

1. Introduction

This article discusses an innovative microfinance programme designed to reach the extremely poor people in remote rural areas in Haldikund Panchayat of the Koraput district of Southern Orissa in India. CYSD (Centre for Youth and Social Development) methodology promotes and supports the development of Self-Help Groups (SHGs), made up of small groups of poor women who are struggling at the community level, both to move out of poverty and deprivation, and also to redefine and reshape their lives. In the context of a complex situation of severe geographic, social, economic and political exclusion and poverty, the article argues that the provision of finance alone is a necessary, but not a sufficient strategy for achieving sustainable poverty impacts.

The article discusses the role of SHGs in CYSD's philosophy and approach, showing how the non-financial aspects of poverty, such as vulnerability, dependency and powerlessness can be tackled through the vehicle of the group. The article widens the concept of poverty to include gendered inequality and other types of marginalisation, providing empirical examples of how a microfinance SHG model, in this particular context, is effective in challenging some of these social imbalances. Finally, it discusses the processes CYSD encountered in establishing the SHGs for the poorest groups, and other design decisions made in the light of the types of poverty the programme aims to address.

2. The SHG approach to microfinance

CYSD is a poverty-focused development NGO. As such, it is not a microfinance organisation (MFO) engaged in financial intermediation. It does not take any loan funds for its microfinance programme, nor does it provide credit for its members. However, as a microfinance promoter, the organisation supports the SHG model of microfinance. Rather than providing loans for SHGs, it provides capacity-building support for them.

CYSD's focus of activities is centred around organising women from homogeneous socio-economic backgrounds and forming them into groups called SHGs, usually comprised of 15–20

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members. These SHGs initially begin with savings. Regular meetings are held, at which every member contributes a savings deposit of an amount decided by the group. After about a year, when these savings build up, members can borrow from this group fund for any emergency, consumption or production purpose. Thus, the members are able to access credit through their own pooled savings. Loan decisions, such as the selection of borrowers, amount of loan, rate of interest, repayment schedules etc, are made by the group. The profits, however small, are either distributed to the members or added to the fund at their joint disposal, as decided by the group. As they grow and mature, groups can access external funds.

The SHG is promoted as a nucleus:

- To mobilise member's own resources in the form of savings, which then form the basis for credits to members for consumption and production purposes;
- To stimulate the self-help potential of the poor women, and increase their capacity to take charge of their lives;
- To develop community-based peoples' organisations around which the delivery of services and inputs are woven; and
- To create an institutional space for poor women to participate and be heard.

In order to reach the status of independent and autonomous MFOs with the optimum level of efficiency, SHGs need a range of support, which CYSD provides. This includes:

- Facilitating processes for group formation around perceived needs and common goals;
- Supporting these groups in the development of systems and processes, such as financial management systems;
- Increasing the members' as well as the groups' capacities and skills in accounting, book-keeping, cash handling, organising meetings, maintaining registers and proceedings, and building up mechanisms to ensure discipline and conflict resolution;

- Linking the SHGs with banks, markets, and also among themselves by forming SHG federations; and
- Providing all support needed to eventually make the SHG completely autonomous and sustainable.

3. Comparing SHGs to other microfinance groups

Many MFOs use groups as part of their methodology. However, in the case of the SHGs, while economic transactions are an important aspect of the group activity, the groups have broader developmental goals. Alone, the poor are vulnerable, but in a group they have power. The SHGs therefore represent a process for enabling the poor – particularly poor women – to recognise and overcome constraining social and developmental factors. The members view the group as an entity that is very much central to their lives, offering them cohesion, support, security, and hope. The social dimension of their activities plays an important role in building group cohesion and skills required for civic engagement, participative management of community resources and democratic governance. In this way, CYSD forms part of a movement aimed at enabling poor people to organise around wider goals of building capacities and creating ownership of development opportunities by empowering marginalised people.

