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Development Matters

Monthly Development update from DHAN Collective

Feature

Making Finance Inclusive

Promise of the Self Help Group Movement

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It needs to be understood that financial inclusion goes beyond opening of bank accounts rather a comprehensive set of services needs to be offered to the clients so that they can choose based on the need from among the services.

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From the Editors' Desk

Dear Readers!

Greetings!

This February issue of Development Matters features on Making Finance Inclusive, it gives a detailed note on the promise of the self help group movement. K. N. Rajkumar from CALL programme narrates the visit of delegates from European Union. Rajasekaran writes about the Water Resources Conservation through Watershed development which is a collaborative work of NWDPRA. Tata–Dhan Academy's 'Reflective Session on the Union Budget with Development Perspective' is narrated with a glimpse of the extract of the Union Budget 2010 - 2011. Er. Kanagavalli writes about the intervention of providing Bio sand filter for Sellur Vattara Kalanjiam where water borne diseases and skin diseases are common. Balasubramaniam of People Mutuals gives the glimpse of the Pension Seminar held.

Please share with us your feedback, contributions, comments, critiques, feedback and encouragement to enrich the quality of this magazine.

Happy reading!

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Making Finance Inclusive:

The Promise of the Self-Help Group Movement

V. K. Padmavathy and N. Karthikeyan*

Background

History shows that economic growth is the most effective way to reduce poverty. However, economic growth can still leave many people in persistent poverty if they do not have the necessary capacity to participate in and benefit from the growth process. Although the chosen and conventional approaches to tackling poverty and other Millennium Development Goals (MDGs) are useful and necessary, they are not sufficient to address the challenge. Both poverty and financial exclusion result in a reduction of choices which affects social interaction and leads to reduced participation in society. A major cause of poverty among rural people in India is the lack of access for both individuals and communities to productive assets and financial resources. High levels of illiteracy, inadequate health care and extremely limited access to social services are common among poor rural people. Financial inclusion offers incremental and complementary solutions to tackle poverty, to promote inclusive development and to address the MDGs.

Vast sections of the society continue remain away from formal financial systems. They are basically the underprivileged sections of the society, i.e., farmers, small vendors, agricultural or industrial labourers, people engaged in unorganised sectors, unemployed people, women, children, old people, and the physically challenged. The extent of financial exclusion become clear from these figures: only 40 per cent of the people have a savings account, 20 per cent have taken life insurance products, 0.6 per cent have taken non-life insurance products; only 2 % have access to credit cards. This gives us the scope of business opportunities that are there if we can reach out to all the people. Today, geographically, only 5.2 per cent of the country's villages have a bank branch. (Chakrabarty, 2008)

For decades, the Government of India and the Reserve Bank of India have been taking measures to tackle the issue of financial exclusion. One of the prime aims of the cooperative movement was bringing financial inclusion. The setting up of the State Bank of India in 1956, the nationalisation of banks, the introduction of the Lead Bank Scheme, establishing regional rural banks, evaluation of the service area approach, and formation of self- help groups were all steps taken to take banking services to the general masses. But, despite such measures, only 10 per cent of the population has access to institutional credit systems. (Shah et al., 2007). Recently, concepts 'financial inclusion' and 'inclusive growth' have been regularly deliberated. Quite a bit of experimentation has happened across the country and multiple stakeholders such as the Reserve Bank of India, NABARD, commercial banks and NGOs have tried to contribute in their own ways. More than two decades of experience of self-help groups (SHGs) in India have proved their effectiveness in building relationship between the formal financial systems and the poor people. However, the contributions of SHGs towards financial inclusion have not appropriately been recognized. This article analyses the potential of SHGs to achieve the goals of financial inclusion in the country and also explores possible ways

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to advance the concept of financial inclusion using SHGs as an approach.

Financial inclusion: A realistic perspective

Financial inclusion can be defined as the process of enabling access to timely and adequate credit and other financial services by vulnerable groups, such as weaker sections and low income groups at affordable cost (Rangarajan, 2008). However, in reality there exists an apprehension among many stakeholders on the components of financial inclusion. It has been perceived that merely opening bank accounts for individuals is enough financial inclusion. The Rangarajan Committee appointed by NABARD describes this as a 'narrow sense' of financial inclusion (NABARD, 2008).

Opening no-frills accounts will not give any help to the poor if they do not conduct any transactions. (Chakrabarty, 2008) Perusal of sample accounts in Cuddalore district in Tamil Nadu, one of the 155 districts declared to be 100 per cent financially included, revealed that 72 per cent of the accounts had zero or minimum balance even after one year of opening. Only 15 per cent of the accounts had a balance of more than Rs. 100, leaving 85 per cent of the new no-frills accounts inoperative. Another study in Andhra Pradesh reveals that less than 11 per cent of the 28.23 million no-frill accounts are active (taking minimum one deposit and one withdrawal per year as a definition of active

Table-1: Framework for Financial Inclusion: A Graduated Process

Phase	Focus	Period	Outcome Indicators
Starter phase	Creating access to formal financial services	1 year	• Marginalised and excluded population is covered • Product needs are understood and shared • Opportunities given to engage in continuous banking transactions • Basic entry-level products are introduced suiting to the local needs
Servicing phase	Evolving systems, processes and mechanisms to enhance the level of absorption of the households	2-4 years	• Established access to savings, credit and social security services • Developed localised products and implemented on a scale • Increased credit absorption by the client • Provided access to market information and education • Ensured affordability and lower transaction cost for the client • Timely, adequate and affordable products and services • Increased market share of formal financial sources among the clients
Sustaining phase	Institutionalising the systems and processes	5-7 years	• Achieved financial viability for financial service providers • Established processes that insulate people from risk and vulnerabilities • Moved from client service provider status to equal partnership status • Empowerment of all the segments of the population to represent their financial needs and rights • Establishment of a responsive and flexible policy and regulatory framework

account). When comparing with the targeted 111.55 million households in the study area, the proportion of active accounts is worked out to only 2.48 per cent. (Kochhar, 2008) Observations of the working group constituted by (Reserve Bank of India, 2009) to review business correspondence model also confirm it. While the first stage of opening no-frills accounts has been quite impressive, due to inadequate follow up, cost of transaction and access constraints, in many cases the accounts have not been operated upon at all after having been opened.

Financial inclusion goes beyond opening of bank accounts; it is a comprehensive set of services that needs to be offered to the clients so that they can choose based on their needs from the services. The financial products services for the weaker sections and low income groups need to be in such a way that they unleash hidden potential to save, enhance the credit absorption levels to go beyond basic consumptive credit needs and insulate them from a wide range of risks and vulnerabilities. The financial services need to be designed guided by the development policies so that they can impact on the poverty issues. Ultimately, the financial inclusion process needs to be sustainable bringing in business viability for the financial providers and stabilized livelihoods for the clients.

Achieving ‘comprehensive financial inclusion’ is a long-term and resource-and process-intensive process. The financial inclusion in realistic sense can only be attained only through ‘graduated processes’. It demands a committed and coordinated efforts by the governments, regulatory bodies, commercial banks, academic and research institutions, NGOs and community organisations. The financial inclusion can be achieved through the framework presented in Table-1.

3. Self-Help Groups: A potential tool for financial inclusion

In the period of banking reforms, in the relentless pursuit of profits, rural banks have forgotten what their primary mandate was and continues to be. The post-IRDP pendulum has swung too far in the opposite direction (Shah et al., 2007). It is into this vacuum created by the withdrawal of the state in rural credit that microfinance has entered. Both NABARD and the RBI define microfinance as the “provision of thrift, credit and other financial services and products of very small amounts to the poor enabling them to raise their income levels and improve living standards” (NABARD 2000; RBI 1999). Two broad approaches characterize the microfinance sector in India: SHG-bank linkage (SBL) and microfinance institutions (MFI). The SBL is the larger model and is unique to India; the MFI model is more established internationally. In establishing a strong relationship between the organised financial system, like commercial banks, and those people who need credit, the SHG-Bank linkage scheme is of extreme importance. Self-help groups have become a very established institution in our country.

The SBL approach dates from the NABARD initiated pilot of 500 SHGs in 1992. NABARD has a key role to play in initiating and nurturing India’s unique SBL programme. It was largely responsible for the RBI including linkage banking as a mainstream activity of banks under “priority sector” lender in1996. NABARD’s work with its partner NGOs (DHAN Foundation, Myrada and PRADAN) also led to the government according “national priority” to the programme in the union budget of 1999. Beginning as a pilot in 1992 with 500 SHGs, by March 2006, over 22 lakhs SHGs had been provided with bank loans. They covered over by three crores households and disbursed Rs.11,398 crores to their members (NABARD 2006). In comparison, the loans outstanding of 162 MFIs in India were estimated to be around Rs.1,600 crores in March 2006. The microfinance sector is still small in India but it is growing at an astonishing rate. While in 2001, the proportion of rural bank credit disbursed through SHGs was less than 1 %, this figure has risen to over 6 percent (Ghate 2006).

While the MFIs are growing faster in terms of outreach and volume, there is a pertinent argument not to create any new institutions for providing credit to the excluded, but to enable the existing institutions to extend their outreach. What is required is not to create any new institution for providing credit to the excluded, but to enable the existing institutions to extend their outreach. There is a need to find ways and means to

effect improvements within the existing financial credit delivery mechanism and evolve new models for extending their outreach. (Rangarajan, 2008)

4. Merits of SHGs as a strategy for financial inclusion

SHGs create access to formal financial systems for weaker sections and low income groups

More than 90 per cent of the members of the SHGs are women and most of them are poor and asset less. The SHG movement has been instrumental in mainstreaming women by-passed by the banking system (NABARD, 2008). Even during the social banking phase, it is undeniable that bureaucratic functioning and haughty attitude of officials made banks highly unapproachable for the rural poor. With the advent of reforms, access has fallen further. In such a context, microfinance offers a new ray of hope for the rural poor. It makes finance accessible for rural poor and available for consumption needs. Freedom from the need for collateral is the other great attraction of microfinance (Shah et al., 2007).

