

Savings and Credit Movement of Andhra Pradesh

Lessons for the Rest of India Sankar Datta and Vijay Mahajan, Basix

Prelude

Twentieth century witnessed large-scale conscious efforts of social change to improve the quality of life of the disadvantaged section of the population. It was recognised that the poor are caught in a poverty trap due to inadequate savings leading to low capital formation resulting in stagnant real income levels. To break out of this cycle, investable capital needs to be made available to the poor in credit, possibly without seeking any collateral security. It was realised that making credit available to the poorer segments of the society is a necessary though not sufficient step for alleviating poverty. The formal banking system made many attempts in different parts of the world to make credit available to the poor with little success.

However, some innovative efforts in Bangladesh and Indonesia demonstrated that it was possible to extend financial services to the poor, if

- Banking is made easy for them, with simplified procedures;
- Attention is paid to reducing transaction cost for both the borrower and the lender;
- Collateral requirements are replaced with collateral-substitutes,
- The person is financed and not the project;
- Peers in the community are involved in appraisal and follow-up;
- Repayments are designed to fit the cash-flow of the borrower and
- Small sums are collected at regular interval than paying a large sum at any one point in time

This led to the emergence of the micro-finance interventions world over. In most of these micro-finance institutions poor women constitute a majority of the members/ customers. Thus, organisation of women around thrift and credit services emerged as one of the more effective methods for empowerment of women and alleviation of poverty. Some of the well-known institutions involved in such organisation include the Grameen Bank and BRAC of Bangladesh and the Janasakti Bank in Srilanka. In India too, several experiments were made in the last decade throughout the country. Andhra Pradesh led the way in formation of self-help groups (SHGs) by non-governmental organisations (NGOs), and by the government development machinery, over the last five years.

Evolution of Women's Savings and Credit Groups in Andhra Pradesh

Though Andhra Pradesh (AP) has had a history of people coming together to extend various financial services, the women's savings and credit movement gathered momentum in 1993, in the Nellore district. Here, women had been organised into *Mahila Mandalis* during the Total Literacy Campaign. Subsequently these groups spearheaded the anti-*arrack* (country liquor) movement. This was very successful, eventually leading to imposition of prohibition in the state. Having achieved that goal, the women's groups became restless, till someone suggested that they form themselves into savings and credit

or "*Podupulaxmi*" groups. Thus Nellore led the way by having over 6,000 such groups in 1996. By March 1999, there were over 180,000 savings and credit groups in AP.

The members of a savings and credit group (SCG) are usually neighbours, friends and fellow workers. Women in these groups may not be from the same caste/ community but they have the same socio-economic back ground. These groups also provide an opportunity for social interaction. The regular obligation to save may be no more than a 'glue' which brings the group together and holds it together providing a base for other important activities. In some groups, their opportunities for profitable investment are limited due to lack of skills, markets and opportunities.

Savings and credit groups are poor women's substitute for formal banking, and a potential distribution channel for banking services. However women's savings groups themselves are micro-enterprises and like any other business their survival depends on their ability to satisfy the needs of the customers. Lending services in the SCGs offer fast, convenient and informal service, repayments are flexible and they are willing to lend for consumption and productive purposes.

The most important government program involving women in savings and credit is Development of Women and Children in Rural Areas (DWCRA). About 40 percent of the DWCRA groups in the country are in AP. About 15 lakh women are covered under DWCRA and Rs 150 crores was provided as revolving fund as against a saving of Rs 200 crores by the groups till March 1999.

With government support, particularly from the Rural Development department with its network of District Rural Development Agencies (DRDAs), and further support from many active District Collectors, the women's savings and credit movement is now widespread. These are known by different names in various local savings groups districts: *Podupulaxmi* groups (Nellore, Kurnool), *Ananta Mahila Sakti* (Ananthpur), *Maalaxmi* (Mahaboobnagar), *Podupu Jyothi* (Ranga Reddy), *Samabhavana* (Nalgonda), *Pragati Laxmi* (Nizamabad), *Grama Laxmi* (Chittoor), *Mahila Sakti* (East Godavari) and so on.

