

women neighbourhood groups: towards a new perspective

**T M Thomas Isaac, Michelle Williams,
Pinaki Chakraborty, Binitha V Thampi**

The relatively recent phenomenon of women micro-finance Self Help Groups (SHGs) has received considerable attention from policy makers and social activists around the world. Micro-finance organizations, originally developed by social activists and organizations, have been increasingly incorporated into the policy prescriptions of international development agencies. This appropriation by international development agencies has brought considerable changes to micro-finance organizations in terms of motives, procedures, assessment techniques and policy frame work. It has also led to the dramatic acceleration in the creation of micro-finance groups around the world and have placed them at the center of many programme for poverty eradication.

Micro-finance organizations currently cater to 23.5 million clients around the world. The February 1997 World Bank-sponsored "Micro-credit Summit" declared the goal of expanding micro-finance coverage to include 100 million of the poorest of the poor by 2005. At the end of 1997 the United Nation's General Assembly adopted a resolution endorsing the declaration and plan of action of the "Micro-credit Summit" and called for the coordinated effort among member countries' international donors and the UN and World Bank system to include micro-finance as a primary tool for the eradication of poverty. The subsequent years saw unparalleled concerted international activity to revise the traditional framework for poverty alleviation programme, making micro-credit the key link to poverty eradication.

The entry of the world bank into the micro-finance arena and, promotion of the so called "best practices", emergence of the micro-credit industry, and growing evidence of micro-credit programme as part of the structural adjustment programme have made the left increasingly wary of the micro-finance and self-help group movement itself. A discussion of the internationalization of micro-finance and the left critique of the World Bank approach is presented in section 2 of the paper.

Micro-finance SHGs are generally seen as an effective local response to poverty alleviation for the world's poorest of the poor. The common model of micro-finance SHGs is underpinned by the belief that the lack of access to credit is the primary cause of poverty, and therefore access to credit is the primary solution to eradicating poverty. In addition to seeing access to credit as the primary remedy for poverty eradication, the model espoused by international development agencies conceives of a process that provides a minimal role for the state in poverty alleviation, but instead links micro-finance SHGs to NGOs. While agreeing with the left critique we wish to emphasize the advantages of micro-finance system for financing the poor, that are discussed in section 1, and there by inevitability of their adoption into the development paradigm.

The traditional poverty alleviation programme and targeted lending in India have failed to achieve their objectives. Apart from the problematic design and bureaucratic implementation, the failure to adopt a holistic view of poverty, the absence of democratic decentralized planning, and existence of a highly iniquitous caste system and agrarian relations are largely responsible for the failure in poverty alleviation. Instead of dismantling the entire anti-poverty programme and placing the sole

responsibility for poverty alleviation on micro-finance institutions, we argue for a model that joins the two and links them to local-level planning and participatory democratic processes (section 3).

We argue for women neighbourhood groups (NHGs)¹ that are embedded in the local community and organically linked with local self-governments. The Kerala experience gives compelling reason for a broader conception of development that links women micro-finance organizations to women empowerment in both the economic and political arenas and places them firmly within a broader development agenda such as implementation of agrarian reforms, development of social infrastructure, provision of public distribution and participatory governance. We conclude the paper with a brief discussion of the on going experiment of panchayats in Mararikulam attempting to realize the democratic potential of Kudumbashree NHGs.

Section 1

Significance of Micro-finance

Credit is vital to the poor for overcoming the inevitable and frequent mismatch between the income and expenditure and also for investment in their marginal farms or small-scale non-farm self-employment ventures. However their access to formal banking linking channels is limited due to their own low resource base and the nature of the formal credit institutions. The popularity of the micro-finance SHGs stems from widespread recognition that formal banking channels are largely ineffective in catering to the credit needs of the poor.

The transaction costs of the formal lending institutions in lending to the poor are high due to difficulties in screening the credit worthiness of the borrowers, monitoring the utilization of funds and enforcing repayment. Therefore the tiny savings and loans are an unattractive business proposition to the banks. For risk aversion, they demand collateral security that the micro-borrower does not possess. Further, they insist on procedures of formal banking that are too time-consuming and complicated for the illiterate poor. Even in the implementation of direct lending programmes formal institutions find it difficult to overcome the problem of targeting. The experience is that the rich and powerful typically manage to corner the scarce loanable funds.

As the formal banking channels remain largely inaccessible to the poor in India, the poor continue to be dependent on informal sector lending, paying exorbitant rates or underselling the product and their labor power to the creditors. It was in response to this situation that micro-credit mechanisms were innovated.

Informal community based small-scale savings and credit arrangements have existed in most of the traditional societies. For example, merry-go-rounds or similar systems of rotating savings and credit associations are one prevalent traditional lending system. The members make regular, periodic contributions to a common fund, which is lent as a lump-sum amount to each member in turn. In some parts of Kerala a variant of this system existed with coconut trees providing the basis of the common fund. A fixed number of coconut trees of every participant was set aside for the common fund. Informal system of credit rotation continues to be very popular even today especially in northern Kerala. Micro-credit systems have been innovated drawing on these traditional experiences.

The most popular form of modern micro-finance organizations is women SHGs (SHGs), consisting of a loose group of members who live in close proximity to each other and who meet at regular intervals (most often weekly). The primary focus of women SHGs is savings and loans: the groups collect regular thrift, the amount of which is collectively pre-agreed upon, from the members and provide loans from the thrift fund to members. The groups may also access loanable funds from financial intermediaries, including commercial banks, cooperatives, special government agencies, or non-governmental organizations.

