



# SHG Federations in India

A Perspective



# Preface and Acknowledgements

This publication titled "SHG federations in India - A Status Report" is an attempt by APMAS to bring together a comprehensive document on SHG federations in India. Since inception, APMAS has been deeply engaged with the SHG movement and federations are a part of that. In 2003, APMAS wrote a paper on SHG federations based on the analysis of the SHG federation quality assessments conducted in Andhra Pradesh. In 2006, we brought out a report on "Status of SHG federations in Andhra Pradesh" analyzing the data from assessments. In 2006, APMAS wrote a paper titled "Emerging SHG Federations and Challenges".

Women Self-help Groups (SHGs) are widespread throughout India as policy makers, Governments, NGOs, and others concerned with development; are turning to the SHG model as a means to empower women and reduce poverty. Numerous studies have been carried out on SHGs, with a recent comprehensive publication by EDA and APMAS titled "*Self Help Groups in India - A Study of the Lights and Shades*". Up until now, a similar publication on SHG Federations has not been introduced. As SHGs are maturing and SHG federations forming, primarily in the southern states of India, due effort needs to be placed on understanding the variations of federations and promoting methods to optimize the expansion of SHGs and federations.

There are approximately 69,000 SHG federations in India. Different promoting institutions have different purposes for promoting the SHG federations. Some of the common purposes for promoting SHG federations include economies of scale, cost reduction, reducing default rates, providing value added services, and women empowerment. Ultimately the federation is expected to sustain SHGs facilitating withdrawal of the promoting institutions. SHG federations have contributed to the sustainability of SHGs as experienced over the past 10-15 years.

Those who have worked with SHGs for many years beg the questions, "What's next for these women?", "Can SHGs really lead to women empowerment?", and "Do SHGs enhance people's livelihoods?" Though these questions have no simple answers, it seems SHG federations can hold parts of the answers.

At this juncture, APMAS presents a publication titled "**SHG Federations in India - A Status Report**" that will offer a starting point for those concerned with the burgeoning movement and its sustainability. This publication is meant to serve as a reference document for policy makers, programme implementers, researchers and academics. APMAS hopes to update this publication annually, in accordance with its efforts to ensure a sustainable Self-Help Movement.

This publication has been compiled by the APMAS study team, consisting of 14 members, who spent time visiting eight states of India where SHG federations are functioning: Andhra Pradesh, Bihar, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu and West Bengal. The team spent time studying seventeen federations across the eight states covering federations promoted by NGOs, Government departments and externally aided projects. In addition to the study of SHG federations, APMAS has data on a large number of federations based on its rating using the GRADES assessment tools. The analysis of the assessment findings also forms a part of this publication. The report writing team of APMAS has done their best to make this document useful for diverse stakeholders. However, considering the diversity of India, we are acutely aware of the fact that making the document cover all models and all promoters and all aspects of the SHG federations is near impossible. Based on the federations study and the understanding that APMAS has, an attempt has been made to make it as comprehensive as possible.

The report has been put together in a rather short time by a team of APMAS staff. We have tried our best to be objective and factual in presenting the findings and in the interpretation. We accept full responsibility for any factual errors in the report and wrong interpretation of the data collected from a range of federations.

We would like to thank all the NGOs, Government departments, Banks, NABARD and many others who have supported us in making this publication possible. We would like to particularly thank the women members of the SHG federations that we visited and the staff of these federations for sparing their time and sharing their experiences with the study team. During the course of the study, our team made several follow up phone calls and e-mails to the visited organizations. We thank them for their patience and for sharing information so generously.

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We sincerely hope that you find this publication useful. We would like to have your critical feedback and suggestions to further improve the publication as we plan to bring out an updated version of the status report each year.

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# Contents

S.No.	Name of the chapter	Page No.
	<i>Preface &amp; Acknowledgements</i>	i
	<i>List of tables</i>	vii
	<i>Acronyms</i>	viii
	<i>Executive summary</i>	xii
<b>1</b>	<b>Introduction</b>	1
1.0	Background	1
1.1	Emergence of SHGs as alternative banking to the poor	1
1.2	Optimizing banking infrastructure in rural areas	2
1.3	Impact of SHGs	3
1.4	Limitations of SHGs	3
1.5	Emergence of SHG federations	5
1.6	Evolution of SHGs and federations	5
1.7	The present study	6
1.8	Methodology	6
1.9	Limitations of the study	6
1.10	Structure of the report	6
<b>2</b>	<b>Evolution of SHG Federations in India</b>	9
2.1	Emergence of federations in India	9
2.2	What is SHG federation	9
2.3	Need for federations	10
2.4	Types of federations	12
2.5	Major promoters of SHG federations	12
2.6	Growth of SHG federations	15
2.7	Rating Tools for Federations	17
2.8	Financing Federations	17
2.9	Legal Forms/ issues and Challenges	17

<b>3</b>	<b>Typology of SHG Federations</b>	<b>19</b>
3.0	Introduction	19
3.1	Geographical unit based federations	19
3.2	Functional classification	21
3.3	Structure and mode of operations of SHG federations	24
3.4	Legal aspects of SHG federations	29
3.5	Size of SHG federations	30
3.6	Sources of funds	30
3.7	Promoter-wise classification	31
3.8	Promoter control versus member control	31
3.9	Nomenclature	31
3.10	Conclusion	32
<b>4</b>	<b>Multi-purpose Federations</b>	<b>33</b>
4.1	Introduction	33
4.2	Structure and services	33
<b>5</b>	<b>Financial Federations</b>	<b>39</b>
5.0	Introduction	39
5.1	Current trends	39
5.2	Services offered by financial federations	40
5.3	Resource mobilisation	45
5.4	Governance in financial federations	46
5.5	Systems in financial federations	46
5.6	Sustainability of financial federations	48
5.7.	Legal Options and their suitability to Financial Federations	50
5.8.	Conclusion	50
<b>6</b>	<b>Social Federations</b>	<b>51</b>
6.0	Introduction	51
6.1	Sector development functions	51
6.2	General development functions	53
6.3	Governance and functioning	56
6.4	Sustainability	56
6.5	Conclusion	58

<b>7</b>	<b>Livelihood Federations</b>	<b>59</b>
7.1	SHG federations and livelihood services - an introduction	59
7.2	Capacities of SHG federations to provide livelihood services	59
7.3	Institutional elements for livelihood promotion	61
7.4	Observations	67
7.5	Conclusion	68
<b>8</b>	<b>Performance of SHG Federations</b>	<b>69</b>
8.1	Introduction	69
8.2	Governance	70
8.3	Resources	71
8.4	Asset quality	72
8.5	Design of systems and implementation	73
8.6	Efficiency and profitability	75
8.7	Services to SHGs	77
8.8	SHG Performance	78
<b>9</b>	<b>Enabling Environment</b>	<b>81</b>
9.1	Recognition of federations, the opportunity	81
9.2	Recognition of federations, the challenges	84
9.3	Strengthening of SHGs and capacity building	84
9.4	Legal environment	84
9.5	Self regulation	85
9.6	Conclusion	86
<b>10</b>	<b>Emerging practices, challenges and recommendations</b>	<b>87</b>
10.1	Emerging practices	87
10.2	Challenges - Internal	91
10.3	Challenges - External	94
10.4	Recommendations	96
	<i>Annex-1 Regional Spread Of SHG - Federations Up to July 2007</i>	102
	<i>References</i>	105
	<i>Bibliography</i>	110

# List of Tables

S.No.	Name of the chapter	Page No.
<b>Chapter-1: Introduction</b>		
1.1.	Progress of SHG bank linkage program in India	2
1.2	Region-wise cumulative no. of SHGs linked to banks in India	4
<b>Chapter-2: Evolution of SHG Federations in India</b>		
2.1	Regional Spread of SHG Federations as on March 2007	16
<b>Chapter-3: Typology of Federations</b>		
3.1	Distribution of Federations as per Tiers of Their Federations	29
3.2	Variations in Size of Different Federations	30
3.3	Names of Federations in Different Parts of the Country	32
<b>Chapter-8: Performance of SHG federations in India</b>		
8.1	Funds per SHG	72
8.2	Internal repayment on par of SHG federations	73
8.3	OSS and FSS of SHG federations	76
8.4	Few of the SHG indicators from APMAS quality assessment findings	79
8.5	Details of APMAS studied SHG federations	80