The CYSD-promoted SHGs are also distinct in another respect from the borrower groups, formed by many MFOs as part of their lending methodology. The SHGs promoted by CYSD are designed to be independent: their initial capital consists of members' savings and eventually upon graduation they can access outside funds. In this way, they differ from the Latin American Solidarity Groups which are formed simply as a loan guarantee mechanism, or the Grameen model, where groups are formed as an integral part of the lending institutions, or even the Village Bank system in which the initial capital consists of a loan or grant from the promoting organisation. In other peer lending programmes, groups have only instrumental value for the MFO. They are formed essentially to assume many of the critical functions of the MFO, such as screening fellow borrowers for

credit worthiness, monitoring loan use, and following up loan repayments through peer pressure and joint liability as a check against loan loss.

In contrast, CYSD's groups have an intrinsic value and are founded on a much more critical approach to participation, which takes into account the wider developmental needs of the members and their community, rather than merely acting as a mechanism for accessing credit. As a community-based peoples' institution, the SHG is designed to make the poor women makers and shapers of the development process, rather than limiting them to being only users of financial services.

4. The CYSD programme

4.1 The bigger picture of poverty

The poverty incidence in India is characterised by rural-urban and inter-regional differences. The official poverty figures for 1999–2000, as reported by the National Sample Survey (NSS), reveal an inter-state difference between the lowest 6 per cent in Punjab and the highest 47 per cent in Orissa, making Orissa the poorest state in India. The study of the National Council of Applied Economic Research (NCAER) puts the average rural household income in India at Rs 25,653 (\$557) per year, or Rs 4,485 (\$97) per capita. Within India, Orissa has the lowest household income (Rs 17,208; \$337) as well as the lowest per capita income (Rs 3,028; \$66). According to the 1994 estimate, 39 per cent of the rural population in India live below the poverty line. In the case of Orissa, 55 per cent of the population is below this poverty line – again the highest in India (NCAER 1999).

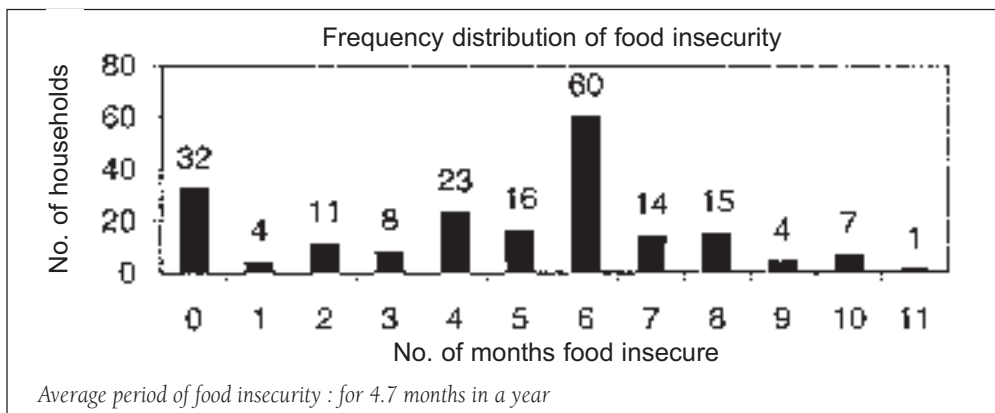
Within the region, there are few employment opportunities, both in agriculture and in other areas, and wage levels are low. In rural Koraput, one of the poorest areas, where CYSD works, the average wage rate for a day's labour is as low as Rs 15.00, equivalent to \$0.30. Compared to other regions, literacy rates are low in Orissa, at an average of 25 per cent in the 1991 census. Literacy levels vary considerably according to gender, with 40 per cent literacy among men, compared to 16 per cent among women recorded in rural Koraput.

Women born into the lowest castes and tribes are even less likely to be literate.

The area of Koraput is located in the south-eastern zone of the Eastern Ghats, characterised by rugged mountainous terrain. The region suffers from extremes of seasonality – ranging from very high temperatures in the summer to severe cold in the winter – and lacks good irrigation facilities, despite receiving a higher than average annual rainfall. The economy of the region operates at subsistence level and is predominantly agro and forest-based. Lack of access to and control over the knowledge and skills of developed farming practices and methods further affect people's ability to produce enough food for subsistence.

