

WORKING PAPER **303**

The Vulnerability of ‘Self-Help’: Women and Microfinance in South India

K. Kalpana
April 2008



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Summary

Self-help groups (SHGs) play a major role in providing microfinance in India. But they do not work alone. State institutions are also a big part of the microfinance landscape. They promote and finance SHGs, and also interact directly with them. How does this kind of ‘institutionalised co-production’ in service delivery work in practice?

My research shows that the relationships are not symmetrical. When they seek access to bank credit, women’s groups are in a dependent relationship, and are subject to, and tarnished by, the institutional imperatives, systemic corruption and political compulsions that shape the behaviour of rural development bureaucracies and banks. Part of the problem lies in a legacy of bank staff mistrusting borrowers due to arrears from previous credit granted under a different set of public schemes. Banks still try to recover old loans, and sometimes grant new loans to women’s SHGs conditional on repayments by their male relatives. Women consider the ways in which bank officials assess credit-worthiness of SHGs as sometimes being discriminatory and suggestive of caste-profiling. Since banks, as institutions, are not very sensitive to the realities of their SHG borrowers, the quality of the relationship often depends on the attitude of the bank’s branch-manager. Success in accessing loans is often contingent on how SHGs, bank staff, government officers and non-government organisations collude to subvert the official objective of the loan programme – enterprise-promotion. Manufacturing evidence about non-existent enterprises involves substantial costs and risks for SHGs.

Providing financial services in rural India is now a profitable venture and is attracting private financing institutions, including transnational banks. My research suggests that we need to enquire further into the power dynamics that underlie relationships between the poor people using the financial services and their providers.

Keywords: Self help groups, microcredit, Tamil Nadu, co-production, gender, caste, banks, development bureaucracy, enterprise loans, policy subversion, corruption, power relations.

K. Kalpana has worked extensively with a non-governmental organisation which organises women through self help groups in rural Tamil Nadu. Kalpana is currently doing a PhD at the Madras Institute of Development Studies (MIDS) in Chennai.

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1 Introduction

There is an increasing awareness that there is a market for financial services among poor people in the rural and urban areas of developing countries. Many new organisational arrangements involving different institutional actors have evolved in recent years. We are also seeing innovations in lending technologies that allow these markets to be tapped effectively at reduced transaction costs. One popular strategy is to forge financial linkages between formal credit institutions, on one side, and on the other, various semi-formal financial service providers and informal community-based groups of poor people (Pagura and Kirsten 2006).

A significant institutional arrangement for the delivery of financial services to the poor is the 'promoter' model of microcredit (Rutherford 2000) 'wherein agencies, usually development non-government organisations (NGOs), provide training and other support services to help poor people set up credit systems that are owned, controlled and managed by the poor themselves. In India, the main mode of accessing microcredit, especially for poor women is through neighbourhood-based peer groups or self help groups (SHGs). They begin by pooling savings for use as intra-group loans. User-managed and member-controlled, SHGs which are sometimes called 'micro-banks' (Harper 2002a) and 'community-managed loan funds' (Murray and Rosenberg 2006) are also part of the promoter model.

Along with the growth of SHGs in India since the 1990s, innovative schemes too have developed, to encourage financial linkages between SHGs and formal banking institutions. The aim was to improve the use of the country's well-established nationalised banking infrastructure, and to help poor people (previously seen as credit-unworthy) have better access to credit. In 1999, the state introduced an anti-poverty programme (the SwarnJayanti Gram Swarozgar Yojana) that uses SHGs as organisational channels to deliver credit-cum-subsidy assistance to households below the official poverty line, to encourage poor people set up self-employment activities. Anti-poverty programmes such as this, although different in intent and design from the credit linkage schemes, open up legitimate ways for SHGs to source credit-based development resources from banks.

How can we conceptualise these linkages between informal, community-based women's groups and formal institutions, in the context of the state's developmental policies and how they are delivered? Research on effective public service delivery shows that organisational arrangements involving direct users of services, assume unconventional or even 'hybrid' forms, often blurring the boundaries which divide the public sector from the private. 'Institutionalised co-production' (Joshi and Moore 2004) – the provision of public services through regular relationships between state agencies and organised citizens' groups – is a useful framework to understand how SHGs work with public sector banks and the state's rural administrative departments.

Various state institutions play a key role in the SHGs-based microfinance landscape in India. They promote and finance SHGs which involves their *direct* interaction with village-level women's groups. SHGs too pro-actively seek to cultivate and strengthen relationships with public sector banks and state rural

administrative departments, which increases their direct interaction with these institutions. Government literature and independent research on SHGs is generally positive about these relationships and sees the very existence of such relationships as evidence of women's empowerment.

It is true that SHGs bring opportunities for women's grassroots collectives to build contacts with influential people and gain access to those in power. My research too has found that several SHG members have been able to widen their social network. However, SHGs' interactions with powerful institutional actors – the terms on which women's groups are accepted within bank lending practices and poverty-alleviation programmes – need to be clarified. We need to understand how SHGs negotiate their interests when they face overwhelming pressures.

My research shows that SHG members' access to bank credit and credit-based development schemes does not automatically or easily follow when SHGs are formed and functioning successfully. Women's groups seeking bank credit are subject to pressures such as rules and other requirements of the banks, and corruption and political compulsions of the state rural administrative departments. Whilst on one hand, the relationship between public agencies and societal actors is collaborative, on the other it is often marked by conflict, tension and antagonism.

In this paper, I try to show how asymmetrical power relations and privilege inform the co-production relationship and how these are played out in the interactions between women's groups and the institutions. I highlight some of the struggles women go through to secure credit and the high social and financial costs SHGs have to bear. Through my discussions of the interactions between poor women and state institutions, I raise the larger issue of poor people's vulnerability to the imperatives of the service providers. This is important in a context where private sector 'global banks', such as the ICICI, identify microfinance as a strategy towards 'leveraging the rural economy' to 'break into the top league of global banks'¹ and corporate bodies are eager to do business with the 'bottom of the pyramid' (RBI 2005).

I draw from interviews with NGOs actively involved in microcredit in different districts of Tamil Nadu (a state in South India), and from fieldwork done as part of my PhD dissertation, among 27 SHGs in three villages of a district in northern Tamil Nadu between February 2005 and April 2006. The 27 SHGs of this study ranged from three to seven years in age. Only groups that completed three years of age were selected for the study in order to ensure that they possessed considerable experience in SHG functioning. All groups were exclusively women's groups and were, for the most part, caste-segregated. Of the 27, 15 SHGs were composed entirely of the Scheduled Castes, 10 of the Backward Castes and 2 were mixed-caste (both SC and BC).² The number of members per SHG ranged from 16 to 20. (A note on the livelihood context of the three villages and on the methodology of the study is provided in Annex 1.)

1 Knowledge@Wharton (2006).

2 The policy context of SHG financing

When sourcing credit through government schemes SHGs deal with two types of organisations:

- (a) banks – including nationalised commercial banks, regional rural banks and cooperative banks, and
- (b) the District Rural Development Agency (DRDA) at the district level, and the Block Development Office (BDO) at the sub-district level (both are state institutions).

An SHG, usually soon after it is formed, opens an account in the nearest bank, which it uses for regular savings (usually weekly). Later, the SHG may try for a loan from the bank through subsidised or non-subsidised schemes. Banks are therefore key financiers of SHGs. The DRDA has been designated by the state, to implement subsidised, self-employment promotion schemes meant for SHGs. The subsidy component, for subsidised loan schemes, is provided by the DRDA and the BDO and the loan is provided by the bank. The loan and subsidy are routed to the SHG through the bank. Banks have been interacting with SHGs since 1992, when the linkage schemes were started, but the BDO and the DRDA entered the arena after the SwarnJayanti Gram Swarozgar Yojana (SGSY) was introduced in April 1999.

The emergence and expansion of SHG banking in India can be also explained by 'logistical drivers' (Joshi and Moore 2004), which account for the origin of co-production arrangements in sectors such as public health, microcredit, irrigation or sanitation. Public sector banks, in the past, had failed to serve rural poor people effectively due to high transaction costs involved in meeting the credit needs of a geographically dispersed group and in providing safe saving opportunities to small savers. The reason for the SHG – bank linkage programme's emergence – is officially attributed to this failure. Government policy documents are also self-critical, acknowledging that the social distance between banks and poor people, reflected by 'urban mindsets' and orientation of bank officials and 'inflexibility' in their operations, had created a perception of the bank as an 'alien institution' inaccessible to the poor (NABARD 1999).

A scheme, initiated in 1991–92 as a pilot project, linked 500 SHGs to banks, and was later mainstreamed as a component of routine banking business in April 1996.³ The Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD)⁴ promoted SHG-banking vigorously and provided

2 The government categorises caste groups as Backward classes (BCs), Scheduled Castes and Scheduled Tribes in increasing order of social oppression and deprivation. The term 'backward castes' as I use it refers to SHG members belonging to the government classified 'backward classes' who rank higher on the caste hierarchy than the Scheduled Castes or Dalits. The two groups (SCs and BCs) usually live in segregated fashion in separate hamlets in rural Tamil Nadu. So much so, most SHGs have exclusive members of SCs or BCs.

institutional incentives to banks for lending to SHGs. Early measures that tried to create a conducive policy climate to facilitate SHG-banking include incorporating SHG-banking as part of priority sector lending⁵ and NABARD re-finance at lower interest rates of all bank loans made to SHGs. Borrowing from NABARD at concessional interest rates gives commercial banks an interest spread or margin of around 5 per cent on loans made to SHGs. Using SHGs as grassroots intermediaries lowered the transaction costs for banks. They were also able to meet their targets for lending to designated 'weaker sections'.

The linkage scheme provided non-subsidised loans depending on the amount saved by a group. This was an innovative attempt by the banks to offer credit without any collateral, which the poor people could use for consumption purposes (NABARD 1992; 1996). These loans were 'untied' and the purpose for which it wished to borrow was left to the group's discretion. Whilst NABARD and RBI encouraged banks to prioritise the SHG – bank linkage programme, their circulars also emphasised that the scheme was not a targeted intervention having 'quotas' for disbursing loans to the general population or for marginalised sections.

In contrast, the SGSY uses SHGs as channels for delivering credit-cum-subsidy assistance to households below the official poverty line. It carries sub-quotas for people in the scheduled castes and tribes categories (50 per cent of beneficiaries), women (40 per cent) and disabled people (3 per cent). As a self-employment based poverty alleviation programme, the SGSY aims to bring every assisted family above the poverty line within three years by helping them generate a monthly income of at least Rs.2,000. Financing an individual or a collective enterprise is therefore tied to the purpose of the loan and consumption spending is not allowed. Loan size, in this case, does not depend on the amount a group saves and is decided based on the project or proposed enterprise activity the SHG selects. The loan includes a revolving fund of Rs.25,000 which helps to augment the group's funds and develop its capacity to use funds from outside. This is followed by the credit-cum-subsidy assistance for the enterprise activity. The SHG's suitability for receiving the money is assessed through appraisal interviews which are held in two stages and attended by representatives of the BDO or DRDA, banks, Panchayats, NGOs and the SHGs (GOI 1999).⁶

3 An account of how a pilot project was eventually incorporated as part of corporate bank strategy is available in NABARD (1999); Dasgupta (2001); Kropp and Suran (2002).