Major Initiatives

Some of the major efforts in promotion of savings and credit groups in Andhra Pradesh included:

Government Programs - DWCRA

The DRDA in most of the districts are actively involved in transforming DWACRA groups into savings and credit groups of women. But the effort does not stop there. Many DRDAs have taken steps towards continuing support and strengthening DWCRA groups. For example, in Srikakulam and Nellore districts, the DRDA and NABARD are jointly conducting training programs for group leaders and bank managers. In Nalgonda district, the DRDA had promoted 2,800 groups in just two months. In Cuddapah district, the DRDA has plans to promote 100-150 village level MACTS, 3,000 new groups and provide tool kits to women in future. Out of the 180,000 Savings and Credit Groups in Andhra Pradesh in March 1999, close to 140,000 were DWCRA groups⁵

Government Programs - Special

The state has a special project sponsored by the UNDP. The UNDP has established a South Asia Poverty Alleviation Program (SAPAP), operating in three districts of AP namely Ananthpur, Kurnool and Mahaboobnagar. It has promoted over 2,700 groups covering over 42,000 members. A Village Organisation (VO) has been formed at each village where all the groups in that village have been federated. All the VOs have been federated as Mandal Samakhyas at the mandal level.

NGO Retailers

The evolution of NGOs as financial intermediaries has been a growing trend over the past few years. Some NGOs have accessed loans from Rashtriya Mahila Kosh (RMK) and had on-lent to their groups. Such NGOs include Youth Charitable Organisation (YCO) and Vishakha Jilla Nava Nirman Samity (VJNNS) in Visakhapatnam; Gramasiri, CARDS and ASSIST in Guntur; Youth Club Bejjipuram and SVCT in Srikakulam; RASS and PODA in Chittoor and Multipurpose Social Service Society in Cuddapah district. SHARE, which is a Grameen Bank replication, is the biggest NGO retailer, operating in six districts, with an outstanding of Rs 9 crores by September 1999, with a 100% repayment rate. Its members savings amount to Rs 1 Crore. St. Ann's Social Service Society, Vishakhapatnam and Swyamkrushi Sangham in Narayankhed, Medak district, are also replicating the Grameen Bank model.

An Overview of Different Approaches

In Andhra Pradesh the women getting organised around savings and credit took the form of a movement. Very large number of groups has been created in this process. But it may be noted that all these groups do not adhere to a 'single' design. Though most of these groups have retained the basic features of micro-finance they have significant elements of diversity in their design. As it evolved in different places, under the initiative of different agencies, responding to the needs of the local context, different design features were incorporated in these groups.

Some of the areas of design variation include:

- Lending methodology.
- Design of secondary (or tertiary) people's organisation.
- Legal form of organisation.

Lending Methodologies

It can be observed that four different patterns of lending methodology are being used by different groups/ micro-Finance Institutions in the state.

- Group lending, where the loans are given to a group, which in turn on-lends to its members. Here the group is responsible for repayment and may enter into any kind of arrangement with its own defaulting sub-borrowers.
- Group guaranteed, individual lending, where the loans are made to individual borrowers with each guaranteeing the repayment by the other and default by any one member leading to stoppage of further loans to all others.
- Individual lending, without collateral security and without any group guarantee.
- Individual lending, with collateral security.

The first methodology is popularly known as the Self-Help Group (SHG) methodology. Groups comprising of 15-20 women from nearly homogeneous socio-economic background who know each other and have frequent interactions with each other act as the financial intermediary. They meet periodically (once a week, fortnight, or month) and each member agrees to contribute a specified amount per meeting to the common pool. Usually an SHG elects a President, a Secretary and a Treasurer and they maintain the books of account and minutes. Once the monthly "thrift" contributions add up to a reasonable amount, after some months, the SHG members start lending to some of their members. The decision is

taken collectively, based on need, repayment capacity and funds availability. A stage comes when SHG members need more funds than the thrift amount accumulated by them. They then try to access funds from various external sources such as the specialised micro-finance funding agency: RMK, NABARD, SIDBI, FWWB, or the Government Departments: Social Welfare Department, DRDA, or other financial institutions like commercial banks, non-banking finance companies: **BASIX**.