The attempts so far by the government for assimilation of the rural people in this area into the mainstream have been in terms of providing them with preferential constitutional status – as “scheduled tribes”, formerly known as “untouchables” – and promoting targeted developmental activities through its series of five year plans – ranging from blanket multipurpose development programmes in the early stages to the targeted Integrated Tribal Development Agency (ITDA) in the later stages. Koraput, a district with a predominant tribal population, has attracted a plethora of such programmes and governmental schemes during the past 50 years. Despite the massive investment into developmental activities through public anti-poverty programmes, and the Orissa government's special Area Development Programme, these public anti-poverty programmes have a poor reputation, given the inefficiency and inflexibility of the public institutions. Their lack of impact is exacerbated further by the poor people's unwillingness to place their trust in government officials and public institutions, regarding them as corrupt and disinterested in their problems.

As a result of these obstacles, the resources, effort and time invested in various ways to alleviate poverty have had little cumulative effect. Poverty in the region is endemic and is manifested in extremely complex ways. The deprivations suffered by the poorest people are multiple and severe, characterised by geographical seclusion, social exclusion, economic exploitation, and political disfranchisement. Often this deprivation is historical, transmitted across generations.

Table 1: The intensity of food insecurity (based on *Imp-Act* research data, 2003)

4.2 Who does the CYSD programme reach?

CYSD focuses on reaching very remote, undeveloped, rural areas like those described above. Often, every household in the target village is below the official poverty line of Rs 11,000 (\$239). Food insecurity is a major problem for the people in the villages and people remain food insecure for varying lengths of time in a year, ranging from two months per year to as long as ten months (see Table 1). The majority of the programme households are food insecure for four to eight months per year. However, food insecurity is only one facet of their poverty, as is illustrated in Table 2 by the local indicators of poverty named by members of these very poor communities, which also include access to clothing and basic shelter.

In a situation like this, after stretching their diversified and seasonal livelihood sources to the maximum, a normal coping mechanism among people is to borrow, in cash and/or in kind, which pushes them into debt. There is no well-organised, formally structured credit market in the locality, although people may borrow informally and interest-free from relatives, friends and neighbours, especially in situations of idiosyncratic shocks. Loans from money lenders/grain lenders not only have very high interest rates but are also based on hierarchal social relations. The economic power of these lenders translates into an asymmetric relationship of dominance and compliance, often leading to a loss of freedom, dignity and self-esteem on the part of the poor borrower.

5. The microfinance programme

As is made clear above, CYSD seeks to assist the poor households with mobilisation of savings and access to credit through formation of groups, thereby increasing their protection against external shocks to their livelihoods. However, the examples given show that poverty is an extremely complex problem and that ordinary microfinance provision is made very difficult by the following factors:

- The dispersed nature of the population in remote rural areas characterised by difficult terrain and poor communication systems;
- The heavy demand for consumption loans;
- The seasonality of activities;
- Extremely low absorptive capacity and lack of rural purchasing power;
- Extremely low level of small-scale economic activities.

Given the cumulative, chronic, and severe nature of their poverty, it is evident that, to be able to move out of the complex web of poverty, these groups need capacity more than capital. As a single strategy, it is unlikely that credit alone would be able to eliminate poverty in a context like this. Credit alone does not enable very poor women to overcome the complex reinforcing constraints of poverty, or the gender discriminations they encounter within the household, in the market and in public life. Industry-wide experience in microfinance suggests very strongly that making credit available to women

Table 2: Local perceptions and indicators of poverty

Indicator code	Indicator
Fo.1	Can't afford to eat rice twice a day. Have smaller quantity of rice barely once a day and seasonal inferior foods. Eat pulses/lentils only occasionally. Very little vegetables and cooking oil.
Fo.2	Food stocks hardly enough to sustain for half the year.
Fo.3	Everybody in the family does not get enough food to eat.
Fo.4	Can't offer special lunch for guests.
Cl.1	No separate clothes for daily/home use and outside use/special occasions.
Cl.2	Children often in half-naked condition, girls only wrap around with a towel.
Cl.3	Little winter clothing.
Cl.4	Can't afford footwear.
Ho.1	Lives in a small house (one or two rooms).
Ho.2	No separate cooking place. Same room used for cooking and living.
Ho.3	Sleeps on the floor on bamboo mat.
Ho.4	Rudimentary structure of the house with mud walls and thatched roofs, not strong enough to withstand heavy rains. Can't renew thatch every year.
Fe.1	Can't buy new clothes for household members during festivals/life-cycle events.
Fe.2	Can't afford animal sacrifice (a hen)/liquor during festivals.
Fe.3	Can't invite relatives or friends on festive occasions.

does not automatically mean that they have control over the use of credit, and over their income from microenterprise activities. For these reasons, CYSD's SHGs are designed with both economic and social components.