4 National Bank for Agriculture and Rural Development is an apex development bank established in 1982 with the mandate of facilitating credit flow to agriculture and small scale industries, supporting all allied economic activities in rural areas and promoting sustainable rural development. NABARD also functions as an apex refinancing agency for all institutions that provide investment and production credit to rural areas. NABARD encourages credit innovations of NGOs and other non-formal agencies and promotes SHGs in order to extend formal banking services to the rural poor. Towards these ends, NABARD liaises with the Government of India, State Governments, the Reserve Bank of India (the Central Bank of the country) and other national institutions concerned with policy formulation (www.nabard.org).

5 Banks are mandated to direct 40 per cent of net bank credit to designated priority sectors which include agriculture, small scale industries, small business, self-employed persons, small-scale retail trade, small road and water transport operators, etc.

3 The institutional context of SHG promotion

Several agencies including state and non-state institutions are a part of the micro-finance landscape in India. These include NGOs, microfinance institutions, nationalised commercial banks, government departments/agencies and cooperatives (registered under various state laws). They help SHG formation, and supervise, train and help them in maintaining their financial accounts (this is referred to as 'sponsoring' or 'promotion' in the literature).

While this paper deals primarily with the co-production relationship between banks, the BDO and SHGs in the context of SHG financing,⁷ I provide below a brief outline of the nature of co-production in SHG promotion in the state of Tamil Nadu.

In Tamil Nadu, the growth of SHGs over the past decade, partly under the aegis of the state-sponsored Bangaru Ammaiyar Ninaivu Mahalir Thittam scheme, has given rise to contending claims between two main political parties about the ownership of the SHG programme.

Budget speeches delivered during AIADMK's term (2001–2006) date the launching of the SHG scheme to 1992 when Jayalalitha was Chief Minister. For instance, the Minister for Finance and Food, Ponnaiyan who was from AIADMK said in his budget speech for 2004–2005, 'The self help group movement, which was launched by the Honourable Chief Minister Jayalalitha in 1992, has grown rapidly and become a massive movement for the empowerment of women' (GOTN 2004). He re-asserted this in his speech the following year too, describing the SHG movement as the Chief Minister's 'brain child' (GOTN 2005).

6 The SGSY was introduced in 1999 to replace the Integrated Rural Development Programme (IRDP) that came into existence in 1980 as the first nationwide attempt of Indian planners to incorporate credit based self-employment generation within national poverty alleviation programmes. In the IRDP scheme, banks extended credit-cum-subsidy to targeted poor households to finance the acquisition of income-earning assets that would enable them to cross the poverty line. The growth of the SHG phenomenon in the 1990s highlighted programme design flaws in the IRDP. The Reserve Bank of India's Expert Committee on the IRDP noted that an important factor inhibiting its success was high transaction costs and recommended that self help groups be used in credit dispensation and in every stage of implementation of the IRDP (RBI n.d.). Eventually, it was decided to consolidate the multiple self-employment based poverty alleviation programmes into a single comprehensive scheme (the SGSY) based on a group approach. The scheme envisages a greater possibility of success with group activities as it is easier to provide support services and marketing linkages. In addition to emphasising that SHG members adopt a single economic activity, the SGSY guidelines prescribe resources to be concentrated on developing a few key economic activities within an administrative block – the 'cluster activity' approach. (SGSY [http](http://): 3.19; 3.21).

7 Since this paper foregrounds the co-production relationship in SHG financing, there is a greater focus on banks and the BDO relative to NGOs which played a larger role in SHG promotion in the villages in which this study was conducted. We note that NGOs sometimes also performed financial intermediation by on-lending funds sourced from commercial banks or microfinance wholesalers to SHGs. However, in the villages in which this study was conducted, banks did not on-lend funds to SHGs through NGOs.

In April 2006, the rival political party – DMK won the State Assembly elections. SHGs in Tamil Nadu and their patronage was the crux of a controversy between DMK and AIADMK during the election campaign. AIADMK claimed that DMK would stop the SHG programme, should it return to power,⁸ while DMK chief Karunanidhi vehemently denied this. Soon after the elections, the Governor (Head of State) when addressing the State Assembly said, ‘The DMK government pioneered the formation of women’s self help groups in 1989 and has always acted as a catalyst for their effective functioning’ (GOTN 2006).

Clearly, SHG-based microcredit is a development initiative that the two main political parties in Tamil Nadu – DMK and AIADMK – are equally eager to claim credit for. This reflects the growing perception of SHGs as a pro-poor, pro-women development agenda that no government can ignore. Such political claims are of particular relevance to this paper, because they reflect the state’s investment in SHG promotion in Tamil Nadu. The Mahalir Thittam scheme, a partnership between the Tamil Nadu Women’s Development Corporation⁹ and NGOs, is the main institutional arrangement for sponsoring SHGs in Tamil Nadu. The scheme involves identifying and training state-wide networks of NGOs and providing financial and technical assistance from the Women’s Development Corporation. NGO partners have the responsibility of forming, training and supervising SHGs. While NGO-pioneered initiatives have been at the forefront of SHG formation in several parts of the country, state-NGO partnerships have played a significant role in expanding the scale and reach of the SHG phenomenon in the rural countryside.

In Tamil Nadu, NGO involvement in SHG promotion has been facilitated by official encouragement by national agencies such as NABARD as well as by the organisational mandate of the Mahalir Thittam scheme to identify capable NGO partners in the districts. It is estimated that 70 per cent of SHGs in Tamil Nadu function within the ambit of the state-NGO partnership.¹⁰ The rest are outside this partnership, mostly sponsored by NGOs and other agencies not associated with the Mahalir Thittam scheme.¹¹ From the inception of the SHG-bank linkage project in 1992, NABARD pro-actively encouraged NGO participation in SHG promotion. After introduction of the SGSY scheme, the state re-doubled its efforts to induce

8 *The Deccan Herald* (2006).

9 The Tamil Nadu Corporation for Development of Women Limited is a Government of Tamil Nadu undertaking and was established in 1983 with the objectives of the socio-economic development and empowerment of women www.tamilnaduwomen.org/

10 Personal communication with an official of Tamil Nadu Women’s Development Corporation (April 2004). There is no comprehensive state-wide data available on SHGs promoted by NGOs and other sponsoring agencies that are not partners of the Mahalir Thittam scheme. Any attempt to enumerate the total numbers of SHGs functioning in Tamil Nadu can therefore only be speculative.

11 NGOs may or may not choose to participate in the state-sponsored scheme for SHG promotion. Reasons for non-participation can also be ideological as some NGOs are uncomfortable with the agenda of the state and fear hijacking of the groups they sponsor by local bureaucracy. In such cases, funding by donor agencies enables SHG promotion independent of the state’s initiatives. Ideological differences apart, several NGOs that wish to participate in Mahalir Thittam are unable to do so due to the limited number of partner NGOs that can be accommodated in the scheme.

the voluntary sector to engage in SHG promotion and to assist in reaching the targeted number of beneficiaries, monitoring utilisation of the loan-financed asset and securing loan repayment.¹² In addition to the tasks associated with SHG promotion, some NGOs (in Tamil Nadu and in other states) have also built secondary-level federations of village-level groups in order to help sustain SHGs after the sponsoring NGO withdraws its support. Such SHG federations can take on a wide range of functions that include training SHGs, capacity-building, troubleshooting and lobbying government (Fisher and Sriram 2002; NABARD 1999).

As in other states, bank institutions in Tamil Nadu sometimes act as sponsoring agencies, in addition to their usual role of financing SHGs. The BDO too directly undertakes SHG promotion. The Department of Rural Development and Panchayati Raj in Tamil Nadu had earlier started SHGs formation through the DRDA and the BDO, almost in competition with the Women's Development Corporation.¹³ But as field-level organisational mechanisms for supervision and follow-up were absent, the BDO lost the momentum to promote SHGs independently. The SHGs either collapsed or were taken over by NGOs that partnered with the Women's Development Corporation.¹⁴ However, in certain areas of Tamil Nadu, SHGs directly promoted by the BDO continue to function.¹⁵

Evans (1996) argues that co-production relationships that generate 'state-society' synergy can be either based on a clear division of labour between government and citizens (complementarity) or on ties and networks that cross the public-private divide (embeddedness). The above account shows that the role of the state in the co-production relationship extends beyond creating a policy environment to facilitate SHG-banking or provide financial support for microenterprises and income-generation activities. The state is engaged in SHG formation and promotion whether it is in partnership with NGOs or directly. The diversity of state agencies involved in SHG promotion is also reflected in the field when SHGs identify themselves as 'government groups', 'bank groups' and 'BDO groups'.

The SHGs, reviewed for this paper, represent all types sponsored by different agencies including a state-partner NGO, a non-partner NGO, the BDO and a nationalised bank. Although there are differences between the SHG-bank linkage and the SGSY schemes, SHGs and their members view both schemes as ways to supplement the group's corpus money that can be loaned. Hence it is important to give an account of women's struggles to secure loans through either scheme.¹⁶

12 The SGSY prescribes an amount of Rs10,000 per group to be paid to the sponsoring organisation as incentive for forming a group, helping it to avail the SGSY loan from the bank and ensuring development of the SHG.

13 The Women's Development Corporation was under the administrative control of Department of Social Welfare and Nutritious Meal Programme till mid-2006. From July 2006, it was brought under the control of the Rural Development and Panchayati Raj Department.

14 Personal communication (April 2004) with an official of the Tamil Nadu Women's Development Corporation.

15 SHG promotion is also a component of specific schemes / projects implemented by government departments such as the Department of Agriculture or the Department of Forests.

4 A Hobson's choice

When sourcing bank loans through either scheme, SHGs invariably face the bank's tendency to make new loans contingent on group members' repaying any unpaid overdues from earlier loans they may have taken as individuals. These loans may have been borrowed either directly by the SHG member or, as was more commonly the case in this study, by their male relatives (husband, son or sometimes brothers-in-law). One tedious procedure for SHGs availing bank loans is obtaining a 'no-objection' certificate from *all* banks in the vicinity. This certificate has to declare that no member or her relative had any outstanding loan to the banks. The local banks from which SHGs seek loans are also those that were responsible for implementing earlier credit-based anti-poverty programmes. SHGs therefore are forced to contend with the legacy of this history.¹⁷

Swarna's¹⁸ (an SHG member) case illustrates the loan recovery pressures banks put on SHGs. Swarna's husband had borrowed Rs.2,500, 16 years ago from the cooperative society to buy goats. This had grown to Rs.10,650 with the interest over the years, when the SHG she was a member of, was sanctioned a bank loan. Swarna claimed that her husband stopped repaying his loan when he learnt that the then state government had waived the loan. Swarna, accompanied by the 20 members of her SHG, went to the bank to persuade the manager not to make the current SHG loan contingent on repayment of the old loan. However, an unyielding manager said to Swarna, 'When your husband took this loan, would you have said no? Like that, you have a role in repayment too' (*meaning: you are liable too as you would certainly have not discouraged your husband from taking the loan*). The NGO sponsoring the SHG supported the manager's position and asked Swarna to repay the loan. Luckily, Swarna's daughter-in-law received a lump sum of money from the shoe company where she had worked for several years, which Swarna could use. She repaid Rs.6,500 and informed the bank manager that she could pay no more.

Swarna was relatively fortunate as she managed to retain her SHG membership unlike several others. Saradamma, an elderly widow, quit the group when she was unable to repay her deceased husband's overdues to the bank. It is important to note that bank strategies to compel individual members to repay old loans included the threat of stopping all new loans to SHGs unless such members were expelled.

