Introduction

Over the last decade microfinance has become an accepted institutional framework for taking financial services to the poor. Microfinance has now evolved into a type of independent financial system of its own and there are a number of variants in microfinance institutions and systems. But broadly
they can be classified into two—the individual approach and the group approach. An example of the group approach, where the group itself, not the individual member, is the client, is the self-help group program in India.

In India, savings and credit groups known as self-help groups (SHGs) have grown many fold since the National Bank for Agriculture and Rural Development (NABARD) introduced the pilot project in 1992. NABARD is the apex financial institution, established by the Government of India in 1982, for promoting, monitoring, and refinancing the rural financial system in India.

The purpose around which an SHG is initially formed varies depending on the kind of program being implemented and the need for collective working. It varies from managing a collective resource to promoting a social cause. In the context of microfinance, SHGs are formed (and sometimes old SHGs established with another purpose are converted) to foster savings and credit. A small group of individuals become members and pool their savings on a regular basis to form a collective fund. This fund is then rotated as credit amongst the members through a system of self-generated norms. Hence, the basis of the SHG is the mutuality and trust in depositing individual savings in group funds. Once the initial trust is established, the incentive or motivation for a member is the access provided to financial services through the common pool fund, which is higher than the individual’s own savings. Once such an SHG is formed and stabilized (through repeated rotations of their own savings converted to mutual credit), it is possible for it to become a source of funds to others outside the SHG.

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As a part of its mandate, NABARD initiated certain research projects on SHGs as a channel for delivery of microfinance in the late eighties. Amongst these, the project sponsored by the Mysore Resettlement and Development Agency (MYRADA) on “Savings and Credit Management of SHGs” was partially founded by NABARD in 1986–87. In 1988–89, in collaboration with some of the member institutions of the Asia Pacific Rural and Agricultural Credit Association (APRACA), NABARD undertook a survey of 43 nongovernmental organizations (NGOs) in 11 states in India, to study the functioning of microfinance SHGs and their collaboration possibilities with the formal banking system (NABARD, 1991). Both these research projects produced encouraging possibilities, and NABARD initiated the pilot project called the SHG linkage project in 1992. NABARD also held extensive consultations with the central bank—the Reserve Bank of India. This resulted in issuing a policy circular to all commercial banks to participate and extend finance to SHGs (RBI, 1991). NABARD also issued a broad set of flexible guidelines in February 1992 (NABARD, 1992) to the formal rural banking system, explaining the project’s modalities. The project was extended to the regional rural banks and co-operative banks, in addition to the commercial banks in 1993.

The main objectives of this project were: (1) to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity, and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of formal financial institutions; (2) to encourage banking activity, both on the thrift and credit sides, in a segment of the population that the formal institutions usually find difficult to reach; and (3) to improve credit flow to rural poor with reduced transaction costs, both for the financing bank and the borrower.

Policy interest in the whole concept of SHG linkage with banks was institutionalized with the RBI establishing in 1995 a
working group on SHGs composed of representatives from NABARD and banks and also development practitioners. As a sequel to that, the RBI issued a second policy circular on SHGs to Banks in 1996.

The working group (RBI, 1996) has commented thus on the progress of SHGs in India:

1. SHGs helped to generate and collect small thrift amounts from a cross section of people hitherto considered incapable of saving. The essential difference between thrift and savings was that while thrift was generated out of deferred consumption, the savings were generated out of surplus.

2. SHGs have facilitated the rural poor in fulfilling their credit requirements, both for emergent consumption needs as well as for small production requirements.

3. SHGs have been able to meet successfully the credit requirements of the rural poor as per their choice, unlike in the case of borrowing under other programs of formal credit institutions.

4. The high recovery rates of the SHGs are in sharp contrast to the poor recovery performance of banks in respect of various activities under rural credit. Since credit/finance was seen as management of the participants’ own funds and enterprises, a feeling of ownership and responsibility was generated.

5. The entire cycle of assessing need, disbursement, recovery, monitoring, and supervision shifted closer to the scene of action under SHGs, and therefore the transaction cost of the loans was relatively less.