The success and sustainability of this pattern of women SHGs stems from the fact that the weekly meetings create a mutual trust and bond among the members, which acts as a form of pressure ensuring regular repayment by the members. The system also caters to the saving needs of the poor through thrift collection. A further advantage of this system is that the group may diversify its activities to other social and economic objectives such as adult education, health education, health care, micro-enterprise development, etc.

There is no uniformity in the size of women SHGs with the range generally falling between twenty members and 100 members. One factor that has often kept group size small in India is the Company's Act, which limits the number of people who may associate to undertake profitable activity without registration to twenty members. While natural boundaries and geographical proximity in group formation has often led to the formation of larger groups. Though there is no uniformity in size, it is generally accepted that smaller groups contribute to better participation in the decision-making process and facilitate greater transparency, greater dissemination of information, and easier management. The larger groups, on the other hand, have greater potential for community-based action.

A number of women SHGs often develop within any given region and there are three principal forms of inter-group relations: nuclear, centralized, and federated. First, in the nuclear organizational structure each group is an independent entity with separate bank accounts. Groups based on the nuclear model may be linked to a central institution which provides training and guidance. But it should be stressed that the individual groups are autonomous and independent. While the nuclear model provides the greatest level of autonomy for the group, it often can not take advantage of economies of scale. In contrast, in the centralized model the central institution is the primary decision maker and acts as a financial intermediary for the groups with the banking institutions. The individual group's decision-making power is limited to things like deciding loan recipients within the group. The centralized system tends to be bureaucratic and delimits group initiatives, but brings the advantage of economies of scale. The federated system attempts to combine the positive aspects of both the above systems. While each self-help group retains full autonomy and independent bank accounts, they are federated at sub-regional and regional levels with a democratically elected apex body, which carries out the coordinating function, provides training and guidance, and if necessary helps procure external funds.

The celebrated Bangladesh Grameen Bank system is different from the above models of SHGs. The Grameen Bank is primarily a loan operation with little emphasis on thrift. The potential borrowers of the Grameen Bank are formed into groups of five members with groups linked to a loan center. Initially only two members of the group are given loans and eligibility of the other members is made conditional to regular repayment of the earlier borrowers. Hence, peer group pressure ensures timely repayment. While in the self-help group models outlined above savings is the initiator of group formation, in the Grameen Bank model group formation is centered on loan grants. A third impetus for group formation is micro-enterprise with group members involved in the common micro-enterprise activity.

Thus far we have discussed micro-finance systems based on group models (i.e. groups are the primary entity making loans and administering savings). Another very important system prevalent in the developing world is micro-credit lending directly to individuals (i.e. individuals are not part of any group and seek loans directly from the lending institution). In this model banks are the primary lending institution. This form of lending is very similar to formal bank lending or cooperative credit activity with the primary difference being the small size of loans involved. Repayment is often guaranteed through the practice of agents personally going to individual's homes.

The various forms of micro-credit systems have proven successful in delivering credit to the poor and ensuring high rate of repayment when compared to the formal channels. Because micro-credit

systems have been effective in reaching the poor, many developing countries have set up special financial institutions that either directly provide credit to SHGs and the facilitating NGOs or help refinance commercial and cooperative banks that provide the credit. These national micro-finance institutions are in turn funded by international agencies as well as the national government.

Chart 1
Comparison of Micro-finance and Formal Banking

Characteristic	Micro-finance	Formal banking
Size of Loan	Small/tiny size of credit	Medium/large credit
Duration of Loan	Short duration	Medium and long
Thrift	Emphasis on thrift as well as loan	Focus on loan only
Screening and Monitoring	Group formation and informal methods	Formal Procedures
Enforcement of repayment	Peer pressure and weekly repayment	Collateral and legal pressures for repayment
Nature of Organisation	Social organizational form	Commercial organizational form
Motivation	Self-help motivated	Profit motivated
Outreach	Access to poor without collateral (all members)	Access limited

and micro-finance channels. In contrast to formal banking, micro-credit is characterized by small size, shorter loan duration, emphasis on thrift, and the absence of collateral security and informal procedures. In the absence of collateral security and formal documents there can be little legal recourse against defaulters. Peer group pressure has proven even more effective than loan repayment mechanisms in the formal banking system. While the banking system is a purely commercial organization the lower tiers in the micro-finance system are social organizations and motivated by non-economic objectives.

Section 2

World Bank and the Micro-Credit Programmes

As we noted in the introduction, the World Bank's entry into the micro-credit arena has led to the rapid expansion of micro-finance organizations around the world. The effort of the World Bank is to integrate the micro-credit movement with the globalization process and to transform it into a complimentary component of its financial sectoral reforms. We shall now briefly examine the background of this development and then critically discuss the World Bank's perspective on micro-credit programme.

The intensification of globalization in the 1990s has been accompanied by a significant deceleration of the global economy when compared to the previous decade. A comparison of the per capita income between the 1960-1980 and 1980-1998 reveals that in every region of the world except China, there has been a sharp deceleration of growth in income (UNDP, 2000). This deceleration in world economic growth has also been accompanied by a widening of inequality between the developed and developing countries as well as between the rich and poor within countries. In other words, world poverty has worsened and even World Bank has not claimed a sharp reduction in poverty during the recent decades.

An important feature of global immiseration is the feminization of poverty, which refers to the fact that the burden of poverty unequally falls on women. Of the 1.3 billion poor of the world 70% are women. The UNDP estimates that during the period 1965-70 to 1985-90 the number of rural poor men increased by 30% while the number of rural poor women increased by 48%. Further, the statistics reveal a significant increase in the number of rural female-headed households most of which fall below the poverty line. The realization of the feminization of poverty and the growing criticism by a range of groups around the world has led the World Bank to support micro-credit schemes as a form of poverty eradication.