16 This account does not attempt to document or quantitatively assess the routine costs incurred by SHGs when accessing bank loans, such as number of visits to banks, travel costs, paper work, time taken to process and disburse loans or daily wages foregone. A study of the SHG-bank linkage scheme in the state of Andhra Pradesh has quantified these costs for a sample of 400 SHGs (Reddy 2005).

17 Poor repayment of loans in older schemes such as the IRDP may be attributed to the poor institutional incentives for repayment including the tendency of political leaders to announce loan write-offs during elections and inattention to repayment criteria and asset-productivity when selecting enterprise activities (Kabeer and Murthy 1996: 2.3).

18 All names in this paper have been changed.

SHGs consequently face the difficult choice of ensuring full repayment of all old bank loans by members and their relatives or having to expel these members. Sometimes SHG members become the targets of bank pressures even if they (or their spouses) have not directly borrowed and are merely co-guarantors for friends or relatives. Kasturi, who was co-guarantor to her brother's loan for a bullock cart, was expelled from the SHG on the bank's orders. After making her brother repay the balance he owed the bank Kasturi re-joined her group.

Lakshmi quit her group with much bitterness because of a loan borrowed by her husband's brother. She argued that her husband had not signed his brother's loan document as co-signatory, but the bank maintained that the loan was nevertheless sanctioned on her husband's assurance that his brother would repay. Sometimes women lose SHG membership despite efforts to repay at least a part of old bank loans. Panchalai, who had been gradually repaying her son's bank loan of Rs.10,000 with internal loans from the SHG, had no option but to quit the group when the bank manager insisted that she repay the balance of Rs.5,000 as soon as the SHG's bank loan was sanctioned.

This practice of recovering long overdue loans has generated a trend of 'bank-induced dropouts'. Research which seeks to understand the various 'push' factors such as household stress, repayment pressures, migration, etc. that drive women out of microcredit programmes, should also factor in these loan recovery pressures from banks. In some cases, the pressure to exclude certain women is exerted at the time of SHG formation, much before any loans are sought. As soon as new SHGs open savings bank accounts it gives banks the power to determine which ones they would allow and which they would not. It is not uncommon for banks to use this opportunity to stipulate that groups should deny membership to women who had relatives who had not repaid old loans. Women also tend to exclude themselves from SHGs, anticipating such problems.

Such pressures however, are not officially sanctioned. With respect to SGSY loans to defaulters of older bank loans, RBI's master circular on the SGSY makes a distinction between 'wilful' and 'non-wilful' defaulters. Wilful defaulters are not permitted benefits under the SGSY scheme until the older loan is cleared but they may be allowed to participate in the normal savings and credit activities of the SHG. The group may be financed under the SGSY scheme, by excluding wilful defaulters, as non-wilful defaulters are allowed to access the loan (RBI 2005). Similarly, the operational features of the direct linkage scheme clarify that a few SHG members or their family having unpaid loans to the bank is not a problem if the SHG itself is not a defaulter. The new bank loan, however, may not be given to a defaulting member (NABARD 1996).

Such pressures from banks result not only in drop-outs but also in provoking conflicts which jeopardise group solidarity and cohesion. They also create tensions within and between families as women pressurise relatives and friends to repay their loans. As in the case of Swarna, SHG women occasionally resist bank's pressures. They argue for their creditworthiness to be ascertained independently based on their performance in the SHG. However, banks disregard this and continue to use women's gendered household identities for the instrumental purpose of loan recovery in ways that are detrimental to groups and individual members. This strategy is not opposed greatly by government

bureaucracies, NGOs or households of SHG members, because banks are able to draw on a shared understanding that women were responsible for repaying their husband's loans.¹⁹

SHGs', and in particular their coordinators', perceptions of such bank practices as fair or otherwise sets apart groups that are able to stand their ground and protect members' interests from those that choose to comply with the banks' demands. For example, an assertive SHG coordinator defended her group's right to share the bank loan with members who had unpaid individual loans, despite the bank's instructions that the women be expelled. In the same village, however, coordinator Kaniyamma of another SHG was keen to ensure that women repaid their old loans to the bank. Kaniyamma said, 'Making the women repay the bank is our achievement'.

The strategies SHGs use to secure loans when they face such pressures are reviewed here. SHGs often resort to different methods to deceive the bank, such as producing a formal letter declaring that the specified women have quit the group, although in reality they continue as members. This needs intra-group unity and willingness from everyone in the group to take the risk, in order to protect the interests of a few members. An SHG coordinator, once asked by a bank manager for the names of fathers-in-law of all SHG members, provided false names foreseeing that the enquiries pertained to outstanding bank loans.

Banks and SHGs sometimes also collude to conceal the presence of defaulters, such as not letting other banks know of them when obtaining the 'no-objection' certificate. For example, when an SHG president Ruku was forced by one of the five banks in her area to repay a large amount of her husband's loan (Rs.11,000), she pleaded with the SHG's financing bank and stressed that her efforts had built the group. The financing bank which was also the sponsoring agency in this case, had a close relationship with the groups it promoted. The bank manager then suggested that the SHG give a written declaration that Ruku had been expelled by the group. Ruku had to relinquish her leadership position but remained a member of the group. Whether the manager would have empathised as much with Ruku if the debt had been owed to his bank instead is, of course, doubtful.

Another strategy, also frequently used to secure loans, is for SHGs to mobilise financial resources to lend to individual women for repaying old bank loans. In one case, an SHG paid Rs.45,000 to the bank (to repay old loans of eight members), half of which was raised through internal or group-generated loans. SHGs also become 'debt collectors' who undertake repayment campaigns in their village or Panchayat on behalf of the bank. This is particularly true when banks make loans to SHGs conditional on repayments from villagers who have no relationship to SHG members. For example, an SHG 'earned' its loan by persuading five families of non-members to repay a sum of Rs.25,000. They subsequently challenged the bank manager to grant them the loan saying, 'Even if Rs.5,000 was paid to the bank because of our efforts, you would be obliged to give us our loan. Now, you

19 As Kabeer (1999) argues, ideologies of gender inequality can cut across institutional sites and the practices of institutions can be a key factor in the reproduction of gender inequalities.

have got Rs.25,000 because of our group. We have kept our promise. You keep yours and give us our loan.'

The efforts SHG coordinators put in are crucial for settling bank debts – a fact banks are well aware of. When Mallika, a SHG coordinator, ensured that all her group members repaid their old bank loans, the bank manager jocularly asked her to recover overdues from non-members too. She replied saying, 'You earn a salary. Will you pay me for this work?' Although Mallika's response was made in jest, the issue she raises is serious and central to banks manipulating SHGs' community-level social networks and SHG coordinators striving to settle debts. This injustice stands out starkly when we see that SHGs have become popular within the commercial banking structure primarily because banks have been able to transfer screening and loan recovery responsibilities, and other transaction costs to the poor people themselves. When all these strategies fail, SHGs succumb to the bank's pressures and force individual members to drop-out.

5 Valued customers or potential defaulters?

The spectre of old bank loans haunts SHGs in other ways as well. There are instances where banks have demanded three-year fixed deposits amounting to 25 per cent to 30 per cent of the loan as collateral, prior to sanctioning the SGSY loan. This contradicts SGSY rules which explicitly forbid banks from demanding any collateral. However, some banks see SHGs as potential defaulters and credit-risks. In one village, the bank demanded fixed deposits from Rs.30,000 to Rs.60,000 for loans ranging in value from Rs.100,000 to Rs.200,000. This was because of the bank's scepticism about repayments on the SGSY loans based on their past experiences (with the Integrated Rural Development Programme loans). SHG women had to pledge their jewellery and seek informal loans from money-lenders, family and friends to raise their share of the fixed deposit (Rs.1,500 to Rs.3,000 each). Although individual SHGs protested and demanded that the bank should trust the women 'since they were SHG members after all', there was no collective or coordinated village-level action from all groups together. As the SGSY loans were sanctioned to different SHGs at different times, when the first group paid for the fixed deposit it forced the succeeding ones to do so too. When one group which paid collateral of Rs.60,000 to the bank, applied for a second SGSY loan, officials of the BDO came to know of it. However, they were entirely unhelpful. They expressed anger and displeasure, and did not see the reason for an SHG to apply for another loan when it already had a large fixed deposit in the bank. They wanted the SHG to immediately report the matter to the District Collector. The SHG coordinators however wanted to avoid further trouble and did not pursue the matter further. SHG women are fully aware that they lose out on the interest rates too (the interest paid by the bank on the fixed deposit is 8 per cent per annum while the interest paid on SGSY loans, as estimated by the women, was upwards of 12 per cent per annum).

In summary, a bank's non-negotiable demand for collateral payment makes the SHG women disempowered partners in an unequal transaction.

6 Group loans and bank loans: a case of undue diligence?

Although SHGs demand that their credit history should be the only criteria for loan sanction, sometimes they find that if a bank focuses too much on their internal repayment record, it could have negative consequences. As banks routinely check account books to assess an SHG's creditworthiness, they are capable of refusing loans to a group if even one of its members has defaulted or made late payments on group-sourced loans. SHGs are particularly susceptible to this when seeking the direct linkage (non-subsidy) loan because banks are not under the pressure to meet disbursement targets for this loan category. Although SHGs sometimes attempt to convince banks about their situation (i.e. irregular repayments due to poverty and uncertain livelihoods), they usually resort to fudging account books prior to the bank supervision to reflect timely repayments. Sponsoring NGOs too assist SHGs in covering up repayment irregularities in the account books.

My interviews with NGOs reveal that SHGs comprising Dalit women's or other socially marginalised communities are more disadvantaged, in terms of securing bank loans, especially direct linkage loans. These are poorer groups, often landless and hence erratic repayments on internal loans are sometimes more frequent. I interviewed a Dalit woman heading an NGO, who reported that the bank manager frequently criticised her publicly in his office saying, 'Your people are always like this. They don't repay on time.' She said to me, 'I find this humiliating since I know he is referring to my caste.' The caste-based responses that sometimes mark SHG-bank relationships clearly reflect the insensitivity of banks to the social and economic context in which different SHGs operate.

In one of the study villages, this caste discrimination in accessing loans could be plainly seen. The direct linkage loans were more easily secured by SHGs which had members from the backward castes rather than those which had members from the Scheduled Castes.²⁰ The bank had declined loans to five Scheduled Caste groups and blamed it on their irregular repayments of internal, group-sourced loans. Five other SHGs with members of backward castes were given Rs.200,000 per SHG (for Rs.10,000 each to be distributed to 20 members). Only one SHG with Scheduled Caste members, persisted with its demands until the manager could no longer deny them a loan. However, they secured a smaller loan of Rs.150,000. Later, the bank had to give loans under a state government sponsored house upgradation scheme which was targeted to only women members of SHGs who lived in thatched huts. Some members of the SC SHGs which were denied the direct linkage loan received the house upgradation loan as they qualified for it. And to pre-empt any conflict within SHGs on account of this

20 The government categorises caste groups as Backward classes (BCs), Scheduled Castes and Scheduled Tribes in increasing order of social oppression and deprivation. The term 'backward castes' as I use it refers to SHG members belonging to the government classified 'backward classes' who rank higher on the caste hierarchy than the Scheduled Castes or Dalits. The two groups (SCs and BCs) usually live in segregated fashion in separate hamlets in rural Tamil Nadu. So much so, most SHGs have exclusive members of SCs or BCs.

selective disbursal, the bank decided to grant the direct linkage loan to members of SC SHGs who were ineligible to access the house upgradation loan. An SHG coordinator recalls the bank manager justifying this by announcing that the house upgradation loan was for SHG women who lived in thatched huts and the linkage loan for those who lived in tiled or two-storeyed homes. Moreover, these loans were given under the aegis of a new bank manager. The coordinator of an SC SHG commented, 'The former manager was too strict in judging our repayment record. But the new man has a conscience and is more humane. He understands our poverty.' In contrast, the backward caste SHGs were grateful to the earlier manager who was generous with them. This shows how SHGs with Scheduled Caste members were discriminated against in the distribution of the direct linkage loans in this case.²¹

SHG women sometimes protest against the perceived injustice of bank procedures. A Dalit women's group once challenged the bank: 'We have no work now. So we haven't repaid our loans. It is our savings money that we haven't repaid. Why do you enquire about that? It's not your business. You have a right to question us if we don't repay your loans.' This interesting exchange suggests that what banks see as a routine procedure for assessing creditworthiness and evaluating risk could be interpreted by SHGs as unnecessary interference in their internal affairs.