In developing microfinance in India, especially through the SHGs, a major role is that of the promotional institutions. Several institutional variants of the Self-Help Promotion
Institutions (SHPIs) have come to the fore since the beginning of the last decade. In India, the promotional institutions are basically of three types: (1) governments (2) banks and (3) NGOs. These institutions have over a period of time developed systems and practices, some of which can be emulated as best practices and some others which should be learning points for caution. This paper looks at one case study of each of these institutions and their practices in microfinance in India to see what can be learned from their experiences.

In India the government is a ubiquitous institution. Therefore, the first institution which this paper studies is that of government as an SHPI.

**Government**

In most developing countries, the policies concerning rural credit were, by and large, based on certain assumptions, some of which were:

- The commercial banks were reluctant to provide for the credit needs of the rural poor for reasons that were neither commercial nor economic.
- The rural poor did not have any capacity to save.
- Rural people needed credit on a concessional rate of interest and relaxed terms for taking up income generating activities, especially development works on their farms.
- Informal finance did not play a positive development role and it was an evil that should be eliminated.

The policy framework that grew out of these assumptions did not contribute to the self-sustained growth of the rural credit system and it also did not adequately serve the rural poor.

As in all developing countries, in India development was considered to be the government’s responsibility and it started several subsidy-linked credit programs where it had a major role right from the stage of identifying of the borrowers to the disbursement of credit and subsidy. The results of these programs were not positive. Experience has shown that the non-
involvement of the people has led to an attitude of total dependence on administrative efforts. This was especially true in credit programs for the rural poor. To overcome this, government started adopting participatory approaches to rural development, particularly the SHG approach.

The entry of the government into the self-help group movement was through the Rashtriya Mahila Kosh, which started funding NGOs for forming and nurturing SHGs. Later, the Indira Mahila Yojana came into existence, which also facilitated the group formation and nurturing process.

The following is a case study in which the government acts as a SHPI, though in a passive and an indirect manner.

**Podupulakshmi**

Nellore is the southernmost coastal district of Andhra Pradesh, a state in the southeast of India. During 1991–92, the women of the district participated very enthusiastically and voluntarily in the total literacy program. Later, the women of Nellore district were in the forefront of the “Anti-Arrack” movement. As a consequence of this movement, the government imposed a ban on the sale of country liquor in April 1993. The implementation of this ban led to a peaceful and better life for the rural people in Andhra Pradesh State. This also generated some surplus funds at the village level. At this juncture, the women of Leguntapadu Mandal of Nellore district decided to put their surplus funds together in the form of joint savings. That led to the informal formation of the groups at the initial level. Later, following the example of the women of this Mandal, women in other parts of the district understood the benefits and started forming themselves into thrift and credit groups. The formation of groups by the rural women of the district came to the notice of the District Rural Development Agency (DRDA) and the district administration. The district administration then decided to involve itself fully in the formation of the thrift and credit groups. The administration pressed into service the local teachers, village administrative officers (VAOs), and village development officers (VDOs). A cell for thrift and credit
groups was also created at the DRDA. The scheme became popular in the entire district and with the active involvement of the district administration it spread to all the 46 Mandals of the district. At the end of July 1996, the total number of groups in the district was 6,907 with a membership of 202,000. Approximately 95% of the rural families had at least one member among the Thrift and Credit groups. The total savings mobilized was Rs. 9.63 millions.11

Organization of Groups
The members of the groups were women from low-income families in the rural areas, and the membership of most of the groups varied from 30 to 50. Each group selected one member as their group leader. The group leaders had adequate knowledge to maintain the simple accounts and also were acceptable to the group. Each group had one guardian who was normally a government employee working at the village level, such as a teacher, a VAO, a VDO, a representative of a voluntary organization, or a social worker. These guardians have played a very important role in motivating the women, in initiating the group action, and later in guiding the groups.

Operation of Savings and Credit
Typically in every group, the members were expected to save Rs. 1 per day for an initial period of 3 years. The group leaders collected the amounts from the members once a week or fortnight at their convenience and ensured that the amount of Rs. 30 for each member was deposited by the end of the month in the bank account or the post office. Each member was given a pass book recording the particulars of monthly savings. After one year of savings, the groups started making loans out of the accumulated savings. The group also maintained a register (ledger). All the entries of thrift and credit were required to be recorded in this register.
The Working of the Groups

Each group was expected to meet once a month during the first year and discuss the question of thrift and credit. They also discussed developmental and welfare activities in the village. The important issues discussed during the meetings were recorded in the minutes book with the help of the guardians. The writing of the books was initially done by the guardians. However, gradually the literate members of the groups were required to take over the task of writing the books.