The World Bank's first official declaration on the topic of micro-credit came from its President at the 1995 International Women Conference in Beijing. At this Conference micro-credit was put forward as the solution to poverty eradication as well as a form of women empowerment. The World Bank then formed the Consultative Group to Assist the Poorest (CGAP), a programme within the World Bank, "to systematically increase resources in micro-finance." Though CGAP has a modest budget of 200 million dollars and does not make direct loans, it has emerged as the most influential actor in micro-credit programme through its selective grants, its coordinating role among donors, the funding of studies and research, and the promotion of what it considers "best practices."

The February 1997 World Bank-sponsored "Micro-credit Summit" in Washington DC was supported by a number of international developmental institutions, international NGO's and multi-national banks like Citicorp, Chase Manhattan, and American Express. The summit launched a global campaign to extend micro-credit to 100 million of the world's poorest by 2005. This micro-credit campaign especially targeted women of the poorest families and was meant to help initiate self-employment activities. By the end of 1997 the United Nations adopted a resolution endorsing the "Micro-credit Summit" and its plan of action. The UN now accepted micro-credit as a key instrument for poverty reduction and made it mandatory for member countries to coordinate their efforts with the global micro-finance campaign. The claim that micro-finance was the solution to poverty eradication dovetailed nicely with UN's declaration that the decade 1997-2006 was "United Nations' Decade for the Eradication of Poverty." With the UN endorsement CGAP formally emerged as the central coordinating mechanism of the worldwide micro-credit programme.

To reach 100 million of the poorest of the poor an estimated \$12.5 billion would be needed by 2005. By 2025 the projected additional demand for micro-credit was estimated at \$90 billion. The scale of projected demand in the micro-finance system may be appreciated in comparison to the 1995 estimate of actual micro-credit finance of \$2.5 billion (CGAP, 1995). To finance such a dramatic increase in micro-finance spending and to ensure this scale of fund flow, international financial markets would have to be tapped, as the resources of aid donors would simply not meet the demand. Moving beyond the resources of aid donors into the international financial market meant that micro-credit had to become a profitable avenue for international commercial lenders. What this effectively meant was that in order for micro-credit to be a viable solution to poverty alleviation it had to become financially self-sufficient and ideally a profitable venture. To ensure this, two options were tabled. First, the cost of micro-credit lending had to be minimized; and second, the income from micro-credit lending (i.e. the interest rate) had to be allowed to rise.

The pursuit of cost reduction has led to promotion of “best practices” that includes institutional efficiency in management, accounting, marketing, servicing, and product designs. The NGOs have been identified as the most cost effective method of providing micro-credit, extending the outreach, and ensuring recovery. By using NGOs as the intermediary it is generally believed that heavy overhead costs will be avoided and informal mechanisms more easily utilized. To channel funds to NGOs specialized national and regional institutions would be set up. The NGOs are encouraged to strive for financial self-sufficiency by meeting their expenditures through the margin permitted on the interest rate as well as the service charges collected from the SHGs.

With regard to the rising interest rate as a means for financing self-help programme, it is the World Bank’s view that the poor can both afford and are willing to pay commercial interest rates. Furthermore, they are more concerned with the timely availability of credit than the rate of interest. Because they believe the poor can afford and are willing to pay commercial interest rates, the World Bank opposes subsidies on interest rates. Thus, in some of the countries the World Bank has insisted on amendments to national laws on usurious interest rates and stronger debt collection laws.

If micro-credit institutions to become financially self-sufficient and their scale extended, it is important that the new system should not have subsidized competing alternatives and should be dismantled. For example, priority sector lending, subsidized credit schemes, and traditional rural credit institutions are among the various subsidized systems that compete with the World Bank’s micro-credit system and ultimately should be dismantled. In addition, the formal financial sector is allowed to withdraw from rural and small-scale sectors, which are to be serviced exclusively through SHGs and specialized financial institutions. Again, the micro-finance system is thus set up to ensure a profitable return to the international financial markets.

The result is the emergence of “the micro-finance industry.” At the international level, there are the multinational banks and other international financial institutions that lend to national-level micro-finance institutions (MFIs) at commercial interest rates. The national-level micro-finance institutions either directly lend to the NGOs or refinance the financial institutions that lend to the NGOs. At the bottom of the pyramid are the women SHGs. The idea is to that the spread of the interest rate structure should be such that every level— MFIs, NGOs, and SHGs— are financially self-sufficient and all absorb some of the interest rate costs. Thus, micro-credit programme are rendered a profitable venture for international finance capital, while also ensuring sufficient outreach and sustainability in order to make a dent in poverty.² Poverty eradication through women SHGs is thus made a profitable venture.

While the World Bank champions micro-credit as the panacea for poverty eradication, it conveniently ignores the fact that the globalisation policies are rendering the sustainability and survival of the self-employment activities that the micro-credit programme promote unviable (Singh, Dawkins and Wysam 1996). In order for such ventures to be viable they need to be part of a larger development agenda that includes linkages to product markets, local government programme, and community development. Underpinning this blindspot in the World Bank programme is the failure to see poverty as systemic and inherent to contemporary capitalist development. Focusing on lack of access to credit is an important factor in understanding the causes of poverty, but equally important are the distortions in other markets such as labour or product markets.