# Acronyms

ADS	Area Development Society
AGM	Annual General Meeting
ALF	Apex Level Federation
APMSS	Andhra Pradesh Mahila Samatha Society
APRACA	Asian Pacific Regional Agricultural Credit Association
APUSP	Andhra Pradesh Urban Services for the Poor Project
ASA	Activists for Social Alternatives
ASCA	Accumulating Savings and Credit Association
ASSEFA	Association of Sarva Seva Farms
ASP	Ankuram Sangamam Porum
BC	Business Correspondents
BGMS	Bharatiya Grameen Mahila Sangh
BLF	Block Level Federation
BMCC	Bulk Milk Cooling Centre
BMCU	Bulk Milk Cooling Unit
BMASS	Block Mahila Sanchayaka Sangh
CARDS	Centre for Agricultural and Rural Development Services
CASHE	Credit and Saving for Household Enterprise
CBO	Community-Based Organisation
CBs	Commercial Banks
CBMFI	Community Based Micro Finance Institution
CDF	Cooperative Development Foundation
CDS	Community Development Society
CDD	Community-Driven Development
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CIG	Common Interest Group
CLA	Cluster-level Association
CLDP	Comprehensive Land Development Program
CmF	Centre for microFinance
CMNSY	Chief Minister Nari Shakshtih Yojana
CMRC	Community Managed Resource Centre
CPE	Centre for Peoples Education
CREDIT	Credit Rotation for Empowerment and Development through Institution
CRP	Community Resource Persons

CSO	Civil Society Organization
CYSD	Centre for Youth and Social Development
DFID	Department for International Development
DGRV	Deutscher Genossenschafts- und Raiffeisenverband e. V.
DHAN	Development of Humane Action
DLF	District Level Federation
DPIP	District Poverty Initiatives Project
DRDA	District Rural Development Agency
DRDC	District level Development Cell
DWMA	District Water Management Agency
DWCRA	Development of Women and Children in Rural Areas
DWCD	Department of Women and Child Development
EC	Executive Committee
ECE	Early Childhood Education
FD	Fixed Deposits
FWWB	Friends of Women's World Banking
GRADES	Governance, Resource, Asset Quality, Design of systems and implementation Efficiency and Profitability, Services to SHGs and SHG performance
GRAM	Gram Abhyudaya Mandali
GSSM	Gulabha Swayam Seve Mahila Vikas
GTZ	Gesellschaft für Technische Zusammenarbeit
GV	Gram Vidiyal
GVM	Gram Vikas Mandal
HCSSC	Holy Cross Social Service Centre
HDFC	Housing Development Finance Corporation
HLL	Hindustan Liver Limited
HUDCO	Housing and Urban Development Corporation Ltd.
HVVS	Hasnuman Van Vikas Samiti
ICCO	Interchurch organization for development cooperation
ICDS	Integrated Child Development Scheme
IFAD	International Fund for Agricultural Development
IFFDC	Indian Farm Forestry Development Cooperation Ltd
IGA	Income Generation Activities
IIMF	Indur Intideepam MACS Federation
IKP	Indira Kranthi Patham (earlier it is called Velugu Project)
INAFI	International Network of Alternative Financial Institutions
IPM	Integrated Pest Management
IRDA	Insurance Regulatory and Development Authority
ISMW	Indian School of Microfinance for Women
JBY	Janashree Bhima Yojana
JLG	Joint Liability Group
KIDS	Kottappuram Integrated Development Society (KIDS)
KKVS	Kadamalai Kalanjia Vattara Sangam
KVK	Kurinji Vattara Kalanjium
LEAD	League for Education and Development
LIC	Life Insurance Corporation of India
MACS	Mutually Aided Cooperative Society
MACTS	Mutually Aided Cooperative Thrift Society
MAVIM	Mahila Arthik Vikas Mahamandal
MBMS	Mahila Bikas Maha Sanga

MBT	Mutual Benefit Trust
M-CRIL	Micro-Credit Ratings & Guarantees India Ltd.
MCID	Micro Credit Innovations Department
MCP	Micro Credit Plan
MF	Micro finance
MFI	Micro Finance Institution
MFDEF	Micro Finance Development and Equity Fund
MIS	Management Information System
MPRLP	Madhya Pradesh Rural Livelihoods Project
MMS	Mandal Mahila Samakhya
MS	Mandal Samakhya
MoU	Memorandum of Understanding
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Finance Company
NBJK	Nav Bharat Jagriti Kendra
NDDB	National Dairy Development Board
NFE	Non Formal Education
NGO	Non Government Organisation
NHG	Neighborhood Group
NOF	Net Owned Fund
NPA	Non Performing Asset
NPM	Natural Pest Management
NRM	Natural Resources Management
NREGA	National Rural Employment Guarantee Act
NTFP	Non-Timber Forest Produce
OCR	Operating Cost Ratio
PACS	Primary Agriculture Cooperative Society
PEDO	People's Education and Development Organization
PDS	Public Distribution System
PI	Promoting Institution
PLA	Participatory Learning and Action
PLF	Primary Level Federations
PAR	Portfolio at Risk
PRA	Participatory Rural Appraisal
PRADAN	Professional Assistance for Development Action
PRI	Panchayat Raj Institution
PSS	Pragathi Seva Samithi
RBA	Right based approach
RBI	Reserve Bank of India

RED	Rural Education for Development
RD	Recurring Deposits
RGVN	Rashtriya Grameen Vikas Nidhi
RLP	Rural Livelihoods Project
RMK	Rashtriya Mahila Kosh
ROC	Registrar of Cooperatives
ROSCA	Rotating Savings and Credit Association
RRBs	Regional Rural Banks
SAPAP	South Asia Poverty Alleviation Project
SAG	Self-help Affinity Groups
SEWA	Self Employed Women's Association
SGSY	Swarnajayanti Gram Swarozgar Yojana
SHARE	Society for Helping Awakening of Rural Poor through Education
SHG	Self Help Group
SHPI	Self-Help Promoting Institution
SIDBI	Small Industries Development Bank of India
SIFFS	South Indian Federation of Fishermen Societies
SLF	Secondary Level Federations
SJSK	Sarva Jana Seva Kosh
SMBT	Sarvodaya Mutual Benefit Trust
SMS	Sreema Mahila Samity
SNFL	Sarvodaya Nano Finance Limited
SSF	Sreema Stotoshwini Federation
SOC	Sector Own Controls
SPMS	Sri Padmavathi Mahila Abyudaya Sangam
TFI	Total Financial Inclusion
TNWDC	Tamil Nadu Women's Development Corporation
UT	Union Territory
VO	Village Organisation
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UPVHA	Uttar Pradesh Voluntary Health Association
UT	Union Territory
VDC	Village Development Committee
WDC	Women Development Corporation
WDF	Watershed Development Fund
WA	Watershed Association
WC	Watershed Committee
ZS	Zilla Samakya

# Executive Summary

## 1. Introduction

- 1.1. In India, women's Self Help Groups (SHGs) are playing a major role in poverty reduction and women's empowerment through financial inclusion. Although SHGs emerged initially as a result of the failure of mainstream institutions to reach the poor and women, who form a significant percentage of the population, they are now seen as partners by mainstream institutions.
- 1.2. While the SHG-bank linkage model has experienced exponential growth over the past decade, there remain large regional disparities in the growth of the SHG movement with limited progress in the north and northeast. Though the SHG-bank linkages contributed to improved economic conditions, social change was not as apparent, and there are concerns of sustainability and further development of self reliance of the institutions.
- 1.3. SHG federations, promoted partially in response to these concerns, are proving to be effective instruments to address some of the sector development and wider social issues. The SHG federation has arrived and is here to stay. Though there are around 69,000 federations in India, there are not many studies that focus on them.
- 1.4. The SHG federation is recognized by RBI, NABARD, IRDA, Government of India, State Governments, NGOs and the corporate world. There is near unanimity on the need for SHG federations to provide non-financial services to members contributing to SHG sustainability. However, there is divided opinion on federations performing a financial intermediation role. Irrespective of the divided opinion, almost 50% of the SHG federations in India are engaged in some form of financial intermediation role. Some of them term themselves as Community Based Microfinance Institutions (CBMFIs) and have been accessing bulk finances for on lending. Some of the federations call themselves "Mahila Banks" (women's banks). They have shown their willingness to develop performance standards, undertake self-rating and have also undergone quality assessment (rating) by a third party to access loans from financial institutions. Many financial federations have demonstrated both operational and financial self-sufficiency by covering their costs. They have also begun to offer savings and insurance services to their members.
- 1.5. Though the Community Managed Resource Centres (CMRCs) promoted by MYRADA with SHGs and other CBOs, strictly speaking, are not SHG federations, they have demonstrated that they can be self-sustaining by providing useful non-financial services to members for a fee. Many other SHG federations which are either multipurpose or non-financial are also recovering some of their operational costs through fees. Some federations offer a wide-range of services acting as implementing agencies of government programs. With limited capacities, providing multiple services with quality and efficiency can be difficult. There are several federations which have been prudently cautious about what they would take upon themselves and what they would not.
- 1.6. Based on the study of federations in eight states covering seventeen federations, analysis of quality assessment data of 83 SHG federations and APMAS' experience in supporting SHG federations over a period of six years, the status report has been prepared to contribute to the body of knowledge, and to serve as a reference document to policy makers, planners, practitioners and academics.