Training

Since not all of the women involved in the program had necessary financial skills, training programs were begun for all the people involved. Group leaders and an additional member of each group were trained in one-day workshops conducted at the Mandal levels with financial assistance from UNICEF. The training was also extended to the teachers, VAOs, VDOs, volunteers, and social workers who were guardians of these groups. The group leaders were also trained in the maintenance of accounts and handling the transactions with banks and the post office. Officers at the Mandal and Panchayat12 level were also sensitized in a series of training programs.

Organizational Support for the Program

After the district administration took an interest in the implementation of these programs, a district-level committee was constituted for program implementation, with the District Collector13 as the chairman, DRDA Project Director as the convener, and other important district officers as the members. At each Mandal level also a committee was formed and at the village level a committee under the chairmanship of the Sarpanch14 of Panchayat was formed for the effective implementation of this program. However, the actual work of implementing the program is being looked after by a special cell called a Podupulakshmi cell at DRDA.
Linkage with Banks
A feature noticed in the entire program was that though a number of groups were formed in the district and a large number of them opened their accounts with the banks, the linkage between these groups and the banks was at a very minimal level and in the year 1994–95 only two groups were financed by the banks. At a later stage of development of these groups, it was realized that the savings of these groups would not be sufficient to meet the credit requirements of the group members. Therefore, they would have to be supplemented by outside financial assistance in the form of bank credit.

Positive Features Observed
The positive features observed in the thrift movement in Nellore district were:

- The women were ahead of NGOs, government, and banks in taking initiative for forming of the thrift and credit groups. It was only later that government and voluntary workers involved themselves in the program.
- The groups showed interest in various welfare and developmental programs in the district and the women started associating themselves with the problems of the village.
- The groups were able to represent their problems at the village level to administration at various levels and to try and solve their problems.
- The status of individual women members in the family has improved tremendously with self-confidence and financial independence.
- The women groups have actively participated in the implementation of the prohibition policy of the state government.
- There was also an awakening in the Nellore district with regard to health and sanitation. The women groups have come forward in controlling gastroenteritis, popularizing healthy living practices, and creating sanitation facilities.
The massiveness of the program implemented in the Nellore district was nowhere to be matched. The formation of about 7,000 groups with a total of about 202 thousand members and a savings of nearly Rs. 9.7 millions in a single district was an incomparable and massive achievement in which the district administration has played a very big role.

Some of the drawbacks and negative features observed in the program were:

- The involvement of the district administration has tended to make this just another government program, and many times the lower level government functionaries were keen only on achieving the targets set. This has led even to non-stabilization of a number of groups. The percentage of nonstable groups was quite high at 31%.
- The involvement of lower level government functionaries as guardians and joint account holders has also created a vested interest; there were many instances of these officials not being ready to give up the guardianship.
- In many groups, sufficient importance was not given to regularity in meetings, need for group action, regularity in savings, and proper maintenance of records.

Conclusions

Despite these drawbacks, this program does not have a parallel anywhere else in the country, and its success proves that in the formation and nurturing of SHGs the district administration like DRDA can also play a role. But in this particular district, the administration played its role only after the people started organizing themselves into groups and saving their surplus money. Then the government machinery intervened and converted it into a program for development. It is, therefore, doubtful if the program can be replicated by other government agencies in other parts of the country.
Institutional Alternatives

Banks

Among the formal institutions, next to government, banks play a major role as self-help promotion institutions in India. For several years, since the nationalization of the commercial banks, there has been a commitment at the highest policy levels, towards improving access to financial services for the poor. Several policy measures have also been in force to ensure this, such as the allocation of committed bank funds to small loans (priority sector banking), subsidized interest rates (ranging from 4% to 10%) for micro loans, and the opening of small rural bank branches. Hence, the mainstream banking system in India has always been involved in microfinance as a special area of their operation.

At the operational level, this policy commitment has been implemented usually by linking bank credit to a targeted program of the government of India. The Integrated Rural Development Program (IRDP) was a typical example. Based on this program, several projects of the government of India have had a strong microfinance component either through the banks or through government-established financial institutions. A further institutional focus was given to rural lending through small loans by establishing the regional rural banks in 1975.