Though there is a regional imbalance in the spread of the SHG model in India, it works out effectively in all the regions and contexts. There is a concern about SHG model that it has not penetrated in the most backward states like Orissa, Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh. However, there are success stories in these states also. Organisations like DHAN Foundation have a significant presence in the most backward pockets of north Indian states. (Kochha 2008) points out an example of successful functioning of 200 SHGs in Kalahandi of Orissa. Kalahandi is one of the most tainted districts in India known for starvation deaths.

While there is a fair level of understanding that interventions aiming at financial inclusion should focus on the low income segments of the population, the claims of MFIs contributing to financial inclusion needs to seriously be considered for a debate. There is strong empirical evidence that show that majority of MFI clients are from non-poor categories. An extensive impact study undertaken across 20 NGO-MFIs operating in different parts of India found that, typically only 35 per cent of MFI clients in the country can strictly be classified as poor (Kochha, 2008).

A range of financial services - savings, credit and insurance can be provided

Poor are bankable, but servicing them requires radically different methodology. The rural economies within which the majority of poor people live and work are characterised by numerous small transactions. Although the rural economies appear small and insignificant, they are an essential component of poor households' livelihoods. The basic characteristic of the poor is that they tend to come together in a variety of indigenous and informal ways for pooling their savings, dispensing small loans and adopting a variety of social security practices. Microfinance has larger scope to respond to the unique financial needs of the poor. Hence, creating access only to credit services will never serve the purpose of financial inclusion. Going by the working definition, microfinance for poor includes savings, credit and insurance services. These three services are critical to address the multiple issues, which influence the poverty and development of poor. These services complement each other in meeting the needs of poor and are crucial for the long-term sustainability of the microfinance programme. While most of the MFIs restrict only with credit services, the SHG model offers scope for provision of savings, credit and insurance services.

Savings and insurance play a critical role in the livelihoods of the poor households. One of the distinctive features of the SHGs is that it is a savings-led model providing opportunities to the members to pool their small savings within the group (NABARD, 2008). Many studies have shown that creation of a safe a venue for savings (on which interest is earned) is an attractive feature of SHGs, which had led to significant promotion of savings (NABARD, 2002; Hashemi et al, 1996; Rajasekhar, 2000). Insurance services for poor could include support against illness, loss of life and disability due to accident, loss of productive assets and housing. Hence institutions involved in addressing poverty and promotion of social development, need to recognise the significance of insurance. In developing countries like India, though there are very limited social security programmes offered by the government, often they do not reach the targeted poor. At the same time, some NGOs have added micro-insurance products to their portfolios. (NABARD, 2008). SHG promoting organizations like DHAN Foundation have life insurance coverage for the poor on a larger scale. A variety of insurance services are also made available, including life, health, livestock and weather insurance (Vasimalai and Narender, 2007)

The financial services of SHGs are generally guided by developmental agenda and hence they can impact on poverty issues

Many studies on poverty indicate that one of the reasons poor households are unable to participate in the development process is their exclusion from the financial system. This is the fundamental flaw of our conventional formal financial system. As a result, these households find it extremely difficult to take advantage of economic opportunities, build assets, finance their children's education, and protect themselves against external financial shocks. One can argue that financial exclusion not only pushes them but also tightly binds them into a vicious circle of poverty.

SHGs promise to impact the lives of poor households in a significant way. Many studies confirm the positive impact created by SHGs. They reduce incidence of poverty through increases in income and also enable the poor to build their assets and thereby reduce their vulnerability. SHGs are observed to enable the households to spend more on education and indirectly effects in reduced school drop-out rates. They empower women to have better control over decisions that affect their lives. SHGs contribute to a reduced dependency on informal money lenders and other non-formal sources. (Vasimalai and Narender, 2007 and NABARD, 2008, Puhazhendi and Satyasai, 2000; Puhazhendi and Badatya, 2002; Harper et al, 1998).

A wide array of products suiting to the unique financial needs of the poor can be promoted

The financially excluded sections require products which are customised to meet their needs. They clearly require a range of financial services, such as opportunities to safeguard earned income or credit to enable them to maintain minimum levels of consumption throughout the year. The need for credit varies according to the context, family size, economic status and economic opportunities, and life cycle of the family. . In case of poor credit is needed for consumption and emergencies because of fluctuating cash flows and seasonality of income. Credit support is also needed to fulfill their life cycle needs and meet the social obligations and family commitments. Finally poor need credit for creating assets for increasing incomes and to improve their living conditions.

Hence, microfinance should not merely be collecting savings, providing loans and systematising the accounts and auditing. Development issues like lack of electricity in members home, house upgrading, education, girls drop-out in school because of distance (providing bicycles as loan product), and alcoholism. are important to design products to address poverty and social issues. Concrete development thinking has to be there, which requires the perspective of beyond mechanics. Designing of credit products and framing of lending policies should be guided by development principles and philosophy. These principles would be developed based on the development needs of the poor and local context. The credit products should support and nurture pro-poor development, (Vasimalai et al 2001).

The unique feature of SHG model is that it offers scope to develop a wide array of products suiting to the developmental needs of the poor. There are examples for product development in SHGs. A variety of credit linked products developed in SHGs like de-addiction, electricity connection; cooking gas connection, debt redemption, agriculture, business, and housing. are reported in the literature (Vasimalai and Narender, 2007).

SHGs ensure affordability of financial services to the clients

Pricing is one of the critical elements that determine the level of financial inclusion. When rates of interest and transaction costs involved in lending are not affordable for the poor, there is a greater chance of incidences like delinquency in repayment, taking loan from informal sources, distress sale of assets, migration and even in extreme cases suicides (Ghate, 2007). Ultimately, in medium and long runs, the households become excluded from the financial systems.

In the case of MFIs, since profits are the overwhelming consideration for an MFI, there is enormous pressure to lend at all costs. Also, charging high rates of interest is inevitable for MFIs because of high transaction costs and a relatively low scale of operations. There is also a great lack of transparency, especially in “start-up” MFIs, about such practices (Ghate 2007). The banks do not incur incremental cost for lending to SHGs, as it done through the existing branch network (NABARD, 2008). At the same time, the SHG-bank linkage programme has reduced reduction in transaction costs that banks incur when lending to the poor. This was achieved because SHGs consolidate what could potentially have been 15-20 individual accounts into single SHG account. Even on a per account basis, the costs of lending to SHGs appear to be less than that of lending directly to the individuals. A NABARD study found the transaction cost on a SHG loan account to be 35.6 per cent less than that of an average priority sector loan on the first loan and 55.7 per cent on the second loan (Puhazhendhi, 2000).

SHG lending to the members has been reportedly at interest rates ranging between 15 to 24 per cent. While this has been considered high, it is also reported that members borrow for short periods and do not feel the annualized burden of interest rates. Further, the interest income of SHGs is ploughed back into the corpus for lending and is beneficial to all the members. (NABARD, 2008; SPS 2006; Shah, 2007). In this backdrop, it is important for banks to carefully work out actual cost for SHG lending. While the SHG portfolio is often only a small part of the total bank lending and since portfolio is good, it may be possible to reduce interest rates while ensuring recovery of costs (NABARD, 2008).

Financial literacy/planning is given a major focus in SHGs

Financial inclusion is not only providing accessibility of the entire range of financial products and services, it must also be appropriate, it must also be fair and it must be transparent. In that sense, we can say that 95 per cent of the population is financially excluded, with most of us not knowing what an appropriate financial product is suitable for us (Chakrabarty, 2008). Given that the typical rural borrower is often illiterate, without adequate information on the terms of the loan, they are vulnerable to be cheated by the finance provider. In extreme cases, this may lead to explosive situations like suicide of MFI borrowers in Andhra Pradesh (Ciravegna, 2005; Scully, 2004; Marr, 2004; Simanowitz, 2002). Low level of financial literacy is one of the reasons why the financial inclusion drive has not picked up. On the other hand, for sustaining financial inclusion, the financial literacy becomes a very critical component. There is a need to simultaneously focus on financial literacy besides delivery and access.

Financial literacy can broadly be defined as 'providing familiarity with and understanding of financial market products, especially rewards and risks, in order making informed choices'. Viewed from this standpoint, financial education primarily relates to personal finance to enable individuals to take effective action to improve overall well-being and avoid distress in matters that are financial. Unlike MFIs, building the capacity of the group members on financial aspects is given major emphasis in SHGs. It has been shown that SHGs help inculcated the banking habit in rural women (Varman 2005). Regular SHG meetings act as a basic platform for the members in addition to other training methodologies like exposure visits, demonstration. The SHG concept is based on the concept of member ownership and institutional sustainability and hence the governance SHGs enabled to manage the financial activities of the SHGs and their federations. Based on the available empirical evidences it can be easily proved that capacity building is the key factor leading to women empowerment in the SHG interventions.

SHGs foster democratic practices and leadership development, which ensures transparency and empowerment

The management of an SHG is also a great lesson in governance. It teaches the value of discipline, both procedural and financial. The SHG has a set of bye-laws devised and agreed upon by the members. These include rules for monthly savings, lending procedures, periodicity and timing of meetings, penalties for default. meticulous accounts and records are maintained (Shah et al., 2007). The SHGs select representatives from among the members to govern the SHG operations and also to represent in other forums. Well-run SHGs are subject to external audits that enforce prudence. It broadens the horizons and expands the capabilities of its members who have to interact with the outside world, including banks, and government departments. There is overwhelming evidence that women-run SHGs are the best managed with women showing much greater sense of responsibility as they also have a commitment to human development objectives such as health and education of their families (Pitt and Khandker, 1998).