## 2. Evolution of SHG Federations in India

- 2.1 To overcome the inherent limitations of a small unregistered group, and as part of a withdrawal strategy, promoters facilitated the formation of federations. The benefits of federations include (a) those arising from economies of scale, (b) reduction in transaction costs, (c) reduction in default rates at all levels, (d) provision of value adding services, (e) reduction in the cost of promoting new SHGs (that is, in the cost of reaching out to every poor woman) and (f) increasing levels of financial discipline and accountability among SHGs.
- 2.2. There is near unanimity about the relevance of SHG federations. Both governmental and non-governmental agencies have promoted federations. Government departments, agencies and projects that have promoted federations include the P&RD, WCD and WDC departments, TNCDW, MAVIM, Mission Shakti, Kudumbasree, Indira Kranti Patham, Vazhndhu Kaatuvom, DPIP, Rural Livelihood Project, and Municipalities and other government agencies. Prominent NGOs include MYRADA, PRADAN, DHAN Foundation, OUTREACH and CARE.
- 2.3. Out of an estimated 68,903 total federations in the country, 61,287 are in South India. The overwhelming majority of federations are primary level federations - that is, their members are SHGs.
- 2.4. The majority of federations are either not registered, or not complying with legal provisions if registered.

### 3. Typology of SHG Federations

- 3.1. Federations differ widely in different parts of the country, and even within the same region. The reasons for the variations include (a) variations in objectives of promoting them, (b) differences in promoter philosophy and resources on command, and (c) primary stakeholders' interest, absorption capacity, etc.
- 3.2. Federations could be classified according to (a) geographical coverage, (b) their functions, (c) legal status, (d) structure and mode of functioning, (e) source of funds, (f) size, and (g) promoters.
- 3.3. Federations are commonly known by their geographical units. SHGs get federated as primary level federations (PLF), which in turn get federated as secondary level federations (SLF) and finally these get federated as apex level federations (ALF).
- 3.4. Functions of different federations could be another important basis for classification of federations. The basic difference in functions of federations is (a) financial and (b) non-financial. The non-financial functions, which are also known as social functions, could be further divided into (i) sector development functions and (ii) general development functions.
- 3.5. The structure within which federations function are linear in nature. The top layer body called the apex federation supports and governs the SLFs. The SLF in turn guides the PLFs, and PLFs supervise the basic units. At the same time the higher level federations are formed with representatives of lower level federations.
- 3.6. There are, however, two triangular models: (i) MYRADA's CMRCs, which are resource centers for SHGs comprises their federations and other community based organizations (CBOs); and (ii) DHAN's nested institutions, in which basic units can directly interact with ALF and vice versa and also the SLF.
- 3.7. Five other prominent models of federations are: PRADAN's model, SERP's Indira Kranthi Patham model, Kudumbashree, Tamil Nadu Women's Development Corporation model, and Orissa Government model adopted in Dhenkanal district. These models together account for three-fourths of federations in the country. Others broadly fall in any one of these five models. The overwhelming majority of federations in the country are either three tiered or four tiered.
- 3.8. Federations in AP, Bihar, and MP are registered under respective state MACS acts. The federations in Kerala and Orissa are registered under respective state's society registration law. DHAN foundation's federations are registered under Indian Trust Act 1882. The federations in Karnataka, Rajasthan and West Bengal are not registered at all. In other states, too, federations closest to SHGs are usually not registered. For example, in DHAN promoted 'nested institutions', the lower two tiers are not registered.
- 3.9. The size of federations varies significantly across the country. The variations range from less than 10 to over 1,000 SHGs, based on the model adopted by the promoting agency. Study of federations on the size might give useful insights for operational sustainability and coordination feasibility.

- 3.10. Another way of classifying federations is according to source of funds. Fund source plays an important role in the evolution of federations. There are broadly three sources of funds. These are: (a) membership fees and service fees, (b) interest income on the corpus, which includes savings from their constituents, grants they received and bulk loans they borrow from FIs and others for on lending, and (c) personnel support and recurring grants from promoters. Predominance of each source of funds influences the style of functioning of the federation.
- 3.11. Because of the availability of enormous resources, the official agencies are able to promote many federations. For example, SERP in AP has promoted about 30,000 federations accounting for over 90% of total SHG federations in the state. On the other hand, although NGOs have promoted a limited number of federations, these, too, provide models for demonstration and up-scaling.
- 3.12. Where the promoter is in control, the agenda of the federation gets enlarged, and may include issues beyond members' interest. Federations may become delivery channels for promoter interests. In member controlled federations, agendas get evolved from the local needs and the agendas get focused. The potential negative feature, however, is that, at times, the federation may neglect future challenges and linkages with the outside world.
- 3.13. Federations are known by different names in different parts of the country. These names are compiled in this study to have a common terminology across India.

#### **4. Multi-purpose Federations**

- 4.1. A federation performing at least one financial function and at least one non-financial function is considered a multi-purpose federation. In practice, however, the definition is interpreted differently in different contexts. The practice across the country suggests that almost all the SHG federations are multi-purpose federations as they are expected to offer services as per the needs and aspirations of their members. For the purpose of clarity, the predominant services that a federation offers, determines the classification of that federation. SHG federations being member-designed, member-owned, member-managed and member-used cannot restrict themselves to one or two services.
- 4.2. Multipurpose federations require managerial skills and high professional caliber for managing diverse and complex functions. Governance in such SHG federations seems to be an area which needs improvement.
- 4.3. Multipurpose federations incur high operational costs. At present, the direct cost of social activities in multipurpose federations is met through income generation from lending activities and grant funds from SHPIs, or resources generated through service fees from members. Federation leaders absorb some of the costs as they undertake several activities of the federation voluntarily, or for a small honorarium.
- 4.4. Offering multiple services to members, while ensuring quality and sustainability remains a challenge for most federations.
- 4.5. Between social and financial functions, performing multiple roles can be difficult, as each set of functions requires a different culture, difficult to be incorporated in a single body. However, after a certain level of maturity, different sub-committees in the federation can be responsible for performing these different roles.

#### **5. Financial Federations**

- 5.1. The term 'financial federation' means federations having the exclusive purpose of providing financial services - savings, credit, insurance and remittances - to members. Though many federations offer credit products, some offer savings products as well.
- 5.2. Micro-insurance services are emerging as the main value added services provided by federations. These services are valuable since the insurance companies either have little reach in the populations being served by the federations or do not have products suitable to the needs of the poor. Insurance Regulatory and Development Authority (IRDA) in its micro-insurance policy has stated that the NGO or registered SHG federation or a Micro Finance Institution (MFI) can act as micro-insurance agent for distribution of micro-insurance products.
- 5.3. Federations are also planning the launch of innovative products like hut insurance, food security, pension schemes, remittance services, etc. Currently, a few NGOs are providing these services. Federations presently do not have the capacity to manage these services, but may take them over in the future.

- 5.4. A limited menu of financial products are offered, as most of the FFs provide only one type of loan product, ( a 3:1 or 5:1 multiple of a member's savings balance), with no variation, irrespective of borrower's repayment capacity or type of activity financed, because of the limited availability of funds.
- 5.5. A federation builds its corpus through: (a) internal sources including share capital from members, membership fees, savings, service fees, and (b) external sources including credits and grants. Normal funding sources for FF are public sector banks, FWWB, ICICI, HDFC, UTI, RMK, SIDBI.
- 5.6. Though many federations are member owned, they tend to be promoter managed. Due to lack of technical capacities, the role of the boards is limited and the promoter plays a crucial role in sanctioning and recovery of loans, in decision making and also in service delivery. During the field visits, the APMAS team observed that the capacity of federations had not reached the extent required for the independent management of a financial intermediary role.
- 5.7. Board members' knowledge of credit policies, loan portfolio reports and financial analysis of the federations are areas that still need attention. There are only a few federations where the accounting systems and procedures are well laid out and the updating and accuracy of records are good.
- 5.8. In most of the cases, only limited information is available. Generally, this limited information is not processed, consolidated, analyzed, or reviewed. Information flows from SHG to the Primary, and then to the Secondary Federation, but not vice versa.
- 5.9. To maintain low default rates, proper control mechanisms need to be put in place. NGO promoted federations appeared to have better quality internal controls, than the Government promoted federations.