The SHG linkage program is located in this national policy and institutional context, where there is a vast network of primary lending institutions to deliver microfinance on the one hand, and an apex national level institution, namely NABARD, to provide policy support and refinance on the other.

Banks have been slow in entering the field of microfinance from the angles of both promoter as well as lender. In general, banking institutions have treated the formation and promotion of SHGs as an activity which is strictly for voluntary agencies or nongovernmental organizations and not for mainstream commercial bankers. But the problem in India is that well-intentioned NGOs which can take up these activities are confined to relatively smaller pockets of the country. If banks see
a new opportunity and a new market in microfinance they cannot always expect a ready-made institution to absorb their lending portfolio. It may be necessary for some banks to take up the work of forming and promoting SHGs on their own if they view it as a profitable market and a profitable business opportunity. Several banks, especially regional rural banks (RRBs), have done pioneering work in forming, promoting, and later financing SHGs.

In this method, the role of mobilizing and forming the SHG is taken up by the bank branch itself. There is no NGO facilitation. Although this model is not common, many banks have shown interest in forming SHGs themselves. However, this alternative is fairly unique, as banks do not usually go into social mobilization roles. Irrespective of the quality of the SHGs formed, the weaknesses of this alternative are obvious. The core competency of a banker is finance and not SHG formation. Even if the SHG formed is for the limited purpose of fund rotation, substantial effort has to be made to form SHGs. Further, SHGs formed only for receiving external funds may not be sustainable. The advantage of this alternative, however, is that it exposes the banker to social realities firsthand. Also, in all the places where NGOs are not operating, some mechanism needs to be found to improve access to microfinance. Strategically, this option may not have the possibility of widespread adoption. The experience of a bank as a self-help promotion institution is discussed in the following case study.

Cauvery Grameena Bank
The Cauvery Grameena Bank (CGB) is a regional rural bank established in 1976 with headquarters at Mysore in the south-west Indian state of Karnataka. The CGB has 115 branches and covers the districts of Mysore and Hassan. The CGB has a wide network of branches, covering 913 out of the total 1837 villages in the Mysore district. The bank has been actively involved in financing the rural poor since its inception, in conformity with the mandate of the regional rural banks. In this process, the bank has experimented with innovative rural
credit deliveries. One such experiment is financing the rural poor through self-help groups.

**Financing of SHGs**
MYRADA has a vibrant presence in Mysore district. It has formed SHGs in the district and also trained bank officials on SHG-related activities. Taking advantage of the presence of several groups in their area, the CGB started linking them to bank finance in 1992. By March 1996, the bank had financed 222 SHGs covering 4669 members (averaging 22 members per group). The groups had mobilized savings of Rs. 30.74 millions by October 1996 and made loans of Rs. 3.62 millions. The experience of financing SHGs was very good, with the bank recovering 96.6% to 98.7% of loans between 1993 and 1996.

**Formation of SHGs**
In 1995, emboldened with the success of financing SHGs, the CGB decided to expand its role to the formation of groups. In its new efforts of social engineering, the bank selected Gundlupet Taluk\(^5\) for their experiment of group formation and nurturing. Gundlupet was selected because of its remoteness (bordering Tamil Nadu state) and the predominance of resource-poor farmers and agricultural laborers. Moreover, Gundlupet was not served by any NGO, including MYRADA.

Gundlupet Taluk was served by five branches of CGB. All the five branches were actively involved in group formation. The pioneering efforts of CGB were unique in the sense that all the employees of the branches, including the messengers were involved in the formation of groups. All the employees of the branches were trained by MYRADA in the formation, nurturing, and financing of SHGs. The well-conceived, tailor-made training programs of MYRADA for CGB employees were attended by the branch manager and field officers, along with their messengers.
Group Formation
The branch deliberated elaborately before deciding the village to be selected for group formation. The branch manager, field officer, clerk, and messenger participated in the deliberations. Because they were local people who belonged to the area and mostly lived in the villages served by the branch service area, the messenger and clerk were generally able to give sound advice to the branch manager about village selection. The backwardness of the village was the main criterion for selection. After the village was selected, the manager and the field officer visited the village together a couple of times for an overall survey, and for each such visit they spent about half a day of work. These two officials followed it up with about five more visits of a half day each, during which they identified the members and mobilized them for group formation.