7 Servicing bank loans: bending over backwards

In the study villages, it was clear that bankers' misgivings about the non-repayment of bank loans by SHGs were entirely unfounded. All the SHGs in villages included in my study had a very good repayment record on direct linkage and SGSY loans. This has been maintained due to strict disciplinary pressures from SHG coordinators and intra-SHG peer dynamics. In places where banks were openly sceptical about the SHG's willingness or ability to repay, women made efforts to demonstrate their repayment ability, sometimes at a considerable cost to themselves. Although the recommended repayment period for the SGSY loan was three years, actual repayment was in many cases completed well before the deadline and sometimes in less than half the period.²²

21 A large-scale quantitative study assessing performance of the SHG-bank linkage scheme across 400 SHGs in 8 districts of Andhra Pradesh also found poorer linkage of Scheduled Castes and Scheduled Tribes groups in comparison to Open Category SHGs. Among others, the study finds that only 5 per cent of Scheduled Castes SHGs received a total amount of loans beyond Rs.105,000 and no Scheduled Tribes SHGs received such loans. In contrast, 22 per cent of Open Category groups received loans beyond Rs.1.05 lakhs. The average current loan size was highest among Open Category SHG at Rs.44,585, and lowest was among Scheduled Tribes at Rs.27,059 (Reddy 2005).

22 All SGSY loans are treated as medium term loans with minimum repayment period of five years. As per the norms of the SGSY, beneficiaries are not entitled to the subsidy if the loan is fully repaid before a certain fixed 'lock-in' period (SGSY [http 2001](http://2001)). Even if SHGs completed repayment in a short period, the loan account was formally closed by the bank and the subsidy returned to the group only at the end of three years.

One SHG attempted to complete full repayment of the SGSY loan (a total sum of Rs.100,000, where each member received Rs.5,000) in 10 months by setting a high monthly instalment (Rs.500 per member). The SHG chose to do this, to ensure disciplined repayments so that they could apply for the next loan of Rs.200,000. The possibility of getting a larger loan is a good incentive for SHGs to keep up their repayments. Besides, the bank is a highly valued external contact, which SHGs do not want to antagonise. For example, in all the SHGs in the study villages, women had not completely repaid internal (group-generated) loans when the bank loans were disbursed. Women then prioritised timely repayment of bank loans over internal loans.

SHG coordinators, who fear annoying banks, resort to precautionary measures within the group to emphasise the urgency for repaying and avoid default. In one instance the President and Secretary of an SHG, supported by NGO staff, lied to other members that the bank had taken their property documents (for their homes) which could be forfeited, if SHG members failed to repay the SGSY loan. Coordinators of two other SHGs insisted that each member should sign an official loan agreement form and have her husband and two other members as co-signatories. Although women were unhappy about costs and their husbands being involved, the coordinators were firm. An SHG President asked, 'What happens if a woman dies and her husband disowns responsibility for the loan? The bank will hound me (*meaning: I would be held responsible for the repayment*).'

Some SHGs allow each borrower to decide her own repayment schedule for internal loans based on her ability to repay. However, this flexibility is invariably absent for repayments of the external bank loans. Punitive measures, including fines, are usually enforced to ensure their timely repayments. For example, one SHG charged its members a fine of Rs.25 for every day the monthly repayment was delayed. One SHG coordinator felt that 'delaying repayment on a bank loan was simply not an option no matter what the personal circumstances were.'

Although banks are responsible to some extent in creating the fear about loan repayments, bank personnel are not always aware of the actual pressures exerted within the group. One of the SHGs, in my study, charged one of its members (a poor vegetable vendor) a total fine of Rs.550 (at the rate of Rs.50 per day) for delaying repayment of the bank loan. This was despite the fact that emergency throat surgery for her son had caused the delay. She reportedly broke down at the SHG meeting when she paid the fine. The SHG's Secretary (who said that the President and other members were responsible for the undue pressure), threatened to report the matter to the bank and warned others that they could go to jail for harassing a co-member. Similarly members of a different SHG in the same village verbally abused a co-member for not paying a month's instalment. This woman had been recently widowed and had the responsibility of bringing up two small children. The SHG's President regretfully admitted that group members sometimes showed less sympathy than banks.

Banks and the BDO too have their strategies to ensure timely repayments. In one study village, BDO officials warned women that they would cancel the subsidy component unless instalments were paid to the bank before the 10th every month. Although SHG coordinators did not think that the BDO would actually do that, they admitted that it worried women. In another case, the bank instructed SHGs not to

sanction internal loans, unless all bank loans were fully repaid. Through this the bank wanted to eliminate competition and have complete control over repayments. Group members resented the condition as it deprived them of their access to emergency loans as a result. This pressure was exerted selectively in the village on SHGs with Scheduled Caste members, which yet again, reflects the banks' subjective assessment of the SHGs' credit-worthiness. As banks are financiers as well as bankers for SHGs, they are able to transfer money from the SHG's regular savings account to the bank loan account when repayments are delayed.²³ And some banks do use this dual role to their advantage.

With most of the groups that I interviewed, bank loans came with punitive repayment conditions and tensions that were less pronounced with internal, group-sourced loan repayments. The degree to which SHGs enforced repayment discipline on internal loans varied from one group to the other. However, all SHGs were far less sympathetic about delayed repayments on bank loans than internal loans. Loan transactions which involve other institutional actors such as the BDO or the bank therefore seem to be marked by qualitatively different repayment dynamics.

8 Fractured trust

Although the relationship presents several opportunities for SHGs and banks to understand each others' constraints and perspectives, mutual trust is largely absent. This is the result of the legacy of mistrust owing to earlier experience of credit-based anti-poverty programmes and of poor communication from banks about the terms of repayment of subsidy-bearing bank loans (the SGSY loan). While banks suspect women's intentions about loan repayment, SHGs resent paying an interest on the bank loans which they perceive as a drain on their resources. This was because the banks, in my study, did not take women into confidence when calculating the interest rates on SGSY loans. Women thus felt that the interest was arbitrarily determined by the bank. This was a contentious issue and soured the SHG-bank relationship.

The guidelines of the SGSY scheme state that the interest rate on loans will be as notified by the Reserve Bank of India and NABARD from time to time. As per RBI guidelines, interest rates on 'priority sector' lending (which include loans to SHGs under the direct linkage and SGSY schemes) should not exceed the prime lending rate (PLR) of the bank for loans upto Rs.200,000 (RBI http 1).²⁴ The prime lending rate varied between annual rates of 10 and 12.5 per cent²⁵ for the period that the SGSY loans were taken by the groups in this study (RBI http 2).²⁶

Most SHGs remained uncertain about the actual rate of interest payable since banks did not state upfront what the rate of interest was nor did they provide the

23 Most SHGs had separate bank accounts for the SGSY loan and for their regular internal loans.

24 Banks are free to determine the interest rate for 'priority sector' loans above this amount.

25 The Reserve Bank of India provides data on the prime lending rate of 5 major banks (RBI http 2).

groups loan documents clarifying the terms of repayment with regard to duration or the rate of interest charged. Yet another confusion with regard to the basis of calculation of interest by banks had to do with whether banks charged interest on a declining balance basis i.e., whether interest increased with time taken to repay the loan or it remained fixed, irrespective of repayment duration. SHG member Vani insisted that the bank would charge the same interest whether the loan was repaid in one year or in three and attributed her SHG's frenetic pace of loan repayment to her co-members' inability to understand this. Chitra of another SHG in the same village endorsed her group's decision to complete loan repayment in 18 months, thereby escaping 'even double the interest amount' that the bank may have charged if the duration were longer. While banks did charge diminishing interest, such contradictory opinions were common owing to the lack of clarity regarding the method of interest calculation.

I present an SHG's experience to further illustrate the point about poor communication between banks and SHGs. The three year duration of the Revolving Fund component of the SGSY loan for this SHG ended in December 2003. Later in March 2004, the bank demanded the SHG to pay Rs.3,600 as interest and in August 2004 it asked for Rs.1,950 towards insurance. The women, however, had already paid an interest with monthly repayments which made them suspicious of further payments towards interest. Parameswari, the SHG's Secretary asked the bank manager, 'Can you feed oil tomorrow to a child that died today, and make it come alive?'.²⁷ Her question was an attempt to seek a dialogue regarding bank procedures by drawing a parallel to the conceptual universe familiar to her. The bank manager however was angered with this and retorted, 'What a country bumpkin you are! Village women can understand nothing. If you don't shut up, I will get even more abusive.'

SHGs often receive no assistance to understand the categories banks use when charging loan servicing fees. In the above case, the demand for insurance further surprised the SHG as they had not bought any livestock which alone, in their perception, could incur insurance costs. Parameswari felt that the bank's practice of demanding payment for unexplained reasons caused group members to suspect coordinators of siphoning away the SHG's finances.

SHG coordinators' attempts to understand the basis of interest calculations often turns out to be futile and exasperating for the women. Banks tend not to explain and SHGs perceive this withholding of information as harassment and extortion.

26 On the grounds that the priority sector consists of poverty alleviation schemes (such as the SGSY) as well as schemes not targeted to the poor below the poverty line, bureaucrats of the rural development department have argued that a separate lending rate for all poverty alleviation schemes of the Ministry of Rural Development be introduced (DRDA http). The Ministry of Rural Development has also impressed upon the Reserve Bank of India and NABARD the need to ensure that bank loans to SHGs under the SGSY scheme are made available within a slab of 4 to 6 per cent annual rates (*The Hindu Business Line* 2004). However, the Ministry has not mandated this.

27 This reference is to a practice in rural Tamil Nadu of placing a few drops of cooking oil in the mouth of a dead person. The belief is that this will preserve the body for a longer period. In this context, Parameswari means that since loan repayment is over, it cannot be revived by feeding it interest at a later date.

For example, an SHG, which repaid the entire SGSY loan (Rs.100,000) in 18 months, paid a total interest of Rs.3,700 on the manager's instructions. Later, a new bank manager said that the interest was not paid completely and demanded an additional Rs.4,000. When the SHG President said that the women believed that interest payment was complete and would not pay further, the manager did not clear the confusion by explaining how the interest was determined. Instead he remarked, 'What can I do? The computer says you must pay more. Bring your women to the bank. Let them see the computer.'

