-formal sector comprising NGOs, and the formal sector comprising banks, government and the development agencies.

5) Yet another learning point has been that when a programme is built on existing structures, it leverages all strengths. Thus, because the Bank-SHG programme is built upon the existing banking infrastructure, it has obviated the need for the creation of a new institutional set-up or introduction of a separate legal and regulatory framework. Since financial resources are sourced from regular banking channels and members' savings, the programme bypasses issues relating to regulation and supervision. Lastly, since the group acts as a collateral substitute, the model neatly addresses the irksome problem of provision of collateral by the poor.
6) The last learning point is that Central Banks, Apex Development Banks and Governments have an important role in creating the enabling environment and putting appropriate policies and interventions in position which enable rapid up scaling of efforts consistent with prudential practices. But for this opportunity, no innovation can take place. 

4.5 NABARD

NABARD has been playing a leading role in the microfinance programme for two decades now. It has been catalyzing the banking system in the country to join hands with informal delivery channels to give SHG bank linkage the necessary momentum.

During 2005-06 these efforts has resulted in credit linkage of 6, 20,109 new SHGs with mainstream banks as against 5, 39,365 SHGs during 2004-05 thus registering 15% growth over the previous years. The cumulative nos of credit linked SHGs increased from 16, 18, 456 as on 31-03-2005 to 22, 38,565 as on 31-03-2006. The active participation of women (90%) and timely loan repayment (over 90%) continue to be the prominent features of the programme. The programme enabled an estimated 32.98 million poor households in the country gain access to microfinance from the formal banking system.

NABARD is the apex organisation in India in the area of microfinance. It acts as a financier, facilitator and trainer to revolutionize microfinance in the country.

4.5.1 SHG Bank Linkage

Total bank loans disbursed to SHGs during the year aggregated rupees 44990.83 million (including repeat loans of Rs 21686.31 million provided to existing SHGs already financed in earlier years) as compared to Rs 29942.52 million disbursed during the previous year, registering a growth of 50.3 % over the previous year. The refinance drawn by banks from NABARD stood at Rs 10677 million during 2005-06.
4.5.2 Training and Capacity Building

During the year 2005-06, fund support of Rs 58.52 million was provided for capacity building exposure and awareness building. The cumulative fund support as on 31st March 2006 stood at Rs 213.66 million. During the year 5014 training programmes covering 283825 participants were held.

4.5.3 Micro Enterprise Development Programme (MEDP) for skill development

NABARD provides 1) grant support to partner agencies for promotion and nurturing of SHGs 2) Supports to the Regional Rural Banks 3) Supports to Cooperative Banks 4) Supports to Non Governmental Organizations 4) Support to Farmers’ Clubs 5) Support to individual rural volunteers. 6) Revolving fund assistance to MFIs for growth of microfinance activities and making credit available to the poor.

4.5.4 Initiative in specific regions

Programmes have been designed by NABARD to cater to abject need of certain areas of the country where banking sector is not able to provide the desired service. Presently NABARD provides assistance to create and build capacity in a) KBK region of Orissa & b) North Eastern Region of the country.

4.5.5 Partner Agencies:

During the year 2005-06, 44362 branches of 547 banks participated in the SHG bank Linkage programme. SHG Bank Linkage became a part of business for all the 27 public sector banks and 20 private sector banks. SBI credit linked the highest nos of SHGs (142034) during 2005-06.

The Regional Rural Banks financed SHGs in a very significant way during 2005-06. All the 158 RRBs in the country participated in the SHG Bank Linkage Programme. During 2005-06 maximum nos of SHGs have been linked by Pragjyotish Goanlia Bank of Assam(9190 SHGs) followed by Bolangir Anchalik Gramya Bank(7278) in Orissa. The number of partners for the SHG Bank Linkage in the Cooperative Banking Sector increased to 342 as on 31st March 2006.
4.5.6 Innovative Projects

To explore the possibilities of monetizing the savings - in-kind in the form of grains, a pilot project of *grain bank* was implemented in 17 tribal villages of Kerpai & Nakrundi Gram Panchayats of Thuamula Rampur Block of Kalahandi District of Orissa. Members of SHGs can save both in cash and kind depending on the convenience.