The strategy for poverty eradication is bound to fail if it is viewed as a substitute for social sector spending in areas such as education, health care, shelter, drinking water and nutrition. Poverty and solutions to poverty must be addressed in a holistic approach, which includes a role for subsidized credit without which many poor will be priced out of the market. The price and cost of the credit is as important as the availability of credit (or any service) for the poorest of the poor is.

While micro-credit programmes have certainly proven successful in reaching the poor, the effectiveness of micro-enterprises as the chief agency in poverty alleviation has yet to be proven. Thus far we have focused on the structure of the World Bank-sponsored micro-finance institutions. An understanding of the aspirations and desires of the poor will be crucial for effectively developing a long-term poverty eradication programme. For example, do people want to be in micro-enterprise production, or rather are their aspirations to become a waged worker? Indeed a major portion of the poor hails from the wage labourer class. Appreciating the desires and aspirations of the group targeted should not be underestimated in the long-term viability of any programme.

In addition to poverty eradication, it is further argued that women SHGs empower women through the availability to credit, employment, and higher income. The extent to which micro-credit organizations actually help to empower is unclear at best. Many argue that women role in these organizations merely translates into them becoming a conduit for credit to the family where the loan is appropriated and controlled by men. While the men control the funds within the home, the women bear the responsibility of loan repayment. It is further argued that many of the self-employment activities of these groups reinforce traditional female roles and the gender division of labour, while at the same time often contribute to an increase in the burden and workload of the women as their responsibilities in the home have not lessened with their involvement in women SHGs. Such arguments tend to highlight the importance of a holistic approach to poverty eradication and women empowerment.

Section 3

Evolution of Kudumbashree Neighbourhood groups

The evolution of poverty alleviation programme and micro-credit in India has been characterised by certain distinctive features that are in contrast to the current international trends we discussed in the previous section. First, in India there has been an emphasis on social banking in the provision of credit to the poor. Second, a large number of state-designed and implemented poverty alleviation schemes have been part of the five-year plans. And third, an extensive network of nation-wide administrative infrastructure has been developed in order to implement the poverty alleviation schemes. We shall briefly review these three features before we discuss the experience of Kerala State.

Debt bondage was an important ingredient of the semi-feudal system that existed at the time of independence and a major cause of poverty and agrarian stagnation. In 1951, 92.8% of credit to rural households in India was being met by the informal sector, mostly at ruinous usurious interest rates. Informal moneylenders supplied 46% and rich farmers, landlords and merchants supplied 34% of the rural credit. Therefore, the development strategy during the initial plan periods laid considerable emphasis on the spread of co-operative networks in the rural areas. By 1971 the share of co-operatives in the rural credit had risen to 20% (see Table 1). In 1969 the leading banks were nationalized and public ownership was utilized to extend bank credit to the rural sector by rapidly expanding the rural bank branches and directing lending to priority sectors. As a result between 1971 and 1991 the share of the commercial banks on rural credit increased from 2.2% to 33.7%.

Table 1 Distribution of Rural Credit by Source

Source	1951	1971	1981
Government	2.7	6.7	6.1
Co-operatives	3.5	20.1	21.6
Commercial Banks	-	2.2	33.7
Insurance	-	0.1	0.3
Provident Fund	-	0.1	0.7
Others	-	-	1.6
Total Formal Sectors	7.2	29.2	64.0
Landlords	3.5	8.6	4.0
Farmers	25.2	23.1	7.0
Money Lenders	46.4	13.8	10.5
Merchants	5.1	8.7	n.a
Friends and Relatives	11.5	13.8	5.5
Others	1.1	2.8	9.0
Total Informal Sectors	92.8	70.8	36.0

The 1970s witnessed rapid expansion of targeted poverty alleviation programme attempting to increase the self-employment opportunities and wage employment for the poor. The most ambitious of them was the Integrated Rural Development Programme (IRDP), a credit based self-employment programme with substantial backend subsidy. In 1982-83 Development of Women and Children in Rural Areas (DWCRA) was launched as a sub-scheme of IRDP, which facilitated women taking up self-employment in groups. Larger loans and subsidies were provided so that economically viable non-farm enterprises could be started through group activity. Special schemes for providing training and tools for the self-employed were also launched. During the latter half of the 1990's the IRDP and related schemes were integrated into a more holistic programme of Swarnjayanthi Grama Swarozgar Yojana (SGSY), where the emphasis is on SHGs of rural poor. Besides, promotional social security measures such as shelter, drinking water, mother and childcare, sanitation, primary education have also been given emphasis in the rural development programmes.

The Community Development Blocks that had been introduced during the second five-year plan became the focal point for implementing the rural poverty alleviation programmes. Yet another important administrative network was the Anganavadi (Mother and Child Care Centers) through ICDS programme. In addition to these programme targeting rural poverty, there are 90,000 primary agricultural co-operative societies and nearly 60,000 commercial and rural banks catering the rural population throughout India.

Despite the above efforts, it remains doubtful to what extent poverty has been alleviated. Indeed, it appears that rural poverty persists without a viable solution. Though a significant transformation in the credit profile of the rural sector has been achieved, as is evident from Table 1, the majority of the rural poor still remain outside the reach of formal credit channels. One estimate is that only 20% of the 60 million households falling below or marginally above the poverty line have access to formal credit channels. As per the rural credit and debt survey the share of non-institutional credit sources was 58% in the case of the poorest group (owning less than rupees 5,000 in assets) as against 19% among the highest asset group (owning more than rupees 2 lakh in assets). A host of studies have shown the poor performance of IRDP in terms of targeting, improvement of skills and earnings, and financial viability. Given this background there has been a growing emphasis on schemes of micro-credit and promotion of self-help group mechanisms. There is a growing danger that in the new international environment, the micro-credit schemes will replace the traditional programmes and

institutions and be championed as the only solution to rural poverty. It is in this context that the experience of Kerala assumes significance.