Some of these issues cannot be necessarily limited to deliberate attempts at withholding information or an absence of transparency. They also underscore the need for building SHGs and group coordinators' capacity to understand bank procedures. Empowering SHGs to seek and gain vital information regarding the terms of a loan is a process that requires substantial time and resource commitment from the sponsoring agency. Banks too have to proactively work at demystifying procedures. As this is absent, SHG women feel exploited and vulnerable to individual bank officers' whims.

9 Good manager, bad manager

Securing loans usually entails frequent visits to the bank. SHGs and their coordinators in particular, find this prospect unwelcome. Sometimes routine weekly visits to the bank to deposit cash become unpleasant, as bank officers are intolerant of rural women who usually have low literacy levels. Banks reprimand SHGs for sending the same women (usually the President and Secretary) to the bank and demand that others show up in turns, but when they do, bank officers are impatient with women who take time to understand procedures.²⁸

A bank manager asked an SHG President to return with a fresh cheque as the one she brought had an ink stain. She came away distressed as she was unable to muster the courage to tell him that her young child had accidentally tipped ink all over the cheque book. In another case, an SHG's coordinators refused to accept a sum of Rs.2,500 as Re 1 denomination coins because their members would not be able to keep track of small change or even store it safely. The branch manager was enraged at their refusal and could not be placated even when they later offered to accept the coins. The manager replied, 'If you ever make a mistake in bank procedure in future, see how I treat you' (*meaning: I will be nasty if you make any minor errors in form-filling etc*).

Although some bank managers and staff are civil to SHG women, they do not completely understand the opportunity costs for women to visit banks. This lack of sympathy for the lost time and wages is frustrating for SHGs. One SHG coordinator remembered being sent back with her money on three different

28 An early NABARD-sponsored evaluation of the SHG-bank linkage programme showed the tendency of bank officials to be patronising and disrespectful to SHG customers. Harper (2002b) cautioned that bank officials' attitudes to SHGs could threaten the social empowerment dimensions of SHG programmes.

occasions as bank staff were too busy to accept her deposit. An SHG member commented, 'Bank officers just don't realise how much work women have to do at home.'

SHGs with poorer Scheduled Caste members resisted the strict directive from banks that all SHG members should take turns for weekly deposit and withdrawing cash. A larger number of Scheduled Caste members (as compared to members from other castes) were wage labourers in shoe manufacturing companies. These companies penalised workers who missed one day of work by not giving them work for four successive days. When the SHG president pointed this out to the bank manager, he sarcastically suggested that she should expel all wage labourers from her group and retain only women who stayed at home.

It is clear that while SHG-banking is certainly banking with poor women, it is not necessarily pro-poor or gender-sensitive banking. Women largely perceive banks as insensitive to their needs and circumstances and impatient with their lack of prior experience.

Because the bank as an institution is not good with accommodating the needs of SHGs, individuals in these institutions and their particular behaviour assumed a great significance for the SHGs. In my field study, I heard several narratives of 'the good manager' and the 'bad manager'. If a 'good manager' was transferred it was a great loss for the SHGs. They usually awaited the new manager, an unknown person, with much anxiety. One SHG coordinator said the bank manager who disbursed the Revolving Fund loan was 'rude and sharp tongued', while his successor, who sanctioned the SGSY enterprise loan was 'patient with women like us'. And as she put it, 'Otherwise we have to *salaam* 10 times to get someone to notice us.'²⁹ On another occasion SHGs organised a farewell party for a 'good' bank manager who was transferred from their area. This was a lavish ceremony where they presented gold jewellery to the manager and made speeches about his 'good deeds'. It is therefore not uncommon for SHGs to invest considerable resources to build and maintain cordial relationships with their bank manager.

10 Fitting policy to reality: costs of subversion

The BDO, as described earlier, administrates subsidy-bearing schemes such as the SGSY and the funds from Central and State governments are routed through the DRDA. An SHG's costs of securing SGSY loans are inflated due to bribes to the government bureaucracy for approving and processing the subsidy component of the loan. However as I show below, this is not the only or most significant cost that SHGs incur.

The SHGs that I interviewed asserted unequivocally that collectively-managed group enterprises held no prospect for the SHG's advancement and that, in fact,

29 In this context, to *salaam* is to greet someone in supplicant fashion.

they were risky. If enterprises failed, not only would the SHG collapse but the accumulated savings of the women would be also lost. The failure of the monsoons for about four years prior to the period of study resulted in the considerable scaling down of agricultural activity and of wage labour opportunities in agriculture.³⁰ The ensuing situation of 'no rains, no work' threw a number of existing small businesses and activities such as brick kilns (which depended on water) into crisis. In such a context, SHG women treat the prospect of initiating new enterprises with scepticism.

However, the SGSY scheme is much sought after because the subsidy component of the loan (close to a third to half of loan value) is attractive. This induces women to invest considerable energy and resources to make the scheme work for them by subverting it. Several SHGs distribute the amount (loan and subsidy) equally amongst all members for them to use it for household needs rather than setting up enterprises (similar to internal loans). NGOs functioning in various parts of Tamil Nadu report a widespread subversion of the official purpose of the SGSY scheme.³¹ My field study in three villages provided an opportunity to understand the ways in which the subversion takes place.

One SHG proposed to build evidence about managing a brick kiln business with the SGSY loan. They contacted a brick kiln operator in the neighbourhood and struck a deal with him. The owner provided documents to the effect that the SHG had acquired a brick kiln and leased it him to manage. The documents declared that he had received Rs.100,000 (the loan amount sanctioned to the SHG) for a truckload of coal for the kiln and for procuring clay, mud and water. The SHG paid him Rs.4,000 for providing fictitious documents. Bank staff visited the brick kiln three times for verification and photo documentation. The SHG's secretary said 'Of course the bank knew we were not managing an enterprise!'. It is clear that SHGs create and sustain non-existent enterprises with the full knowledge of the sponsoring NGOs, the loan-giving banks and the subsidy providing BDO.³² This collusion becomes necessary since bank officials and the BDO have to ensure that an annual 'quota' of loans allocated under the SGSY scheme are disbursed through SHGs to women who are neither willing nor able to engage in loan-financed income generation.

30 This failure of monsoons and the crisis of agriculture-dependent livelihoods were experienced in many parts of rural Tamil Nadu during this period.

31 The incentives for borrowers to subvert the official borrowing purpose can be further understood from research literature which critiques the conceptualisation and implementation of self-employment promotion schemes including the SGSY and its predecessor, the IRDP. In brief, the IRDP was inadequate in bridging gaps between products produced by poor people and the availability of local markets for these. The rural development bureaucracy was also unsuited for planning and selecting viable enterprises. It had an underlying assumption that poor people are a homogenous mass with uniform endowments and capacities for entrepreneurial advancement (GOI 1985; Bagchee 1987; Pulley 1989). Some of the core issues raised by researchers with regard to the IRDP are not adequately addressed by the SGSY (Kalpana 2005). Although the guidelines of the SGSY envisage an elaborate process of planning at local levels prior to the selection of enterprises (with regard to availability of infrastructure, markets, and the capacities of beneficiaries) assessments of the SGSY indicate that comprehensive planning at the block and district levels remains as unreal in the SGSY as it was with the IRDP (Banerjee and Sen 2003; Nair and Mathew 2000; Reddy 2000).

Fabricating evidence entails high costs to SHGs as it involves pay-offs to owners of various locally-based small-scale businesses. As one SHG coordinator said, 'Nowadays, owners of coconut groves, brick kilns, shoe companies, tailoring shops and poultry farms have woken up to the possibility of doing deals with SHG women as the latter run around and beg for their documents in order to get bank loans.'

Identifying a willing enterprise owner is sometimes exceedingly difficult since the owners fear that the bank may seize their enterprise if the SHG defaults on the loan repayment. (The only collateral the rules of the SGSY scheme formally allow is assets generated from the economic activity the bank finances.) Some enterprise owners fear that the SHG might claim ownership of the enterprise because it possesses legal documents about the purchase of the business through the SGSY loan. Whilst business operators are the *de facto* owners, SHGs become the *de jure* owners. Such fears are reflected in the large payments SHGs sometimes make to compensate business owners for their perceived risks in transferring ownership documents to SHGs. For example, an SHG which wanted to build evidence of running a tailoring unit succeeded in finding a willing businessman only after searching for two months and agreeing to pay him Rs.9,000.

The process of fabricating evidence is not entirely risk-free either. The experience of two SHGs that were sanctioned loans of Rs.150,000 each, to set up cement stone manufacturing units, is exemplary of the efforts women undertake when the arrangements of fabricating evidence goes wrong. All the efforts these SHGs undertook reflect both the persistence of the groups and the appeal of the subsidised loan.

After disbursing the loan amount, the bank manager said the balance (subsidy component) would be released conditional on the SHGs' purchase of cement and other equipment and when they actually start the enterprise. The SHGs were taken aback since they had planned to show some falsified evidence of possession of land and subsequently distribute the loans among all members. The SHGs, in this case, were in a problem as there were no cement stone manufacturers near their village, which could be passed off as their own. The groups had initially chosen brick kiln management as their proposed enterprise as brick-making activity was common in the village. But, senior bank and government officials intervened to change this to 'cement stone manufacture' as the groups had scored highly in the grading exercise and 'deserved' to be financed for a higher-order enterprise. The SHGs' problem was further confounded as the new bank manager insisted on substantive proof of activity and was less flexible and understanding than his predecessor.

32 As described earlier (in footnote 6), the choice of enterprise in the SGSY scheme is narrowed down to a few pre-selected activities. All enterprises mentioned in this Section (such as the brick kiln) were selected by SHGs from the official list of income-generation activities that was approved by banks and the district development agency. SHGs, which were well-informed about the range of activities that they could choose from, usually selected one, for which proof of existence could be easily shown.

SHG coordinators visited the bank and the BDO several times to resolve the crisis but faced with a stubborn manager, they asked the Panchayat president to mediate. This was a rare occurrence in the study villages. Institutional actors who normally get involved in the process include the bank, the BDO and the sponsoring NGOs. The intervention of Panchayat representatives is never considered necessary. When the Panchayat president's endeavours too failed, an SHG coordinator tried to exert political pressure on the bank manager using her influence as a member of the AIADMK. Both SHGs discussed the possibility of approaching the AIADMK candidate for the April 2006 Tamil Nadu Assembly elections to promise him 40 votes if he could secure their loan. They also contacted other banks in the neighbouring town to explore the possibility of moving their accounts to another bank, where the manager would perhaps be more accommodating. The SHG's coordinators attempted to take the matter to the District Collector too, but returned after spending a day at his office waiting for an audience with him.

Eventually the SHGs gave up when the manager threatened to report them to the police if they continued to hassle him about the loan. The secretary of one of the groups pointed out that her SHG had spent Rs.11,000 on visits to the BDO and the bank, phone calls, bribes and other expenses for a loan that did not materialise. Commenting on the difficulties and the financial loss they had undergone, the SHGs' coordinators claimed they would never apply for a bank loan again.

SHGs which employ such methods that eventually fail carry a risk of being severely demoralised to the extent that routine group-level transactions, including conducting weekly meetings and savings and credit transactions, are adversely affected. Although the two SHGs referred to here failed to secure the loan, eight other SHGs in the same village had successfully secured the SGSY loan earlier. In such a context, the success or failure of an SHG to source a subsidy-bearing bank loan could come to define the self-worth of a group.