With a view to reduce paper work, save time and maintain up to date records a pilot project was launched for providing *processor cards* to active clients like KCC holders and SHGs. NABARD has extended grant assistance to two Regional Rural Banks under this project.

NABARD has part funded establishments of 13 villages information centers (*e-grama centers*) through an NGO in Davanagre district of Karnataka to help SHGs / villagers to have access to information and communication technology.

The project on *Joint Liability Group* (JLGs) initiated during 2004-05 is being implemented through 10 RRBs in eight states by adopting a flexible approach and giving the partners banks enough freedom to implement the project, keeping the ground realities and context in perspective.

Proper bookkeeping in SHGs is one of the grey areas owing to the literacy among the group members. NABARD sanctioned financial assistance of Rs 0.610 million to the PRADAN - an NGO to develop system and local resources to address the issue. It involves training skilled local youth (*computer munshi*) in computer operations and specially designed software to maintain SHGs. The project is being implemented in 4 districts (9 units) in Jharkhand and 1 district in Orissa. So far, 10 youths have been trained and their services are being availed by 1220 SHGs in these states. Grant assistance of Rs. 0.494 million has so far been released under the project.

Another innovative project approved by NABARD entails creation of community based *social security system* for members of SHGs in rural areas for improving their livelihood and securing them from uncertainties of life. The project components include provision of a package of health insurance, life insurance, etc. for SHGs.
households by paying premium generated through discounts offered by service providers like grocery shop, cloth merchant etc.

NABARD has initiated a pilot project for promotion of micro-enterprises by members of matured SHGs in 9 select districts across the country in association with the Marketing and Research Team (MART) as the technical partner. The project will adopt the 3M Model approach developed by the MART and assist members of matured SHGs to take up income generating activities on a sustainable basis.

4.6 SGSY

For many years bankers and senior government officers were fond of describing the Government of India’s main poverty alleviation programme, the Integrated Rural Development Programme (IRDP), as the world’s largest microfinance programme. It involved the commercial banks in giving loans of less than Rs 15000/- to poor people and nearly 20 years resulted in financial assistance of around Rs 250 billion to roughly 55 million families. The problem with IRDP was that its design incorporated a substantial element of subsidy (25% to 50% of each family’s project cost) and this resulted in extensive malpractice and misutilization of funds. This situation led bankers to view the IRDP loan as a politically motivated hand out and they largely failed to follow up with borrowers. The net result was that estimates of the repayment rate in the IRDP ranged from 25% to 33%. Not surprisingly, the two decades of IRDP experience – in the 1980s and 1990s – affected the creditability of micro borrowers in the view of bankers and ultimately, hindered access of the less literate poor to banking services. Similarly, the entire network of primary cooperatives in the country and the RRBs – both sets of institutions established to meet the needs of the rural sector in general and the poor, in particular – has proved a colossal failure.

The success of employment programmes hinges critically on reaching specific intervention (wage, self employment, social security plus wage employment) towards different section of the poor and fine-tuning these programmes so that they meet the varying needs of differently endowed households. It is important to note that such
meticulous planning and target of specific components of anti poverty programmes to differently-endowed sections of the poor is not inherently built into the structure of NGO or MFI sponsored SHGs are small borrower groups in India or elsewhere. The point that is being argued here is that the sheer existence and effective functioning of SHGs and other variance of micro credit groups are not by themselves evidence of the operation of decentralized planning or of any kind of planner's approach to the employment needs of group members. On this background the Swarnajayanti Swarojagar Yojana (SGSY) was developed to bring exemplary changes in lives of poor through employment generation with the help of credit.9

4.6.1 SCHEME

It is a loan given to groups on the basis of recommendation of the local politicians, Block development officers and credit appraisal done by the Bank officials. A 25% subsidy is allowed which is available only on repayment of loan in a span of five years. Rs 10000/- per individual or Rs 125000/- to a group is allowed as a loan of income generation in the first phase. Interest charged is at the rate of 12.75% p.a.

4.6.2 OBJECTIVE

The objective of the Swarnajayanti Gram Swarojgar Yojana (SGSY) is to bring the assisted poor families (Swarozgaries) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. This objective is to be achieved by inter alias organizing the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets.