## 6. Social Federations

- 6.1. Non-financial functions of federations, that are not in the nature of a business, are commonly known as social functions. The functions of social federations can be further divided into sector development functions and general development functions. The sector development services basically deal with activities related to strengthening the SHG movement and general development functions deal with all other functions.
- 6.2. The sector development services include the promotion of new SHGs; providing professional services including book keeping, facilitating bank linkages, monitoring, auditing, and managing quality. In a way the promoters use the federations to expand, improve quality, and sustain programs after their withdrawal. The promoters also use these federations in advocacy activities to obtain pro-poor and pro-women policies and programs.
- 6.3. Federations are proving to be very useful for banks for recovering their dues. The SERP promoted SHG federations are helping the banks in recovery of any problematic debts through a community based strategy. As a result the banks lend liberally to SHGs in Andhra Pradesh.
- 6.4. DHAN Foundation promoted the Indian Network of Federations of Microfinance Self-help Groups (INFOS), which could be considered as a culminating institution for advocacy not only for policy changes, but also for promotion of best practices.
- 6.5. The numerous general development functions of SHG federations could be grouped into four broad categories. These are: (a) awareness generation, (b) delivery of services, (c) emergency relief, and (d) rights based.
- 6.6. Federations are disseminating information on a variety of themes such as Gram Sabha, health, nutrition, sanitation, education, and various schemes of governmental departments such as the installation of hand pumps, and mid-day meal program, to secure benefits for themselves and the community.
- 6.7. Under delivery channel, the SERP federations in AP are implementing watershed program and mid-day meals for school children. They are also managing public distribution systems (PDS) in many areas.
- 6.8. International donors understood in the wake of the super cyclone in Orissa in 1999, that SHGs and their federations could be effective partners in disaster preparedness and recovery operations. Since then a number of national and international NGOs are partnering with SHG federations in disaster preparedness and rehabilitation. If there are no federations in the potential disaster prone areas they are being promoted. This process got accelerated after the Tsunami of December 2004.

- 6.9. Rights based approach (RBA) understands poverty to be neither natural nor inevitable, but as having its roots in political and economic decisions. RBA helps to identify the structural and societal causes of poverty and marginalization. Obviously the poor and marginalized sections either as individuals or as small groups of 10 to 20 members cannot effectively address these issues. Social federations are ideally suited to take up these issues. In fact almost all SHG federations are dealing with these issues in one way or another. Mahila Samakhya, quasi-governmental body, promoted such federations in many states to address issues related to health, education and women's rights.
- 6.10. Each federation's governing body gets elected from the representatives of its constituent federations/groups. Invariably, the ALF/SLF has staff, which is on deputation from the promoters. Usually the promoters meet the staff cost in the initial years and expect the federations to provide for the staff cost gradually.
- 6.11. Usually NGO promoted federations collect the member fee and annual fee. The federations of DHAN, PEDO and MYRADA's CMRCs get membership fees from their constituents. Federations also collect service fees for specific services like bank linkage, training, book keeping, audit, etc., from their constituents.
- 6.12. Government promoted federations do not receive adequate annual fees or specific service fees from their constituents. A major reason is that a government promoting agency does not encourage its federations to collect service fees. The official promoters provide operational costs and staff salaries to federations. Yet another reason, and result, could be that the SHGs and members may not feel that they are owners of their federations.
- 6.13. Most of the NGO promoted federations, which are fulfilling the felt needs of their constituents, are also getting enough funds from the contributions of constituent members. The federations rotate well their corpus may have a potential conflict of interest with bank linkage program. The federations that are yet to break even depend upon promoters to meet their deficit. In the absence of promoters' support, federations tend to rationalize their services/ functions and tend to focus more on revenue generating activities. At times federations even neglect sector development functions.
- 6.14. Inability of federations to find their own staff is a big challenge in their sustainability and autonomy. Even after a federation attains financial self sufficiency, the staff remains on deputation from the promoters. One of the reasons could be that staff prefers to stay on the rolls of the promoters, which are usually financially strong and stable. Another reason could be that the promoters themselves may be interested to keep the status quo to keep in touch with, if not to control, the federations.

## **7. Livelihood Federations**

- 7.1. Experience suggests that finance is only one of the necessary conditions for poverty reduction. For optimum and better utilization of financial services, the poor require a variety of livelihood promotion services, for which federations are best suited. Confidence in federations to promote livelihood activities has led to infusion of grants and routing of funds to federations for livelihood promotion activities.
- 7.2. There are some best practices, in the form of cases, available within Andhra Pradesh. While livelihood promotion needs to be an integral part of the agenda of the federations, considering the level of sophistication required, federations could facilitate linkages with livelihood promotion organizations or promote new bodies.
- 7.3. For SHG federations to implement livelihood activities effectively there is a need for having strong and vibrant SHGs at the base which can own up such initiatives, seek services from other federations as well as line departments, and follow norms evolved to promote livelihoods.

## **8. Performance of SHG Federations in India**

- 8.1. Governance is directly proportionate to the performance of the federation. If the quality and the understanding of governance are good, then the performance of the federation automatically increases. Good governance is a result of the SHPI's role in facilitating inputs on governance.
- 8.2. The quality of federations increases with age in initial years, but appears to decline subsequently. Human resources in federations appear to mature with the age of the federation; the older federations have better quality staff.
- 8.3. There is a marked absence of second line leadership in federations. Once the board of directors changes, the new board members do not have the same level of capacity to manage the affairs of the federation.

- 8.4. The majority of federations are heavily dependent on the promoter for resources. Federations often receive grants, both for meeting recurring expenses and as revolving funds.
- 8.5. It is generally observed that at the SHG level, there is over 90% repayment of external borrowings i.e., loans from banks and other financial institutions. Loans from federations are seen more as internal loans, and usually are given a second priority in the case of repayment.
- 8.6. Age of overdue loans seems to have more of a serious impact on sustainability than just absolute levels of overdue loans. Overdue loans also appeared to impact other aspects of a federation's functioning including sustainability.
- 8.7. It was observed that the performance of a federation in record keeping, managing internal control and information systems is moderate. The federations have slowly picked up in maintaining books of accounts which are most important and compulsory for any financial federation. Updating of books and accuracy in bookkeeping are still issues in all federations, irrespective of the age.
- 8.8. Information system is a major concern in SHG federations. There is abundant information and data, all of which is scattered. It is a big challenge to process that data and get it into a form which can help the management in decision making. Two way flow of information in federations was the exception and not the rule. Inflows of information from constituents into federations were high, but outflow from federations to constituents was rare.
- 8.9. Findings of APMAS rating show high operational costs vis-à-vis loans outstanding at 12.5% (average of 83 federations assessed).
- 8.10. On average it was found that Operational Self Sufficiency (OSS) is 138% and Financial Self Sufficiency (FSS) is 73%. Most of the costs of the SHG federations are borne by the promoting institution. Those federations that have been in existence for more than 5 years are able to meet some of their costs while younger federations are dependent on grant funds.
- 8.11. Credit is the predominant product offered by the majority of federations to member SHGs. Some federations have initiated activities like agricultural input supply and output marketing. Most federations offer a limited range of services due to the inadequate capacities of board members in evolving strategy and designing of products and services.

## 9. Enabling Environment

- 9.1. As mainstream institutions recognized the potential of federations, they started adopting them as their partners, delivery channels, agents and facilitators. Thus, recognition of SHG federations' potential is the main reason for their spread and rapid growth across the country. Mainstream institutions which have developed an interest in federations, include RBI, NABARD, banks, NGOs, government departments and the corporate sector.
- 9.2. Apart from engaging in sector development and general development services and facilitating the withdrawal of promoters, another potential of federations recognized by the promoters is that they can be powerful instruments in self governance.
- 9.3. RBI circular about an innovative concept called Business Facilitator and Business Correspondent is an important development in recognition of federations by the central bank. Registered SHG federations could act as either a Business Facilitator or Business Correspondent of a bank to provide last mile connectivity to banks to provide a full range of banking services.
- 9.4. September 14, 2007 circular of NABARD facilitating financial support to promote SHG federations is another important milestone in the evolution of federations.
- 9.5. Banks have realized the potential of federations in facilitating bank linkages and recovery. As a result, banks are lending liberally to SHGs in some areas. The share of Andhra Pradesh in cumulative bank linkage amount is over 39%, i.e. Rs. 7,121 cr. out of total Rs. 18,041 cr. Federations played a pivotal role in facilitating lending and recovery.
- 9.6. Many government departments have recognized the potential of federations and use them in delivering of their services. They are even willing to pay for the services of the federations.

- 9.7. The corporate sector, especially insurance companies, is rushing to have partnership with federations to market their products. Companies like Hindustan Lever (HLL), Indian Tobacco Company (ITC) are dealing with federations to market their products and source their raw material requirements. Some caution is necessary, though, before entering into partnerships.
- 9.8. This increasing recognition has also posed certain challenges to federations. To deal with a variety of clients and tasks, federations need to get sophisticated. This process is making the staff and professionals strong in the federation management and is marginalizing the leaders. This does not mean that others should be barred from doing business with federations. But federations need to be strengthened to meet these challenges. Until then the federations' roles should be limited to those functions, in which the leaders have core competence.
- 9.9. Strengthening of federations and capacity building of their leaders are easier said than done. It is time consuming and at times a frustrating exercise. Promotion of organizations similar to APMAS in each state could be one of the ways to strengthen the federations, contributing also to the strengthening of SHGs, on which the federations are founded.
- 9.10. The Government of India introduced a Microfinance Bill in Parliament. The primary objective appears to be the promotion of financial inclusion with relatively lenient prudential norms. There are strong objections from various people. The most pertinent criticism relevant to SHG federations is that the Bill facilitates small NGOs, which are promoting SHGs and federations to become MFIs with zero capital adequacy and relatively lenient prudential norms. According to some scholars, such provisions would hamper flexibility and innovativeness of NGOs and may subject them to certain restrictions. On the other hand converting NGO promoters as MFIs may siphon out the funds from SHGs and federations, resulting in more disempowerment.
- 9.11. There is a considerable section of people questioning the relevance of formal regulation of informal groups like SHGs and their federations and civil society organizations. A well-developed self regulation mechanism would be most suited for the SHG federations. APMAS is piloting a Sector Own Control (SOC) system in collaboration with DGRV and InWEnt of Germany in Kamareddy cluster of Nizamabad district, Andhra Pradesh.

