SWARNAJAYANTI GRAM SWAROJGAR YOJANA

2010-11

SCHEME BRIEF

Swarnajayanti Gram Swarojgar Yojana (SGSY) is an employment generation programme that provides income-generating assets through a mix of bank credit and government subsidy. In 1999, SGSY replaced Integrated Rural Development Programme (IRDP), the government's flagship programme on rural development, integrated allied programmes to become the largest self-employment programme in the country today. This brief looks at the scheme's foundational principles and basic features. It also examines SGSY's performance in the past decade and whether it is an improvement over previous self-employment programmes.

BACKGROUND

Swarnajayanti Gram Swarojgar Yojana is an employment programme designed to stimulate self-employment activities and ensure that every assisted Below Poverty Line (BPL) family – *swarojgari* - is able to earn a minimum monthly income of ₹2,000 within three years. It aims to achieve this objective by encouraging families to engage in income-generating activities and by providing assistance through a combination of wages, technical capacity building and a package of financial assistance that includes institutional credit and subsidy. In 1999, SGSY was formed from a merger and restructuring of the Integrated Rural Development Programme (IRDP) and allied skills generation programmes, namely Training for Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWRCA), Supply of Toolkits in Rural Areas (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS). Similar to the IRDP, the target group of SGSY consists of small and marginal farmers, agricultural labourers, rural artisans and others whose annual family income is less than the BPL income level. IRDP focussed on credit provision to individual beneficiaries, while SGSY focuses on skills development of groups and clusters to improve the use of credit and asset acquisition. It promotes group activities that can increase forward and backward linkages and provide sustainable incomes.

Funding SGSY The centre and state funds provide a combination of loans and subsidy for *swarojgaris* wherein the centre contributes three-quarters of the funds while state governments contribute one-quarter. For the special category states, including the North-eastern states and Jammu and Kashmir, funding is shared by the centre and states in the ratio 90:10. District Rural Development Agencies (DRDAs) receive funds directly from the centre and incur all expenses on training, infrastructure, and subsidy for economic activities to a maximum of ten percent of the total allocation. Of the total assistance, 50% is reserved for Scheduled Castes (SC) and Scheduled Tribes (ST), 40% for women and three percent for disabled persons. SCs, STs and disabled persons are entitled to a subsidy of 50% of project costs or ₹7,500 per *swarojgari* and 30% for the other beneficiaries up to a maximum of ₹10,000 per *swarojgari*. The subsidy is disbursed along with the loan but is placed as a separate term deposit in the name of the *swarojgari* and is

Ministry	Ministry of Rural Development
Department	Department of Rural Development
Sector	Employment
Output/ Scheme Indicator	SHGs created *Swarojgaris* assisted Credit and subsidy disbursed
Funding	Shared by centre and states in the ratio 75:25 for all
Year of Inception	1999
Expiration date	Nil
2009-2010 Budget outlay	₹2114 crores

available subject to the proper utilisation and repayment of the loan. However, to ensure regular repayment and to avoid beneficiaries from focussing primarily on repayment, *swarojgari*s are not entitled to the subsidy benefits if the loan is fully repaid before the scheduled date.

How does it work? The scheme falls under the purview of the Ministry of Rural Development and is implemented by District Rural Development Agencies (DRDA) with the active involvement of *panchayats*, banks and non-governmental organisations. District level committees select ten activities from a wide range of potential activities based on local resources and market for finished products whereas block level committees ensure that groups finalise activities based on skills, through a participatory process. *Panchayats* select BPL families for participation in the scheme using the 1999-2000 estimates prepared by the Planning Commission of India and form Self Help Groups (SHGs) with 10-20 individuals.[1] These SHGs receive training as well as income-generating assets designed and delivered by DRDAs.

Once formed, groups are trained and observed by DRDAs along with banks for six months to develop and strengthen savings and credit activities. They are encouraged to open bank accounts and also to lend from the group's corpus to members within the group. At the end of this period, DRDAs assess if groups are ready to avail credit (Grade I). Viable groups are given 'revolving funds' of ₹25,000 per group from banks as credit to augment the group corpus, thereby enabling more members to take loans and also increase the per capita loan amount. After another six months, groups are evaluated again to determine if they are viable to undertake economic activities with larger investments (Grade II). Viable groups and individuals are eligible for loan-cum-subsidy assistance for group and individual activities, respectively. However, groups stand guarantee for loans even for individual beneficiaries, since groups can monitor asset management and income generation more closely than banks. SGSY envisages a critical role for banks in planning and preparing projects, activity clusters and infrastructure, apart from disbursement of credit. SGSY dovetails into the SHG-Bank Linkage programme initiated by the National Bank for Agriculture and Rural Development (NABARD) in 1992 to provide credit and other financial products to SHGs.