Kerala is one state, which has been successful in achieving a perceptible reduction in poverty (official statistics show it to have achieved the sharpest reduction in the proportion of households below poverty line during the recent decades). The success of the Kerala has realized through a holistic approach emphasising structural changes such as land reforms, public provisions of health, education, and other social infrastructure, a universal public distribution system and, more recently, community participation through decentralised planning.

The challenge is to link the micro-credit programme with the structural changes in the rural areas, the emerging Panchayat Raj Institutions, and participatory local level planning. SHGs are not a substitute for, but a complimentary part of other poverty alleviation and social security programme. The Kudumbashree Neighbourhood groups (NHGs) introduced during the late 1990s was a conscious attempt to develop such links and deepen the democratic potential in these programmes.

The genealogy of Kudumbashree takes us to the Community Development Society (CDS) innovated in Alappuzha Municipality in 1993 while implementing UNICEF assisted Urban Basic Services for the Poor (UBSP) and Community Based Nutrition Programme (CBNP). The poverty index on the basis of simple exclusion criteria was evolved to identify the poor through a participatory process. High risk (poverty) is defined as the presence in a family of four or more of the following nine risk factors:

- (i) Family belonging to Schedule Caste/Schedule Tribes,
- (ii) Five with children under five years old,
- (iii) Family having even one illiterate adult,
- (iv) Family with only one or no adult employed,
- (v) Family living in Kutcha house,
- (vi) Family without a household latrine,
- (vii) Family with no access to safe drinking water,
- (viii) Family consuming only two or less meals per day, and
- (ix) Family with an alcoholic or drug addict.

Families with four or more of any of the above risk factors were identified as poor, and subsequently organized into Neighbourhood groups. The Neighbourhood groups were federated at ward level as Area Development Society (ADS) and at Municipal levels as Community Development Society (CDS). The risk index analysis gave a picture of the multiple needs of poor families, which then was used for planning purposes and transparent criteria for prioritisation during implementation. The micro-plans at the Neighbourhood group level are consolidated at ward level and then integrated to form an Action Plan of the CDS. In addition to micro-credit, health, nutrition, education and women status were built into the programme. A volunteer from each NHG facilitates each sector.

The Alappuzha CDS was a remarkable success and gained international recognition by receiving “We the People Award” in 1995. Because of its success, it was decided to extend the Alappuzha model to all other municipal towns in the state. The centrally sponsored urban poverty alleviation programmes was incorporated into the CDS. Statutory provision was made to allocate 2% of municipalities’ own revenue for poverty eradication through CDS structure. An Urban Poverty Cell was also constituted at the state level to coordinate the CDS activities.

Another important development was the extension of the CDS scheme to the whole of Malappuram district as post total literacy programme. The enthusiasm of the literacy campaigners was harnessed to identify the poor and organize the CDS structure at the panchayat and municipal

levels. Based on the success of Malappuram the programme was extended to the entire state and a committee was constituted with representation of NABARD, Department of Local Administration, and the State Planning Board. On the recommendations of the committee, the Kudumbashree Poverty Eradication Mission was constituted and the CDS programme in the Malappuram district and urban municipalities was brought under the mission.

At the same time the People's Plan Campaign was launched, which was a statewide campaign that included devolving 35% to 40% of state funds to local self-government institutions (LSGIs). Many of the functions related to the provisioning of basic needs, employment and income-generating activities in agriculture and other small-scale sectors were devolved to the local self-governments. A mass campaign, similar to the total literacy campaign of the late 1980s, was launched in order to empower the LSGIs to prepare the local plans in a participatory and transparent manner. The success of the democratic decentralisation process had significant implications for the anti-poverty programme in the state. With the LSGIs spending Rupees 500 to 600 cores annually for programme targeting the poor, it was evident that the Kudumbashree Neighborhood group system would have to be closely integrated to the local plans. Peoples Plan Campaigners saw NHGs as a powerful and potential mechanism for ensuring sustained participation in plan formulation and implementation.

The objective of the People's Plan Campaign was not to reproduce miniature versions of the bureaucratic centre and state governments. The attempt was to create a new participatory model of local-level governance. The existing constitutional mechanism, the grama sabhas, proved to have too many limitations in the context of Kerala. They were too large and their boundaries purely administrative. Therefore, NHGs of 20 to 50 families were formed below the grama sabha with each family having a male and female member. The ward-level committee of the NHGs acted as the Executive Committee of the Grama sabha in many cases. A panchayat-level development council was also formed. The NHGs were delegated many of the powers of the grama sabhas and invariably met before the grama sabhas were convened. This system of NHGs as a sub-structure of the grama sabha was innovated in Kalliyasserri Panchayat under the KSSP (People's Science Movement) action research programme. The model spread to around 200 panchayats under the People's Plan Campaign with varying degrees of effectiveness of the NHGs. The sustainability of participation in these local participatory bodies was a serious concern of People's Plan Campaign.

A simultaneous development was the rapid spread of women SHGs. In most cases, the general Neighbourhood groups took initiative in the formation of women SHGs engaged in micro-savings and credit activity. Many women SHGs were also formed independent of the general NHGs. The enthusiasm for the women SHGs stemmed from special focus placed on gender in People's Plan Campaign.