## 10. Emerging Practices, Challenges and Recommendations

- 10.1. Federations are facilitating bank linkage, insurance linkage and managing pensions. They have developed rapport with line departments, and are involving themselves in PRIs, HIV/ AIDS, child labor, non-member work, and they respond to natural calamities. Federations are monitoring functions of their own constituents and also other programs, and organizing social audit. Federations are adopting peer learning through Community Resource Persons.
- 10.2. Federations are meeting their operational costs, at least partially. They are getting registered, professionalized, specialized and recognized. There remains concern about their sustainability. Systems are still weak and need attention.

### Some questions

- 10.3. While several questions have been answered through this publication, many questions have also been raised which require further research and understanding. These include (a) Who sets the agenda of federations? Is it the members or SHPIs? (b) Are the poorest of the poor benefiting? Does federating result in marginalizing the poor? (c) Does federating marginalize the already marginalized? (d) Is there a need to sustain SHG federations? At what cost? Does that help SHGs or is the federation a burden? (e) Do SHG federations weaken SHGs?

### Internal Challenges

- 10.4. Though SHGs federations are performing many responsibilities effectively they are facing certain internal and external challenges.
- 10.5. Governance is one of the major challenges. Reasons include lack of clarity about vision, limited board quality, limited sense of ownership, development of bylaws and implementation of those, limited understanding of technical aspects of finance by the board, tenure and time spent of the board, lack of second line leadership, legal compliance, etc.
- 10.6. Resources are another critical challenge: these include quality and trained human resources, staff review and fund availability for SHGs at federation level.

- 10.7. Asset quality of financial federation is another concern. These include portfolio quality and lending methodology.
- 10.8. Attention needs to be given to the design of systems and their implementation: This includes two way communication, systems and operating process and monitoring.
- 10.9. Efficiency and profitability is another concern. This includes sustainability.

### **External Challenges**

- 10.10. An external concern is the lack of a business like approach on the part of federations promoted by the SHPIs. Conceptualization of federation, legal and regulatory framework, framework for self regulation, target oriented approach, capture by vested interests, capacity of promoting agencies, cost of promotion, decentralization, institutional sustainability are other challenges.

### **Recommendations for Primary Stakeholders**

- 10.11. It is recommended that primary stakeholders should ensure that the federations' agendas get evolved on the felt need of members through a process-oriented approach.
- 10.12. They should have a long term vision on developing sustainable institutions of the poor. They should get registered under an appropriate legal form and work for complying with all legal obligations and requirements in time.
- 10.13. Federation meetings should review progress and performance of their members, and not just on financial matters.
- 10.14. Board members often exhibit good commitment and interest in building their institutions. But they may not be aware of their roles and responsibilities. Awareness building exercises should be initiated.
- 10.15. The time may have come for sharper role setting - layer-wise specialization may be useful. While the apex level may play the role of catalyst to bring social change and deal with outside work, the second tier could focus on strengthening primary federations and SHGs.
- 10.16. Livelihood promotion should be a part of the federation's agenda to ensure optimum utilization of financial services.
- 10.17. Federations should play a much greater role in the areas of social empowerment.
- 10.18. The savings and insurance services should be taken up on scale, and federations should embrace the business facilitator and correspondent model and enhance their product range.
- 10.19. Federations need to develop tailored products addressing members' needs, and offer support services aimed at strengthening the performance of their members on a fee-for-service basis in order to sustain themselves. With the liberalization of the insurance sector, SHG federations have a unique opportunity to play as the role of an agent in ensuring appropriate insurance services for their members - and thereby to mitigate the effects of risks faced/undertaken by them.
- 10.20. Federations may consider establishing different institutions for different purposes. At the very least, the SHG federation must keep separate books of accounts for different activities, and prepare separate financial statements to understand which of the activities are sustainable and which are not.
- 10.21. It is suggested that the promoters and SHG federations develop some of their women members to take on the role as federation staff in the long-run. This would reduce costs and also dependence on external staff. SHG federations could also access consultancy services of professionals as per their needs to augment their internal capacity.
- 10.22. Federations must continue to work for SHG-bank linkages as the federation may never be able to meet the credit needs of all the women members.
- 10.23. The financial federation should develop linkage with banks and other Financial Institutions (FIs) to meet credit demand of the members, and to have diversified sources of funds. It needs also to increase the number of member-SHGs to improve its operational and financial self sufficiency. For federations to attract mainstream funds, they must demonstrate excellence in governance, systems and sustainability.

- 10.24. For non-financial federations to be sustainable on service fee, a business model needs to be developed. Existing practices could be reviewed and a task force approach could be followed to have a viable business model for non-financial federations, to provide high quality need based services and be sustainable.
- 10.25. For financial federations to access commercial funds from banks and other financial institutions, they must get themselves rated by a credible rating agency. The rating will give an objective assessment of the strengths and weaknesses of the SHG federation and also the credit worthiness of the federation
- 10.26. Recovery performance at federation and SHG levels, particularly the internal loans, should be improved through regular monitoring and follow up, by strengthening the default management system.
- 10.27. Grading and monitoring of SHGs must be regular for enabling good disbursement and effective recovery rate.
- 10.28. The experience of Kudumbashree in Kerala and DHAN Foundation in South India clearly indicate the great potential that exist in promoting sustainable SHG federations to promote livelihoods in urban areas.
- 10.29. Tribal areas have sparse populations, and experience has proved that SHG federations are effective institutions for tribal development.

### Recommendations for Secondary Stakeholders

- 10.30. There is also a need for a Self Regulation Organization (SRO) to regulate & supervise the SHG federations at a decentralized level. The likely MF regulator could recognize the self-regulation arrangements and support further development of those to further promote self-reliance and autonomy of the SHG federations, to provide much needed services to their members.
- 10.31. There is a need to make significant investments in developing professionals and para-professionals to escort the emerging SHG federations.
- 10.32. Across the organizations, there is scope for improving the accounting, information system and internal controls.
- 10.33. The SHPIs need to develop a 3 to 5 year Business Development Plan with the involvement of the federation board and staff, which would include vision building and an articulated withdrawal strategy.
- 10.34. A participatory monitoring system needs to be developed for the staff. SHG federations also require a self assessment tool to improve their performance.
- 10.35. Use of SHG federations as business correspondents using smart card technology is already being piloted. Based on the results, such a model needs to be up-scaled. There is tremendous potential for the SHG federations to play the role of business correspondents to provide the last mile connectivity to banks, and to be catalysts in promoting financial inclusion.
- 10.36. The capacities of the federations need to be built to establish and manage partnerships with a variety of players to further their objectives. This would be a major task for the promoting organizations.
- 10.37. Setting up of minimum performance standards and benchmarks are necessary. All the major stakeholders need to put their heads together to evolve these.
- 10.38. In **conclusion**, SHG federations have been evolved as a model that promotes sustainability of the SHGs and provides the much needed institutional base for poor women to realize their dreams and aspirations. The SHG federation model has achieved significant scale and widespread acceptance. Though not a panacea, there is great potential for the SHG federation model to address poverty. In many ways, the model is unique - the women are the owners, managers, users and beneficiaries. The federation is here to stay. While there are many benefits of the SHG federation, it has several limitations. APMAS as a resource organization is deeply committed to support the sustainability of the SHG federations. Though it is a challenging task to sustain a large number of SHG federations, it is doable and must be done. What is necessary is a synergetic effort by policy makers, planners, and implementers. There is also a need for public-private partnership to make it a reality.

# Chapter-1

## Introduction

### 1.0 Background

Though India has one of the largest networks of financial institutions of about 1.6 lakh, including primary agriculture cooperative societies (PACS), the majority of population, particularly the poor have been out of the purview of them. According to different all India Rural Credit Surveys and All India Debt and Investment Surveys, the rural household, who have institutional<sup>1</sup> credit has increased from 8.8% in 1951 to 17.3% in 1961, to 29.2% in 1971, to 61.2% in 1981. But it has declined from 61.2% in 1981 to 53.3% in 1991. The major reason was collapse of cooperatives. The proportion of rural households, who have credit from cooperatives, has declined from 28.6% in 1981 to 18.6% in 1991 (Srivastava, Pradeep and Priya Basu, 2004).