Monitoring The Central Level Coordination Committee (CLCC) and State Level Coordination Committee (SLCC) are responsible for programme guidelines and monitoring implementation. DRDAs monitor progress at the block level and submit monthly reports to the Department of Rural Development in the Ministry of Rural Development. To ensure proper performance monitoring, *Panchayats* and *panchayat samitis* that record less than 80% loan recovery are suspended from the programme. *Panchayats* must monitor loan use and repayment as well as promote asset creation and income generation of *swarojgari*s.

PROGRESS

SGSY is an improvement over earlier livelihood support schemes, such as IRDP and DWCRA, which gave loans to BPL persons without any training or skill building. In contrast, SGSY as a loan-cum-subsidy scheme focuses on imparting skills to SHGs. Well-defined clusters or blocks select key, organised activities that are aligned with the profile of the poor in the area, their traditional knowledge, aptitudes, skills and assets, and existing infrastructure. The emphasis on a group approach is reflected in the trends of SHG and individual *swarojgari*s assisted over the years. While, individual *swarojgari*s outnumbered SHG *swarojgari*s for the first three years of the scheme, the trend was reversed from 2002 to 2009. However, progress of SGSY targeted at group beneficiaries has been slow since more efforts are required to create a productive base for the rural poor who need livelihoods outside agriculture. Over the decade 1999-2009, 34 lakh SHGs were formed but only 21 lakh passed Grade I and 10 lakh passed Grade II.

Physical progress Since its inception in 1999, SGSY has provided assistance to over one crore *swarojgari*s, of which 77 lakh, or 64.2%, were SHG *swarojgari*s (from both SGSY and previous schemes) and approximately 39 lakh were individual *swarojgari*s. Of the total *swarojgari*s assisted, 38 lakh were SCs and 17 lakh were STs, together constituting 46% of the beneficiaries, while women accounted for 57% (Figure 1). The number of women *swarojgari*s was largely stagnant between 1999 and 2006 and it suddenly doubled between 2006 and 2009. Despite the scheme having a separate component targeting the disabled poor disabled *swarojgari*s constituted only 1.5% of the total *swarojgari*s assisted between 2006 and 2009. Including disabled poor in SHGs makes it difficult to select activities that can be undertaken by the group as a whole. It is also difficult to find economic activity that suits specific disabilities and create groups of members with similar

