



North Eastern Development Finance
Corporation Ltd. (NEDFi)



**Study on Credit
Linkage Strategy for
Sustainable
Livelihood
Improvement with
special reference to
NERCORMP**



EXECUTIVE SUMMARY

TITLE OF THE STUDY

STUDY ON CREDIT LINKAGE STRATEGY FOR SUSTAINABLE LIVELIHOOD IMPROVEMENT WITH SPECIAL REFERENCE TO NERCORMP

Introduction

According to IFAD, 43% of agricultural labour force in developing countries is made up of women but less than 13% of agricultural landholders are women. Rural women suffer from multi-dimensional discriminations and experience poverty, exclusion and effects of climate change. Women farmers are as productive and enterprising as their male counterparts are, but have less access to land, credit, inputs and markets. Against this backdrop, the importance of the sustainable Development Goals (SDGs) to empower all women and girls cannot be ignored for creation of better future for the global community.

The National Strategy for financial Inclusion 2019-2024 in India aims to provide access to formal financial services in an affordable manner, broadening & deepening financial inclusion and promoting financial literacy & consumer protection.

The North Eastern Region Community Resource Management Project (NERCORMP) a livelihood and rural development project, which is being carried out in a phase-wise manner in 4 states and 10 Districts of North Eastern India assumes larger importance in the above context. The overall objective of the project is to strengthen the livelihoods of vulnerable groups in a sustainable manner through the improved management of resources with focus on women. The states covered by NERCORMP include Arunachal Pradesh, Assam, Manipur and Meghalaya. The project is being carried out by a registered society, the North Eastern Region Community Resource Management Society (NERCRMS).

It was felt necessary at the policy-making levels to undertake a field based study to understand the effectiveness of the financial inclusion based on credit linkage strategy for meeting the project objectives of NERCORMP. Accordingly, the Executive Committee of the Techno-Economic Development Fund (TEDF) had suggested that the Advisory & Consultancy Division of North Eastern Development Finance Corporation Ltd. (NEDFi) carry out such a study.

The present study seeks to explore the theme of credit linkage for sustainable livelihood improvement under NERCORMP, focusing upon the income generating activities of women members of project SHGs. It covers the above aspects for the second and third phases of NERCORMP only. The objectives of the study have been furnished under Chapter - 1. In addition, the Terms of Reference (ToR) of the assignment are available at Appendix -1.

NERCORMP and its Plan of credit linkage for Livelihood Promotion

The **goal** of the project is to improve the livelihood options of economically vulnerable groups in a sustainable manner through the promotion of improved livelihood opportunities and strengthening of local institutions that relate to livelihood development.

The project has already completed two phases (viz. NERCORMP-I and NERCORMP-II), while the third phase (NERCORMP-III) is under progress. Under the second phase of NERCORMP, additional villages were taken up, which were located near the previously covered communities. NERCORMP-III was taken up in separate geographies, using the same design and implementation model adopted in the previous phases of the project.

Under NERCORMP, institutions were planned to be developed at the community level to enable them to improve their livelihoods. **Self Help Groups** (SHGs) were to be formed among women through savings and credit activities for helping to improve their livelihood through income generating activities (IGAs).

Natural Resources Management Groups (NaRMGs) were envisaged for the planning and implementation of village and community development works, which include economic livelihood

activities, social sector activities, village roads etc. These works would be undertaken with the participation of both male and female members alike.

While federating the project SHGs, it was planned to form SHG Federations by covering groups located in some of the adjacent villages. Such SHG Federations also came together at the district level in order to constitute Apex Bodies in some of the project districts.

The project adopted a design based on 'a guided bottom-up approach of planning', which empowered the communities to plan for relevant livelihood activities suited to their local contexts. It is evident from project budgeting and actual expenditure that livelihoods promotion had a central role under the project. About 43% of the project funding (under NERCORMP-II) was to be allotted for the component titled 'Economic Livelihood Activities', with the actual expenditure being 44% of the total expenditure. Similarly, under NERCORMP-III, about 51% of the budgeted project cost was intended for 'Livelihood Grant & Revolving Fund'.