In another village, the bank's rigid adherence to the enterprise clause resulted in excluding SHGs with Scheduled Caste members from accessing the SGSY loans. As a number of enterprises existed in the Backward Classes areas of the village (over ten families owned mosaic stone making businesses), it enabled SHGs with members from these classes to secure loans easily by showing proof of enterprises they already possessed. But the Scheduled Castes were at a disadvantage as comparable enterprises were absent in their area. The president of one such SHG said, 'When we suggested trade in readymade garments as a possible enterprise activity, he [the manager] asked us to show the retail store.' Thatching roofs with coconut leaves was a common income-generation activity among the Scheduled Castes but the bank manager said this was not a credible economic activity to warrant a loan through the SGSY scheme.

Sometimes the reverse – the degree of flexibility the branch manager shows – could help ease the labour and costs of fabricating evidence of non-existent enterprises. For example, an SHG was able to secure an SGSY loan of Rs.100,000 without providing evidence of its stated enterprise (rope-making in this case) because they had an 'understanding' bank manager. When another SHG tried to present evidence in support of the coconut grove it claimed to have

leased, the manager reportedly brushed it aside and laughingly remarked that he knew all about their enterprise. In this context, the SHG women perceived a 'good manager', as one who understood their need to subvert the SGSY scheme and colluded in the subversion, whereas a 'bad manager' insisted on strictly implementing policy.

The expenses SHGs incur in trying to camouflage the actual uses to which they put their SGSY loans did not always end after the loan was sanctioned. SHGs are sometimes required to participate in state-sponsored exhibitions displaying their products and enterprise. The aim of these is to celebrate the emergence of female micro-entrepreneurs and SHG-promoted livelihoods. However these meant that the women had to sustain the fiction of managing enterprises for a longer period, sometimes incurring further expenses.

An SHG, which was supposed to have a 'coconut-grove leasing' enterprise had to buy coconuts worth Rs.300 for the sale at the exhibition. They were able to sell only a few and the rest were left to rot. Two other groups, which claimed to manage shoe-making units, had to buy 25 pairs of footwear at a cost of Rs.2,000 (per SHG) from a wholesaler. They had to raise that money through an internal loan. No more than five pairs could be sold at the exhibition (and only at a profit of Rs.1 a pair). The BDO directed SHGs to participate in these exhibitions with sufficient evidence of their enterprise and threatened to cut the subsidy component of the loan if SHGs were reluctant to do so.

All stakeholders involved in SHG promotion and financing are afraid that creating non-existent enterprises is going to become more complicated, as the district administration intended to make SGSY loans worth Rs.3 lakhs and Rs.5 lakhs available to SHGs that had successfully completed repayment of their first loan. An NGO staff member instructed SHGs at their monthly meeting 'This time you really have to take up an enterprise. You can't cheat authorities the way you have done so far. Otherwise you won't get the subsidy.' Several SHGs had applied for a mobile phone through a scheme that was supposed to provide them to SHGs which manage SGSY financed enterprises. This was with the aim of enhancing women's access to market information and thereby boosting the viability of their enterprise. But, not all SHG coordinators were enthusiastic about the scheme. Gomathi, an SHG's secretary remarked, 'The NGO announced that we would get Rs.5 lakhs next. But I don't want it. What enterprise will we have to imagine now? With a cell phone, our calls will be monitored. The cell phone will be proof that we are not really doing an economic activity. How can we escape scrutiny with a cell phone? We can only lie once – not ten times. When we lie, we look at each other and laugh. The NGO staff got angry when I said I didn't want Rs.5 lakhs and shouted at me, asking whether it was personal money for me to accept or reject. The NGO does not understand our dilemma.'

11 The many faces of rent-seeking

In all the cases that I documented, the fee SHGs paid business owners for supplying fictitious documents was substantially larger than the bribe they paid the BDO for sanctioning the subsidy. In some cases, however, BDO officials skilfully

exploit SHGs which fabricate evidence and obtain further bribes from them. Sometimes SHGs are required to produce invoices with details of the cost of raw materials as the evidence of enterprise activity. It is not uncommon for BDO officials to act as brokers or intermediaries between women's groups and local business interests to secure the needed invoices. And they charge SHGs fairly large fees for such services.

An SHG proposing to manage a cement stone manufacturing unit paid Rs.2,000 to a BDO official for an invoice, he is said to have obtained from an 'engineer' in a neighbouring town. Another SHG which was meant to be managing a wedding decoration rental business paid Rs.7,000 to BDO officials for procuring a relevant invoice. In this case, the bank manager too supplied an invoice worth Rs.50,000 towards the purchase of chairs. The SHG paid him Rs.3,000 as a bribe.

The basis on which bribes and payments are made to the bank and the BDO are different. Payments to the BDO are usually similar to the customary commission that they routinely extract for any service rendered. With the bank, the implicit understanding is that the SHG buys the bank's compliance and willingness to overlook the subversion. The SHG which applied for a SGSY loan to set up a wedding decoration rental (on paper) was shocked when the bank manager unexpectedly visited them for 'inspection' a day after the loan was disbursed. They lied to him that the goods were on the way and the SHG coordinators paid him Rs.2,000 and gifted him a box of sweets, the next day at his office. The manager's sudden visit made it clear to the SHG (as well as to other groups in the village) that the bank expected to be rewarded for ignoring the fabrication of enterprises.

A sympathetic bank manager can make a difference to the expenses SHGs incur. When the SHG (described in Section 10 of this paper) which produced evidence of a tailoring unit at a cost of Rs.9,000 offered the manager a gift, he declined it and was in fact dismayed at the large expense the SHG incurred. He regretted his inability to waive the loan condition of enterprise management as he was accountable to his seniors. However, he tried to help them to identify any other business units that might oblige the SHG with ownership documents at a lower price. So, in the matter of bribes to banks much depends on the individual officer, unlike the BDO where payments are a routine affair and have little to do with individual officials.

The direct linkage loan, being a non-subsidy loan, does not involve any payments to the BDO. However, seven of the nine SHGs that received the direct linkage loan, in one of the study villages, purchased expensive gifts for the bank to express their gratitude. An SHG even presented gifts worth Rs.200 per SHG member to bank staff for a local religious festival. Although the bank staff protested for politeness' sake, that it was improper and unnecessary for the women to offer gifts to them, they accepted the gifts. The bank indirectly therefore, encourages SHGs to offer them gifts.

Although SHGs perceive giving gifts as a strategy to advance their relationship with a crucial benefactor (discussed in Section 9 of this paper), bank payments are not obligatory, unlike the payments made to the BDO. Thus two SHGs that received the direct linkage loan did *not* offer a gift to the bank. The President of

one of them argued that neither the members of her group nor the bank manager approved this practice of gift-giving. All SHG members do not perceive it as a necessary cost for accessing loans or as an investment to earn the bank's good will. In one group, women asked why they were required to spend money on bank officials who have a regular 'government salary'. The SHG coordinator, in this case, silenced the women by saying that a loan of Rs.10,000 per member warranted a gift in return to express gratitude.

In patron-client relationships such as this, it becomes prudent for SHGs (the partner with less power) to build ties with the banks (the partner with more power) through such gestures. And when bank staff accepts gifts it sets a precedent, which other SHGs are pressured into following.

12 Spaces for manoeuvre

The dynamics described above give us an understanding of how difficult it is for women's groups to resist pressures from or challenge the BDO and banks. As women are themselves active agents in subverting the enterprise promoting, subsidy-bearing schemes, it is difficult to avoid giving bribes or other illegal payments.

The SHGs perceive the BDO largely as an extortionary and corrupt agency primarily interested in securing its bribes. However, on certain occasions it could be an important ally for managing particularly difficult bank officers. Following the sudden visit of the bank manager to inspect the wedding decoration rental business that an SHG was supposedly managing (in the case described in Section 11), the women appealed to the BDO, which also tried to convince the manager to be flexible.

The reverse is also true – the moral support bank officers provide SHGs sometimes helps them reduce their payments to other agencies, the BDO in particular. SHG women several times appeal to one institution to help mitigate the excesses of the other. Dealing with multiple institutions provides the space for manoeuvre as the following case demonstrates.

Jothi, an SHG coordinator, who was successful in reducing her group's payment to the BDO, attributed her assertiveness to the local bank manager who had encouraged SHGs to report the BDO's demands for bribes. He had often reminded them that neither the BDO nor bank officials were entitled to 'buy themselves a cup of tea' with women's savings. However, Jothi's case is an exception. She was the secretary of a federation of SHGs operating in 54 villages and had received rights-awareness training from a local NGO. The BDO was deterred from unduly harassing her SHG as it was likely that she would raise the issue of illegal payments at federation meetings and other public fora, to which she had access.

The BDO is usually cautious and is wary of a conscientious bank manager's disapproval of illegal payments. It routinely instructs all SHGs not to ask or expect a receipt for the illegal payments they make to the BDO, not to record details of such payments in their Resolution book and not to report it to the bank manager.

SHGs usually give the routine bribes to the BDO with their sponsoring NGO as the mediator. But, in some cases where officials in the BDO excessively harass SHGs, the NGO too attempts to fight on their behalf. In the administrative block where I conducted my field study for this paper, some Rural Welfare Officials (RWO) or *Gram Sevaks* (village-level functionaries of the BDO) are notorious for being ruthless about bribes from SHGs. They visit SHGs late in the evenings promising them to quickly sanction the subsidy if the women immediately paid them some money. The sponsoring NGO of an SHG raised this issue several times with the BDO. On one occasion, the NGO director pointed out to the Block Development Officer that NGO staff had invested considerable resources in forming and training the groups. 'Will your RWO at least give us half the amount he collects?' he reportedly asked, in an attempt to shame officials into taking action against their field-level functionaries. This NGO reported that a former officer had at least chastened his subordinates in the presence of NGO staff, but his successor chose to ignore the NGO's complaints.

The presence of multiple institutional actors not only gives some protection to SHGs from the rent-seeking behaviour of the BDO, but also makes it possible for them to act autonomously as they have an expanded set of choices. For example, if SHGs feel they are being victimised by a sponsoring NGO, they can dispense with the existing 'sponsoring' arrangement and seek a new one instead. In one of the study villages, ten SHGs switched allegiance to the bank from an NGO which was unscrupulous and exploitative. When the SHGs complained to the bank manager about the NGO's continuous demands for payments, the manager asked them not to be 'dependent' on the NGO. He offered his support for supervising group accounts and sanctioning bank loans. In this case, the bank willingly assumed the responsibility of SHG promotion in addition to its role as banker to the groups. The branch manager invested considerable time and effort attending monthly village-level SHG meetings, auditing SHG account books and building the SHGs' ability to maintain accounts.³³ And the SHGs were grateful to the bank for having facilitated their escape from an NGO that was seen as unaccountable and corrupt.³⁴

Although some SHGs continued to remain formally associated with the sponsoring NGO, they distanced themselves from the NGO increasingly, for example, by not attending NGO-sponsored meetings. They instead focused their energies on

33 SHG promotion also requires the bank's involvement to troubleshoot and mediate intra-SHG conflicts. An intra-SHG dispute about repayments of the SGSY loan was discussed in the presence of the bank manager and was eventually resolved after a three-hour session which extended well beyond closing hours of the bank. At the end of the session, the exhausted bank manager reportedly commented that he had not talked to his wife as much in the 16 years of his marriage as he had with the SHG women. In my study, the commitment of the branch bank manager was reflected in the bank's conscientious execution of its role as sponsoring agency. Other studies however show that banks may attempt to minimise the costs of SHG promotion through fewer village visits, spending lesser time on monitoring SHGs and by not providing training to SHG coordinators and members (Srinivasan 2000).