Message of Self-Reliance
CGB officials were very meticulous about group formation. They ensured right in the beginning that the group members did not have any false hope about receiving a government subsidy or bank loan. Internal strengths and self-reliance were given considerable stress. With several anecdotes and examples, the message of “Strength in Unity” was conveyed to the potential members. Members were generally convinced that self-respect lies in helping themselves rather than in relying on external help.

The CGB made it mandatory that all the groups should meet once a week, because meetings at weekly intervals help to develop cohesion among the members. Moreover, it was easier to mobilize small amounts of savings frequently than to mobilize large amounts at longer intervals. The bank also made it mandatory that the weekly meetings be attended by the branch staff without fail, particularly in the initial three months of nurturing. However, such meetings could be attended by any one of the branch staff, including the messenger.
**Group Linkage**

A minimum of 80% attendance was insisted on for all the groups during the initial 3 to 6 month period to become eligible for bank linkage. No groups were linked till they were six months old. Thus, even though 51 groups were formed by the branch staff up to October 1996, only 8 were linked. The remaining groups were awaiting the completion of the mandatory six-month period.

Immediately after groups were formed, the members were trained on the concept and characteristics of SHGs, the role and responsibilities of members, and accounts maintenance. Training intervention was had by the CGB staff themselves. They have successfully employed the members of a couple of existing groups for training new group members through street plays and skits.

CGB’s project has demonstrated that banks can also play a positive role as promoters of SHGs. The positive features observed in the project were:

- Because all the members of the branch staff were trained by MYRADA in the formation, functioning, and financing of SHGs, the groups were stable and functioning well.
- Because the entire branch staff was trained and motivated, even if the manager was transferred from the branch, there was continuity in the staff’s involvement in the SHGs.
- The groups formed by CGB staff met and saved every week. This fostered and created better cohesion among the members.
- The branch staff believed that their intense interaction in the initial stage of formation and functioning enable the groups to become independent early.
- The branch managers were confident that even groups of illiterate members could become independent by employing the services of an educated person in the village for the maintenance of books.
Managers also believed that in the future, group formation would be easier because of the demonstrative effect of the successful group. Some drawbacks and negative features observed were:
- The weekly meetings resulted in frequent operation of the SHG account at the branch (every SHG opens a saving account soon after it is formed) due to the weekly credit and withdrawals, which added to the bank's work as well as costs.
- The branch’s cost for nurturing groups was also very high because during the initial period, the branch staff attended all the weekly meetings of the group. On average, the cost of nurturing a group worked out to Rs. 10,088 per year.
- The bank has not yet worked out a comprehensive cost-benefit analysis of this program.

Conclusion
The experience of Cauvery Grameena Bank reveals that banks entering the arena of promoting SHGs have to be systematic. This bank concentrated on a single block, where it had five branches. The branch staff was trained intensively by MYRADA. The process that this bank adopted in group formation and nurturing was also systematic and they tried to ensure that it was a gradual process. The experience shows that banks, especially RRBs, can play the role of self-help group promotion Institution at least in a few of their branches.

Nongovernmental Organizations (NGOs)
Though government and banks have been played positive roles in the promotion of SHGs, in terms of numbers, the non-governmental organizations (NGOs) rank as the premier SHPIs. NGOs have so far been the main innovators in microfinance. They have many advantages. Their very name, non-governmental, indicates that they are outside the framework of government. In India, where governmental systems are fairly
rigid and bureaucratic, NGOs are characterized by their flexibility and ability to evolve simplified work systems.

While a group approach has been a developmental concept actively pursued by development practitioners for many years, the focused formation of SHGs under the microfinance framework is a relatively newer concept. It was initiated only in the late eighties by a few NGOs as an exclusive idea. The number of NGOs involved in the formation of microfinance based SHGs has increased many fold in the nineties. Contributing factors in this expansion has been the creation of an enabling environment for this kind of work by several national and international organizations, including multilateral, bilateral, and international NGO donors, plus an encouraging policy environment created by the government of India and the Reserve Bank of India. The SHG linkage program of NABARD through its widening network of institutions has also contributed to expanding the microfinance-based SHG movement.