Under NERCORMP, SHGs would be provided with financial support as Revolving Funds, so that their members could take up viable income generating activities (IGAs). These activities were intended to facilitate access to finance from financial institutions like banks. Credit linkage of SHGs with banks was expected to lead to the diversification of incomes through farm and non-farm activities.

The present work is limited to a study of the credit linkage (planned as well as achieved under the project) of SHGs and their Federations also with banks and MFIs for the livelihood improvement of group members from the targeted communities.

Plan for Credit Linkage under NERCORMP

Access to finance by the rural poor and vulnerable groups is an essential pre-requisite for poverty reduction and sustainable development. In view of this, one of the development outcomes under NERCORMP-II and III (Outcome-4) has been framed as follows: '*Access of the communities to rural financial and credit services (is) enhanced*'. The project design for NERCORMP-I had recognized that the 'virtual lack of credit facilities in the NER has represented a major constraint to the promotion of development activities.' It also stated that 'at present, no banking culture exists on either the demand or supply side'. Hence, the project planned to promote the establishment of self-managed savings and credit SHGs through NGOs. This would provide the short-term needs for credit among the women members of these groups.

The SHGs would start by collecting savings or raising funds through collective action. They would start extending small loans to group members from the accumulated savings. However, it was foreseen that the credit needs of SHG members would grow more quickly than the funds available to them through the accrual of their **own resources** (savings and interest accruals). This would create a situation where it would be necessary to augment the funds available to the group. Hence, the project planned to provide grants to fund livelihood activities at the village level.

Initially, SHGs demonstrating sound savings and credit rotation were planned to be provided loans ranging 1-4 times their savings to augment their corpus. It was envisaged that partner NGOs (responsible for the SHGs) would make the loans to the SHGs, after availing of loans from NABARD & SIDBI. In case of failure of the NGOs to avail loans from these institutions, a **SHG Revolving Fund (RF)** was planned to be established with support from the project, which would cover 20% of the credit requirements of the SHGs.

Despite the challenges, NERCORMP did not abjure the route of seeking bank credit for the project SHGs. As noted by the project website, when the groups had matured, the project would mobilize the credit flow of SHGs. The first option is to encourage linkage with commercial, regional rural and cooperative banks. One key assumption initially made under the above measure was that banks and micro finance institutions would be willing to operate in remote areas. However, the ground position in the project districts was marked by an extremely limited branch network of banks, cash shortages in some bank branches, problems in achieving SHG- Bank linkages.

In view of the above situation, one model that emerged in Ukhrul during project implementation in the

first phase was to federate SHGs at the district level into Apex Bodies, which could function as formal institutions to extend microfinance to member SHG Federations (and hence to the SHGs). Apart from enabling SHGs to get the facility of a bigger platform, such Apex Bodies could act as **Micro Finance Institutions** (MFIs) to provide credit support to the CBOs in the area on time and without much of paper work. This was supposed to make the CBOs (including SHGs) independent of the project funding in the post-project period.

The above chapter also discusses the plan for securing the involvement of various classes of stakeholders for the credit linkage of SHGs and Federations under NERCORMP. Further, the applicable guidelines for SHG Bank Linkage programme and regulations for MFIs have been covered.

Implementation of the Plan for Credit Linkage

This chapter discusses the implementation of interventions and investments under the project aimed at facilitating credit linkage of project SHGs and their Federations for strengthening women's income generating activities (IGAs) in the targeted communities. The purpose was to understand the implementation of credit linkages under Phase-II of NERCORMP, covering the above geographies in view of their divergent experiences on the theme.