Poverty alleviation in this context means ensuring peoples' food security and reducing their vulnerabilities. The CYSD programme is therefore embedded in a broader programme for poverty alleviation and community development. Its components include human capital development, such as education, health and a range of different training programmes; development of natural capital

– for example, natural resource management; access to basic services entitlements, inputs and services to enhance food security; community group building; and capacity enhancement for improved governance as well as for programme sustainability after the withdrawal of the CYSD project.

5.1 Programme design process

This section discusses the programme design decisions made by CYSD in light of the type of poverty the organisation encounters. The contextual realities of the poorest on the one hand, and some of the conventional wisdoms in microfinance on the

other, initially raised some critical dilemmas which needed to be resolved in designing the basic structure of the programme. For the poorest households, opportunities for productive use of loans are limited, and the risks involved in taking loans that are repayable on the basis of a pre-defined tight schedule are very high. The most important dilemma in this regard, therefore, concerned repayment discipline versus overall participation. Conventional wisdom in microfinance suggests that too much financial discipline – for example, strict repayment requirements, penalties for delays – would deter the extreme poor from joining the programme, and that strict adherence to these standards may lead to high drop-outs. With a view to bringing the poorest households under programme coverage, the programme implementors realised there was a need for flexibility. Consequently, microfinance products and services were made more flexible to better reflect the realities of the poor women's lives; for example, clients were given a reasonable grace period for repayment.

Although borrowers repaid their loan instalments, there was high irregularity and almost every loan repayment was behind schedule. Nonetheless, the project tolerated arrears on the assumption that the poorest have the willingness, but not always the ability to repay. However, gradually this tolerance for arrears made repayment rates problematic for the project, threatening to destroy the very culture of repayment with increasing delinquency. Two things are of importance here. First, the role of the group as a mechanism for encouraging repayment didn't seem to work. Secondly, loan tracking became extremely difficult; CYSD found it difficult to know, and track, where the loans were going and to trace their impact. Further, the poorest household doesn't usually differentiate between "productive" and "non-productive" spending; loans are often seen as a way of addressing an emergent need – whether it is for food or festival expenses, treatment of illness, or the repayment of another debt.

Interestingly, however, the groups didn't collapse. Members continued to save and savings were accumulating even while repayment became a problem, reflecting the importance of savings services. Furthermore, as mentioned earlier, the SHG was not only an economic agent, but also acted as a broader social entity, in which poor women could be

empowered through their level of participation in the group. The programme thus needed the broader participation of the members of the group for its success, and for this reason, every effort was made to maintain the groups. Capacity-building and other support to the groups were intensified so that they were firmly established.

After about two years of the initial difficult formative stage of the project, there was a reinvigoration process starting from 1998–9, with some altered emphases on the basis of the learnings from the initial phase. The important points were:

- The life processes of the poorest people in remote rural communities don't move as fast as the logic of economy assumes;
- Savings services are of greater importance than credit in a risky environment. The poorest people prefer to safeguard and secure what they have, rather than put it at risk. Savings are an asset, giving them a sense of strength, freedom, and choice and providing an enabling strategy to withstand shocks as well as for risk management. Saving in a group is easier than individually;
- Non-credit instruments for poverty alleviation are extremely important for the poorest, and can even strengthen credit. Access to services other than financial are equally or sometimes more critical for the poorest;
- It is very important not to lose focus on sustainability.