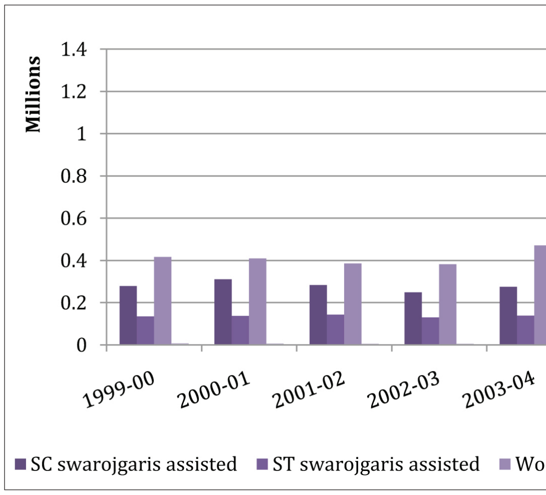


Figure 1: Physical progress of SGSY 1999-2009
Source: *www.indiastat.com*

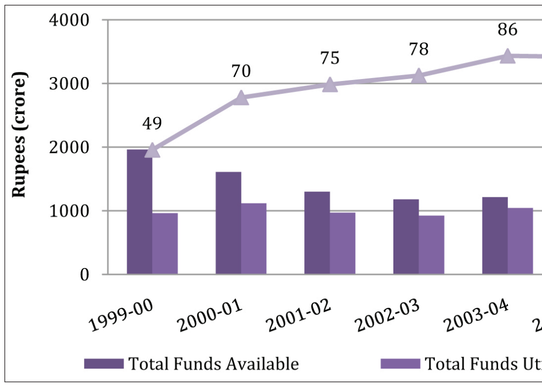
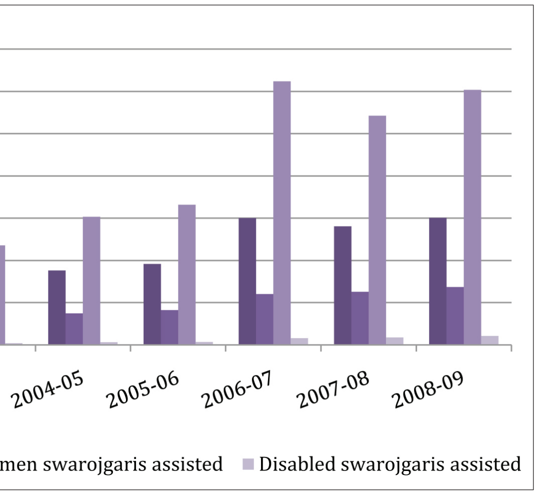
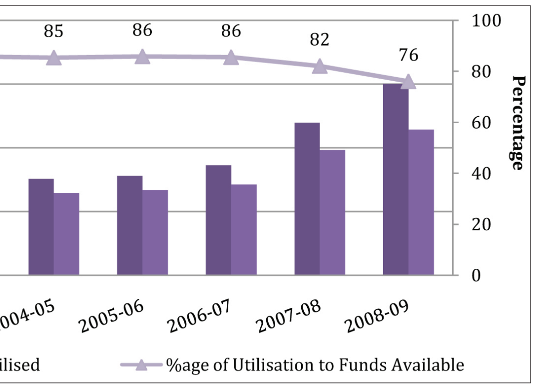


Figure 2: Financial progress of SGSY 1999-2009
Source: *www.indiastat.com*





disabilities. Thus, by default, disabled persons are selected as individual *swarojgaris*. It was only in 2004-05 that targets were set for the number of *swarojgaris* that would be assisted and the achievement for the four years 2004 to 2008 exceeded the target by 3, 6, 3.5 and one lakh, respectively.

How much funding is being spent? From 1999 to 2009, SGSY has received allocations, including central and state allocations, totalling ₹14,500 crore. Of the approximately ₹17,400 crore (Figure 2) available for utilisation from direct allocation and previous balances, only ₹13,300 crore, or approximately 76%, was utilised: 65% on subsidy, 16% on infrastructure development, 10% on revolving fund, and 6% on training. The scheme mobilised credit to the tune of ₹18,000 crore, only 61% of the credit target of approximately ₹30,000 crore, and was able to disburse less than half. Mobilising and disbursing credit and subsidy were particularly low in the first four years of the programme, owing largely to the time required to create and nurture SHGs. In the ten years, SHG *swarojgaris* received ₹10,000 crore as credit and ₹5,400 crore as subsidy, while individual *swarojgaris* received ₹7,700 crore and ₹3,600 crore, respectively.

Performance by State In 2006-2009, Andhra Pradesh was the leading state in the number of *swarojgaris* assisted over, followed by Uttar Pradesh. They were followed by Maharashtra, Bihar, Tamil Nadu, Assam, Orissa, Karnataka, Jharkhand, and Madhya Pradesh. Examination of the performance of states grouped as regions reveals that the central region (Chhattisgarh, Madhya Pradesh, Uttar Pradesh and Uttaranchal) accounts for 34% of the country's poor but only 30% of the *swarojgaris* assisted were in this region. In comparison, the southern region (Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Lakshadweep and Pondicherry) accounted for 21% of the *swarojgaris* assisted while having 11% of the poor in the country. In 2008, credit disbursed as a proportion of credit targeted was only 40% in the North-eastern states, compared to 73% for all India. Credit disbursed as a percentage of the target for the northern region was 119% and that for the southern region was 109%.[2]

CHALLENGES

Divergence between objectives and design The objectives of SGSY state that it aims to assist people who are most vulnerable. However, a safe borrower is an earning member at the time of group formation, owns land, and whose aggregate family income at the time of group formation is "healthy." The criteria are inconsistent with the scheme, which aims to provide credit-cum-subsidy to the poor in order that they may undertake an income-generating activity. Those who do not have "healthy" income or assets, such as land, would need assistance. Moreover, assuming the poor are asset-less and that income-generating assets with training will bring them out of poverty ignores the myriad factors that are crucial to BPL families becoming self-reliant, such as access to basic services like drinking water, healthcare and education.