Because of the expansion of the microfinance-related SHG program agenda, a wide diversity is observed in the approaches adopted by different agencies. Some NGOs act as banking intermediaries, channeling finance to different SHGs formed and centralizing all the accounts and financial systems at the NGO level. Others have formed collectives of several SHGs together, forming a federation of SHGs, and were linked them up with banks. There is also a fair amount of diversity in the levels of competencies and capacities to manage a microfinance SHG program within these agencies.

Donors and national governments now regard NGOs as the most appropriate institutions through which to deliver development services. The majority of donor-funded microfinance projects are implemented by NGOs. Financial support to NGOs has given a fillip to the entire SHG movement. Several hundred NGOs, big and small, are now forming SHGs based on microfinance, and many of these are being linked to local banks for credit.
The nongovernmental organizations who are a part of the SHG-bank linkage programs throughout the country have developed and fostered different types of institutional mechanisms for these groups. While most NGOs have opted for a conventional SHG of 15 to 20 members, some others have opted for different forms, notably the Mahila Mandal or federal type where the group is a single entity at the village level, as a sort of village level federation. While basically all NGOs in the SHG movement have the economic empowerment of the poor, especially women, as their goal, their approaches and their working methods differ. The case study discusses one typical NGO involved in SHG promotion.

Navajyothi
Navajyothi (“new light”) is an NGO working in 28 villages of the Medak district and 10 villages of an adjacent district in the state of Andhra Pradesh. The activities of the organization cover a variety of areas, including adult literacy, tree planting, child care, rural health care, environmental issues, village and community development, organizing women into groups for thrift and credit, rural drinking water facility, care of the aged, literacy for child labor, horticulture, etc.

Organization of Women Thrift and Credit Groups
In working with the rural people in its area of activity, Navajyothi realized that the key to the success of any program of development and change in these areas was the empowerment of women and that it was possible only through women working in union among themselves. Keeping this aim in view, Navajyothi started organizing women’s groups from the year 1992 onwards. The main basis for organizing these women’s groups was thrift and credit since it has been realized that any strong organization has to rest on a certain degree of economic or financial activity and that based on this foundation, the groups can graduate and develop into other areas of concern for socio-economic development.
The organization of the groups in the villages started first with visits to the villages by the group organizers and coordinators. Initially it was quite difficult for the group organizers to convince women to come out of their houses and form themselves into groups. But in most of the villages, the group organizers as well as the coordinators persisted. For the first 6 months they had to visit each village at least five times a month. Slowly, women started forming themselves into groups with the guidance of the group organizers and coordinators.

In each village, women were organized into groups of ten members each, and all these groups were combined into a Mahila Mandal at the village level. Each group had two group leaders and the Mahila Mandal had a president, secretary, joint secretary and a treasurer. Though technically each ten member SHG is a separate entity, for all practical purposes the focal point was the Mahila Mandal. The meetings were also held for all the groups together. The Mahila Mandals of all the villages were in turn federated into a federation (Samakhya) for which the president, secretary and treasurer of each Mahila Mandal constituted the membership.

Books and Accounts
Each group maintained the following registers:
1. An attendance register where the presence, absence, or leave of absence of the members was recorded.
2. A thrift register where the regular savings as well as the contributions to the development fund were recorded.
3. A loan register where the purpose of the loan, the amount of loan, and contributions to development fund, repayment, and the balance were all recorded.
4. A membership register where the member’s name, introducer’s name, and the membership fee were recorded.
The registers were for the Mahila Mandal as a whole, but there were separate folios for each SHG of 10 members. The members were also given individual passbooks for their savings and credit.
Maintenance and Operation of Books and Accounts
As a majority of the members were illiterate, and a few were semiliterate, the writing of accounts was done by the members only in a few cases. In most of the Mahila Mandals, the accounts and the minutes were written by a writer who was paid an honorarium of Rs. 50 to Rs. 100 per month, depending on the size and the economic strength of the Mahila Mandal.

Training
The important training events that Navajyothi organized were a 5-day leadership training program for group leaders at their training center and a 2-day training program on account writing for the account writers of the Mandals (also at their training center). It organized training programs for group members on the formation and the functioning of the groups for a period of 3 days each in the village itself.