Due to the effectiveness of the SHG method, DWCRA groups have also been encouraged to undertake thrift and credit activities.

The second methodology: group guaranteed individual lending is also being used widely - by Mahila Vikasa Mutually Aided Co-operative Thrift Societies, by SHARE which uses five member groups of Grameen Bank, Bangladesh style, and by **BASIX**, which uses joint liability groups (JLGs) of four to six members.

The third methodology: individual lending without collateral security - is used by **BASIX** to extend loans of up to Rs 50,000 to farmers and non-farm producers. Here the borrowers are often graduates of the self-help groups or of joint liability groups (JLGs), with a successful repayment record of three or four loans. They are given successively higher amounts every time they repay a loan on time. Thus, borrower-credit-history rather than group guarantee becomes the collateral.

The fourth methodology: individual lending with collateral security - is used by banks commonly, even for loans of up to Rs 25,000 where they are not supposed to seek security. This methodology has limited relevance for micro-finance borrowers in the first two to three years of their borrowing history. However, a stage will come when some of the more successful poor borrowers will graduate to a level of credit needs where they may require collateralised loans of above Rs 25,000.

Nature of Secondary Organisation

It can also be seen that though some Savings and Credit Groups (SCGs) operate as independent groups, many of them have come together to form federal structures. In this respect as well there are variations in their design. Some of the commonly practised models include:

- Many SCGs in one village federate to form a Village Organisation, e.g. UNDP SAPAP in Kurnool, Ananthpur and Mahaboobnagar.
- In some cases, the village level federation is registered as MACS, e.g. groups promoted by CDF.
- Many SCGs in nearby villages form a cluster association, e.g. CARE, Chevella
- Many SCGs promoted by a DRDA in a *mandal* (a revenue circle) form a federation, e.g. Padmavathi Mahila Sangham, Chitoor.
- In some cases, all the Village Organisations within a *mandal* have federated together to form a MACS or Mandal Samakhyas.
- Many SCGs promoted in different parts of the state federate together as a MACS at the state level, e.g. Mahila Vikasa Mutually Aided Co-operative Thrift Societies Ltd.

Legal Forms of Organisation

Even in the legal form of these organisations, both at the primary and at the secondary

level, there is diversity.

- Unregistered, e.g. UNDP, Kurnool, Mahaboobnagar, CARE, Chevella
- Registered under the Societies Registration Act, 1860 e.g. ASSIST, Guntur
- Registered under the APMACS Act, 1995, e.g. SHARE MACTS, Anakapalli, Vizag

The most predominant form is where the SCGs are unregistered, and receive credit from banks or NGOs. In cases where NGOs themselves act as on-lenders, they (NGOs) are registered under Societies Registration Act, 1860 or the Indian Trust Act, 1920. However, this legal structure creates problems with the Income Tax Act, 1961, the Foreign Contribution Regulation Act, 1976 and with the state level money-lending acts. Thus NGOs which have reached a significant scale in micro-finance, are looking out for legal alternatives, in the form of co-operatives registered under the AP Mutually Aided Co-operative Societies Act, 1995. As in the initial stage, members may not be able to promote or manage such entities; these are often promoted by NGOs. Examples of this approach are Mahila Vikasa MACTS promoted by Vikasa Darshini.

In many cases, SHGs formed by an NGO such as CARE or a government program such as the UNDP, have been organised into cluster federations at the level of a number of villages in the same area, typically in a 10-25 km radius. Cluster federations are both unregistered and registered. Where they are registered, it is either under the Societies Registration Act, 1860 or under the APMACS Act, 1995. However, in such cases, all the members of the SHGs have to individually become members of the federal body, since the APMACS Act, 1995 at present does not allow for membership of SCGs.

Sources of Funds

The Savings and Credit Groups in Andhra Pradesh today have command over a sizeable volume of resources. As these groups are not part of a single large organisation, there are considerable difficulties in consolidating the total funds handled by these groups. But an estimate indicates that it could be a fund of Rs.400 crores, which is available with the rural women of AP.