In all, in 5 districts 32 SHGs and 9 Federations were covered by the study (list is placed in Appendix-11). Interactions were also held with PNGOs, Bank managers and District support team members of the project in each district and the functionaries of UDWIM in particular. A separate report on UDWIM is placed in the Appendix-10. The outcomes of the field-based studies from the above sampled geographies have been also furnished in this chapter at the appropriate sections. The major findings are as follows:

Project Grants: It was informed that allocation of RF depended upon factors like grading of the SHG and number of members in the group. The distribution of the project funds depend upon the Annual Work Plan & Budget. The total Revolving Funds provided to the SHGs was Rs. 30.19 crore, at an average of just over Rs. 77,015/- per SHG to 3920 SHGs. It was informed that under different heads, each household gets cash infusion of about Rs. 3000-4000/- per annum from the project in addition to RF.

Bank Accounts & Transactions: The SHGs and their Federations in all the districts did not mention any significant difficulty in opening bank accounts. However, in Dima Hasao, there were reports of problems in opening bank accounts due to the banks' requirement of PAN cards. The SHGs and federations have opened the bank accounts with the help of the project and PNGOs in all districts. The SHG members were trained in banking operations by PNGOs and also DST functionaries in the districts.

As per DST of Dima Hasao, the KYC requirements for the opening of bank accounts had created difficulties during 2013-16, as banks required PAN Card of office bearers. Project staff had to intervene and issue letters to the concerned branches. Only then, the matter subsided slightly. However, during the field study in Dima Hasao, it was reported by some of the SHGs that they were now receiving SMS from banks to furnish the PAN Cards of the groups. It appears that in Dima Hasao, the matter of PAN Card (for SHGs) is creating disquiet amongst many of the existing SHGs.

Internal lending to Members: The source of funds to SHGs mainly included Revolving Fund from the project, members' savings and interest from loans to members. Of these, the bulk (around three-quarters) has come from RF grants. The total of Revolving Funds provided to the SHGs was Rs.30.19 crore, at an average of just over Rs.77,015/- per SHG to 3920 SHGs. On account of member savings and accumulated interest, the funds available to the SHGs grew to Rs.40.65 crore. The credit availability per SHG works out at an average Rs.1,03,698/- per SHG.

While some amount of bank credit was available during the second phase, such sources are insignificant during the present phase of NERCORMP. The beneficiaries of loans from SHGs are selected in the meetings of the groups in all cases. This is done through discussion on the members' requirement for credit. However, use of Micro Credit Plan (MCP) to be prepared by individual members to determine loan amount and repaying capacity, activity etc by the SHGs are not found to be in use in any districts.

Repayment of Member Loans: The repayment of member loans has to be usually done in monthly instalments. In many groups, it is seen for member loans made from group's corpus that interest is being paid on monthly basis, while the principal is repaid at the end of the loan period. In case of member loans made out of MFI loans, both interest and principal have to be repaid regularly in monthly (or quarterly) instalments. It was reported that there are few instances of wilful default. The variations in repayment tenure of loan based on loan amount and activities were noticed during the study. A list of such variations is placed in Table 16, page 29 of the report.

End use of Credit: The end-use of credit by group members is found to be largely for only income generating activities and only few for consumption loans, like education or medical expenses. The loans are usually granted to individuals and only a few group activities in few SHGs were reported.

IGAs include small livestock (mainly piggery and poultry), crops (vegetables, ginger etc.), petty business, small trading shops etc. In all the districts, SHG members stated that the local value systems did not influence their livelihood options or the end-use of credit by them in any manner. Members of most of the contacted groups in the districts have expressed their need for more credit in order to increase their scale of operations.

Bank Credit: The study had covered 32 SHGs in 5 project districts, Out of these, only one SHG (located in Dima Hasao) and 2 SHGs in Chandel districts were reported to have availed loan from bank during the project period. There were 2 more SHGs reported in Dima Hasao district which had availed bank credit in SGSY period and have repaid the loans. Neither SHG, want another loan, as the bank is located far away and the members are not interested in bank credit. In Ukhrul, 2 of the SHGs had applied for loan in 2016-17, but these groups had received no response from the bank. In Chandel district, 15 SHGs have applied in UCO bank of Kaching Branch, out of which 2 SHGs were sanctioned loans of Rs 20,000 each, 5 SHGs have also applied to UCO bank Chandel branch.