Ten percent of the plan outlay of the local plan was set apart for projects that were directly beneficial to the women and, most importantly, directly managed by women. These projects were to constitute the Women Component Plan (WCP) and the women SHGs came to be accepted as an ideal organisational form of management for the WCP's projects. In addition, the plan guidelines also permitted financial assistance to women SHGs.

The women SHGs were much more self-sustaining and regular in their activities than the general NHGs. This led to the question of whether the two, NHGs and women SHGs, could be integrated. It was decided that the women SHGs could be formed as sub-sets of the general NHGs. The women SHGs would function on a regular and continuous basis, while the general NHG could be convened when occasions warrant. The integration of the two groups offers one solution to the problem of sustained participation.

In the first phase of extending the Kudumbashree SHGs to the rural areas, an additional problem emerged with regard to a family's status on the poverty index. In almost all the panchayats the women SHGs were composite groups of families below poverty line (BPL) and above poverty line

(APL). The question arose as to whether women from APL families should be excluded from the SHGs.

There were three primary arguments in favour of excluding women from the APL families. First, composite groups may undermine the objective of targeting the poor as some funds were specifically earmarked for BPL families. If women from APL families were included the exclusive focus on poverty eradication would be diluted. Second, the presence of APL families could undermine opportunities of the BPL, which ultimately could adversely affect the social sustainability of the group. Third, the groups upon which the model was derived (i.e. groups in the urban area and Malappuram district) were exclusively BPL families.

The different arguments for and against including APL families stems from the different understanding of the role of women SHGs. One view sees women SHGs as an instrument for the implementation of governmental programme, while the other sees them also as part of a larger social and democratic process. A poverty line in terms of income level or deprivation, however defined, cannot be the basis of social classification. In other words, the dividing line between families below the poverty line and those above the poverty line is vague. A more nuance understanding would recognize that most of the families are likely belong to social classes of marginal farmers, artisans or wagedworkers. Recognizing the arbitrariness of such demarcations, does not deny the necessity for a clear demarcation of the poor for the implementation of government programme. Therefore, from the perspective of social development it would be better to evolve such demarcation through participatory processes as well as develop strict mechanisms to guarantee against the leakage of funds. The transparency and the social consensus in the selection of poor would be a stronger guarantee than any bureaucratic procedure against the misuse of funds. For many activities like micro-savings and credit operations all members can participate, and for those subsidised programmes, like micro-enterprises, only individuals from BPL families will be eligible.

Some argue that the presence of APL families will render women NHGs too heterogeneous, while others counter this with the argument that gender and neighbourhoodness render adequate cohesion. An additional fear raised was that upper and middle class families would dominate the groups, which again was largely found to be an exaggerated claim as women from such social strata are normally not interested in micro-savings and credit. Furthermore, the strict enforcement of rotating the weekly meetings among every household proved a sufficient deterrent against such elite strata. It is the poor families, those below and just above the poverty line, who are eager to participate in women SHGs.

A compelling reason to include women from the APL families in the women groups is that it is precisely from these lower-middle class strata that the grassroots-level leadership in Kerala hails. Depriving the SHGs of this leadership is likely to exacerbate any tendencies toward bureaucratic and patronage control as well as the control by men. Furthermore, excluding women from APL families reduces the potential of women SHGs acting as general community fora. An alternate suggestion on having separate SHGs for BPL and APL families can be socially divisive.

It is also important to note that the dramatic reduction of poverty in Kerala has not been due to targeted poverty alleviation programme, but rather due to larger social processes. The democratic decentralisation process aims at a fundamental transformation of the economy of the society. Through participatory local-level planning it offers an opportunity for another round of dramatic reduction in the poverty level in the state.

After extensive discussions, a few modifications were made when the Kudumbashree scheme was extended to the other panchayats. While the existing groups under Kudumbashree are exclusively for BPL families, thenewly-joined panchayats have included membership open to APL families. The new groups are called Kudumbashree NHGs. Another change was the decision to not have any federating structure above the panchayat in order to discourage unhealthy tendencies of the vertical

programmes. Specifications were also made to ensure that Kudumbashree NHGs are organically linked to the local self-governments and the local plans. Subsequently in the revised guidelines issued while extending the coverage of Kudumbashree to rest of the rural areas of the state, the official position has reverted back to exclusive membership to BPL families.

Section 4

The Mararikulam Experiment

We identified the potential for Kudumbashree women Neighbourhood Groups (NHG) as a genuine alternative to the mainstream models of women SHGs espoused by the World Bank in their profit-oriented and NGO-led model as well as the state-managed traditional Indian model. The challenge is to develop an effective network of women NHGs with organic linkages to both local self-governments and broader NHGs of the local community. In addition to the role they play as micro-credit and micro-enterprise organizations, women NHGs are an effective instrument for women empowerment more generally as they directly link women to political and economic structures in the community and help provide a basis from which women can actively participate in the public realm.

The panchayats in the Mararikulam experiment provide one of the best terrains in the state to take up this challenge. The panchayats in this region have been in the forefront of the People's Plan Campaign in terms of physical outcome, quality of participation, transparency and innovativeness. Kanjikuzhy panchayat has been twice adjudged the best panchayat in the state and three others the best in the district.

The region has a strong tradition of NHGs. On the eve of the People's Plan Campaign the Kanjikuzhy panchayat had launched the highly successful People's Vegetable Cultivation Programme with NHGs as the key organisational network. After the initiation of the People's Plan these NHGs began to function as general community micro-organisational subsets of the grama sabhas. Based on the success of the Kanjikuzhy NHGs, similar NHGs were organised in other panchayats with varying degrees of effectiveness.