34 In the administrative block in which the study was conducted, the state-sponsored Mahalir Thittam scheme experienced an initial phase of difficulty in identifying a reliable partner NGO. Two NGOs that were initially entrusted with this responsibility were reportedly dishonest and made frequent demands from SHGs to meet real or imagined expenses associated with SHG promotion.

strengthening relationships with banks. Where SHGs have a good rapport with the financing bank, their perceived utility of maintaining a relationship with the sponsoring NGO significantly diminishes. In any case, SHGs 'evaluate' sponsoring NGOs (which also judged themselves), in terms of their effectiveness in ensuring a relatively smooth access to bank loans. One of the NGO staff explained that the NGO-SHG relationship was usually strong for the first six to eight months. This is usually the time it takes to procure the Revolving Fund loan. The relationship then tends to weaken as the SHG establishes an independent relationship with the bank. Consequently, NGOs often complain of the 'fickleness' and 'ingratitude' of SHGs. At a meeting of SHG coordinators, an NGO staff criticised SHG women for their inherent 'opportunism' and willingness to switch loyalties from one sponsor to the next in order to get the 'Form 3' (the subsidy-sanction form of the SGSY loan) processed.

SHGs also switched accounts from one bank to another if a particular bank was unwilling to finance them. In the administrative block where I carried out my field study, a nationalised bank, which was perceived as 'SHG-friendly' because of the relative ease with which it provided loans had attracted more than 100 SHGs from the surrounding villages. This bank had allocated one day of the week to exclusively deal with SHG customers. Overall, it can be seen that SHGs' decisions about maintaining a relationship was based on their assessment of the relative costs and benefits of the relationship, as well as the choices available. Where the costs outweigh benefits, or where a relationship appears to have outlived its usefulness, SHGs plan strategies to disengage from it.

13 The political economy of loan access

As SHGs have proliferated and the funds available from schemes such as the SGSY are limited, inter-SHG competition to secure subsidy-bearing loans is inevitable. NGOs that sponsor SHGs outside the ambit of the state-partnership scheme often allege unfair competition from 'state-legitimised' NGOs. The latter group secure loans (especially subsidy-bearing loans) more easily for the SHGs they sponsor because of a reported 'nexus' with the bank and the BDO. Banks sometimes refuse outright to lend to SHGs sponsored by NGOs that do not belong to the state-partnership. At times they also disallow opening bank accounts for their SHGs stating that they have instructions to work only with 'government' groups. In some administrative blocks where the BDO directly sponsors SHGs, the designated state-partner NGOs complain that the BDO discriminates against them and that it sanctions loans in favour of its own groups.

In this context, SHGs find it hard to resist official directives from the BDO to attend public events organised at the block and district headquarters, which are sometimes attended by prominent people. NGOs that partner with the state are particularly susceptible to these pressures. However, several non-partner NGOs too cannot resist them, as they do not wish to antagonise the local administration.

Women say that attending such frequent meetings, which are usually announced at short notice, are a significant cost that participating in an SHG brought. The general perception is that women's participation at meetings is relatively costless for authorities. As one SHG member said, 'If you want men's presence at meetings, you need to provide transport, lunch and liquor. SHG women, on the other hand, organise their own transport, bring food along and come free – all expenses are met by the resources of the SHG.'

The control the BDO exercises over sanctioning the subsidy is also resented by SHGs because the BDO also enlists their participation in managing other village-level government schemes. Although women valued the opportunity to acquire information about the workings of government departments and programmes at schemes local levels, they were wary of responsibilities being imposed, especially when they involved schemes that were flawed in their implementation.

In several villages, women protested when SHGs were asked to assume responsibility for managing the sanitary complex, which provides toilets and facilities for washing and bathing for women.³⁵ SHGs had to collect Rs.5 per household from the village community for regular maintenance of the toilets. The SHGs considered this an impossible task as no one was willing to pay. In one village, an SHG coordinator refused to take the keys of the complex and by implication, the responsibility for its management. She alleged that corruption and leakage of funds allotted for construction of the complex had made it unusable. Thus, pressures upon SHGs to assume responsibility for the monitoring of village-level government schemes suggest the possible over-burdening of SHGs with fulfilment of government programmes and without monetary compensation for the additional burden.

In some cases, BDO officials also dissuade women from actively participating in local protests and action which challenge state inefficiencies, for example, in providing public services or those which directly challenge state policies. A case in point is the protest against the sale of liquor that is promoted by the state and is a large source of revenue for the Tamil Nadu government. One District Collector reacted to a state-partner NGO organising a series of street-level, anti-liquor demonstrations by admonishing it for 'bringing women to the streets rather than just giving petitions to appropriate authorities.'³⁶

On one hand the state's agenda of microcredit promotion entails official commitment to empower poor women through credit-based self help activities. However, on the other hand it carries the risk of co-opting independent initiatives which use SHG networks to mobilise women for public action towards gender

35 The panchayat-level sanitary complex scheme aims to promote the health and wellbeing of rural women. According to the scheme, each complex is constructed at a cost of Rs.2 lakhs and should consist of 10 toilets and 3 cubicles for bathing. While charges for water consumption and the costs of maintaining pumpsets were to be borne by the village panchayat, the daily maintenance of the complex was entrusted to women's SHG (source: www.tn.gov.in/policynotes/archives/policy2002-03/rural2002-03-IV.htm).

36 This was reported by the NGO which quit the State-NGO partnership (Mahalir Thittam scheme) after a year of participation.

justice and social change. Some women's organisations in Tamil Nadu which have organised women for several years with an explicit gender rights perspective have also, in recent years, tried to use the opportunity provided by SHGs to create sustainable grassroots women's collectives. However, they struggle to operate in this environment to sustain economic benefits for women as well as simultaneously challenge the hegemonic purposes for which state authorities can use credit-disbursal.

This paper so far has dealt with the sources of conflict and friction in the co-production relationship SHGs have with banks and the state agencies. In the following section, I provide a brief account of the incentives for the banks, the BDO and women's SHGs which motivate these institutional actors to sustain their relationship despite the tensions.

14 Incentives for the stakeholders

14.1 Incentives for banks

In Section 2 of this paper, I briefly mentioned the role RBI and NABARD play in promoting SHG-banking. I also mentioned the policy incentives that motivate commercial banks to undertake banking with SHGs.

A former RBI governor said SHG-banking was evolving in a macro policy environment which was marked by concerns for revitalising rural financial institutions that had been damaged by the 'twin problems of non-viability and poor recovery performance' (Rangarajan 1997). One influential factor in generating official interest in the development of the linkage programme have been studies that showed significantly lower transaction costs for the lending institution and improved repayment rates if SHGs and NGOs were involved in various stages of financial intermediation (Puhazhendi 1995). A NABARD manual for branch-level bank officials tries to impress upon them the multiple advantages of SHG-banking. It presents it as something which could potentially extend beyond reducing loan servicing costs to grow into 'big business over a period of time' as it simultaneously increased the 'social base of the bank in rural areas' (NABARD undated). An important message within the banking sector is that SHG-banking is profitable and helpful to the bank officer struggling to fulfil the 'social banking' mandate of a developmental state.

A roundtable discussion among leading microfinance practitioners in India pointed to the growing significance of a 'demand pull' as banks responded to grassroots demands for credit from increasing numbers of SHGs. Moreover, for banks the competition is high in over-saturated urban markets. This combined with the realisation that NGOs could be gateways to a large market of low income households has urged banks to capture markets for financial services among the rural areas (Srinivasan and Sriram 2003). Recently, the scaling up of microfinance services to reach an estimated \$30 billion market in India³⁷ has attracted private-sector banks (both Indian and transnational) such as the ICICI, HSBC and ABN Amro. These banks have innovated lending models by using microfinance

institutions as collection agents to give loans to the rural poor people. They in turn benefit from expanding their retail operations to rural areas without incurring the expense of establishing an infrastructure.³⁸

While banks as institutions gain from the advantages described above, branch level bank managers and other employees are engaged in day-to-day transactions with SHG women. They negotiate the many pressures of direct interactions and the responsibility of operating numerous small-sized accounts. In this paper, I have pointed out the other incentives that motivate branch-level bank officials to participate in SHG- financing.

The potential of SHGs retrieving long overdue arrears on former bank loans is an attractive opportunity. Banks also find that SHGs are valuable allies during difficult circumstances. For example, the rural branch office of a nationalised bank was to be closed down as the number of users was declining. The SHGs in the surrounding villages successfully campaigned to 'save the bank' by encouraging private individuals and other SHGs to open accounts in the bank. The bank was grateful to the role that older, established SHGs played in spearheading the campaign.

The growth of women's SHGs has created local institutions with a strong vested interest in the successful performance of public sector bank branches. Local banks also express their appreciation at the new clientele that women's SHGs represent. A bank in one of the study villages invited all the SHGs in the surrounding villages and treated them to 'sweets and coffee' since the bank was sanctioned a new computer after the number of accounts had increased due to women's SHGs.

14.2 Incentives for the Block Development Office (BDO)

The DRDA is given the responsibility of managing all nationally-implemented poverty alleviation schemes including the SGSY, and the BDO's mandate is to meet loan disbursement targets for subsidy-bearing schemes such as the SGSY. However, as this paper shows, the BDO also gains from women's SHGs. The SHGs are not only good avenues to implement government-sponsored programmes but they also open opportunities for rent-seeking. All SHGs routinely bribe the BDO to get the subsidy. Some SHGs also have to make large payments to get the BDO's help manufacturing proof of non-existent enterprises. The BDO's incentive to participate at the field-level in the relationship, in this case, is in direct conflict with SHGs' interests.

The BDO in some parts of Tamil Nadu not only implemented the SGSY scheme but also functioned as an SHG promoter or sponsoring agency. In the administrative block where I conducted my field study, the BDO claimed to sponsor close to 200 SHGs. As SHGs have emerged as an important flagship programme of the state, it appears to have motivated the BDO to continue with SHG promotion. This has created competition between state agencies to promote SHGs.

37 This estimate is provided by Vijay Mahajan, Managing Director of BASIX (*Business Week* 2006).

38 Duflo (2005).

An NGO that was designated a state-partner in the block of the official Mahalir Thittam scheme, invited the BDO-sponsored SHGs in one of the study villages to join the state-partnership programme. The BDO quickly intervened to stop the SHGs from doing so. The BDO was proud of its association with the SHGs in this village because the women attended all public functions organised by them. The SHGs had even paid Rs.400 per group to travel in three trucks to attend a public meeting chaired by the District Collector. According to one SHG coordinator, the BDO officials told the women, 'If you stay with us (the BDO), we will help you in every way.' And it is evident that women's groups, in turn, use the BDO's imperative to maintain and strengthen its links with them, to negotiate their own interests.

BDO sponsorship, however, is not always good for SHGs. Although it gives them a relatively easy access to bank loans and quicker information about government welfare schemes, the BDO lack the infrastructure and personnel to maintain an ongoing supervision of the SHGs.