The main sources of funds for these groups are as follows:

- Own Funds including their savings, interest accumulated thereon, service charges, penalties and other collections of the group;
- Government Grants or Matching Contributions to the revolving fund from DWACRA
- Loans from banks including RRBs, Commercial Banks;
- Loans from apex financial institutions like NABARD, SIDBI, HUDCO, through NGOs;
- Loans from specialised micro-Finance agencies, such as FWWB, **BASIX**
- Combination of grants and loans from donor agencies like OXFAM, Action Aid, and UNDP.

Even with a conservative estimate of Rs. 10,000 savings per group, with close to 200,000 groups, there is a savings fund of Rs. 200 crores with these groups. In addition in AP about Rs. 150 crores have been given to these groups under DWACRA. In addition the commercial banks have financed to the extent of about Rs. 20 crores, while specialised institutions like RMK has invested about Rs. 24 crores. These funds easily add up to Rs.

400 Crores, which is at the disposal of about 40 lakh women in the state.

Mutually Aided Co-operative Thrift Societies (MACTS)

In support of people's organisation, recognising their need to be free from Government control. Andhra Pradesh took lead earlier this decade. It enacted a highly progressive co-operative legislation, titled the Andhra Pradesh Mutually Aided Co-operative Societies Act, 1995. This Act breaks new ground in the history of Indian co-operative movement. The Act envisages to promote self-reliant and autonomous co-operative societies and make the co-operative movement more vibrant in the state. On the May 4, 1995, the Andhra Pradesh Legislative Assembly passed a historic law which restores member control to all co-operatives which do not hold Government share capital. For the first time, since the first Co-operative Societies Act was enacted in 1904, a co-operative law respecting the right of members to fully own and control their own co-operative enterprise has been brought on to the statute book. The enactment, an act of political courage and wisdom by the Andhra Pradesh Government, is the final step in a long effort to create a new co-operative environment in Andhra Pradesh.

The salient features of the Andhra Pradesh Mutually Aided Co-operative Societies Act, 1995 are:

- To enunciate the co-operative principles which primarily place an accent on voluntary, self-financing, autonomous bodies free from state control. Provides 100% functional autonomy in relation to business operations.
- Enable the co-operatives to regulate their functioning by forming bylaws subject to the provisions of the Act in respect of the various matters specified in the legislation.
- To enable the co-operatives to mobilise their own funds.
- To provide for constitution, powers and functions of the board of directors and for matters incidental thereto.
- To provide proper accountability and for that purpose to conduct audit, special audit, inquiry and for the recovery of loss caused to the society by misconduct or otherwise.
- To provide settlement of disputes
- To make the co-operative societies responsible to hold the elections and to regulate the process thereof.
- Provides for collaborations and linkages with institutions other than co-operatives. It can promote other forms of organisations.

The Act prohibits society from raising share capital from the Government. The Act is very helpful for thrift and credit co-operative societies in the state. By March 31, 1999 there were 1,393 MACS registered in the State. Out of these 482 were thrift co-operatives.

Lessons for the Future

It can be observed that in Andhra Pradesh the organisational energy that grew with the total literacy campaign leading to the anti-arrack movement of the women was channelled

to steer the savings and credit movement. Many organisations, government and non-government took part in this. Large number of women got organised around thrift and credit, forming a very large number of women's groups. Though most of these groups are involved in savings and credit activities, there is substantial variation in their design.

This experience clearly demonstrates that it is possible to make financial services available to a large number of people from the disadvantaged sections of the society, primarily the women. At this juncture, when most other states in India recognise that extending financial services is a critical step towards poverty alleviation, but where the savings and credit activities have not yet taken the form of a movement, it may be worthwhile taking a look at some of the factors that has made it possible in AP.