Women micro-credit SHGs linked to the general NHGs also began to emerge, the most notable of which was in Muhamma panchayat. Voluntary organisations relating to church, Gandhi Smaraka Nidhi, and the environmental movement played an important role in the spread of SHGs. The panchayat representatives and People's Plan activists from the area played an active role in the NHG groups convention organised in Thiruvananthapuram in 1999 and subsequent deliberations of linking self-groups to local self-governments, which we have already discussed in the previous section.

It was because of this rich experience in SHGs in the area that six out of the eight panchayats were selected in the first batch of panchayats for the Kudumbashree programme in 2000. Kudumbashree pattern was adopted by the other two panchayats and have since been included in the scheme. At present there are nearly 1,500 Kudumbashree Women NHGs with nearly 31,000 families as members. This constitutes around 50,000 of the households of the region. The date distribution of the NHGs shows that only around 7% of them were in existence during June 2000 and 40% formed between June and December 2000, immediately after the panchayats were included in the Kudumbashree programme. Another 27% formed between January and June 2001. The rest have been formed during the last year since June 2001. It is expected that the coverage of women NHGs would continue to increase rapidly in the course of the current year so that around 75-80% of the households will be represented in the NHGs.

What motivated the group formation process? Table 1 presents the results of responses of NHG office bearers to a questionnaire canvassed during the last quarter of 2001. It is seen that the non-economic motives have been equally important as economic motives in the formation of the NHGs.

The respondents were asked to give three important reasons for the formation of the group. The answers had been classified into broad groups and their distribution has been tabulated. 30% of the respondents identified poverty eradication as the primary motive for forming the group. Nearly another 12% responded that motivation was “area development”. Another 11% thought that the NHG would further their employment prospects. Surprisingly only 7% identified credit or escaping from the clutches of moneylenders as the primary motive for NHG formation. It is true that the number of respondents who identified credit as second and third most important reason was considerably higher. Nonetheless the data definitely points to the fact that the economic expectations of the NHG members are much larger than narrowly defined credit.

**Table 1:
Distribution of NHGs by the motive for group formation**

Motive	First Motive		Second Motive		Third Motive	
	No.	%	No.	%	No.	%
Credit/Escape from moneylenders	46	7.2	76	13.0	97	21.7
Employment prospects	67	10.6	106	18.1	71	15.9
Area Development	73	11.5	38	6.5	7	1.5
Poverty Eradication	191	30.1	76	13.0	22	4.9
Government help	1	0.2	0	0	0	0
Savings	38	6.0	56	9.6	0	0
Co-operation	105	16.5	28	4.8	100	22.3
Empowerment of Women	65	10.2	178	30.4	130	29.1
Others	49	7.7	28	4.6	20	4.6
Total	635	100	586	100	447	100

The empowerment of women was the primary motive of 10% of the respondents and for another 30% it was the second and third most important motive. Women empowerment has been used as a catch-all phrase for various expressions denoting improving status of women, strengthening women collective function, and resisting violence against women, etc. Nearly 17% stated the desire for greater cooperation among women as the most important reason for forming the group.

The groups consist of one woman per family in the neighborhood. What are the characteristics of the women in the groups? They are predominantly younger female members of the households—27% are below the age of 30, and 43% are between the age of 31 and 40. Less than 6% are above the age of 50. The educational level of the members is also fairly high: 55% have school-leaving certificates, 13% have pre-degrees, 7% graduate degrees, and about 1% have post-graduate degrees. There were hardly any members (less than 1%) who were illiterate, and those who were came almost exclusively from the older generation.

The socio-economic characteristics of the members broadly reflect the regional socio-economic pattern with the notable absence of middle and upper class women. In the women NHGs 70% of the members come from the BPL category. As can be seen from Table 2, 38% of the NHGs consist of more than 90% of the BPL. Equally significant is the fact that in 31% of the NHGs BPL members are a minority (i.e. below 50%). This situation underlines the importance of prioritizing the NHGs by the incidence of BPL families so that preference is given to NHGs with a higher percentage of BPL families. Even though under the guidelines of the Kudumbashree scheme the size of the group could be as large as 40 members, the majority (54%) of the NHGs had less than 20 members. Another 27% had membership between 20 and 25 (see Table 3). As mentioned above,

there are certain advantages of small-sized groups such as fostering a sense of solidarity and greater cohesion within the group.

Table 2:
Distribution of NHGs by Proportion of BPL Families

Proportion of BPL families in the NHGs	Number of NHGs	Percentage distribution
Below 30%	89	13.12
Between 30% and 50%	120	17.70
Between 50% and 70%	93	13.71
Between 70% and 90%	122	17.99
Between 90% and 100%	254	37.46
Total	678	100

Table 3:
Distribution of NHGs by Number of Members

Size Class	Number of NHGs	Percentage Distribution
10-15	126	16.11
16-20	299	38.24
21-25	209	36.73
26-30	101	12.92
31-40	47	6.01
Total	782	100

All NHGs collected savings and deposited the weekly collection of 10 Rupees in their collective bank accounts. Only in rare instances were larger amounts being collected. 75% of the groups maintain their accounts with branches of the Co-operative Banks. None of the groups were receiving loans from the banks. Therefore, all the groups were circulating most of their savings. Almost all the groups charged 24% per annum interest on the loans. Micro-credit and savings operations constituted the most important activity of the group.