### 1.1 Emergence of SHGs as Alternative Banking to the Poor

Dismayed by, the poor performance of formal institutions in providing financial services to the rural areas and the poorer sections of the society, the Government of India contemplated in the late eighties to promote another apex bank to take care of financial needs of the poor, informal sector and rural areas. At that point of time NABARD initiated a search for alternative methods to fulfill the financial needs of the rural poor and informal sector. The decline of cooperatives in the sixties and seventies is widely attributed to the government's direct promotional role, their artificial propping up through subsidies and undue interference in management. As a result the NABARD wanted to develop the new channel, which is free from government subsidies and interference.

Meanwhile, development workers across the country have been targeting "groups" of the poor and disadvantaged as a bulwark against social inequities. The consequent social capital is the only capital that the poor can rely on and use (not without cost) as a hedge against their resource deficient condition and powerlessness. Despite the decline of the cooperatives, the search for an appropriate community-based structure continued and women's groups called self-help groups (SHGs) emerged in the late eighties and the early nineties around rotating mutual savings and credit, as a stable and viable alternative. It was a development innovation in its own right (Sa-Dhan, 2002).

In its search for alternative channels to reach the un-reach, the NABARD found SHGs as an interesting and effective means to provide the banking services to 'so called' 'un-bankable' people. It has initiated an experiment with MYRADA on SHG lending. Encouraged by the results, the NABARD initiated the pilot project of SHG bank linkage 1992.<sup>2</sup> Soon it became regular banking program and an important component in the priority sector lending. Since then the growth of bank linkage has been phenomenal. The number of groups linked has doubled every year for about a decade and the loan amount has

doubled every year for more than a decade, between 1992-93 and 2003-04. Though the growth rate has decelerated a little in recent years, the **absolute** loan amount has been increasing by higher amounts year after year. E.g. the absolute loan amount has increased by Rs.2,996 cr. in 2004-05, by 4,498 cr. in 2005-06 and 6,643 cr. 2006-07 (Table - 1.1).

**Table - 1.1 Progress of SHG bank linkage program in India**

Year	No. SHGs linked	% change over previous year	Loan amount in Rs. Cr.	Change over previous year in Rs. Cr.	% change over previous year
1992-03	255				
1993-04	620	143			100
1994-05	2,122	242			290
1995-06	4,757	124			132
1996-07	8,598	81			84
1997-08	14,317	67			92
1998-09	32,995	130	57		112
1999-00	114,775	248	193	136	239
2000-01	263,825	130	481	288	149
2001-02	461,478	75	1,026	545	113
2002-03	717,360	55	2,049	1,023	100
2003-04	1,079,091	50	3,904	1,855	91
2004-05	1,618,456	50	6,900	2,996	77
2005-06	2,238,565	38	11,398	4,498	65
2006-07	2,924,973	31	18,041	6,643	58

Source: NABARD annual reports and SHG bank linkage data of different years

## 1.2. Optimizing Banking Infrastructure in Rural Areas

SHG bank linkage program, not only helped the poor in accessing the bank loans, but also made many bank branches in rural areas viable and helped the turn around of the many sick banks and branches, especially the regional rural banks (RRBs). With very high repayment rate of about 95% and very low NPA vis-à-vis agriculture and other loans SHG bank linkage proved to be one of the safest portfolio for the banks. Compared to general agriculture and other individual loans, the average size of SHG loans is quite high in rural branches. Further, unlike other rural customers, SHGs maintain good amounts in their saving accounts and further add every month. Further, the SHGs have other funds such as revolving fund, grants, backend subsidies of SGSY loans, etc parked in banks. As a results, SHG business became most profitable in the rural branches.<sup>3</sup> Many banks and branches have started giving priority to SHG lending. Increasing loan volumes, taking up of total financial inclusion (TFI), are a couple of methods employed by the banks to shore up their SHG loan portfolio. SHG customers constitutes well over one-third of total customers and account for about one-fourth of total business in rural branches. In some branches, SHG lending reached three-fourths (APMAS, 2007a).

Meanwhile, most state governments and the Government of India, donors and NGOs realized the potential of SHGs in poverty elimination and women empowerment. As a result different departments of many state governments and the Government of India started promoting SHG to realize their missions. Some state governments have established autonomous bodies to implement the poverty reductions programs and projects through SHGs with external financial support. As a result of entering many official agencies, the advent of many externally aided poverty alleviation projects in different states and the

realization on the part of bankers about the potential of SHG bank linkage program, the number of groups and bank linkages have been increasing at accelerated pace in recent years.

### 1.3. Impact of SHGs

If the growth rate of SHG-bank linkage is impressive, its impact, especially economic impact, is amazing. Reviewing existing SHG-bank linkage studies Seibel, H. D. (2005) and Tankha, Ajay, (2002) pointed out, that SHG members realized major increase in assets, income and employment. In the borrowing patterns a shift has been observed over time from consumption loans to loans for income generating purposes. Increased savings and capital formation improved the self-financing capacities and improved their risk absorption capacity and made them less vulnerable. Access to formal finance has substantially reduced dependency on informal money lenders and has diminished capital costs. The financial services and their impact on incomes also raise the capacities of SHG members to increase their household expenditure for basic needs such as better nutrition as well as for education and health (Seibel, H. D., 2005). Among various benefits cited above, access to formal financial institutions is widely felt as the most important benefit. The second most important benefit is that freeing themselves from the influence of money lenders (APMAS, 2005). Yet another interesting trend observed in AP is that money lenders are shifting out of money lending and some of them entered into real estate sector.<sup>4</sup> When members get a series of loans, with increase in amount in every subsequent loan and assure of getting loans in the future, they can invest very high amounts in asset creation and income generation activities (APMAS, 2007b).

Studies also indicate that SHG members have experienced higher improvement in their economic conditions vis-à-vis non-members (Puhazhendi, V. C. and K. C. Badatya, 2002).<sup>5</sup> Impact of the SHG bank linkage is also noticeable at macro level also. The rural household access to formal financial institutions in the country has increased between 1991 and 2003 (Srivastava, Pradeep and Priya Basu, 2004). Andhra Pradesh, which is considered as Mecca of the mF, particularly the SHG-bank linkage, experienced the steepest decline in rural poverty rates in recent years and attained one of lowest rural poverty rates. The poverty in AP has declined from 29.75% in 1983 to 10.85% in 2004-05. During the same time the poverty rate has declined from 44.93% to 28.27% at national level. Unlike the all India trend, in AP the decline in poverty rate between 1983 and 2004-05 is steeper in rural areas (16.46% points) compare to urban areas (12.08% points) (Dev 2007). The steep decline in rural poverty in the state during early years of current decade, during which agriculture witnessed an unprecedented crisis, is a remarkable achievement. The SHGs and bank linkage programs in particular, which are predominantly rural programs, might have contributed to this achievement.

SHGs also contributed for the social changes such as mobility and ability to interact with outsiders, especially with officials and banks. As a result of these potentials, a number of government agencies, banks and other financial institutions, microfinance institutions, private sector, multilateral and bilateral agencies, donors and civil society agencies started partnerships with SHGs.

### 1.4. Limitations of SHGs

Though the SHGs become credible and effective partners to many, they themselves are facing a number of constraints and challenges. These include: (a) Uneven spread of the SHGs across the country, (b) Inability to take up livelihood promotion, (c) Inability to take up larger issues of gender and social inequality and women empowerment, etc, (d) Limitations of promoters to provide capacity building and other necessary inputs at a desired scale, and (e) Inability of banks to understand and accommodate the needs of

the SHGs in some parts of the country, especially in under serviced regions. These are briefly explained.

#### 1.4.1. Uneven Spread of SHGs

While the SHG - bank linkage model has experienced exponential growth over the past decade, there remain large regional disparities in the growth of the SHG movement with limited progress in the north and northeast. In the total cumulative number of SHGs, which are linked with banks, as of March 2007, over 40% are in Southern region followed by the Central (21.46%) and Eastern (18.76%) regions. The northern region accounts for only 5% and north eastern region accounts for less than 4% of total bank linked SHGs. The inter-state variations are even larger (see NABARD data on bank linkage)

#### 1.4.2. Inability to Promote Livelihoods

Table-1.2 Region-wise Cumulative No. of SHGs linked to banks in India		
Region / State	Cumulative SHGs as on March 2006	
	No. of SHGs	% of SHGs
Northern region	170,059	5.05
North eastern region	132,111	3.92
Eastern region	631,958	18.76
Central region	722,846	21.46
Western region	298,598	8.87
Southern region	1,412,643	41.94
Total	3,368,215	100.00

Source: NABARD progress report of SHG - Bank linkage in India

It is a well known and established fact that micro-finance is a necessary but not sufficient condition for the promotion of livelihoods (Mahajan, Vijay 2003). Livelihood promotions need procurement of inputs, organizing many support services and marketing of output. A small group of 10 to 20 members, illiterate and uninformed, cannot take up these complex tasks.