SHGs can offer scale advantage and viability of commercial banks at local level

Providing financial services to the poor households is no longer a charitable activity. Making financial inclusion sustainable primarily depends on the extent of realization of business viability by the service provider. For achieving business viability, returns from the portfolio and scale of operations are the two key factors. On-time recovery of loans has been very high in SHG-Bank linkage programme (Rangarajan, 2008) which vouches for returns from the investment for the banks. Offering scale advantage to the bank branches through increasing SHG portfolio has also been demonstrated, which led to increased profitability of the branches (Vasimalai and Narender, 2007). Given the potential of SHGs and unmet financial needs of the unorganised/excluded rural population, it needs to be recognized that the banks will not survive the new competitive environment of the banking industry unless they strengthen their bond with SHGs and their federations (Shah et.al., 2007). The SHG-bank linkages not only create impact in the lives of the poor household but also enhance the business viability of the banks.

SHGs involves local human resources and knowledge and has a potential to integrate best indigenous practices

Even during the social banking phase, it is undeniable that bureaucratic functioning and haughty attitude of officials made banks highly unapproachable for the rural poor (Shah et al). It is equally applicable for other government departments also. For financial inclusion to be sustainable, the executive system should care for the welfare of the clients always. The staff should deal with the clients in a timely, patient and concerned manner (Arunachalam, 2008). Generally, the SHG programmes place locally available educated persons to implement field activities like conducting group meeting, bookkeeping, facilitating linkages from banks, loan appraisal, financial counseling, conflict resolution, training to the members etc. Since these personnel are from locality where the SHGs exist and generally are of the socio-economic status which the SHG members belong to, they can understand and appreciate the issues and needs of the members. This results in a cordial relationship between the staff and SHG members. The field staff are always available for the SHG members for service. However, it should be seen to that the local staffs are adequately trained to perform their role better and to handle the needs of the SHG members.

5. Conclusion

It is obvious that SHGs have high potential to achieve financial inclusion and have greater scope to grow in number and volume. On the other hand, the financial inclusion attained through SHGs is sustainable and scalable of its positive features (NABARD, 2008). India has an extensive network of banking systems and it will need to find ways to bring improvements within the existing financial credit delivery mechanisms and evolve new models for extending their outreach instead of promoting parallel systems of financial delivery. As far as the banks are concerned, two pillars which will help the organized banking system to widen its outreach is the strengthening of the SHG-bank linkage scheme and the strengthening of the business correspondent model. (Rangarajan, 2008) The potential needs to be duly recognized as a strategy to achieve financial inclusion. SHGs account in the bank should be treated as account for the entire individuals. Even though the individual members may not have direct account with the bank, the groups have the account representing the members. The SHG-bank linkage programme therefore needs to be taken as a part of the financial inclusion process since it brings to the formal banking fold the excluded category of poor segments of societies who are not able to access banking services individually.

The SHG-bank linkages not only create impact in the lives of the poor household but also enhance the business viability of the banks. Business viability of lending to the SHGs has been well demonstrated and SHG-bank linkage is no more a charitable activity. It is also argued that the banks will not survive the new competitive environment of the banking industry, unless they strengthen their bond with SHGs and their federations. Hence, if a bank feels that this will become a profitable business in future, it should be first prepared to invest in this business (Chakrabarty, 2008). Federations play a major role in financial inclusion in terms of product development, professional management, facilitating linkages, sustaining relationship with the banks, providing financial literacy to the members, monitoring the portfolio, etc. In this backdrop, the role of SHG federations needs to be recognized toward achieving the goal financial inclusion.

Financial literacy is the key for financial inclusion but it is weak particularly among rural population. There is a need to simultaneously focus on the financial literacy besides the delivery and access. Significant investment from various players such as banks, governments, NGOs and academia has to be made. SHGs have proved to be a sound platform to educate their members on financial parameters. The strategies by the governments and banks for financial literacy need to include SHGs also. The SHG federations could take up the role of Financial Literacy and Counseling Centres (FLCC). Along with financial literacy, vocational skill building for the SHG members is of vital importance and due attention needs to given on this. There exist regional imbalances in the spread of SHGs in India. There is a concern about SHG model that it has not penetrated in the most backward states like Orissa, Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Rajasthan, Uttar Pradesh etc. However, it has been proved that the SHG model works in all the regions and contexts. Investments have to be made to take the SHG model of microfinance to the unreached areas. Government, NGOs and donor agencies have to play an active role in SHGs.

SHGs are like locally run banks in rural areas. Thanks to the capacity building initiatives by the promoting agencies, these groups have developed basic financial management systems to handle the financial transactions at local level. Certain SHG programmes have experience of integrating technology applications like computerization of accounting and MIS (Vasimalai and Narender, 2007). A serious observation on business correspondence (BC) model of banking is that the majority of no-frill accounts opened by BCs are non-operational. It is said that retaining customers after initial transactions proves to be a big challenge (Reserve Bank of India, 2009). Given this situation, SHGs and their federations have greater potential to implement the BC model. Pilots need to be undertaken on implementing BCs through SHG federations to standardize systems and processes.

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Partnership to Provide Water

K. N. Rajkumar*

The centuries old tanks and ponds are the only sources of fresh water for drinking, domestic utility and irrigation in the tsunami affected coastal districts. In the absence of regular maintenance and community management, most of these water bodies are in a deteriorated condition. The livelihoods of millions of farming communities are shattered due to declined availability of water for drinking and irrigation. This had direct impact over the small and marginal farming communities. The failure of monsoon, accompanied with continuous drought and drinking water scarcity, is forcing the poor community to migrate for survival. The food and income security of these poor are shattered and unguaranteed. In January 2009, DHAN Foundation has launched a large scale water conservation programme in five drought prone coastal districts, Ramnad, Tuticorin, Pudhukottai, Tanjore and Nagapattinam of Tamil Nadu, in partnership with European Commission and Oxfam Novib, a Netherlands based institution.

Ms. Daniele Smadja, head of the delegates from European Union (EU) said that the EU is taking part in various activities like improving livelihood of the poor, promoting sustainable environment protection practices. Mr. M. P. Vasimalai, Executive Director, DHAN Foundation, said that the plan is to either renovate or establish 75 tanks, 25 village ponds (ooranis) and 1500 farm ponds in five coastal districts.

A delegate team including Mr. Ion de La Riva, Ambassador of Spain, Mr. Kenneth Thompson, Ambassador of Ireland, Mr. Hans-Burkhard Sauerteig, Consul General of Germany in Chennai, Mr. Peirre Fournier, Consul General of France in Pondicherry, Ms. Petra Hans and Ms. Marieke Roelfsema from Oxfam Novib, the Netherlands were visiting various villages where the projects were already implemented.

The coastal communities are organized as associations to restore community management and the link between the humans and the water bodies. Under this project, 25 associations have been promoted by organising over 3200 poor and vulnerable families. It is a notable fact that all the renovation works are implemented through the association. Under this project three tanks and seven ponds were renovated or established to assure water for drinking, domestic utility and irrigation in 10 coastal villages. The renovation of these water bodies facilitated the local communities to augment water during the monsoon and utilize the same for irrigation and drinking throughout the year. The infrastructures renovated irrigate 550 hectares of agriculture fields cultivated by 655 families and addresses drinking and domestic needs of 1330 families. The water bodies established serve as a lifeline for the poor communities. By securing water for irrigation the vegetated area is increased. Under this project 67 farm level ponds have been established to support life

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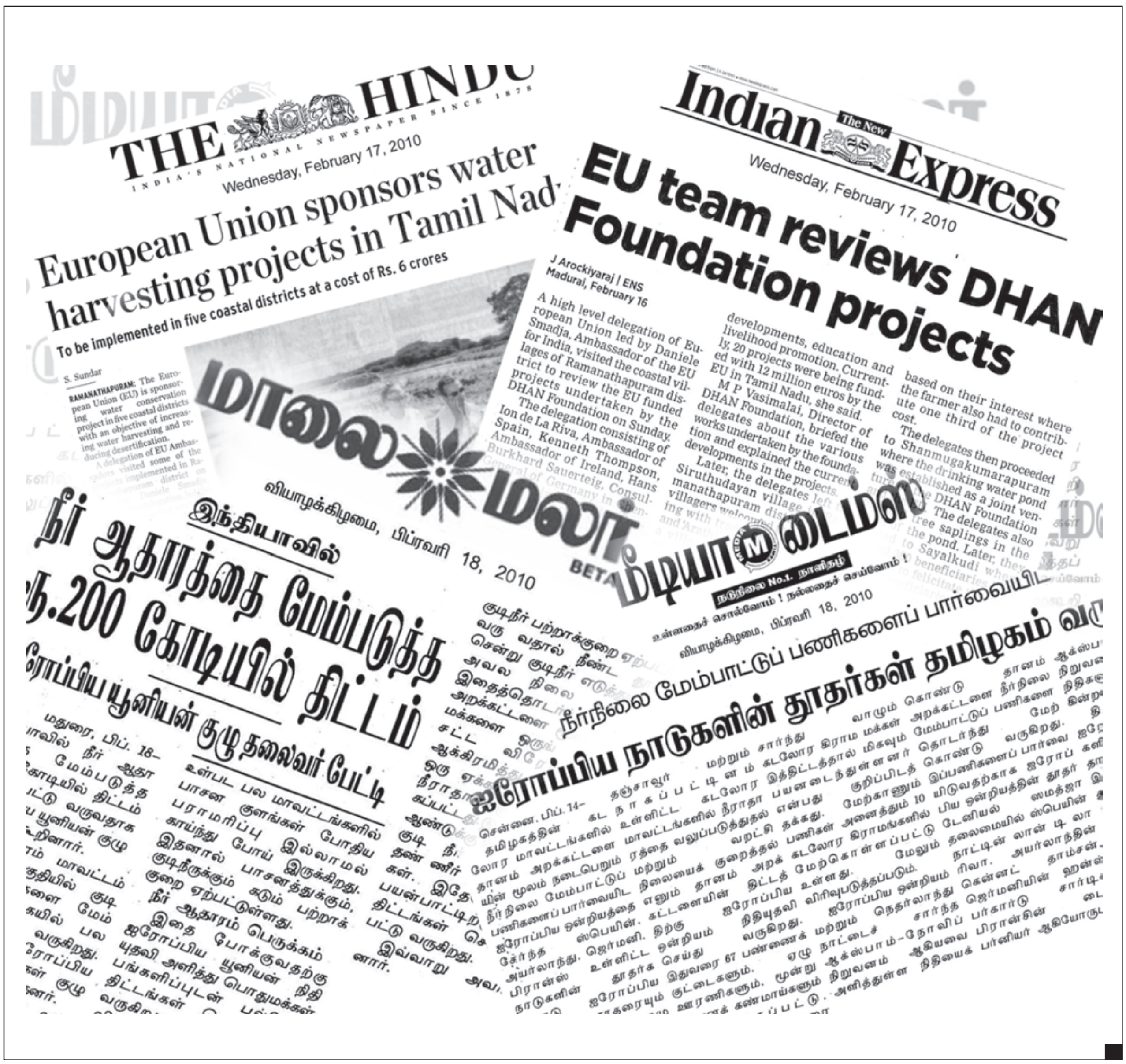
irrigation for the crop cultivated in 27 hectares of crop cultivated area.