Utilisation of an Opportunity

The literacy mission in the state and the subsequent arrack movement had created an opportunity in the state, which was turned into a thrift activity, by social activists and bureaucrats alike. The movement against arrack, in the absence of this directional change, could have fizzled out after having achieved its mission (of ban on alcoholic drinks in the state). The issue of alcoholism, which was dear to most women, had mobilised support from the masses, across party lines. By utilising this opportunity the savings and credit movement also drew on their large-scale support.

Involvement of the State

Unlike most other parts of the country where NGOs have played a major role in organising women around savings and credit, in Andhra Pradesh the state machinery got actively involved. There was a clear and strong political support, with very senior leaders like the Chief Minister making public commitments to the programme. The polity not only gave the mandate to this movement, it also got the bureaucracy involved in the effort in an active manner and gave it the necessary freedom. As the resources at the command of the state, including both financial and non-financial resources, is very high, this could give a major impetus to the movement.

Though it is often argued that state machinery is inefficient, incapable of reaching the needy, its sheer size of intervention often compensates for that. Even if we assume 80% of the groups promoted by the Government are very poor quality, it still leaves 40,000 SHGs (20% of 200,000) which are not that bad. Even if half of them are Good, the number of good groups promoted by AP Government surpasses the number of groups by any NGO.

Apart from giving it the size, involvement of the State has also given it the legitimacy, the enabling legislation.

Enabling Legislation

The state has demonstrated its positive attitude towards such people's institutions in the past. The Mutually Aided Co-operative Societies Act, 1995 is a very progressive act, which has also enabled many local institutions to acquire a legal form which is not formidable.

Public Awareness

As the State Government has taken a lead in organising the women around savings and credit in Andhra Pradesh the scale of intervention has been large. This in turn has led to creation of 'Public Knowledge' of the movement. Awareness that women can organise themselves into groups and get involved in thrift and credit activities is a part of the public knowledge in the state. Many women in the villages today are aware of these possibilities. But not only the women in the villages, this public awareness has also helped in bringing in other institutions into action. Bank managers, NGO leaders in AP are aware of such interventions.

Multiple Agency Collaboration

Another significant factor contributing towards the rapid expansion of savings and credit groups in Andhra Pradesh is collaboration between variety of organisations and institutions. International institutions, such as UNDP, have been able to work in close collaboration with the State Government, DRDA, and with local non-government organisations such as Adarsh Welfare Society, Mahaboobnagar. It can be observed that similar collaborative arrangements have been worked out in almost all the districts. Various forums for interaction between the collaborating agencies have been created. In accomplishment of a large task involving several lakhs of rural women multiple agencies joining hand was a critical input.

A significant feature of the multiple agency collaboration in Andhra Pradesh has been utilisation of their relative strengths. For example, the UNDP has involved many small NGOs, who have a close grassroots presence, in their effort. These agencies have been involved in the community organisation work, which is their strength. While UNDP has kept a grip on the training process and maintenance of standards, it has got specialised micro-Finance Institutions such as **BASIX** involved in management of the finances.

Two other dimensions of this effort, which has contributed in their growth, need a mention here. These are (i) significant emphasis on continued efforts in development of human resources and (ii) intensive inputs in an area till saturation is achieved.

Programmes like UNDP-SAPAP has laid a significant emphasis on the development of the human resources at all levels. Significant resources and efforts have been allocated for this. Competence building has also been looked at as a continuous process and no a 'one-time' input. Appropriate systems for continued inputs have been integrated in the design.

UNDP-SAPAP has also adopted a saturation approach of intervention. In this method of working, they work with the whole village till all the poor families are covered before they move on to the next village. This approach has serious implications on the spread of such groups. This intensive work in an area has contributed towards 'public knowledge' of the advantages and disadvantages of organising women around thrift. Most people in the village, men and women, were aware of the process before the intervention agency had moved to a new village. This has also helped in creation of federal structures at the village level itself. As a result, the secondary level organisation has also come to life with much greater involvement of the people.

No Blue Print Approach

Though the State Government has been actively involved in this programme, no blueprint directive has been developed. As a result the programme has been able to accommodate and encourage design variations in different parts of the state, without pushing a 'single' design in all contexts. This has also facilitated participation of multiple agencies in the task without cutting corners in their own view of development.

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