#### 1.4.3. Inability to Address the Larger Issues

Though SHGs have contributed to social issues like women's mobility, interactions with the outside world, access to financial resources, and leadership qualities, to some extent they are unable to address the issues like women empowerment and social and gender equity (NIRANTAR, 2007).

#### 1.4.4. Promoters Limitations

Any outside agency has limitations to get involved in community development work perpetually and at an ever increasing scale. The limitations include staff, financial resources, etc. Further facilitation by outside agencies is more expensive. As a result the promoters reduce their level of support at some point of time. This results in the quality of SHGs is coming down with age (APMAS, 2007c). Even in new areas, where the program is implemented in a target-oriented approach quality is suffering (APMAS and CmF, 2006).

### 1.4.5. Inability of Bankers to Understand and Accommodate SHGs' Needs

In many states and regions, particularly in under serviced states, banks are unable to understand fully the commercial importance of SHG lending and they feel that the SHG lending is being carried to fulfill the social obligations and/ or official targets. Even, when the banks realized the potentials of SHG, they could not attend the SHG needs as required because of staff shortage, mind set and procedural bottlenecks. The net result of different actions of banks is that groups face three big uncertainties, viz.

- Whether they get loan or not
- Whether they get the amount requested or not
- When they get loan or how much time it takes for them to get a loan

### 1.5. Emergence of SHG Federations

To overcome these challenges, the NGO promoters initiated 'SHG federations' to provide financial and non-financial services to the groups. They are successful to a large extent. Following the UNDP's successful piloting of SHG federation model under the SAPAP in Andhra Pradesh, the state government adopted and improved the model in its cherished Indira Kranti Patham (IKP). Many state governments also followed the SHG federation strategy to promote SHGs. Federations are successful in addressing most of the above limitations faced by the SHGs in the country. Many secondary stakeholders are coming forward to partner with them. NABARD, through its circular dated 14<sup>th</sup> September 2007, started to provide financial support (grants) for the promotion and strengthening of SHG federations.

### 1.6. Evolution of SHGs and Federations

The evolution of SHG and their federations is briefly described at Box - 1.1.

#### Box - 1.1 Evolution, growth, and trends of SHG movement

- Phase I: NGOs promote women SHGs as an alternative to mainstream financial services to reach un-reached segments of society.
- Phase II: NABARD takes the lead in partnering with NGOs, particularly MYRADA, to pilot the well-known SHG-bank linkage model.
- Phase III: State Governments, particularly in the South, take a proactive role in the promotion of SHGs in a big way, by way of revolving loan funds and other support.
- Phase IV: SHG-Bank linkage reaches the scale of over a million bank-linked SHGs.
- Phase V: SHG federations emerge to sustain the SHG movement and to provide value-added services.
- Phase VI: SHGs and SHG federations gained widespread recognition to be partners of various mainstream agencies such as financial institutions, corporate sector, and government.

## 1.7. The Present Study

Though the federations' services have been recognized and many secondary stakeholders are willing to do business with them, not many details are known about the federations. The crucial issues like (a) structure of federations, (b) geographical unit of operations, (c) their functions, (d) their management capabilities, (e) their operational styles, (f) the operation problems, (g) their unique strengths, (h) their weaknesses, (i) how to overcome their weaknesses (j) how to optimize their strengths, etc are not known. There are not many studies on the federations. The present study is the first attempt to provide a comprehensive picture about SHG federations in the country.

## 1.8. Methodology

As there are not many studies and reliable data about federations, this study was planned by directly interacting with promoters and federations. Two members research team visited each of the 8 states, included in the study: Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradesh, Orissa, Tamil Nadu and West Bengal. Qualitative and quantitative data were collected from federation promoters, bankers, funding agencies, and SHGs by individual interviews and group discussions through prescribed formats and checklists at various levels. The teams, which have expertise in 'SHG federation' grading or rating also observed the interaction styles of federation office bearers and staff and also glanced through some of their books at certain places. Further, the team collected information from other states (Rajasthan, Maharashtra, Kerala, Uttar Pradesh, Jharkhand, and Assam) through reviewing secondary material. With the collected information through fieldwork, emails, and review of literature, the team developed 25 federation case studies. The present report is based on the data and information gathered by the research teams, their field notes, which also include their observations and the case studies prepared by them. The quality assessment data was also analyzed in preparing this report as APMAS has conducted more than 400 ratings of SHG federations in six years.

## 1.9. Limitations of the Study

Any study of this kind suffers several limitations. As there is no reliable database on SHG federations in India, it has to be generated using various means of communications, which are predominantly voluntary in nature. In the process the team might have received inaccurate data and information at some instances. It might have lead to misinterpretation of those data and information. The team might have missed altogether some important federations, because of lack of data. As different people wrote different chapters, some overlapping did occur and few inconsistencies also occurred.<sup>6</sup> It is hoped that all these omissions and inaccuracies are limited in nature do not significantly alter main findings of the study.

## 1.10. Structure of the Report

In chapter two "*evolution of SHG federations*" explains what an SHG federation is, the need for federations, promoters of SHG federations, and the present scenario of federations in India.

Chapter three "*typology of federations*" highlights the classification of federations and explains the various criteria discussed under typology of federations. This chapter is especially important for practitioners and others involved with the movement as it provides a common terminology for different aspects of federations. The chapter thoroughly explains different ways of classifying federations and offers a standardized way of discussing the movement.

Chapter four "*multipurpose federations*" deals with federations providing a wide-

range of services to their members based on the needs and aspirations of the women members. To what extent the multipurpose federations are effective and efficient and how far they achieve financial sustainability is discussed. The structure, functions, and services provided by multipurpose SHG federations are included.

Chapter five "**financial federations**" analyses the range of financial services - savings, credit, insurance and money transfer - provided by the federations to their members. Institutional and financial sustainability of the financial federations is discussed.

Chapter six "**social federations**" explores the structure, roles, and functions of the SHG federations that perform social intermediation. Social service federations are further broken down into two main functions; sector development functions and general development functions.

Chapter seven "**livelihood federations**" examines federations that provide livelihood promotion and support services to the women members through their SHGs or directly. The components in this chapter include the various types of livelihood activities taken up by federations, management of these activities, and the benefits gained by the larger community.

Chapter eight "**performance of SHG federations**" presents analysis of data based on the SHG federation quality assessment undertaken by APMAS and also the seventeen federations studied by APMAS from eight states.

Chapter nine "**enabling legal and regulatory environment**" explains various legal options for SHG federations, issues, problems and other challenges regarding the movement. This chapter also presents the facilitating policy environment at the state and national level. It also gives a glimpse of a way forward and the next steps needed to be taken to enhance the movement.

Finally, chapter ten "**emerging practices, challenges and recommendations**" discusses the internal and external issues and recommendations to take the SHG movement forward.



## Chapter-2

# Evolution of SHG Federations In India

### 2.1 Emergence of Federations in India

The tremendous success of the SHG movement relied, and continues to rely heavily on promoting institutions to mobilise, train, and support groups. In the late 1990s, the government had become a key promoter of SHGs, especially in Southern India. As the number of groups grows with continuous addition of new groups, the SHPIs' degree of involvement and even direct contact with the groups greatly diminishes. The SHPI finds that it is unable to provide groups with similar levels of attention as well as quality of inputs as they did earlier. At this stage, the SHPIs begin to think of setting up an apex level body that is able to take on many of the SHPIs' tasks, thus enabling it to leverage its limited resources in the most judicious manner possible.

The constraints on account of the small size of SHGs are becoming more visible. Networking of SHGs was inspired by the felt need of the SHGs unable to deal with issues beyond their reach. The small size of SHGs leads to a low generation of internal funds, which hinders their ability to meet the financial needs of the members from their own savings or to leverage funds from banks. Their ability to negotiate with higher level structures and to gain bargaining power is limited, one reason why informal SHG networking was initiated by NGOs. Though SHG networks start as informal bodies, they develop into formal legal body corporate to better service the member SHGs. SHGs are recognized as per the RBI guidelines to engage in financial transactions with banks. The SHG federations function as the subsidiary principle - undertake those roles that cannot be performed by member SHGs. SHG federations have been promoted by NGOs and the Government since the mid 1990s to address the issues of ensuring quality while up-scaling, ensuring that promotion costs are low, and creating sustainable institutions to facilitate the withdrawal of promoting organizations from some of their functions.

### 2.2 Defining SHG Federation

The term 'Federation' has been defined in various ways by different organizations. Some definitions are quoted below.

The dictionary meaning of federation is "an association of autonomous bodies uniting for common perceived benefits" (*FWWB, 1998*)<sup>7</sup>.

A Cluster Level Federation is a network of several SHGs and a structure or body evolved by SHGs themselves consisting of representatives from all member SHGs, with a motive of supporting member-SHGs to attain the goals of economic and social empowerment of women members and their capacity building. (*TNCDW, 1999*)<sup>8</sup>.