As an impact of the intervention, the Kotaiyendal tank, which had not received full-fledged water supply for about three decades, is now filled with water and the tank is now irrigating over 109 hectares of agriculture fields. The per capita availability of water for drinking and domestic utility has increased in seven coastal villages. Beyond water for human consumption, the water bodies restored or established support livestock activities in more than 1980 families. Sapplings of various species were planted around the tanks and ponds to create living environment for all creatures. The short term activities like fish rearing were also initiated to restore the human link with water bodies.

Mr. Karuppasamy, Vayalagam member in Sithudayan, narrated the renovation of a 25-km-long supply channel which resulted in Kottaiyenthal tank receiving water to its brim after nearly three decades. Mr. Murugan, another farmer from the village, shared how he got the biggest harvest in the village because of the farm pond dug with the equal contribution by the EU and himself. The delegates also visited Shanmugakumarapuram where the drinking water pond was established with the collaboration.



Water Resources Conservation through Watershed development

N. Rajasekaran*

Introduction

People and their environment are interdependent. Any change that occurs in the environment directly affects the people living therein. A degraded environment results in a degraded quality of life of the people. Thus efforts to reduce poverty and improve the standard of living of people must aim at improving the environment they live in. A watershed provides a natural environmental unit for planning a developmental initiative. Watershed development refers to the conservation, regeneration and judicious use of all the resources - natural (land, water, plants, and animals) and human - within a particular watershed. Watershed management tries to bring about the best possible balance in the environment between natural resources and human inhabitants as well as other living beings.

Water resources conservation through watershed development

Tank-based watershed development focuses on the utility of tanks as the key to the development of watersheds. Tanks play a vital role in groundwater development of the watershed, and provide multi-benefits to the people: they provide employment opportunities for landless people, cattle herders use tanks as a drinking source; when a tank is depleted of water, animals can graze on the tank bed; tanks recharge groundwater; and tanks determine the food security of the village and other living animals in the watershed. Reviving the local management of irrigation tanks will offer a long-term solution to the problem of water scarcity. An analysis shows that village tanks and ponds offer good scope for ground water recharge and to stabilize farm productivity.

Dryland agriculture development through watershed evelopment

Rainfed farming has a distinct place in Indian agriculture, occupying 67% of total cultivated area, contributing 44% of food grains to national food basket, and supporting 40% of human and 65% of livestock population. In addition, rainfed agriculture is the main livelihood of many farmers in the rural areas of India. The majority of rainfed farmers come under poor category due to the uneven distribution of rainfall, pest and disease attack, their getting low market price for their crops, and the absence of technology transfer through extension which results in low yield in rainfed areas. The improvement of rainfed/dryland farming is a key to the development of agriculture and removal of poverty in rural areas.

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Revised NWDPRA scheme for water resource conservation & dry land agricultural development

The National Watershed Development Project for Rainfed Areas (NWDPRA) is a program launched by the Department of Agriculture and Cooperation of the Government of India during the first plan of 1992-1997 for watershed development. The program operates in 2,500 small (50-1000ha) pilot watersheds around the country for over 3.9 million ha of the nation's 148 million ha of rainfed lands. Watersheds that have less than 30 percent of their area under irrigation are defined as rainfed watersheds. Currently, the scheme in consideration is the X Plan period of 2002-2003 to 2006-2007, also known as the Restructured NWDPRA watershed scheme. In Madurai district, district watershed committee decided to implement 10 watersheds in 6 panchayat union by assigning DHAN Foundation, Madurai as project implementing agency (PIA) in the year 2002. This watershed project covers 16 panchayts and 35 hamlet villages of Madurai district. The name of the watershed villages are as follows -

Panchayat Union	Watershed name	Panchayat covered
Sedapatti	Seelnayakanpatti, Vandari-Athipatti	Seelnayakanpatti, Vandari, Athipatti, Kudipatti, Vadapuli
T.Kallupatti	Silarpatti, Paraipatti	Silarpatti , Cittulotti
Tirumangalam	Pannikundu-Pokkampatti	Pannikundu, Pokkampatti
Kallikudi	Kurayur, Sengapadai, Chennampatti	Kurayur, Sengapadai, Puthupatti, Chennampatti
Melur	Pulipatti	Pulipatti, Vellalapatti
Kottampatti	Chokkampatti	Chokkampatti and Thonthilingapuram villages.

The total geographical area of the 10 watersheds is 9762.43 ha; in this, the treatable area is 6328.55 ha. The objective of the 'Restructured NWDPRA Scheme' is to develop the natural resource base, sustain its productivity, improve the standard of living of millions of poor farmers and landless labourers, and work towards the restoration of the ecological balance.

The objectives for NWDPRA chosen watersheds

- Conservation, development and sustainable management of natural resources.
- Enhancement of agricultural productivity and production in a sustainable manner.
- Restoration of ecological balance in the degraded and fragile rainfed ecosystems by greening these areas through appropriate mix of trees, shrubs, and grasses.
- Reduction in regional disparity between irrigated and rainfed areas.
- Sustained employment opportunities for the rural community including the landless.

Here we review these goals as they were accomplished through the following activities taken on by the joint efforts of the Government of Tamil Nadu and DHAN Foundation. The following activities were done for the successful implementation of the project

Community Empowerment and organising

The emphasis was given to organizing the people and empowering the community, especially women, through building awareness, mobilizing the community, and identifying leaders through microfinance and user groups by both the restructured NWDPRA scheme and DHAN Foundation. These groups, as well as an organized community, would be vital to not only address the imminent needs of the people identified in the PRA, but also to promote indefinite sustainable watershed development practices among the community and to provide solidarity among the watershed members. This activity was an important step for the scheme, as initially there was not much cohesion among the farmers, villagers or any focus on women being vital to the well-being of watershed community. To implement this

project 58 user groups (beneficiaries association), and 120 self-help groups for landless labourers and marginal farmers were formed. About 10 Watershed Development Associations (WDA) had been formed and registered under the Societies Act. More than 3504 farming families are the members of all the 10 watershed associations.

Capacity building—Skill enhancement trainings

In the capacity building phase, both DHAN Foundation staff and the watershed community members are trained to further their skills and knowledge about watershed development. Administrators of PIA and managers within DHAN Foundation received multiple trainings on how to implement the program effectively, whereas the farmers received trainings on the latest technology development in dry land agriculture, to learn of indigenous technology, accounts and bookkeeping, sustainable farming methods, and to create a favourable attitude about watershed work among farmers.

Entry point activities

A maximum of a 3.0 percent fund is allocated for the first highly demanded activities determined by the people known as entry point activities (EPA). DHAN Foundation mobilized NWDPRA EPA funds to execute the determined entry point activities, of which the primary purpose was to meet the felt needs of the community identified in the Participatory Rural Appraisal (PRA), develop rapport with the people, and to build the capacity of the WDA, WC, SHG, and UG to plan and implement the programme through a participatory approach. Under EPA activities works like laying farm road, provision of drinking water hand pump, retaining wall construction, renovation theppam, and other needy work for the community have been done.

Natural resource management activities

Natural Resource Management (NRM) funds are designated for addressing soil and land management problems, as well as water resource management problems within the watershed. Soil and land management includes ensuring soil quality through sustainable practices and improving the quality of the land so that agriculture is sustainable and effective, as currently prevalent agricultural practices within the watershed have been devastating to the quality of the watershed's soil and land. Water resource management includes increasing water harvesting capacity in the watershed for domestic and irrigation purposes as well as improving water quality. NRM works have been implemented for Rs. 1,07,83,155 of project fund in all the 10 watersheds in the project period. In addition to that, NRM works were also implemented for Rs. 20,00,000 by using the fund from DHAN Foundation. In some watersheds, with the project fund cleared 45 feeder channel clearance work, 55 oorani rehabilitation works, five retaining wall construction works, 55 check dams construction works, 166 farm pond creation works and 350 Ha of land reclamation works were completed. With project fund during this project period. By using the fund from DHAN Foundation tank silt application works to farmers, nine tank rehabilitation works, and two oorani renovation works have been completed in addition to the project works in the watershed area. During the project implementation was given to evict the encroachment in the water bodies with help of revenue department. The encroachment was evicted in the Oorani bed, feeder channel and tank bed areas.