SGSY lays stress on the cluster approach. What this means is that instead of funding diverse activities, each block should concentrate on a few select activities (key activities) and attend to all aspects of these activities, so that the Swarozgaris can draw sustainable incomes from their investments. These key activities should preferably be taken up in clusters so that the backward and forward linkages can be effectively established having good marketability.
An inventory of activities may be taken up for such people to find out which activities are best suited for the area.

**4.6.3 PROCESS**

Based on this consultation process, the committee may identify about 8-10 activities, which they may rank in the order of preference. This list should then be placed before the general body of the Panchayat Samiti (Block Panchayat). The Panchayat Samiti should be asked to give its recommendations. The list of selected key activities, along with the recommendations of the Panchayat Samiti, should then be forwarded by the BDO to the District SGSY committee for consideration. Before sending the list to the District SGSY Committee, the Block Committee should prepare a brief project report, keeping in view the guidelines.

The District SGSY committee will receive the block-wise proposals and will vet them. The committee will select about 10 activities per block. However, focus should be on 4-5 Key activities, which are identified for training and micro-enterprise development in a cluster approach for larger number of Groups.

For each key activity there should be a project report indicating various elements such as training, credit, technology, infrastructure and marketing. The project report should indicate how many people could be covered economically in a block under a key activity. The tendency to provide finance to a large number of similar units must be avoided so as to prevent creation of excess capacity.

A minimum of 75%, both by number and funding, will be for the key activities identified in the block both as group assistance and individual assistance. However, assistance is not prohibited for other activities.

The clusters will be taken up for each activity separately. The idea is to select a few villages every year under a key activity and concentrate the effort so that necessary linkages are available and also the monitoring becomes easy. It is not necessary that if a cluster of villages is taken up in a year, it should be given up the next year. More Swarozgaris can be brought each year under the key activity in the identified clusters.
CHAPTER 4 National Scenario

However, in doing so, care must be taken to see that there is no undue concentration of a programme in only a few villages.

After the District SGSY committee communicates the list of selected key activities for the Block, the Block SGSY committee will identify the villages to be covered under each activity. This is an exercise that needs to be taken up before the beginning of each financial year. This process is for identification of geographical clusters of neighbouring villages for taking up each activity in a focused manner. The list of cluster villages so selected may be placed before the Panchayat Samithi, so that members of the Panchayat Samithi are aware of the selection and also the principles that underline the selection of villages.

The proposals for infrastructure development should be drawn up by DRDA in consultation with Bankers and form part of the Annual Plan of the Block and District. The provision of infrastructure is essentially the responsibility of the State Governments. Therefore, the States will strive to provide for necessary investments as part of their plan efforts of the respective departments.

In order to meet expenditure on such critical infrastructure, SGSY will provide for a fund, which will be known as ‘SGSY-Infrastructure Fund’. 20% (25% in the case of North Eastern States) of SGSY allocation for each district will be set apart for this fund. DRDAs will maintain this fund in a separate account. The DRDAs are advised to utilize this fund to generate additional funding wherever feasible.

4.6.4 SWAROZGARIS

Under Swarnjayanti Gram Swarozgar Yojana (SGSY), the beneficiaries are known as Swarozgaris. The Swarozgaris can be either individuals or groups. SGSY lays emphasis on the group approach, under which the rural poor are organized into Self Help Groups. In either case, the list of BPL households identified through BPL census, duly approved by the Gram Sabha will form the basis for identification of families for assistance under the SGSY. The Self Help Groups should also be drawn from the BPL list approved by the Gram Sabha. Under the SGSY, generally a self-help group may consist of 10 to 20 persons.
Generally all members of the group should belong to families below the poverty line, which should not ordinarily be entirely in the hands of APL families. Further, APL members of the Self Help Group shall not become office bearers (Group Leader, Assistant Group Leader or Treasurer) of the Group. 50% of the groups formed in each block should be exclusively for the women.

4.6.5 SELF HELP GROUPS

During the stage of group formation, the SHG should be brought into contact with the local banks through opening of savings Bank account preferably in their service area branch. The formation stage may last for about six months or more depending upon the literacy, awareness levels, socio-economic background of the people being organized, as well as the capacity of the facilitator involved in the process of social mobilization and Group formation. At the end of the formation stage, which may be about six months or more, it is necessary to subject each Self Help Group to a test to assess whether it has evolved into a good group and is ready to go into the next stage of evolution. This is done through a grading exercise.