6. The wider socio-political impacts of SHGs

This section discusses some of the wider social impacts resulting directly or indirectly from the establishment of the SHGs. Following Kabeer (article 10, this *Bulletin*), wider social impacts can be defined in two ways: (a) the effects of microfinance programmes beyond the immediate financial impact at the level of the individual and/or household; and (b) social impacts relating to the non-economic aspects of deprivation, which are captured by Amartya Sen's model of human capabilities. These multi-dimensional aspects of poverty include poor access to government services;

Table 3: Community proposals and demands

Villages	Proposals and demands presented by villagers	Effect of the action/level of effect
Village-I	Proposal for forest protection rights.	Forest protection right over 30 acres of forest land handed over to the villagers by the Forest Department of the Government of Orissa.
	Proposal for transferring legal right to their encroached land.	Eight households received legal right over their encroached land from the Tahasil office.
	Submitted proposal to the displacement officer for reasonable rehabilitation compensation on their displacement (due to dam construction).	All the villagers successfully received reasonable rehabilitation compensation on their earlier displacement.
Village-II	Proposal for a water-harvesting structure.	This was accepted by the Block Office in 1995 and the work has already started.
	Proposal for care feed system presented by the Mahila Samiti.	Villagers are getting palm sugar, wheat, sugar and other food items from the block office under the care feed system.
	Proposal for transferring legal right to their encroached land.	Eight households received legal right over their encroached land from the Tahasil office.
	Proposal for loan for starting a poultry farm had been given by the members of Mahila Samiti.	The bank has assured a loan for starting a poultry farm.
	Proposal for forest protection rights over 320 acres of forests which the villagers are already protecting.	No result as yet.
Village-III	Proposal for forest protection rights.	Forest protection right over 75 acres of forest land handed over to the villagers by the Forest Department of the government of Orissa.
	Submitted memorandum to the Tahasil office for releasing more canal water to the village.	According to the memorandum more water is being allotted to this village.
	Proposal for road construction under the JRY scheme.	This was accepted by the Block Office and a village road has been constructed.

vulnerability; dependence and powerlessness. In this section, wider social impacts fall into both categories of analysis; they pertain to effects beyond the immediate level of the household, which are manifested as communal changes; while these

changes respond to the non-economic dimensions of poverty highlighted by Kabeer and Sen. The impacts considered here are increased levels of socio-political awareness and empowerment in the community; raised levels of negotiating power; and

changes in community norms, particularly in terms of changing attitudes to gender expectations.

6.1 Community proposals and demands

A key indicator of tangible impact at the community level has been the number of proposals and demands presented by the villagers to public authorities concerning the problems and issues of importance to the community. This is an important indicator to measure the changes in the community, especially in the original context of the “culture of silence” which was prevalent in these communities before the project intervention. Some of these important changes captured in an earlier impact assessment study by CYSD (1998), in the context of its project location in Choudwar ten years after the project was launched, are presented in the following tables.

Table 3 gives an idea of the proposals and demands made by the village community to the government departments and mainstream agencies in relation to the problems immediately facing them. One broad set of demands emerging from all the project villages concerns their legal right to their resources, such as forest protection rights and legal right to their land.

The second major category of demands by the villagers concerns claims they are making on the mainstream institutions about implementing the publicly funded development programmes to which they are entitled. Usually, the poverty alleviation programmes of the mainstream agencies are not properly implemented because of the non-responsive attitudes of the officials and the bureaucratic complexities, but also due to a lack of awareness and a questioning capacity of the people for whom they are meant. The project villages have already displayed a capacity to “extract” these benefits from the mainstream agencies. Thus, for example, in villages II and III, the communities undertook construction of a water-harvesting structure and a village road, through the Jawahar Rojgar Yojana (JRY) – an employment generation scheme launched by the government. Similarly, in village-I the villagers submitted a proposal for reasonable compensation from the rehabilitation officer against an earlier displacement they were subjected to during construction of a dam.

6.2 Shifts in community norms and attitudes

Changes at a normative level in the community are another important indicator of intangible impact. Although it is very important for an indicator to be able to measure real changes in qualitative terms in the life of the community, these changes are also very complex and difficult to capture because they are intangible. The changing normative structure in the community was therefore measured through the use of “proxy” indicators of change at behavioural level.

By looking at changes at the behavioural level “proxies” for normative changes, some major changes in community norms were identified in the project villages. Examples of major areas of normative changes in the community relate to norms governing the status of women in the community and norms governing the exploitation/use of resources. Another very important change which has taken place over the years in the project villages is the shift from dependence on the government for any development initiative. People now feel that social problems and development initiatives are their own civic and social responsibility. This change in the value from dependence to self-reliance has a very great developmental significance.