Farm production systems

The Farm Production System (FPS) demonstrations that were successfully adopted in the watershed were possible because of the joint efforts of NWDPRA FPS funds and some other agricultural development fund by the PIA. Under the FPS component the works were completed for Rs. 41,15,800 in all the 10 watersheds. The activities done under FPS is as follows-

Introduction of new agricultural implements

- Farm implements for summer ploughing activities
- Introduction of line sowing plough using animal drawn seed drill (GORRU) and animal drawn weeder (GUNDU)

Introduction of new crops and crop diversification

- Introduction of ***Jatropha***
- Agro forestry (such as neem, teak, casurina, and other tree crops)
- Dry land horticulture

Arranging quality seeds on time

- Ensuring quality seeds of cotton, red gram, medicinal plant seeds, maize, cowpea and other seeds.
- Kitchen garden seeds were also distributed to the SHG members.

Integrated nutrient management (INM)

- Enriched farm yard manure
- Introduction of bio fertilizer and liquid bio fertiliser
- Distribution of hand sprayer and power sprayer
- Introduction of vermicomposting
- Compost pit
- Coir pith compost
- Panchakavya
- Tank silt application

Integrated pest management (IPM) for plant protection and pest prevention

- Demonstration of seed hardening

Pisciculture/fish rearing and livestock developments

- Demonstration of Azolla production to feed milch animals
- Veterinary camps
- Introduction of improved goat breeds
- Distribution of HF bull for crossing

Risk mitigation

In rainfed agriculture, farmers can be left without resources due to many unfortunate events: damage to crops through pests such as the red hairy caterpillar, fickle monsoons that lead to erratic rainfall, or livestock that can succumb to illness. To cope with the risk, WDA has initiated an insurance program against these misfortunes, along with a human life insurance program to assist farmers. The program intervention has succeeded in securing life insurance for 80% of groups in the watershed, whereas 50% of the farmers now have crop insurance. Kalanjiams (SHGs) can play a critical role by allocating or rescheduling loans as necessary. Cattle insurance and health insurance programme were also introduced.

Livelihood support systems-Microfinance

Landless agricultural labourers, and small and marginal farmers all joined as members of microfinance groups(MFG). MFGs include SHGs and user groups (UGs). These are voluntary groups who do not have regular access to formal financial institutions and promote small savings amongst themselves. Within the first six months of the formation of the MFGs, a bank account was opened with a common fund in the name of the group, while a bank official or DHAN staff graded the group. Then the group was then linked with the bank or financial institution or Kalanjiam Development Financial Services (KDFS). Every group has its own savings and lending policies, and all members practice

savings and lending in the group levels. These policies are decided in group meetings and decided by the group members themselves. All account systems are computerized with DHANAM software. Group financial support is given to the members for livelihood of agriculture, livestock, business, and other needs. Due to convergence and collaboration of NWDPRA, the financial mobilization includes the following: their own group savings, NWDPRA Farm Production System (FPS), NWDPRA SHG Revolvinf Fund, Kalanjiam Development Finance Service (KDFS), nationalized bank, DHAN Foundation/Federation revolving fund, DRDA, SGSY (government revolving fund), and the Forest Department Revolving Fund. The loan from the SHGs were given for the livelihood activities like goat rearing, milch animal rearing, charcoal making, pettishops, land leasing, agricultural purpose and other income generation activities.

Experience gained:

After just five years of the watershed development scheme, there have been many successes of community empowerment and livelihood improvement as we have seen throughout this document. In 2002 at the beginning of the watershed development scheme, specific problems were identified during the PRA. We have seen that all of these previously identified problems, and many more, have been successfully tackled by the scheme. Most importantly, the community has taken ownership of their watershed after the five-year watershed development program, which meets one of the objectives of the program. The decision of how funds were to be allocated was placed into the people's hands. When the people themselves are able to determine how to allocate the funds for their needs, they succeed in obtaining ownership of their watershed. The people's livelihoods have improved by providing landless members with more employment opportunities, increasing income generating opportunities, training them on sustainable agricultural practices, curbing migration, reducing dependence on high interest money lenders, and overall improving the autonomy of the people in the watershed.

The restructured NWDPRA scheme provided a platform for community and watershed development with the facilitation of a professional NGO such as DHAN Foundation to leverage additional funds to augment the funds that NWDPRA had already provided for rainfed watershed development. The Rainfed farming development programme (RFDP) and Vayalagam Tankfed Agriculture Development Programme (VTADP) is one of DHAN Foundation's major programs that focuses on rainfed watershed development, which made DHAN an appropriate NGO to assign as the Project Implementing Agency. In addition to DHAN, many other stakeholders participated in the project.

The major strength of the scheme lies within the multiple stakeholders who all took part in shaping the program, such as the PWD, DHAN Foundation, DWDA, Forest Department, Horticulture Department, DRDA, the panchayat, local banks. The convergence of all funds is apparent from the following table. For example with the convergence of funds from all stakeholders of the program, for example in Sengapadai watershed was able to secure a total of Rs. 97,57,363. This is a significant accomplishment, as it implies that DHAN Foundation is able to utilize the Rs. 18,07,585 given from the NWDPRA scheme and convert it to nearly five times as much. Also not mentioned is the fact that this figure, Rs. 97,57,363 comes from the formal funds since the start of the program. However, there are also informal means that have contributed greatly in funds to the watershed program such as the labor hours that community members volunteer, the farmers' loss of wages that they incur while attending group meetings, and members' or local leaders' own pocket money they may incur while mobilizing throughout the watershed as needed. These informal means can amount to an additional Rs. 1 or 2 lakhs per watershed.

Clearly, five years is not sufficient to successfully implement a rainfed watershed development program. A number of works are still pending and many people are still in the need of funds. Due to the fact that agricultural work typically exists as a five-year cycle, with one surplus year, one normal rainfall year, and two years of drought, a watershed development scheme should ideally be addressed in a five-year period.

Some of the received money has also been severely delayed, and this has been very difficult for project staff to implement the work as scheduled. For example, in Kurayur watershed from October 16th, 2003 to January 2nd, 2008, out of the total allotted NRM funds of Rs. 10,12,350, only Rs. 5,11,950 was released. This delayed

Total Convergence of All Funds Received in Sengapadai through the NWDPRA Restructured Scheme and DHAN Foundation Federation Funds 2002-2007

Type of Fund	Received Amount (Rs.)
NWDPRA	18,07,585
Bank Linkage-KDFS	6,83,000
Bank Linkage-State Bank of India	40,96,000
DRDA/SGSY	1,00,000
Federation Drought Mitigation	3,00,000
Federation Flood Relief	25,000
Federation Other RF*	4,09,000
Corpus Fund	1,25,000
Savings Mobilized by the People	22,07,778
Total Convergence of all Funds**	**97,53,363**

*Includes Agricultural Experimentation RF, FPS RF, SHG RF, Corpus Fund, Federation/Rainfed Farmers Coordination Committee

**Includes funding for PIA administration cost, community organizing, awareness creation, and training

the funds that were meant to be released from the DWDA based on the action plan, subsequently delaying the estimated technical sanction. According to the guidelines, the WDT engineer is eligible to approve the NRM estimate that is less than Rs. 25,000. However, the DWDA did not allow the WDT engineer to approve the NRM work estimate for an amount less than Rs. 25,000. This was devastating to the WDA and community members who were eagerly awaiting the promised funds for their works to be completed. Finally, between 12/2/08 to 31/3/08, the remaining amount of Rs. 5,00,400 was released. This is more than 50% of the allotted NRM funds that were received within a month period at the end of the five-year plan. It is not possible to implement more than 50% of the funds that were meant for a five-year program within only one month. This forces the work to be done quickly without allowing for quality work to be done in a short amount of time.

It is very important, as seen from the program's success in watershed development so far, to continue along the path that the Government of India and DHAN Foundation have jointly set into motion; the relationship between the DHAN Foundation and the Government of India has been very synergistic. However, there are some gaps that make it difficult to carry through as is common with any joint effort. These are some of the gaps that have been identified in the past five years of the program.

- The government has been generous in giving money for watershed development. However, most of this money is directed only to common works, while the private landholder is left without assistance. The JD office and engineer are continually asked for fund allotment for private landowners.
- In addition to the lack of further funding, the potential transferring of the responsible government officials for sanctioning during the course of the project time leads to systemic delays; the new official has to reestablish the faith and confidence of the capacity of the PIAs, even with well-proven agencies such as DHAN Foundation.
- Due to the various interests of the Government, there has been a great overlapping of NWDPRA and programs of other departments like Department of rural development, agricultural engineering, Public works department and other departments in watershed areas. For example, DHAN Foundation has successfully organized and promoted SHG's in

the watershed. However, the public works department (PWD) and the agriculture department are also organizing MFGs, horticulture groups, grassroots groups, etc. in the watershed, and many farmers become confused and are sometimes tempted to join one group over the other depending on which they feel they can glean the most benefits from. In addition, the DRDA has programs that have only been targeting groups that have been done by SGSY women's groups and has been ignoring the NWDPRA groups. As DHAN has already successfully established clear community and farmers' groups within the watershed, the Government would have it in their and the community's best interests if they implement all current and future schemes through the already established community groups.