4.6.6 CAPACITY BUILDING OF THE SELF HELP GROUPS

SHGs that are in existence for about 6 months and have demonstrated the potential of a viable group enters the third stage, wherein it receives the Revolving Fund of Rs.25,000 from bank as cash credit facility and also embarks on further capacity building of its entire team. DRDAs will arrange to provide the revolving fund to such groups, meeting their share from out of the SGSY Fund. Of this, a sum of Rs.10,000/- will be given to the Bank by the DRDA. Banks may charge interest only on the sum exceeding Rs.10,000/-. The subsidy of Rs.10,000/- released by DRDA will be adjusted against the loan at the end of cash credit period on the request of the group. In case of default in the payment of loan or the group becoming defunct or dissolution of the group and in case the Bank fails to recover the entire dues in spite of all possible measure i.e. personal contact, organisation of joint recovery camps with district administration, legal action etc. the process of forfeiture of subsidy for adjustment against dues may be taken up. After getting the approval of District SGSY Committee the concerned Bank may adjust the subsidy against the Swarozgaris dues. If the
4.6.7 TAKING UP OF ECONOMIC ACTIVITIES

Once the SHG has demonstrated that it has successfully passed through the second stage, it is eligible to receive the assistance for economic activities. This is in the form of loan and subsidy. There are two ways in which a SHG can receive this assistance.

Loan-cum-subsidy of SGSY to the individuals in a group, provided the prospective Swarozgaris in the group are capable of and willing to take up income generation activities under these sectors.

Loan-cum-subsidy to the group where all the members in the group want to take up a group activity. Ideally, under the group loaning, the group should take up single activity but if there is a necessity, the group could also take up multiple activities under the group loaning. In either case, loan will be sanctioned in the name of the group and the group stands as guarantee to the Bank for prompt repayment of loan.

4.6.8 LOAN-CUM-SUBSIDY FOR THE GROUP ACTIVITY

Group activities stand a better chance of success because it is easier to provide back up support and marketing linkages for group activities. The SGSY will primarily follow the group approach. The groups should demonstrate minimum levels of group dynamism, as detailed above, before considering for assistance with the loan-cum-subsidy for the group under the SGSY. The group is entitled to Subsidy of 50% of the project cost subject to per capita subsidy of Rs.10,000/- or Rs. 1.25 lakhs, whichever is less. DRDAs should conduct training programmes to the members and the representatives of the groups so that the groups become fully self-managed and evolve into strong self managed groups. The cost of the group formation and development should be met from the funds provided under the SGSY. Considering the experiences of the NGOs involved in the development of SHGs in the country, it is estimated that an amount of Rs. 10,000/- per group would be the investment required over 3-4 years. Rs.10,000 per group as mentioned above for formation and development of Self Help Group, is the maximum ceiling, however, the
actual amount may be decided by the District Level SGSY Committee based on the local prevailing situations.

Payment of the amount to the NGOs/ CBOs/ Community Coordinators / Animators will be made in four installments in the manner given below:

a) 20% of the funds at the beginning when the formation of Self Help Group is commenced by the NGO/ CBOs / Community Coordinator / Animator. This money could be utilised during the formation stage. During this period the group should open an account in the service area Bank Branch and they should be imparted Basic Orientation training on the concept of Self Help Group, Group dynamics, maintenance of records and books of accounts, conducting group meetings and financial transactions.

b) 30% after the group qualifies for Revolving Fund or get linked to the Bank by way of availing Credit and continue to work satisfactorily.

c) 40% after the group take up an economic activity and

d) 10% after the start of economic activity by the group and adherence to repayment schedule of the loan sanctioned by the Bank.

4.6.9 IDENTIFICATION AND SELECTION

The DRDAs may act as nodal agency for developing the database, which should include Self Help Groups formed under all the schemes. This would ensure convergence of various Scheme as well as better planning for training and other requirements of SHGs.

In the case of individual Swarozgaris, their selection will be as follows: Once the list of villages is finalized by the Block SGSY Committee every year, the concerned Sarpanches should be intimated. The individual Swarozgaris are to be selected in the Gram Sabha. It is possible that the Gram Sabha held at the Panchayat headquarters
may not have the participation of all the BPL families. Therefore, in order to afford the maximum participation for the poor, a 3-member team consisting of the BDO or his representative, the banker and the Sarpanch should visit each of the habitation in the Panchayat according to a schedule drawn up for this purpose and duly published. In each habitation, the team must then ascertain from the BPL families, the persons who can be covered under at the designated key activity. This process of identification of the potential Swarozgaris should be done carefully.