Personnel Support by the NGO
The organization had two coordinators and eight group organizers who were working with the Mahila Mandals. These organizers visited the groups regularly on a tapering basis. In the initial period of 6 months the visits were as frequent as 5 times a month, these were reduced to twice a month in the next 6 months. In the second year the visits were made only once a month and from the third year onwards the frequency was reduced to once in a quarter and also according to the need and the occasion. In the first six months, the group organizers also assisted in writing the books, taking minutes, establishing contact with the bank, and so on, but this work was gradually assigned to the group itself.

Credit Operations
In most of the Mahila Mandals, credit operations started after the first three months and these went on with regularity. All amounts given in internal loaning had a repayment period of only one month and the rate of interest charged to members was 30%. In exceptional cases, where a member was not able to
adhere to the one-month repayment period, she was given an extension by converting that amount into a fresh loan. For the groups which started with lower savings per month, the NGO provided seed money of Rs. 5,000 per Mahila Mandal. After this amount was rotated and used by the group it would be returned to the NGO for further assistance to the fledgling groups. The bank loans were obtained from Manjira Grameena Bank, Dubbak branch, for 43 groups under 6 Mahila Mandals.

Strategy for Withdrawal
Navajyothi was clear in its view that it would withdraw from groups which complete 5 years of existence. From the first year of stabilization itself, the NGO strategically reduced the number of visits by the coordinators and organizers to the groups. The advisory and guiding role for SHGs will have to be taken by the Samakhya and the NGO’s role in this aspect will cease completely.

The positive features observed in the SHG program of this NGO are:

• A high degree of unity among the members to take up common causes and issues has been noticed.
• This process of group formation has developed qualities of leadership among poor illiterate women in the backward villages.
• Thrift collection of the groups was very regular.
• For internal loaning as well as loans made by the bank branch, the recovery percentage was excellent—100%.
• Loan decisions were arrived at democratically in group meetings. The members and group leaders were able to balance conflicting interests and demands.
• The leadership of the Mahila Mandals and groups was truly democratic and there was a regular rotation of leadership.
• The groups displayed a confidence in their ability to manage their own affairs.
• There was no dependency syndrome in the groups as far as dependence on the NGOs was concerned.
• In the operating villages the coverage of the Mahila Mandal was wide. They covered nearly 60% of the families in each of these villages.
• In each group there were regular internal loaning and repayment. Transactions in internal loaning ranged between Rs. 5,000 and Rs. 7,000 per month per Mahila Mandal.

Some negative features observed were:
• The groups were not sure of the income-generating activities that they could take up.
• The NGO seemed to be spreading its personnel thinly on a wide range of activities that may not facilitate concerted efforts in the SHG program.

Conclusion
Navajyothi’s experience indicates how a nongovernmental organization can be a successful SHG promotional institution, if it is able to take care of certain basic requirements.

Best Practices
The three institutional variants of self-help promotion institutions and their case studies enable us to summarize the learnings for the benefit of future growth of microfinance SHGs in India. The case studies reveal that the NGOs, the banks and the government have been equally successful as self-help promotion institutions since the SHGs formed, nurtured, and promoted by them have met the requirement of taking financial services to the poor and have contributed to the economic empowerment of the underprivileged, especially women. The successes therefore were not due to the nature of the institutions alone, but to the best practices these institutions evolved, nurtured, and followed.

Based on the experiences of the working of NGOs and other SHPIs covered in these case studies, the following could be the best practices which the SHPIs would have to follow so
that each component of the SHG promotion work is carried out to a high degree of success.

**Identification of the Villages**
Identification of a particular village by an SHPI should be based on certain norms, keeping in view the overall aims and objectives of the SHPI in that region. A pre-identification survey should be done wherein all the statistical and other data is collected by the SHPI. It is also necessary that the SHPI conduct a participatory rural appraisal (PRA) in the village to build up a rapport with the villagers and identify their problems.

**Identification of the Members**
After the identification of the village, the SHPI must carefully identify the first lot of the members of the first group in the village. Since the positive or negative outcome of the first group may determine the fate of the future activity of the SHPI in the village, it must choose the first members carefully.

**Group Formation**
After the members are identified, they must be taught in detail all the basic rules which govern the functioning of the groups, especially group discipline, regularity in attendance, and regularity in savings and loans. The formation of the group is a natural evolutionary process and as such the SHPI should give a reasonable time for the group to slowly evolve.