However, in some SHGs in Dima Hasao, members have shown less inclination for bank credit despite past linkages. The groups have reported that staff members of the local banks have unhelpful attitude or the banks are far away. Thus, the low credit linkage of SHGs is seen to have both demand side issues due to disinterested SHGs, distant bank branches and also low remunerative level of livelihood activities; whereas in the supply side problems due to lack of bank's response to the credit applications, shortage of staff and lack of focus or priority of the bank controllers in the region.

Internal Savings: The SHGs in general were found to have increased their mandatory savings in regular group meetings. From earlier savings amount of Rs.10 per member in each meeting it has gone upto Rs.100 in case of one SHG in Ukhrul, otherwise it is now ranges between Rs.30 to Rs.50 in general depending upon the location and economic condition of the members.

However, when the corpus of savings reaches a considerable size, the amount is distributed amongst the members. The amount of savings of the SHGs can be found in Table 11, Page 27 of the report.

Books of Records (BOR): Lack of uniformity and variations from prescribed format of book of records was noticed during the study. The SHGs and their Federations were seen to be using registers purchased from the market for use as Ledger Book, Cash Book, Loan Register etc. This may be because of the fact that the Phase I & II of the project had reached closure in March 2017 in two districts. However, different SHGs were found using their own formats, under the guidance of some PNGOs, especially in recording the loans and their repayments. The BORs like cash book, loan ledgers are usually maintained by the PNGOs and also kept in the offices of the PNGOs. Therefore, in many cases the SHG members were not found to be updated with their financial position, loan default etc. It was also difficult to determine the loan outstanding against a borrower due to the absence of any DCB (Demand Collection Balance) Register.

In order to take the credit decision for SHG loans, the Bank Manager needs to examine the books of records of the SHG, especially the Proceedings book, Loan Register and Cash Book. Hence, there is a need to ensure that all such books are not only maintained properly but also are updated regularly and the standard formats are uniformly put to use. The book of records also forms the basis of grading of SHGs, which determines their eligibility for RF and bank credit.

Capacity Building: capacity building exercises for the groups was undertaken by the project team and PNGOs on the areas related to the theme of the study in each district. The opening and operation of bank accounts is now well-known despite occasional hiccups on account of requirement of PAN Cards, especially in Dima Hasao. However, the groups, as well as DST personnel and PNGO teams seem to be less aware of the SHG bank credit protocols and processes.

Role of SHG Federations: Under the project, the SHGs were federated at higher levels. The plan in NERCORMP-I was to form Federations at the cluster level (with 15-25 SHGs per cluster) and associations of 4-8 clusters. In practice, SHG Federations were formed with around 20-25 SHGs. In districts like Dima Hasao, SHG Federations covered 30-40 groups located in as many as 10 villages, as such a large number of groups were not available in a single village.

In four of the six project districts of NERCORMP-II, the SHG Federations could be federated at the district level to form Apex Bodies. In Ukhrul Apex Body could be formed where its role for extending micro-credit to SHGs was supported under the project. In Dima Hasao, such a body could not be formed due to the multi-ethnic structure of the district and the recent history of ethnic conflict here. In most of the other districts in NERCORMP-III the SHGs are yet to be matured to form APEX. However, in Chandel District the process of forming APEX is in process and is expected to be completed within the current financial year. The role of the Federations has been discussed separately in Chapter-4 and the details may be referred to therein.

Perceptions of Other Stakeholders: The same has been furnished for stakeholders like the DST, PNGOs, bankers and a MFI (VVD located in Ukhrul). The details are available in the main body and may be seen therein.