Once the banks have received the applications, they should sanction the application normally in 15 days and at any rate not later than one month. Every year the process of sanction by the banks should normally be over by July.

The list of Swarozgaris finally selected (for the year) should be got printed by the BDO and the copies made available to the Gram Panchayat for placing it before the next Gram Sabha. This list shall also be made available to the DRDA, other block officials, bankers and all other concerned agencies.

The SGSY will particularly focus on the vulnerable groups among the rural poor. Accordingly, the SC/STs will account for a minimum of 50%, women for 40% and disabled for 3% of the total swarozgaris assisted during the year.

### 4.6.10 BANK CREDIT AND SUBSIDY

Financial assistance to Swarozgaris under SGSY comprises of two components viz. loan and subsidy. SGSY is a credit-linked scheme and credit is the key element. Subsidy is only a minor and enabling component. The major part of investment consists of bank credit from financial institutions comprising commercial banks, cooperative banks and regional rural banks. This chapter deals with the various aspects of the flow of credit and subsidy to the Swarozgaris.

The size of loan for project depends on the nature of project. The loan should, however, be a composite loan comprising both fixed and working capital. SGSY has not investment ceiling other than the unit cost (i.e. investment requirement) worked out for the project. The loan amount would be equal to the total project cost including the amount of subsidy.
admissible to the Swarozgari. Interest rates for SGSY loans will be as notified by RBI/NABARD from time to time.

The security norms will be as prescribed by Reserve Bank of India from time to time.

While SGSY is a credit-cum-subsidy programme, the subsidy is only an enabling element and credit is the key component. The Swarozgaris will be allowed to stabilize and improve their credit absorption capacity and to increase their credit intake over the years either for the same activity or a new activity. The second/subsequent dose can be given even during the currency of first/earlier loan provided the bankers are satisfied about the financial discipline of the first/earlier dose. Subsidy entitlement for all doses taken together will not exceed the limit prescribed for that category.

Subsidy under SGSY will be uniform at 30% of the project cost, subject to a maximum of Rs.7500/-. In respect of SC/STs, however, these will be 50% and Rs.10000/- respectively. For groups of Swarozgaris (SHGs), the subsidy would be at 50% of the project cost subject to per capital subsidy of Rs.10,000/- or Rs.1.25 lakhs, whichever is less. There will be no monetary limit on subsidy for irrigation projects.

4.6.11 BACK-END SUBSIDY

Subsidy will be back-ended. Banks would disburse the full project cost including subsidy to the Swarozgaris as loan. The benefits of subsidy will also be available to Swarozgaris who prefer to avail themselves of required working capital in the form of cash credit.

The subsidy admissible to the Swarozgaris under SGSY should be kept in the Subsidy Reserve Fund Account Swarozgari-wise instead of in term deposit in the name of the Swarozgari.

The repayment schedule of loan would be drawn in such a way that the subsidy kept under Subsidy Reserve Fund would be sufficient for adjustment towards that last few installments. Swarozgaris will not be entitled for any benefit of subsidy, if the loan is fully repaid before a certain fixed period specified by NABARD depending upon the activity. The availability of the benefit of subsidy to Swarozgaris would be contingent on their roper utilization of loan as also its prompt repayment and maintaining the asset in good condition.
4.6.12 REPAYMENT OF LOAN
All SGSY loans are treated as medium term loans with minimum repayment period of five years. Loan installments will be fixed as per the unit cost approved by the NABARD/DLCC and there will be a moratorium on repayment of loan during the gestation period. Repayment installments should not be more than 50 per cent of the incremental net income expected from the project. Number of installments will be fixed in accordance with the principal amount, the interest liability and the repayment period.

Swarozgaris will not be entitled for any benefit of subsidy if the loan is fully repaid before a certain fixed period known as the lock-in period. The lock-in period for various activities under SGSY can be categorized broadly into three categories depending on the loan repayment period for 5, 7 and 9 years. The lock-in period corresponding to these repayment periods would be 3, 4 and 5 years respectively. If the loan is fully repaid before the currency period, the Swarozgaris will be entitled only to pro-rata subsidy.