- Procedural delays for formally sanctioning the technical estimates by the competent authorities could provide obstacles to the Watershed Development Team who invariably need to collect records like field measurement book, Chitta Adangal and land patta of the beneficiaries from the revenue officials of that particular taluk.
- Landless members of the watershed unfortunately received significantly fewer benefits than members of watershed. Most of the time, these are the people who are struggling the most and are in dire need of need assistance
- Focus needs to be given to the people from urban or well-to-do areas as they come in from other cities and buy the land from the farmers. Firstly, the farmers sometimes feel they have no choice as the amount offered outweighs the amount they could make off the land. Secondly, it is very unsustainable, as these urban people do not have any interest in land reclamation, and the land is just left fallow.
- Attention should be given to people that are tempted to leave their land as it is, as they will receive Rs. 3000-5000 per acre every two years for the juliflora wood that will overgrow in the fields. In the meantime, they will go to urban areas for employment. This renders the land uncultivable.
- The Tamil Nadu government passed encroachment eviction act in the year 2007, but in many of the watershed schemes the focus were not given to the encroachment eviction. But in this watershed project

implemented by DHAN Foundation, special focus was given to the encroachment eviction in the water bodies even though with the least support from the DWDA.

Way Forward

After the successes and failures of the five-year watershed development scheme, thoughts on the way forward from here were brought to light.

- A watershed development program should be both grant and loan based.
- A watershed development program should have a convergence approach of multiple stakeholders and multiple fund providers.
- The program should give priority for villages that have a higher number of small farm holdings.
- Currently, the given unit cost for the program is Rs. 5000/ha, which is the typical allotted amount for governmental watershed development programs. However, realistically, the unit cost needs to be Rs. 6,000/ha-8,000/ha for watershed development in strictly rainfed areas that do not have any irrigation tanks. If the watershed happens to be tank-based, the unit cost should be around Rs. 12,000/ha, allowing for Rs. 6000/ha for catchment area treatment and Rs. 6000/ha for rehabilitation of tank system comprising the tank structural components, supply channel, and the command area. In both cases, the mentioned Ha here refers to the catchment area and does not include the tank and its command area.
- As watershed development is key in improving rural livelihoods, MFG members can join the Farmers' Club Programme (previously known as the VVV or Vikas Volunteer Vahini) program of the Government of India especially as the restructured NWDPRA scheme is ending. This platform can raise the credit building capacity for the MFGs.
- Right now, the targeted watersheds for funding are sparsely distributed geographically. They ideally should be targeted as adjoining watersheds. NABARD, can consider treating five adjoining watersheds as one unit to allow for a spin-off effect on one another, which will also increase neighbouring awareness.
- Some Panchayat tanks in the watersheds can be provided with Rural Infrastructure Development funds through a comprehensive effort with the government and NGOs like DHAN Foundation so that these irrigation tanks can also be revived.
- Follow-up projects should be pursued with the NABARD program, which are a partial loan and a partial grant.
- Proper flow of credit for infrastructure development needs to be established.
- Infrastructure development should be addressed ideally within ten years.
- The watershed members are fortunately fully aware of the benefits of the program after five years. In the future, not all grants are required from the Government. Grants can be given for common works, whereas credit or loans with affordable credit should be available for individual works.
- Conscious convergence and mutual sharing of all government line departments is needed, as all groups are not working together in the watershed.

Conclusion—Looking to the Future

By the end of the program, it has been apparent that the members of all the watersheds are beginning to sustain income increase. Rainfed farming has been improved to a significant extent, but the program has not covered the farmers' needs to the fullest extent because of limited resources, inflation, and existing cost of practice, which is approximately Rs. 10,000 to Rs. 12,000 per hectare. The period of implementation of the watershed development program should include a follow-up of three to four years, which is ideal for sustainable development of the watershed. In addition, watershed development should be implemented on a contiguous approach so that the farmers in neighbouring areas should be aware and able to witness the importance of watershed development schemes that are currently implemented in the district. The watershed has made incredible headway in achieving the Government of India's NWDPRA's goal of the development of the rainfed watershed to increase food production potential and community empowerment in rural areas. We have created an incredible foundation and are looking forward to building upon this foundation to create the ideal, sustainable development of poor farming communities. ■

Budget Watch and Dialogue on the Union Budget 2010 – 11

Background:

Tata–Dhan Academy of DHAN Foundation has been organising reflective Union Budget sessions since 2007. This year's event, the "Budget Watch and Dialogue on the Union Budget 20101–11 with Development Perspective", was conducted on 26th February, 2010. Development practitioners, media professionals, executives of industries, bankers, academicians, scholars and the public were invited. The objective of the session is to educate the participants from different walks of life on the various components and dimensions of the budget with development perspective, critically analyse the budget with the development perspective and come out with constructive suggestions and disseminate the reflections through media.

For the Union Budget 2010-11, a pre-budget consultation was organised on 19th January, 2010 with 19 select participants from different fields. DHAN Foundation was a part of the pre-union budget consultation organised with non government organisations (NGOs) by the Union Finance Minister at New Delhi, which is the first of its kind in the budget history of India.

The day's event was designed with an hour of budget literacy which was detailed by Dr. Damodar Jena, Faculty, Tata-Dhan Academy. He gave a detailed note on the 'Concepts and components of budget', 'Fiscal behaviour of Indian economy–A retrospect' and 'Contribution to budget formation'. The Union Budget 2010-11, which was presented by Finance Minister, Pranab Mukherjee was brought live to the participants from 11.00 AM to 12.45 PM. It was followed by sharing views and opinions from participants.

Mr. Charles Fernando, Charted Accountant shared the budget as 'Good news to MFIs'. Almost all Microfinance Institutions (MFIs) would be enjoying tax free comfortably. Dr. Muthuraja, Associate Professor (Economics), American College, Madurai appreciated the allocation of Rs. 1000 crores towards National Social Security Forum (NSSF) to help unorganised and marginalised people; skill development programmes, special education centres, minorities concerned schemes and tax concession to MFIs whose turnover till Rs. 10 lakhs. He also added that a rise of Re. 1 for petrol and diesel would result in price hike of all commodities making a common man suffer somewhere between Rs. 50 to Rs. 100. Energy projects will definitely affect common man. There is absence of regional feeling as development in all parts of India is not uniform and cannot go with the present situation. No special focus on poverty and employment is seen in this budget. There is increasing crime due to imbalance of income and unemployment. About 70-80% of crimes are due to imbalance of unemployment and poverty. Dr. Deena Dayalan, HOD and Professor of Economics, Madura College, Madurai, said the budget would save Rs. 22, 000 for the salaried class individual. The allocations to SHGs and MFIs have doubled. He criticised for just 25% of allocation to rural economy; no allocation is found for IITs and IIMs, instead there was focus on primary education.

In the post lunch session, Mr. Kalyanasundaram, Chief Executive of INAFI (International Network of Alternative Financial Institutions), shared the details of the budget. Views and opinions of experts were benefitting the participants. Opinions on social sector, agriculture and rural development, health and education by Dr. Damodar Jena, Mr. Kalyanasundaram, Dr. Muthuraja, and Mr. Sheshadri, made the session more informative by shedding light on each sector.

Resource lecture by Mr. Sheshadri, Chartered Accountant, Sunanda & Sheshadri, Bangalore, appreciated the income tax relief Rs. 10 lakhs for institutional income. There should be a time series study on unspent budgetary allocations. A single budget cannot

bring significant change but when we see the analysis of budgets over a decade we can see each budget have some section of development. Ms. Raghini, Programme Leader of DHAN Foundation, gave the welcome address to the participants.

Highlights of the Union Budget, 2010 – 2011

- Clean energy cess of Rs.50 per ton on coal produced in India
- Concessional duty of 4 percent for solar power rickshaw developed by Council of Scientific and Industrial Research
- Concessional customs duty of 5 percent for cable TV operators for importing equipment
- Toys fully exempt from central excise duty
- Service sector tax retained at 10 percent to aid the introduction of GST; more services to be taxed
- Accredited news agencies exempt from service tax
- Net revenue gain Rs. 22,500 crores
- Taxes on large cars and SUVs increased 2 percent to 22 percent
- Two more centralised tax processing centres to be set up in addition to the one at Bangalore
- Basic duty of 5 percent on crude oil restored
- Tax on cigarettes, cigars and chewing tobacco increased
- Rs. 26,000 crore revenue loss due to reduction of direct taxes
- Partial roll back of reduction in central excise duty
- **Income up to Rs.1.6 lakh per year exempt from income tax; up to Rs.5 lakh to be taxed at 10 percent; income of Rs.5-8 lakh to be taxed at 20 percent and income above Rs.8 lakh to be taxed at 30 percent**
- **IT returns forms for individual tax payers to be further simplified**
- Expenditure in 2010-11 estimated at 11,l8,749 crore
- Fiscal deficit estimated at 5.5 percent in 2010-11; an improvement of 1 percent over 2009-10
- National Social Security Fund created for workers in unorganised sector with allocation of Rs.1,000 crore
- Rs.147,344 crore allocated for defence
- Government to give Rs.1,000 for each National Pension Scheme account opened by workers in the unorganised sector
- Exclusive skill development programme for the textile sector
- Fifty percent hike in allocation for schemes for women and child development
- Rs.4,500 crore allocated for ministry of social justice and empowerment, a hike of 80 percent