Objectives of SGSY

- Focussed approach to poverty alleviation
- Capitalising advantages of group lending
- Overcoming problems associated with multiplicity of programmes

Source: SGSY Guidelines issued by Ministry of Rural Development, GoI

Lack of support to SHGs Supporting agencies, such as DRDAs and NGOs, play a critical role in forming SHGs, preparing proposals and skill development. Yet, these agencies sometimes did not facilitate the process as envisaged, as a result of which, applications by SHGs for loans were rejected by banks due to deficient applications, unviable proposals, and late submissions. SHGs were also constrained by low absorptive capacity and skill levels. As a result, they engaged in less productive activities for which banks are reluctant to advance credit. In sum, SGSY has not performed its role of "social engineering" which was imperative for the success of the SHG-Bank Linkage programme.[3]

Selection bias As per the scheme design, gram *Panchayats* are responsible for forming the groups, which limits people's ownership and control over the group's activities. BPL is the main criteria used to select beneficiaries and groups are formed based on activities. Members have common interests and skills, which is contrary to the understanding that heterogeneous groups are able to overcome individual shortcomings and thus able to mitigate risks better. While SHG *swarojgaris* are formed by the gram panchayat and more beneficiaries can volunteer themselves to groups, individual *swarojgaris* are selected by the sarpanch or head of the village. Since SGSY is primarily targeted at BPL families, there are several instances where non-BPL families are selected, thus crowding out intended beneficiaries. The guidelines allow for groups to have a maximum of 20 percent, and "in exceptional cases, 30 percent" non-BPL members and only if this is necessary. However, this widens the scope for the poor and the poorest to be excluded.

Gap between sanction and disbursal of loans Banks have been slow to process loan applications and to disburse loans after they have been sanctioned. The lack of coordination between banks and government agencies results in further delays in release of credit. Given that the scheme relies primarily on bank credit, delays hamper timely progress of the entire scheme cycle. Banks are reluctant to disburse credit because the recovery rate for government schemes such as IRDP and DWRCA was poor.[4] Since the scheme is a credit-cum-subsidy scheme, delay in release of subsidy by DRDAs to banks further delays release of the aid. Financial irregularities, such as banks that charge beneficiaries interest on the subsidy portion and non-payment of interest for subsidy kept in savings accounts, further hinder the operation of the scheme.

RECOMMENDATIONS

Poverty line approach The use of the poverty line to identify beneficiaries creates an artificial dichotomy of poor and non-poor that results in the exclusion of the poor who fall marginally above the poverty line. Moreover, a static income criteria assumes a high stability of income while the rural poor, like many others, experience unanticipated distress and resort to borrowing credit at exorbitant rates to overcome short-term income shocks. The poverty line criterion also ignores non-income features such as lack of access to common property resources and basic social services like drinking water, education and healthcare. These aspects make the poverty line criteria susceptible to manipulation, allowing for a high degree of corruption in the selection of beneficiaries.[5] This was also one of the main criticisms of IRDP, which the National Rural Employment Guarantee Scheme (NREGS), now Mahatma Gandhi NREGS (MGNREGS), has avoided by relying on self-selection instead of selection criteria. MGNREGS has other criticisms but selection bias is not one of them, and SGSY could improve its performance by adopting this critical feature.

Poor capacity building The training imparted is useful for traditional activities that require low productivity, but does not impart high-value skills. It is essential for at least one member of every BPL family to acquire skills that allow him or her to engage in high-value activities. Poor skill sets imply poor viability of micro-enterprises which beget less credit and subsidy, thereby reducing the ability of *swarojgaris* to improve their lives.[6] More funds are required for training and skill development, which currently stands at six percent, almost half the permissible limit of ten percent. However, poor implementation of the SHG-Bank Linkage programme renders the rural poor unable to access financial services and could contribute to the poor fund utilisation that plagues SGSY.

[1] In difficult areas (hills, deserts or areas with scarce or scattered populations and disabled persons) SHGs can be formed with 5-20 members.

[2] Radhakrishna Committee. Report of the Committee on Credit Related Issues under SGSY. 2009. Ministry of Rural Development, Government of India

[3] Ibid.

4 Swarnjayanti Gram Swarozgar Yojana (SGSY) - Quick Study on Gap Between Sanction and Disbursement of Loans Under SGSY. July 2003. Reserve Bank of India. http://rbi.org.in/scripts/NotificationUser.aspx?Id=1261&Mode=0 Retrieved April 6, 2010.

[5] Dreze, Jean. Poverty in India and the IRDP Delusion. 2009. Economic and Political Weekly.

[6] Radhakrishna Committee. Report of the Committee on Credit Related Issues under SGSY. 2009. Ministry of Rural Development, Government of India

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FOR ADDITIONAL INFORMATION	
www.rural.nic.in	Website for the Ministry of Rural Development
www.planningcommission.gov.in	Website of the Planning Commission of India, responsible for evaluation of government expenditure in form of various Centrally Sponsored Schemes
www.worldbank.org	The World Bank's website provides country-level information
www.cag.gov.in	The Comptroller and Auditor General of India audits schemes and undertakings at the behest of the principal authority.

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