In order to promote credit discipline among Swarozgaris and also to bring about a sense of accountability of the community, the following incentive and disincentives system is introduced.

a) At the Swarozgari's level, prompt repayment will entitle him/her to waiver of the 0.5% processing cum monitoring fee.

b) At Gram Panchayat level and block level – a minimum of 80% recovery should be ensured by Panchayats and block. Those Gram Panchayats and blocks that do not fulfill the required recovery performance will not be eligible for any allocation under SGSY in the subsequent year.

Banks are required to observe one day in a week as non-banking day to enable the bank officials to go to the field and attend to the problems of Swarozgaris.

4.6.13 REFINANCE FOR SGSY LOANS
Commercial banks (including Regional Rural Banks and Cooperative Banks) are eligible to get refinance from NABARD for the loans disbursed under SGSY, as per
their guidelines. The eligibility for refinance is related to the recovery position of the banks. In addition, insurance cover to Commercial Banks and Regional Rural Banks is also available through the Deposit Insurance and Credit Guarantee Corporation.

4.6.14 INSURANCE COVER FOR VARIOUS ASSETS

Insurance Cover at present is available for livestock assets given under IRDP (now SGSY). The General Insurance Corporation has agreed to provide this cover on the terms and conditions as reflected in the specimen Master Policy and Long Term Master Policy Agreement signed between the GIC and the State Government.

The livestock policy provides indemnity in the event of death of animal/bird due to accident inclusive of fire, lightening, riot and strike, flood, cyclone, earthquake, famine or due to any fortuitous cause of disease contracted or occurring during the period of insurance subject to certain exclusions.

The General Insurance Corporation of India have informed that if any IRDP (now SGSY) beneficiary has other milch animals where not loan or subsidy is involved, such milch animals could also be insured at the concessional rates of premium i.e. 2.25% per annum or 1.69% per annum for three years.

The expenditure on the premium is to be shared between the Government, bank and the beneficiary in the following proportions:

<table>
<thead>
<tr>
<th></th>
<th>When the banks do not participate</th>
<th>When the bank agrees to participate</th>
</tr>
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<tbody>
<tr>
<td>Swarozgaris</td>
<td>1.25%</td>
<td>1.00%</td>
</tr>
<tr>
<td>Government</td>
<td>1.00%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Bank</td>
<td>Nil</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

The expenditure to be borne by the Government will be shared between the State and the Centre in the ratio of 75:25. It should be met out of SGSY funds but should not be included in the individual subsidy ceiling applicable to the beneficiary.

4.6.15 GROUP LIFE INSURANCE SCHEME

A group life insurance scheme for Swarozgaris aged not less than 18 years and not more than 60 years was introduced w. e. f. 1.4.1988. This scheme is operative from the
date on which the asset is disbursed to the Swarozgari till the Swarozgari completes the age of 60 years or a period of 5 years from the date of commencement of the cover, whichever is earlier. A sum of Rs.5000 shall become payable by LIC to the nominee of the deceased in case of natural death. In the event of death due to accident a sum of Rs.10,000 shall become payable by LIC.

4.6.16 TRAINING
Where the Swarozgari possesses the required skills, he/she may be put through a basic orientation programme after the loan is sanctioned and before it is disbursed. This mandatory programme may be organized at the block headquarters, not far from the place of residence. This basic two day orientation programme will seek to familiarize elements of book keeping, knowledge of market, identification and appraisal, acquaintance with produce costing and product pricing, familiarization with project financing by banks as well as some basic skills in the key activity identified. Training expenses like training material, honorarium to resource persons, travel and food expenses of Swarozgaris can be met by DRDA from SGSY Training Fund. No stipend will be admissible.

For this training, Swarozgaris will be entitled for financial assistance if they require undergoing training for more than a week. The rate of assistance may be fixed locally. The bank will give this money to the Swarozgaris as a soft loan.

Data on the available training Infrastructure should be collected so as to make an optimal use of the existing Infrastructure facilities at the District as well as the block levels. The facilities may include institutions such as it is, Polytechnics, Krishi Vigyan Kendras, Khadi and Village Industries Boards, State Institutes of Rural Development, Extension Training Centers, reputed voluntary organizations and any departmental facilities available in that area. The DRDA will be entitled to meet the expenses, incurred by the training institution for conduct of the training programme, from out of the SGSY- Training fund, but such expenses should not exceed Rs.15 per trainee per day.