- Rs.2,600 crore allocated for ministry of minorities affairs
- Rs.1,900 crore for Unique Identification Authority of India
- 2,000 youth to be recruited in central paramilitary forces
- Draft Food Security Bill prepared and will be put in the public domain
- Allocation on primary education raised from Rs.26,800 crore to Rs.31,300 crore
- Banking facilities to be provided to all habitations with a population of 2,000 and more
- Rs.66,100 crore allocated for rural development in 2010-11; Rs.40,100 crore for National Rural Employment Scheme; RS.48,000 crore for Bharat Nirman
- Rs.1,270 crore allocated for Rajiv Awas Yojana for slum dwellers, up from Rs.150 crore, an increase of 700 percent with the aim of creating a slum free India.
- Forty-six percent of plan allocations in 2010-11 will be for infrastructure development
- Coal Regulatory Authority to be set up to benchmark standards of performance
- Allocation for new and renewable energy sector increased 61 percent from Rs.620 crore to Rs.1,000 crore in 2010-11
- National Clean Energy Fund to be established
- Rs.200 crore allocated as special package for Goa to prevent erosion and increase green cover
- Government committed to growth of SEZs
- Four-pronged strategy for growth of agricultural sector
- Rs.200 crore to be provided in 2010-11 for climate-resilient agricultural initiative
- Involvement of private sector in grain storage to continue for another two years
- In view of drought and floods, debt repayment period extended to June 2010
- Five more mega food processing projects in addition to 10 existing ones
- FDI flows in April-December 2009 $20.9 billion
- FDI policy to be made more user-friendly with one comprehensive document
- Apex level financial stability council to be set up for banking sector
- Indian Banking Association to give additional licenses to private players
- Provision for further capital for regional rural banks
- Roadmap for reducing public debt in six months
- Implementation of direct tax code from April 2011
- Government actively engaged in finalising structure of general sales tax regime; hopes to implement it from April 2011
- New fertilizer policy from April 2010; will lead to improved productively and more income for farmers
- Economy stabilized in first quarter of 2009-10; strong rebound in second quarter; overall growth at 7.2 and could be higher when Q3 and Q4 are taken into account
- Export figures for January encouraging
- Hope to breach 10 percent growth mark in not too distant future
- Government set in motion steps to bring down food inflation
- Need to review stimulus package; need to make growth more broad-based
- India has weathered global economic crisis well; Indian economy in far better position than it was a year ago. In 2009 Indian economy faced grave uncertainty; delay in southwest monsoon had undermined agricultural production
- First challenge now is to quickly revert to 9 percent growth and then aim for double digit growth; need to make recovery more broad based
- Second challenge is to make growth more inclusive; have to strengthen food security
- Third challenge is to overcome weakness in government's public delivery mechanism; a long way to go in this

Bio sand filter for Sellur Vattara Kalanjiam

Sponsored by Friends of DHAN, Canada (Ms. Carla Cuglietta)

Er. J.Kanagavalli*

Sellur Vattara Kalanjiam is a federation of women self-help groups (SHGs) in the urban slums of Madurai city of Tamil Nadu. There are 232 women SHGs with 3867 members spread over 17 slums. This federation has taken up various activities for the development of their members besides microfinance activities such as health.

Sellur Vattara Kalanjiam is situated in north zone of Madurai in which Sellur odai which is meant for storm water drainage covers nine clusters. Sellur Odai (Pandal kudi channel) starts from Pandhalkudi and ends in Poonthamalli Nagar. All the solid waste from textile industries and household wastes is dumped into this Odai and thereby water gets stagnated. This results in contamination of surface water and provides favourable sites for the breeding of mosquitoes. In this area water borne diseases and skin diseases are common due to this reason.

So, in this context, our intervention is to provide safe and quality drinking water to slum dwellers using low cost bio-sand filters.

Improved water, sanitation and hygiene contribute to human development by reducing the health burden of waterborne diseases

- Reducing the time taken off from work by ill people and their caretakers.
- Improving nutrition due to reduced loss of nutrients through diarrhea.
- Reducing the expenditure by the family for safe water and also time and effort spent, normally by women and children, to carry water from distant sources.
- Hence making time available for other activities such as children's school attendance and adult income generation.

Selection of beneficiaries

The cluster Keelavaidhyanathapuram was selected for the sharing of filters in the first phase. The cluster area includes Aruldaspuram and Thathaneri in which a grave yard is situated. The slums are situated on the banks of river Vaigai and railway line which are unauthorized. So inadequate sanitation and drinking water problem are the characteristic features of this slums and the people were affected by water borne diseases like diarrhea, malaria and typhoid. All are daily wage earners comprising vendors, servant maids, construction workers, rice mill coolies, weavers, load man unable to spend time and money on safe drinking

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water which in turns affected the health and hygiene.

The members selected for deployment of the filters were based on the following criteria,

- Poor families with children and old age people
- Women headed families
- Frequently affected by water borne diseases and spending more money for medical expenses in the past two years
- Willingness to use the filter and to attend the training programme.

Training

One day orientation was given to users of Sellur Vattara Kalanjaiam, Aruldass puram cluster members identified from different SHGs for filters. They were given orientation about the importance of safe drinking water. We covered how the bio-sand filter works in removing the disease causing pathogens and what are the maintenance activities involved in operating the filter. These members were convinced about the usefulness of the filters and made the request to us to deploy filters at their home. The filters were produced and transported to their homes from Dhan People Academy campus.

We have already given 43 filters to our members in 9 clusters and we find that the bio sand filters are economically feasible for poor communities since they require only one time investment and no maintenance cost also, providing of safe water alone will reduce diarrhoeal and endemic diseases by up to 50%, even in the absence of improved sanitation or other hygienic measures.

In Periya Puliankulam village in Aruppukottai, we have installed two filters based on the interest expressed by the headmistress and a few teachers. They were given an orientation and training on the use of this filter. It is now being used by the students regularly.

There is now evidence that simple, acceptable, low cost interventions which are capable of eliminating viruses, bacteria and parasites from household stored water, can reduce the risks of diarrhoeal disease for people of all ages.

Deployment of filters

We have received funds from Friends of DHAN Canada for deploying 30 filters (2 in schools and 28 in urban slums). After the training programme, we have transported 30 filters.

Pension seminar

S. Balasubramanian*

Background:

Demographic studies and surveys tell us that population ageing is becoming a progressively serious concern for the world today. In 1950, there were 205 million people aged over 60 years in the world, which increased to 606 million in 2000. The number of aged people has tripled in the last 50 years, and is projected to do the same in the next 50 years and is projected to 2 billion in 2050. And two-thirds of the world's elderly population lives in the developing countries. In these countries, the proportion of older persons' population is expected to rise to over 19% by 2050, while that of children is to fall from 33% to 22%.

Rapid declining fertility and rising longevity rates since the 1960s, has ensured that India is following similar trends. India is set to become the world's most populous country by 2030 according to current projections. Currently the elderly in India constitute about 7.2% of the total population and is growing. Today we have nearly 76.6 million aged persons, and this is expected to rise to 198 million by 2030. Around 90% of the elderly workforce are from the unorganized sector and almost 80% from the rural areas, with nearly 40% constituting the below poverty population, and widowed. Today India is home to one out of every ten senior citizens of the world. Both the absolute and relative size of the population of the elderly in India will gain in strength in future. There is a progressively increasing pressure on the already deficient public infrastructure and systems.

The holders of knowledge, cultural and social heritage of a society – the aged persons - increasingly face mammoth struggles in our country to merely maintain a comfortable living, leave alone matters of quality of life and harmony. The major challenges for the elderly today are emotional, health and economic stability.

Social security is a fundamental right of each citizen. The International Labour Organisation (ILO) has identified nine major benefits that should form a part of any social security system. They are medical care, sickness benefits, unemployment benefits, old age benefits, employment injury benefits, family benefits, maternity benefits, invalidity benefits and survivor's benefits. This warrants experimentation on providing support to old aged people through micropension initiatives. This is reiterated by the report of United Nations, which states that 1.2 billion of the world's older population will be living without a safety net in 2050. The report urges upon developing nations, including India, to provide a pension offering benefit equivalent to the extreme poverty line of $ 1 a day.

A step towards addressing the issues of the aged, a seminar on micro pension was organized for enriching the knowledge and skills in development of pension

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products and implementing pension programs. The participants were a mix of international and national practitioners, institutions working with micro insurance, and institutions working with aged, practitioners from microfinance institutions, NGOs, insurance providers and so on.

The lead paper was presented by Mr. Jacques vander Horst and Mr. Jos van Ophem from World Granny, the Netherlands. They gave very detailed insights on the topic, Pension. The gist of the presentation is given below.

Sources of retirement income:

1. Social pension is paid by the government to its old aged citizens.
2. Occupational pension is built by the contributions made by employer and/or employees.
3. Personal pension is built by making individual contributions to a life insurance or other type of long-terms savings instrument. It is done based on the personal savings or investments. It may of any kind – cash, deposits into a bank savings account, life insurance, mutual funds, jewelry, art, value built up via a house, family support and many more options like this.

Three groups of future retirees:

We are now in a point of time to explore what we can do to the aged people and how we can plan for the future old age people or future retirees. We can classify them into three groups of future retirees -

1. **Low risk:** Individuals sufficiently independent and well prepared. This is prevalent in countries in Western Europe, and in North America and Australia, because there are many people with steady jobs and good health.
2. **Medium group:** Individuals where risk depends on preparation. This group of people are scattered across all continents, particularly where pension depends on government, family, employer and individual savings.
3. **High risk:** This group of individuals who are dependent and not prepared for the future risk. Such people are more in Asia, Latin America and Eastern Europe. This is so because of low income and bad health which force them to be dependent on family and/or community.

Increased life expectancy:

The concept of Micro Pension gains attention as there is increased life expectancy which is due to innovations in agricultural and industrial production, leading to better nutrition in 19th century. There was steady improvements in medicine and sanitation in the late 19th and early 20th century. And drastic changes in family life, social, economic and political organisation in 20th and 21st centuries.