Summing up & Examining Some Salient Issues

The intent of the discussion under this chapter is to examine the suggestions for deeper enquiry as a part of the present assignment as suggested during the discussions on the Inception Report. These have been done for the pertinent aspects as follows:

Institution Building- UDWIM experience, Capacity Building for MFIs, Financial Literacy in the Project Areas, Issues affecting Livelihood Options, List of Livelihood Activities, Skill Development & Up-gradation, Role of Line Departments, Other Social & Institutional Aspects, Microfinance Products for the Local Requirements etc.

The details are furnished in Chapter-5, and these have not been reproduced herein for the sake of brevity of this discussion. For additional information, the main text may please be referred to.

In addition, it may be noted that the discussion under the previous chapters has made adequate reference to the available studies and reports on NERCORMP activities as needed by the study objectives. Such references have been cited in the main body of the report as well as in the footnotes at the appropriate places.

The Way Forward :

It is important for the rural women forming the Self help Groups and federations to have the facilities and opportunities for capacity building and skill development, in addition to easy access to capital at reasonable cost for enhancing their livelihood activities for alleviating from poverty. Therefore, some of the focus areas are placed below, detailed discussions is available in Chapter-8 of this report.

- a) A standard operating procedure for formation of SHGs, Federations and other Community based organizations may be followed.
- b) Develop skill and capacity of selected women from within the community for utilization as Community Resource Persons (CRPs) to facilitate better peer level learning among the adult women and reduce dependence on PNGOs.
- c) Implementation of such projects may preferably be done through Government promoted Society, as high attrition rate of employees of NGOs operating in the field level affects quality and

uniformity in implementation process.

- d) Extensive process of exchange of ideas through exposure visits within or outside the region and interactions with community resource persons from outside the region would quickly help to build up the confidence and also help them to explore new ideas and technologies.
- e) Putting in place the protocols for ensuring access to higher quantum of capital from Banks within a reasonable time, say 6-12 months, is very important to strengthen the capital base for enhancing sustainable livelihood activities of the SHGs.
- f) APEX model is one of the time tested indigenous model which can be upgraded to the next level as NBFC, NBFC-MFI to function as intermediary of banks to provide adequate and timely capital to the rural tribal women through SHG channel.
- g) Focus need to be given for improvement in remunerative livelihood activities to have the capacity to generate adequate revenue for repayment of loans and also have surplus for the households.
- h) Convergence with other Government initiated development schemes in the field of agriculture, livestock, weaving or Bank schemes like MUDRA, KCC etc. need to be leveraged to reduce the investment cost of the women in their livelihood activities and increase their rate of return from the activities.
- i) Digitization of transactions need to be encouraged even in a limited manner and with limitation of available telecom network services to reduce high dependence on availability of cash and problems related to cash transactions.

J) Orientation, sensitization and knowledge sharing with the bank managers in addition to exposure trips to other project areas will help in facilitating bank credit to SHGs. Enlisting support of the Government machineries through DCC and SLBC forum will further support the credit linkage process.

In going forward, it is crucial to have a holistic approach for economic empowerment and economic development of rural women of the northeastern states, as a whole. Therefore, it is suggested that an integrated approach of all community based organizations, community architecture, rural infrastructure and most importantly the financial and social capital created under different schemes are brought under a single umbrella and a common approach is adopted. This will ensure improvement of skill, facilitate climate resilient farming practices, improved productivity, and market linked production, better price realization, better scale of economy of production and extensive use of digital technology platform to alleviate rural poverty within a desired timeline.

The feasibility of migrating the SHGs, NaRMGs to the National Rural Livelihood Mission (NRLM) of Govt. of India, which is already in full operation in all the North Eastern states, may be examined. Recently, another similar project NERLP operating in selected geographies in NE has been merged with NRLM. The details has been discussed in chapter 7 of the report; including the features of all three similar projects operating in North East can be found in Appendix - 7.