Upto 10% of SGSY funds will be set aside as training fund and will be utilized to provide both orientation and training programmes to the Swarozgaris, as indicated above.
A separate Head of Account should be opened for this purpose. Stipend is allowed to Swarojagaries for availing training facility.

4.6.17 COVERAGE
Under SGSY, it is expected that the assisted family would come out of poverty line in three years. It is therefore, necessary that during this period the Swarozgaris be closely monitored. In the earlier self-employment programmes, the lack of such nurturing has been acutely felt. Typically in a block about 300-600 people would be assisted in one year. In other words about 900-1800 families need to be nurtured at any point of time. Since SGSY focuses on the group approach, the number of groups would not be far too many.

In this regard, there are a number of community polytechnics (442) in the country with the avowed objective of promoting employment in the rural areas. Each of these community polytechnics has five extension centers. Similarly, there are 14 technology resource centers established by CAPART. The National Research & Development Corporation (NRDC) also has 52 rural technology demonstrations cum training centers. In addition under TRYSEM itself, a number of exclusive training centers have been established.

4.6.18 MARKETING SUPPORT
For any goods or services that are produced, existence of a suitable market is essential. In States such as Orissa and Kerala, there are marketing societies at the State level. Their capacity and product range can be suitably expanded. Organizations like Handicrafts Boards and Handloom corporations and also KVIC/KVIB can play a prominent role in promotion of SGSY. The marketing outlets of KVIC/KVIB must be made use of for SGSY products. Keeping the market trends in view, linkages with apex bodies can ensure a stable market at remunerative prices.

The NGOs have an important role to play. They can be used in the formation and nurturing of the SHGs as well as in the monitoring of the progress of the Swarozgaris. Where feasible, their services can also be utilized for provision of technology support, quality control of the products.
4.6.19 COMMITTEES
There are Block Level SGSY Committee in each block. At the District Level, there shall be a District SGSY Committee under the Chairmanship of the District Collector / Chief Executive Officer.

The Department of Rural Development or any other Department to which the subject of Rural Development has been allocated should be responsible for planning, implementation, monitoring and evaluation of the programme at the State Level. A State level SGSY Committee has been provided to oversee the functioning and the performance under SGSY.

The Department of Rural Development in the Ministry of Rural Development, Government of India, New Delhi has the overall responsibility of policy formulation, monitoring and evaluation of the programme and for release of central share of funds. A Central Level Coordination Committee (CLCC) has been constituted as under to assist the Department. The CLCC will meet once in six months.

For the purpose of effective monitoring of the implementation of SGSY, the banks may set up SGSY cells in their controlling offices such as Zonal/Regional Offices. These cells should make periodical review of the flow of credit to SGSY Swarozgaris, ensure the implementation of the guidelines issued by Reserve Bank of India and the Government of India, collect data from the branches and make available consolidated data to the Head Office of the Bank.

4.6.20 FUNDING PATTERN
Swarnjayanti Gram Swarozgar Yojana is a Centrally Sponsored Scheme and the financing of the programme will be shared between the Centre and the States in the ratio of 75:25. The Central allocation earmarked for the States will be distributed in relation to the incidence of poverty in the States. Each DRDA may incur expenditure on the following items from the funds provided under the SGSY:

i) Training
ii) Infrastructure
iii) Revolving Fund to SHGs
iv) Subsidy for economic activities
The States should ideally get the release of second installment latest by the end of December. The quantum of second installment releases while seeking the second installment will be made dependent on the time of reporting of utilization. Depending on the receipt of complete proposal for second installment, the quantum will be governed as follows:

By the end of December : 50% of allocated funds
By the end of January : 40% of allocated funds
By the end of February : 30% of allocated funds
In March : 20% of allocated funds

4.6.21 MONTHLY PROGRESS REPORT
Monthly Progress Report should be sent so as to reach the Center by the 20th of every succeeding month. The proforma for submission of above monthly progress report will be communicated to the States.