Table 4 presents the reasons for loan requests of members. In 75% of the NHG medical costs ranked as the most important reason for requesting a loan. The medical expenses pushing the poor into debt is a revealing comment on the priority given to health care and also an equally telling comment on the status of the public health care system. Loans for educational purposes ranked as the second most important reason for loan requests. This indicates that free tuition for public schools does not imply free education. Almost all families are forced to borrow in order to meet the extraneous educational expenditures at the beginning of every school year. The distribution of priorities narrowed significantly by the third most important reason for loan requests (weddings ranked as the third most important reason). Loans for production purposes are subsumed in the category “others” and did not rank as a high priority.

Table 4:
Distribution of the NHGs by Reasons for Loan Requests
Numbers and Percents of Households

Reason	Most	Percent-	Second	Percent-	Third	Percent-
	Import- tant reason		most import- ant reason		most import- ant reason	
Medical	584	74.8	35	5.5	16	2.7
Education	71	9.1	450	70.6	78	13.0
Debt Repayment	38	4.9	30	4.7	87	14.5
House construction	24	3.1	33	5.2	78	13.0
Consumption	18	2.6	26	4.1	97	16.2
Wedding	20	2.3	50	7.8	222	37.1
Others	26	3.2	13	2.0	20	3.3
Total	781	100	637	100	598	100

Even though most of NHGs were relatively young in age and only 6% were bank-linkage grade, most were systematic in their functioning (e.g., weekly meetings and maintenance of registers). The bookkeeping and registers were an important aspect of their functioning: 99.9% of the NHGs had minutes books and 81% claimed to have maintained detailed minutes; 91% of the NHGs had proper financial registers and 94% had membership registers; and 90% maintained separate loan registers. Within a short period of existence the NHGs had taken to systematic functioning, regular savings, and circulation of savings through micro-loans to members.

What are the challenges to the women NHGs in Maraikulam during the coming years in order realize their potential as an alternative to the models outlined above?

First, the outreach of the NHG network has to cover from the present 60% of the households in the region to 80% to 90% of the households. Only then can the NHGs become truly micro-level organizations representing the community at large so that they can act as grassroots tier of local governments and thereby an instrument for sustainable participation. It is in this context that a controversy between the NGO-led SHGs and the panchayat-coordinated women NHGs assumes significance. As against 1,500 Kudumbashree women NHGs there are nearly 500 SHGs organized by the church, voluntary organizations, and caste groups. Most of the latter were formed much earlier than the introduction of the Kudumbashree scheme in the area. In addition there are nearly 300 SGSY SHGs that have been formed by the Rural Development Department as well as savings groups formed by the fisheries department as part of the lean season insurance scheme. All these micro-organizations from different agencies will eventually have to be integrated with the Kudumbashree in order to avoid duplication and also to ensure universal coverage of Kudumbashree groups. The departmental schemes have proven to be as resilient to change as the NGO-led SHGs. There has been severe resistance to efforts at integration from different quarters.

With respect to the Rural Development Department SHGs an understanding has been reached that no new groups will be formed and the existing ones will be integrated in the long run with the Kudumbashree NHGs. Such a solution has thus far not been reached with the NGO-led SHGs. The broad approach for integration revolves around three cardinal principles: a) the coordinating role of the panchayat, b) the neighborhood is the unit of organization, and c) the autonomy of the NHG.

The SHGs presently under the NGOs are free to affiliate with the panchayat-level society of the Kudumbashree NHGs. Such affiliated units can continue to have their special relationship with the NGOs or even have them as their formal facilitators, because each self-help group would remain autonomous. However, the federating structures at the panchayat and ward levels will be the prerogative of the panchayat as the coordinating mechanism. The affiliated groups can take their own time to change over to the standards of Kudumbashree NHGs. In the long-run they would have to open the membership to anyone in the neighborhood who would like to join them.

Based on the above principles there is no reason for a controversy if the NGO is open to understanding the implications of democratic decentralization and the transformation that has been brought about by the People's Plan Campaign. It is also true that the elective representatives must also change their mindsets to more transparent and participatory governance systems. To bring about such attitudinal changes and integration of the various types of NHGs and SHGs is the major challenge before the Mararikulam experiment in the coming years.

Second, the women NHGs as composite groups of BPL and APL families is important to devise mechanisms to ensure priority for the BPL families and to guarantee that the subsidies for the poor are effectively targeted. This is an issue we discussed at length in the previous section. In Mariakulam the following strategy is proposed: a) the NHGs will be ranked and prioritised by the proportion of BPL families; b) exclusive self-reliance groups of BPL families will be created as subsets of the NHGs for micro-enterprise programme; and c) the group members will be extended individual support and credit under SGSY so that the subsidy component is not shared with APL families.

Third so far the NHGs have been confined to micro-saving and credit operations. The challenge now is to move towards large clusters of micro-enterprise with strong back ward linkage in local resource base and assured adequate market linkages for the products.

Fourth, the issue of transforming the women NHGs into genuine instruments of women empowerment must be addressed. As we have already noted in section 2 neither micro-credit nor micro-enterprise by themselves will necessarily lead to the empowerment of women. Empowerment requires a conscious intervention for which the economic activities play a facilitative role. The challenge is to design and implement a gender awareness programme for women and men that is linked to their daily life experience.

Fifth, the issues related to the potential of converting the women NHGs into neighborhood community forums of both men and women will need to be developed. The possibility for such conversion has been demonstrated by the anniversary celebrations of the NHGs which in most cases were day-long events in which members from the entire community, including both men and women participated. If this experience could be generalized we can have general NHGs as an expanded form of women NHGs. This would provide an ideal solution to a major problem that has been plaguing the People's Plan Campaign activists— the problem of sustainability of popular participation.