**Mobilization and Stabilization of the Group**
This is a process of evolution for the group and would take about 4–6 months involving about 6–8 visits by the SHPI. During this phase, the following items are also to be taken care of by the SHPI:
- Bylaws and rules: The group will need guidance regarding formalities like bylaws and rules. A set of bylaws and rules should be evolved by the group, if necessary, with the assistance of the NGO or other SHPIs.
Records and books: Every group must have a certain set of records. These records should give a full and transparent picture of the group activities. But a group of illiterate or semiliterate rural poor should not be bothered with too many records and books to maintain. The writing of books should also be the responsibility of the group members. The SHPI personnel may help in the initial stages, but their assistance for accounts writing should not continue forever. If no literate members are available in the group, they should be encouraged to employ some local writers on a payment of honorarium.

Training: A very important aspect of the nurturing and strengthening of the SHGs is appropriate training, which must be extended to them at different points of time. At the grassroots level, all members should be exposed to training on the formation and functioning of the groups where the necessity for group formation and the importance of group dynamics are discussed with the members in a simple understandable form in the local dialect, and the leaders—the president, the secretary, etc.—should be exposed to leadership training programs.

Meetings: Meetings are the core of the activity of any SHG. In fact, the evolution of the groups is through these meetings. Thus, the regularity of the meetings has to be built in into the functioning of the groups. For this, it is necessary that the representatives of the SHPI are present during all the meetings in the first year of the group’s existence to guide the group in its process of evolution.

Dealings with banks and other institutions: In the initial period, the groups require some support from the SHPI with regard to their dealings with the bank branch and other outside financial and nonfinancial institutions. This help also should gradually be reduced and the group leaders and members should be able to take care of their dealings with the banks after a certain period of time.
Conclusion

These case studies reveal that a larger numbers of groups are formed by NGOs, but they are not the only SHPIs. Banks, especially regional rural banks, have also formed SHGs. Qualitatively these groups are equally good when compared to the groups formed by NGOs. But due to the constraints of their staff and the regular banking business, banks may be able to promote only a limited number of groups. Apart from the NGOs and the banks, the government is a notable institution that has been promoting SHGs. The case study reveals that the success of the government in SHG promotion is restricted to the districts where the development administrations work in a true spirit of an SHPI following the best practices.

We may therefore conclude by commenting that in the final analysis, from the view of institutional framework, an institution can be considered suitable as a self-help promotion institution if it is in a position to foster and nurture the best practices for SHG promotion.

Notes

1. MYRADA (Mysore Resettlement and Development Agency) is an NGO based in the South Indian city of Bangalore. It has done the pioneering work with regard to Thrift and Credit Groups in India.
2. APRACA (Asia Pacific Regional Agricultural Credit Association) is an association of banks and financial institutions involved in agricultural credit promoted by the Food and Agricultural Organization of the UN.
3. Regional rural banks are small-sized banks extending to one or two districts. The central and state governments and a commercial bank that sponsors them jointly own these banks. These banks started working in 1975. Today there 196 such banks in India with a branch network of 14,000.
4. The Rashtriya Mahila Kosh is a government-created fund, which extends financial support to NGOs for forming, nurturing, and financing self-help groups.
5. The Indira Mahila Yojna is a government scheme for women’s empowerment that works through the medium of self-help groups.
6. Arrack is a strong, locally brewed liquor in the southern parts of India.
7. A Mandal is the lowest administrative unit in Andhra Pradesh State, usually covering 30–40 villages.
8. DRDA (District Rural Development Agency) is the agency of the state government that oversees all development activities in a district.

9. The VAO (Village Administrative Officer) is the official in the village who deals with land, revenue, and other administrative matters.

10. The VDO (Village Development Officer) is the official at the village level who looks after the development programs in the village.

11. The Rupee (Re, Rs) is Indian currency unit. The exchange rate during the study period was US $1 = Rs. 36.45.

12. A Panchayat is a village council or assembly.

13. The District Collector is the head of the administration in the district. The term is a leftover from the British Colonial period when this officer used to collect land revenue.

14. The Sarpanch is the elected head of the village self-government unit (the council).

15. A Taluk (a) is an administrative unit (or subdistrict).

16. A Mahila Mandal is a women’s council; it is usually a federation of smaller women’s groups.

References