SGSY continues to be ill equipped to meet the challenges of the agenda of gauging the suitability of differently placed poor households for various forms of employment programmes depending on their initial assessed position or possession of prior entrepreneurial experience, training or skills. Although the guidelines envisages an elaborate process of planning by block and district committees prior to the choice of enterprises with regard to availability of infrastructure, markets, technology and the capacity of swarojagaries, early assessment of the SGSY indicate that the notion of comprehensive, holistic planning at the block and district level remains as much of an illusion in the SGSY as it did with the IRDP10

4.7 RASTRIYA MAHILA KOSH
The national credit fund for women or the Rastriya Mahila Kosh (RMK) was set up as an independent organization governed by its Board of Governors, to reduce undue pressure from donors and International monetary organizations.
It works in a Pyramid structure.

First it selects its nodal agency (NOA) on the basis of the following:

1) Experience in micro credit for minimum five years.
2) NGOs who have availed Rs 50 lakhs and above loan should be considered for NOA
3) Dynamic young persons having experience in micro credit, accountancy, capacity building, preparation of financial statements and annual reports should be considered for nodal officers in such agencies.

The NOA will have to identify 15 NGOs on the basis of experience in micro credit and sound financial position.

A strict schedule of financing and training of the nodal agencies are also earmarked by the RMK. Within a period of six months the 1st installment of the loan is extended to the NOA for further distribution to the NGOs and the SHGs.

The structure of SHG is also quite clearly defined by the RMK.

1) They are small groups of women (between 10-20 women in each group)
2) They are voluntary
3) They are stable
4) They have a democratic mode of functioning and decision making
5) They are trained in accounts
6) They combine social and economic objectives.

This model of micro credit activities is different from Grameen where the apex organization controls the finance and has direct relationship with the borrower

4.8 CREDIT RATING AGENCY

Microfinance organizations widely dispersed all over the country are diversified and have different type performance levels. To have a standardized performance measurement they are graded on parameters like total membership, average
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... membership, active borrowers, loans outstanding, savings, savings per member, productivity- loan clients per staff member, portfolio per staff member etc. Micro Credit Ratings International Limited (M-CRIL) does this under the chairmanship of Sanjay Sinha.

4.9 SUMMARY

India is a country to 130 crores of population with 26.6 % living below the poverty line. India stands at 126 positions among 177 countries of the world in terms of Human Development Index. Steadily human life index is improving every day due to various reasons. The banking sector outreach of India is quite good. With a further support from the informal finance sector India is going to see a still better development scenario in the years to come. Scheduled banks, Private Banks, Foreign Banks, Cooperative Societies, NBFCs, Regional Rural Banks, and Microfinance Institutes are operating in India and all of them are providing micro credit. From 27 lakhs of fund in 1992-93 to it has reached a level of Rs 4153 crores in the year 2005-06.

Banks provide credit to the SHGs in various forms i.e. Bank Partnership Model (Bank- MFIs- SHG lending hierarchy), Bank Correspondence (MFIs acting on behalf of the Banks), bank service model (bank has a MFI wing).

In this process various stakeholders and mechanism of credit, India has its own brand of microfinance. It focuses on decision making, cutting costs, reduction of NPA, peer pressure as collateral, quality clients, social agenda, small and fixed savings at frequent intervals.

NABARD is the apex organization in relation to microfinance activities in India. It has been playing a leading role in the microfinance programme for two decades now. It has been catalyzing the banking system, and umbrella support to its stakeholders. The programme enabled an estimated 32.98 million poor households in the country gain access to microfinance from the formal banking system.

Major activities of NABARD are SHG Bank Linkage, Training and Capacity Building, Micro Enterprise Development Programme (MEDP) for skill development, initiative in
specific regions, nurturing partner agencies, undertaking innovative projects of credit and enterprise etc. E gram, Computer Munshi, Social Security is some of the very famous programmes of NABARD.

Swarna Jayanti Swarojagar Yojana has become the most important programme of the central government on the philosophy of group lending. It has a well-established mechanism of selection, implementation, monitoring, training, marketing and impact analysis. But it could not rise to the expectation of the planners due to the halfhearted approach of the individuals involved in the process. Rastriya Mahila Kosh, Rastriya Grammen vikash Nidhi are working as parallel financial agencies to NABARD. But they operate in a small scale. Mcril has developed a rating system to judge the performance of MFIs.

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Shaded Portion is Microfinance intensive area