6.3 Increased negotiating power

Villagers involved in the SHGs found that their bargaining power was enhanced as a result of being part of a strong group, and in addition they gained in confidence to negotiate better conditions and prices from buyers and contractors. Hence, while improving their financial status, the villagers also began to question the culture of vulnerability and dependence which had previously compounded their poverty. The villagers’ achievements included:

- In one community, villagers successfully negotiated with the subcontractors for a fair amount from the lease of cashew plants and sale of wood, from forests over which they had acquired the rights.
- In another community, the forest protection committee negotiated with two neighbouring villages and came up with innovative plans for regenerating the degraded forest area.

Table 4: Changes in community norms

Community norms		Example of behavioural expression of this change		
Before project	After project	Village-I	Village-II	Village-III
Social problems and development initiatives are the purview of the government.	Social problems and development initiatives are their own civic and social responsibilities.	Repair of community well, by the villagers.	High school running with village contribution (part of the teachers salary met by villagers). 'Social fencing' by villagers around social forestry fields.	Diversion of canal water to the field: construction and repair of village road.
Girl child should take care of younger siblings and help the mother in domestic household work.	Girl child needs to be educated equally as the boy child.	25% increase in girl child education.	80% increase in girl child education.	10% increase in girl child education.
Forests are abundantly there, which they can always rely on for their living.	Forests need to be protected and resources need to be regenerated.	30 acres of forest protection. 44.5 acres of social forestry.	320 acres of forest protection. 76.5 acres of social forestry.	75 acres of forest protection. 9 acres of social forestry.

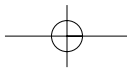
For further examples of wider impacts of the SHGs, in the context of rural Koraput, see Appendix 1.

7. Conclusion

The CYSD SHG programme is based on the assumption that development doesn't simply flow from an MFO, but germinates from the community upwards. It is very important to recognise that poverty is highly contextual and that the same strategies do not work effectively in all situations, but must be considered and tailored accordingly. The context in which CYSD operates is one of chronic, cumulative and severe poverty. In a situation like this, to be sustainable and effective, any poverty strategy has to focus on the structural causes of poverty, rather than merely on its symptoms. The SHG model generates development initiatives seeking to go beyond financial intermediation. The SHGs are "people-building" experiments in a grassroots-

upward development ethos. As the groups grow in capacity, the members increasingly use their intelligence, creativity and wisdom in problem-solving, and prove that they can be part of the solution rather than the problem.

As the article has demonstrated, although the poor in the parts of rural India where CYSD operates can be reached by microfinance programmes and can benefit from them, providing credit alone is not sufficient. According to CYSD's philosophy, poverty alleviation requires a holistic intervention and a coordinated policy framework. Microfinance is an essential component in the development process, but not the only component. If it is to achieve greater results and more sustained impact from scarce resources, it must connect with the mainstream development process and with other poverty reduction strategies, both at the micro and macro levels.



Appendix 1: Wider impacts of the programmes

a. Collective action to demand and ensure basic services entitlements

1. SHGs in the village of Dangajodi, Badlibeda, and Nuagaon were successful in demanding access to the Annapurna Scheme of the government for the eligible villagers. This is a scheme to provide 10 kgs of free rice a month to older people.
 2. On demands from the SHGs, the opening times of the retail outlet of the Public Distribution System in the *panchayat* were changed from once a week to every day, which suited villagers who lived several kilometres away and did not always have time to make the journey on the one day it was previously open.
 3. In the village Bagharaniguda, there was a serious problem of drinking water, so the SHG lobbied for the installation of a tube well in the village. This led to the installation of a tube well by the government.
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b. Collective action in protests/rallies

1. SHGs have actively participated in an anti-liquor campaign by organising rallies, lobbying liquor vendors, and making speeches in public forums.
 2. Organising and leading rallies at the *panchayat* level: on issues of environment on World Environment Day, a literacy rally etc.
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c. Collective action for village development

1. The SHG members of Parabadi actively participated in constructing a 3 km stretch of road as there was no approach road to the village. This track reduced significantly the walking distance to the *panchayat* (local government) headquarters. The work took three months and the SHG members voluntarily contributed their labour for this work.
 2. The community grain bank in the village Similiatal had become defunct in the last two years, so the SHG members decided to revive it. They also repaired a local community centre, which had become run down.
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