Women are more vulnerable to poverty in old age:

The majority of older persons are women. In 2006, there were 82 men for every 100 women aged 60+ worldwide. Older women are more likely to be widowed, to live alone and in poverty. Three of every four older poor individuals are women, with women being twice as likely to be living in poverty as men. In 2050, there will be $1^1/_2$ billion will be 60+. So we have to prepare the younger people to prepare for the future.

World Bank gives a 5 Pillars structure:

The poorest of the poor belong to the basement called "**Pillar 0**" which provides the "safety net (micro pension)" as poverty relief. Then comes **"Pillar I",** which is mandatory, PAYGO, DB by government. This is for the government employees whose pension is assured by Government. Then comes, **"Pillar II",** it is mandatory and funded by direct contribution. The **"Pillar III"** is voluntary based on the individual's contribution. The **"Pillar IV"** is due to the contribution from family, generations, and access to housing, and medicare. This is done on individual basis.

IV Family, generations, Access to housing, medicare
III Voluntary
II Mandatory, Funded, DC
I Mandatory, PAYGO, DB by government
0 Safety net (micro pension) for poverty relief

Ways of funding:

- **Pay-as-you-go**:

  The pension benefits of current retirees are financed from the contributions of current workers. Most of the social pensions are pay-as-you-go pensions. These pensions are often under severe financial pressure. Due to the aging population a decreasing number of workers have to finance the pension benefits of a growing number of retirees.

- **Funded**

  Workers build up a pension capital through contributions made by their employer and/or themselves. The funding can be arranged in various ways and the capital is paid as a lump sum or, preferably, via annuities.

Financially viable options provided by World Bank are - returns on assets (ROA) vs. inflation.

- Defined Contribution (DC): ROA must be higher than inflation
- Defined Benefit (DB): realistic future estimate of ROA higher then inflation, where the premium is low
- DB: realistic future estimate of ROA lower than inflation where the premium is high

A realistic future estimate is very important in deciding these.

Types of pensions:

Defined benefit:

The pension benefit is guaranteed based on the final or average salary of the worker.

Defined contribution:

The pension contribution (made by employer and/or employee) is fixed, but the benefit depends on investment returns.

Hybrid solutions

DB up to a basic level, DC on top of that basic level, Collective DC; participants share risks and returns collectively.

Pros and cons of different systems:

Worldwide trend to shift from defined benefit to defined contribution

Defined Benefits are pay-out is assured when it is related to final or average wage and it gives social security. But the long-term funding is a challenge and risk lies with pension provider. It is only defined benefit no longer affordable per month inflation risk.

Defined Contribution can have clear control of contributions, individual responsibility and flexibility is available whereas there is no social security or minimum and there is no insight into pension benefit level. Risk lies with individual person/educational gap which are highly unpredictable.

It is only defined contribution is unbalanced risk-sharing in longer term but, effective transition is per month inflation risk.

India's big pension challenge:

India's population is over 1.1 billion, the average life expectancy is 64.7, the average annual income is

US $ 950. Ten percent of population has organized job and has government or corporate pension plan. And 90% does not have organized job and often has minimal or no pension because of 80% people live in rural areas, 40% live below poverty line, 64% of elderly women are widows.

Pension system in India

There are four categories of pensions.

1. Pension for civil servants and military
2. Mandatory pension for employees of companies, sometimes opportunity for voluntary supplementary pension, voluntary pension for self-employed and workers without organized job.
3. Social assistance for the economic weak
4. Government is conscious of pension challenges and has undertaken reforms
   - New Pension Scheme with individual DC accounts
   - Re-launch in 2007 of social assistance program for older people with monthly income below USD 5

But many people have no form of pension provision. People in private sector are worse off than people in public sector. The market for pension products is still underdeveloped. People save too little or cannot afford to save, even if they want to savw.

Micro pension:

Micropension is a voluntary savings scheme which is accumulated over a long period of time. Contributions are invested by a professional fund manager. There is defined contribution. Contributions are fixed (in principle), benefits are dependent on investment returns. At agreed withdrawal date the accumulated capital can by paid in lump sum or periodically via an annuity.

Why micro pensions can work in India:

The challenge of providing old age finance to an enormous number of people over a long period of time is formidable. This is further complicated by wide regional variation in demographic trends, economic performance and capacity to take advantage of India's economic development. The current labor market is unable to generate sufficient productive and sustainable livelihoods in the formal and informal sectors. India's current pension system covers only a small segment of the population. All these factors leads to a decentralized and flexible instrument, micro pensions – based on genuine savings attitude and community approach – can help to relieve poverty in old age.

The role of community:

Technical advantages of community subscription

- Individual subscription allows only DC scheme
- Possible introduction of guarantee requires larger coverage
- Annuity implementation requires diverse age group (similar to insurance)
- Collecting money on the level of the whole group helps reducing transaction costs

Practical issues

- Easier collection of payments within the group – one person can be appointed or collecting during the group meetings
- Group responsibility: social pressure to encourage financial discipline (example of Grameen Bank in Bangladesh)
- Compulsory subscription can help solving cultural issues: sometimes women are not encouraged by the family to set money aside for their own needs
- Practical experience shows that immediate needs always seem more important than long-term savings

Challenges for micro pensions

- How to collect contributions in a safe an efficient way?
- How to secure responsible and productive investment of contributions?
- How to pay benefits timely and correctly?
- How to build trust, improve pension awareness and maintain effective communication?
- How to ensure effective and reliable governance?
- How to make optimal use of existing structures and combine local and international expertise?

Threats for micro pensions

- Instable economic environnement
- Instable governemental policy

- No garanteed owners rights (financial rights women)
- Contracts not always respected (corruption, reputation)

DHAN Foundation, Help Age India and WorldGranny join hands to launch micro-pensions initiative in India:

- DHAN Foundation aims to promote innovation in agriculture and to fight poverty and has already reached over 600,000 poor families through various initiatives.
- WorldGranny aims to offer elderly all over the world a healthy, social and safe life free from poverty. Its Pension Development Network unites participants from the entire pension sector in the Netherlands. 10-year cooperation agreement concluded in July 2009.

Objective and ambition of the project:

Objective is to offer a supplementary pension to 25,000 people in the informal sector. For people who do not have an organized job. We are going to pilot it in six urban and four rural areas.

Ambition is to provide a supplementary pension of Rs. 400 on top of the social pension of 600 rupees.

Planning:

In the first year, there would be selection of 10 project locations, development of pension products, selection of fund manager and development of administration system. In the second year, it would be extended to 5,000 participants and in the third year it would be extended to 10,000 participants, in the fourth year we would reach 17,500 participants and in the fifth year, 25,000 participants would be reached and fund needs would be self-reliant.

Target groups:

- People in the informal sector who do not work in an organized job
- There are three groups of people
  - **Under the age of 50** who can still contribute to building their own pension
  - **Between 50 and 60 years old** whose pension to be financed partly through own contributions and partly through charity
  - **People above the age of 60** whose pension should be fully financed through charity.

Financial assumptions underlying the pension ambition:

- Ambition is supplementary pension of 400 rupees per month
  - This necessitates a total deposit of 70,000 rupees
  - Such a deposit requires annual contributions of 1,200 rupees over a period of 30 years
- Participants aged 50-60
  - Supplementary pension based on their own contribution in combination with charity
- Participants older than 60
  - Supplementary pension of 100 rupees per month financed from charity
- Benefits are paid from 60 – 75 years
  - If participant dies before age of 75, the pension goes to the dependents
  - If the participant is still alive at the age of 75, he or she receives the remainder from the deposit as a lump sum
  - Benefits financed fully from charity stop at the age of 75 or earlier when the participant dies before the age of 75

There were subgroup discussions on various topics of pension. The participants were divided into three groups. There were brainstorming about various topics of pension schemes and the discussions were shared.

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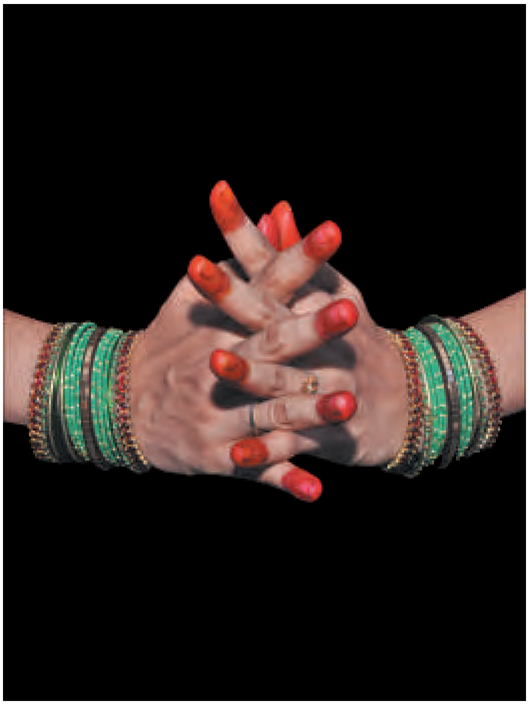
Building Social Capital *for* Promoting Grassroots Democracy



All the 30,000 Primary Groups have been networked into 1400 Cluster and Cascade Development Associations, and federated into 164 Federations. All these institutions are working with over 210 branches of 36 nationalised and private banks, 30 District Rural Development Agencies, six insurance companies to implement development programmes.

DHAN believes that independence with interdependence is a core of grassroots democracy. The Primary Groups of poor families promoted by DHAN are independent and act as ideal platforms for practicing direct democracy. The nested institutions promoted among these primary Peoples' Organisations both vertical and horizontal, enable interdependence, and increase solidarity resulting in stronger and more resourceful organisations. The nested institutions value representation of collective interests and reinforce shared responsibilities of members. These institutions retain their autonomy while working in partnership with mainstream institutions.

Deepening Grassroots Democracy

DHAN's Way

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