For example, the BDO-sponsored groups in one of the study villages complained of having effectively been abandoned by the BDO officials, who had stopped visiting them after the SHGs were formed. In one of my field visits to these SHGs, I was faced with a rather extraordinary request from the SHGs coordinators to 'pose' as a functionary from the BDO who had been deputed to monitor them (rather than introduce myself to the SHG members as a 'student' or 'researcher' from Chennai). The coordinators made this request in the hope of using my visits to create an impression of external monitoring and supervision, which could possibly motivate SHG members and thereby improve repayment performance.

14.3 Incentives for SHGs

Despite the tensions and costs of securing bank loans, a key factor that sustained SHGs' association with banks and the BDO (especially to secure SGSY loans) was that they could successfully subvert the scheme's objective: enterprise-management. Since bank loans were distributed equally amongst members (Rs.5,000 or Rs.10,000 each depending on whether the total loan was Rs.100,000 or Rs.200,000) each woman received a larger amount than was usually available from internal, group-sourced loans. Interestingly, I found in my research that poorer women in the SHGs received only a limited amount of the internal, group-sourced loans. The SHGs had informal norms which sanctioned them a lesser amount as they were generally perceived as less creditworthy. Bank loans, which were equally distributed, were sometimes the only opportunity for poorer women in the SHGs to get relatively large loans (Rs.5,000 or Rs.10,000).

Bank loans are supply-driven and SHGs have no control over the timing when they receive a loan. This allows women to use such money to fulfil long-term household needs such as acquiring assets, purchasing jewellery, repaying old debts and taking up home improvements.³⁹ Women want these loans particularly because it gives them the freedom to use the money on things that are important to them.

SHGs have also been able to strategically extend the benefits of their relationship with banks beyond the intended goal of securing loans and accessing credit-based development schemes. Village-level SHGs are also officially invited to all public events relating to local governance such as village-level Panchayat meetings. SHGs therefore enjoy a higher social status in their communities due to the networks of contacts they develop with these multiple state institutions, banks and the block development administration.

Also, women are fairly successful in using the official support for SHGs to gain access to other state institutions, such as the police. Police stations are more willing to register cases of sexual harassment, marital violence and dowry harassment, when these are referred by SHGs rather than when approached directly by the victim's family. Some women, in my study, reported that they use the threat of complaining to the police officially through the SHG (file a complaint using the SHG letterhead) against abusive husbands or sons-in-law. A few men, in turn, complained about a 'nexus' between women's SHGs and police stations having women employees only. They felt SHGs tended to 'harass' and 'shame' husbands and parents-in-law by reporting against them to police stations, at their 'whims' and 'fancies', and 'even for small offences'.⁴⁰ One disgruntled husband was angry with the state for what he felt was its 'big mistake' of openly supporting equal rights for women through SHGs and police stations run by women only.

Exhibitions that the local administration organises showcase enterprises which are financed by SGSY loans. They publicly demonstrate the official support SHGs enjoy. Commenting on an exhibition at the BDO, one SHG member said, 'Women were swarming the BDO for a whole week. The sight of women supervising stalls filled us with pride and made men wonder at us with envy.' It did not seem to matter that SHGs did not in reality own or run the enterprises on display, because the exhibition generally was a powerful way to convey what women could achieve.

The perception that women are able to use SHGs to gain privileged access to state institutions is fairly widespread. For example, at a public event organised as part of a state-sponsored literacy programme, a male participant argued that men needed to organise their own SHGs for unity, strengthening their bargaining power and countering the perceived public successes of women's SHGs. Several men in the audience appreciated and applauded this comment.

The strong links between women's groups and state institutions helps them to get round local interests and power structures. For example, one traditional village headman angry with the SHGs' visits to the police station and their increasing role in mediating local disputes, verbally abused the women and challenged their right to participate at Panchayat meetings. The SHGs reported this to the District

39 In marked contrast, internal or group-sourced loans, which are demand-driven in nature are used for immediate, emergent needs. My study found that 41 per cent of total amount of bank loans was used for acquiring assets relative to 24 per cent of internal loan amount. The data on loan use was collected for a total of 495 loans borrowed by 97 SHG members.

40 The first police station to be staffed by women only was introduced in Chennai in 1992, to create an institutional environment that would encourage women victims of abuse and violence to seek redress. Currently, there are 196 such women only police stations in Tamil Nadu.

Collector who ordered the BDO and the District Superintendent of Police to intervene. The village headman was warned to not interfere with SHG affairs.

Women have thus gained not only from the financial assistance offered by SHGs or from the emergence of organised collectives of grassroots women. Importantly, women have also gained from the widespread perception among rural communities that the state is committed to the development of women's SHGs and that these groups enjoy the support and backing of the state. This has been achieved to a large extent by the active involvement of several state agencies in co-production relationships involving the promotion and financing of SHGs.

15 Some points for reflection

This paper has tried to showcase the multiple pressures SHGs face while trying to access bank loans, as a result of the institutional requirements of different actors. This paper suggests that the co-production arrangements between SHGs seeking bank loans and other agencies were informed by the dominant ideologies of caste and gender. It was seen that bankers' tendency to invoke women's kinship and household-related identities to ensure repayment of loans borrowed by their male kin resulted in 'bank-induced drop-outs', conflicts within SHGs and household-level tensions for SHG members. The assumption by the bank and the BDO (described in Sections 9 and 13 respectively) that women's time and labour were freely available betrayed insensitivity to multiple demands upon women demanded by household survival in contexts of material deprivation and gendered work allocation. As described in Section 6, bank reluctance to finance SC SHGs on the same scale as their BC counterparts caused much resentment among the former, until a compromise was arrived at. Eventually, bankers' fears and caste-based assessments of repayment behaviour were belied by conscientious repayment of bank loans by all SHGs.

The pressures and concerns of the institutions at the time of promoting SHG-banking have to be factored in too, to understand the dynamics underlying the interactions between women's groups and other institutions. Women, for example, demand loans from banking institutions at a period when banks have become increasingly susceptible to the pressures of cost-recovery, portfolio quality, profitability and performance. The spread of SHGs coincided with the inception of banking sector reforms introduced as part of financial liberalisation since the early 1990s. Women have had to deal with overworked, irritable bank managers who struggled to operate understaffed rural branches that were being debilitated by retirement schemes undertaken as part of retrenchment in the public sector.

The interactions between SHGs and various institutional actors need to be also contextualised with reference to broader political dynamics. Employees of the Block Development Office in Tamil Nadu, for instance, try to 'politically manage' SHGs in a context where the SHG programme is widely perceived as a state-sponsored, state-initiated development agenda. It is in this context that I suggest (in Section 13 of the paper) that the forms of public action that SHG women choose to engage in, acquire a political meaning and urgency which can, in turn, circumscribe their capacity to directly challenge both state and household patriarchies.

This paper therefore emphasises that power dynamics underpin relationships between poor women seeking credit and the institutions involved in providing it and that the poor are vulnerable to the imperatives of more powerful institutions. At the same time, it also suggests the vulnerability of SHGs to development policies (such as the SGSY) that legitimise women's claims to bank credit, but impose an agenda perceived as irrelevant to the needs and life-circumstances of SHG women. In this case (as described in Section 10), co-production is successfully sustained by the blatant subversion of policy objectives by all parties involved and by the backdoor entry of a new set of actors – the owners of locally-based businesses who help SHGs feign productive use of their loans.

The paper demonstrates, in several instances, that SHGs were not merely manipulated by the exigencies of other institutional actors, but also deployed tact and skill, even subterfuge and lies, where necessary to manoeuvre spaces for themselves. In a context marked by different players which sponsor SHGs (NGOs for instance) and those which finance them (the bank), SHGs are able to assert their autonomy *vis-à-vis* the former, especially if they enjoyed the support of the latter. Overall, the presence of multiple institutional actors enabled SHGs to appeal to one agency to intercede on their behalf against perceived victimisation by the other.

Finally, I reiterate that research on microcredit demonstrates that microcredit/finance programmes do not have any inherent quality by which they empower their women clients or address concerns of poverty alleviation. The ways in which poor people experience the poverty-reduction or empowerment impacts are invariably mediated by the institutional context of these programmes. SHGs in India have to be located within the matrix of relationships they form with a range of institutions, in this context. This will hopefully provide a more nuanced understanding of how and under what conditions rural women members of SHGs gain from participating in microcredit programmes.

Annex I

The 27 SHGs studied were located in three villages marked by diverse livelihood profiles. Village 1 is one of the poorer and more economically backward villages of the administrative block in which the study was conducted. An approximate one-third of the total working population of village 1 is estimated to be dependent on the *beedi* industry for its livelihood. Local respondents attributed the centrality of *beedi*-dependent livelihoods in the village economy to the non-availability of water for agriculture, the village pond being so small that it could barely hold water for five days after a spell of rain. Less than 30 per cent of the village's population is officially listed as engaged in agriculture. Importantly, *beedi*-dependent livelihoods are unevenly distributed between the castes. Local informants estimate that close to four-fifths of the Scheduled Castes in the village relied on *beedi*-rolling as their predominant livelihood relative to one-fifth of the Backward Castes. Poorer women among SCs and BCs performed daily wage labour in agriculture, brick kilns and the construction sector. Additionally, a common form of employment among SC women of the village is domestic work in the homes of affluent families in the neighbouring town.

In marked contrast to village 1, two-thirds of the working population of village 2 is engaged in agriculture. During good monsoon years, wage work in agriculture was reported to be available throughout the year in the village on account of multi-cropping and seasonal cultivation cycles. Local informants pointed to the absence of any significant agricultural activity (particularly those involving water-dependent crops such as rice, banana and tomato) in village 1 and village 2 for 4–5 years prior to the period of study on account of pervasive drought conditions. The minority of farmers who owned pump sets had managed to carry on some cultivation activity – albeit on a reduced scale. In contrast to villages 1 and 2, the overwhelming majority of the population in village 3 works in leather-based industries in a nearby town. In village 3, the majority of SC women were employed in footwear manufacturing companies, while caste-related notions of 'social status' resulted in the avoidance of such employment by BC women. Table A1 provides the caste-wise and village-wise break-up of the 27 SHGs.

A brief note on methodology

Much of the information for this paper is drawn from interviews with the coordinators of SHGs. SHG-level coordinators possessed a rich store of information on SHGs' experience of interaction with external agencies, in particular the sponsoring NGO, the financing bank and the BDO. All details of any external loan received by the SHG were obtained from SHG coordinators with a focus on the process of securing the loans (the financial and other costs involved), the negotiations with banks, BDO and NGOs in the course of securing the loan, the stated purpose of enterprise-promotion loans, the actual use of these loans by group members (where they differed from the stated purpose), the manner of distribution of the loan within the group and its repayment. Discussions with coordinators also included the attitude of men in the village to the emergence of SHGs and forms of collective action (if any) initiated by the SHG to address

village-level issues. The discussions undertaken with coordinators of 27 SHGs were wide-ranging and open-ended in nature and conducted over several meetings.

In addition to interviews with coordinators, interviews with SHG members were held with a selected sample of 97 SHG members belonging to 18 SHGs in two (of the three) villages. The interviews obtained information on the actual loan use of all loans borrowed (both bank and internal loans), the respondent's perception of the SHG's track record in responding to her credit needs in a timely and adequate manner, repayment stress faced (if any) when repaying SHG loans and strategies used to ensure timely repayment of SHG-sourced loans.

Table A1 SHGs by caste and village

	Caste	Village 1	Village 2	Village 3	Total
1	SC	5	6	4	15
2	BC	3	2	5	10
3	Mixed (SC & BC)	2	-	-	2
	Total	10	8	9	27

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