According to an APMAS study, "Federation is a network, association, and coalition of primary organizations to collectively achieve what they cannot do alone" (Sa-Dhan, 2003). Ajay Nair<sup>9</sup> (2005) defined federation as "an association of primary organizations. Primary organizations may federate to realize economies of scale or to gain strength as an interest group".

According to an APMAS (2005) paper "A SHG Federation is a democratic body formed with certain number of SHGs functioning in a specific geographical area with the objective of uniting such SHGs for common cause and for achieving these causes which an individual SHG would not be able to do. In short, the SHG Federation has to be necessarily of SHGs, by SHGs and for SHGs"

### 2.3 Need for Federations

The literature suggests that SHG federations have been promoted over the past 15 years in India. The Academics (Ajay Nair, 2005, Malcom Harper, 2002), NGOs (MYRADA, (1999), and their net-works (Sa-dhan, 2006), and the developmental professionals (CS Reddy, 2004<sup>10</sup>, Shashirajagopalan, 2006<sup>11</sup>) have pointed out the rationale behind the promotion of federations: i) to strengthen existing SHGs, ii) to promote new SHGs of the poor, iii) to access various services to the member SHGs, iv) to provide a sense of solidarity among members of different SHGs in an area, v) for sustainability of SHGs, vi) to facilitate linkages and vii) to empower women. Besides, federations play an important part in SHG capacity building and conflict resolution - both internally and externally.

There are a variety of reasons for promoting the federation of SHGs, some of which assist the promoting institutions and others that are for the direct benefit of the members. The concept of federation emerged from the felt need of the SHGs that have been functioning well and were keen to come together for sharing and learning. Each promoter has different reason(s) for federating SHGs at different levels. The reasons include i) scaling up, ii) withdrawal strategy, iii) issue based, iv) collective bargaining power, and v) principle of subsidiary.

According to a study conducted by EDA Rural Systems & APMAS (2006)<sup>12</sup>, a substantial proportion of SHGs in the sample (66% in the south, 54% in the north) are members of SHG networks or federations, formed at the village, village cluster, or higher level.

Mr. Ajay Nair (2005) has described five *predominant* benefits in a paper, "Sustainability of Microfinance Self Help Groups in India: Would Federating Help?".

- a) *By creating **economies of scale**, federations make it possible for essential services such as accounting, audit, conflict resolution and performance monitoring to be made available to SHGs. They also contribute to capacity building of SHGs through facilitating, planning and reviewing processes, and mutual learning events. In the absence of federations, many of these services are provided by promotional agencies, an inherently unsustainable mechanism.*
- b) *Federations reduce **transaction costs** of financial institutions, such as banks and insurance companies that have business with the SHGs, and the SHGs themselves. For the financial institutions, they reduce the cost of dealing with a large number of small groups; sometimes directly by acting as intermediary organizations and at other times by acting as social collateral. They reduce costs of SHGs by providing a mechanism for cost sharing.*
- c) *Federations **reduce default rates** at all levels - from SHG members to SHGs, and from SHGs to banks - by improving monitoring, and providing both positive and punitive incentives. In the long run, the reduced transaction costs and improved repayment rates should have a positive impact on the lending rates to SHGs*

- d) Federations provide certain **value-added services**. The value added financial services include special loan products such as housing loans and insurance for members and livestock. Non-financial services include primary education, health-care, livestock care and technical support for house construction.
- e) Federations reduce the **cost of promoting new SHGs** because of their information advantage, low staff costs, and voluntary time offered by SHG office-holders for forming new SHGs. This enhances the replicability and sustainability of the model.

Finally, federating enhances the **empowerment of the poor** by developing local human capital. Federations provide opportunities for SHG leaders to increase their capacities as they take on leadership positions in the federations and develop the abilities of local youth recruited as staff. Federations also contribute to empowerment by exposing SHG leaders to diverse organizations and social institutions.

### Opinion of Federation Promoters on the Need of Federations

"Strengthening primary institutions so that they become socially and economically independent" (DWCD & CIDA, 2000). Federations assume a critical role in the development of income generation programs by 'cushioning the adverse effects that market mechanisms and other institutions would have on small producers' (Rajasekhar. D. 1994<sup>13</sup>). MYRADA believes that federations should not be built for external reasons (such as taking over the NGO's role after withdrawal from a project) but that they should grow in response to a push or need from the primary groups (MYRADA, 2001). The primary condition for sustainability of a Cluster Level Federation is that it should have evolved based on a felt need of its members. Artificially propped-up structures will not last' (TNCDW, 1999). The DHAN Foundation's annual report cites the breaking up of rigid caste barriers as an example of social development. It mentions that Kalanjiam clusters are coming together to celebrate festivals etc. However, this appears to be more of a social outcome of the SHG process rather than a direct social intervention on part of the cluster (DHAN Foundation)

### Do we really need SHG Federations? (Ten Commandments) by Malcolm Harper<sup>14</sup>

1. SHG federations were a necessary but temporary measure when very few branch banks were willing to deal with SHGs and it was necessary to mobilise more pressure than a single group could muster. That is no longer necessary except in a small and rapidly decreasing number of locations
2. The initial savings deposit of an SHG, perhaps Rs 2000, and the initial loan, of possibly Rs 8000-10000, are reasonable first transaction amounts for a bank branch, similar to what they can expect with their usual customers. After a year or so, SHG deposits of Rs 10000 and SHG loans of Rs 50000 are not uncommon. The SHG itself achieves the necessary bulking-up function for the individual members, but these are profitable accounts, there is no need for a federation to bulk them up further.
3. India has the largest network of bank branches in the world, and most villages are within quite easy distance of a branch of some sort; there is no need to have a federation in order to provide a more accessible place at which to make deposits or take loans.
4. Some federations are themselves federating and aim to create quite new financial institutions. India already has commercial banks, regional rural banks, Primary Agricultural Credit Societies (PACS) and District Central Cooperative Bank branches; some are not functioning properly but the way to improve matters is to reform them, not to create yet another set of institutions.
5. The existing financial institutions are not properly regulated or supervised and there are frequent failures and frauds. There is no way by which the authorities can take

on yet another type of institution; SHG federations will need supervision but will not receive it.

6. *Loans and other benefits of SHG membership already flow away from the poorest to the most powerful and least needy of the members, as happens in all institutions. This process of marginalization will also happen within federations, so that whole groups will be marginalized, not just individual members within groups.*
7. *The process of promoting an SHG is not easy but bankers and new SHG members themselves are increasingly taking over the task, thus reducing the need for dependence on NGOs and subsidies. Promoting a federation is much more difficult and a federation requires much longer 'hand-holding'. This may suit NGOs which need a reason to exist, but it perpetuates dependence on external assistance.*
8. *A single SHG does not contain enough voters to be worth 'hijacking' by political interests but a federation is a very attractive target.*
9. *The day-to-day operations of a federation cost money. This may come in the form of contributions or interest spreads paid by member SHGs or from individual members' voluntary work. SHG members already complain, rightly, about the amount of time that their membership demands and about the interest rates they have to pay. Federations will make these burdens worse.*
10. *One of the most 'empowering' aspects of SHG membership is the way it allows members to pick and chose between financial service providers. At last, banks, PACS and MFIs are obliged to compete for SHG members' business. Federations can demand 'loyalty', which is essentially a loss of freedom.*

## 2.4 Types of Federations

There are many ways to classify federations and this will be further detailed in the following chapter. Different experts in the field have categorised federations differently. This includes classifying federations by their functions; financial federations, non-financial federations, and multi-purpose federations. Financial federations (FFs) are often also subdivided into federations that only provide microfinance services and what is known as microfinance plus services. Also one can organize federations based on geography, culture, the vision and mission of promoting institutions, and issues that the federation supports

According to Ajay Thanka<sup>15</sup> (2003) there are four types of SHG federations links to various types of MFIs. They are i) SHGs/SHG Clusters/Secondary Federations Linked to NGO-MFIs, ii) SHGs/SHG Clusters/Federations Linked to Not-for-Profit Companies and NBFCs, iii) SHG Federations Linked to MF Wholesalers and iv) Mutually-Aided Cooperative Societies (MACS)

Different types of federations, structures at different levels, socio-economic and other factors played in promoting different types of federations by various SHPIs are discussed in detail under 'typology of federations' in the subsequent chapter and case studies.

## 2.5 Major Promoters of SHG Federations

The major promoters can be broadly classified in two categories: Government and NGOs. Government promotes through four ways: Government Departments, Poverty Reduction Programmes, Special Government Projects, and Municipalities and other government agencies. Government departments include i) Panchayat Raj & Rural Development, ii) Women & Child Development, iii) Women Development Corporation and Tamil Nadu Corporation for Development of Women. Poverty Reduction Programmes include i)

Kudumbashree, ii) Indira Kranti Patham, and iii) Vazhundhu Katuvoom, iv) MAVIM and v) Mission Shakti. Special Government projects are District Poverty Initiative Project and Rural Livelihood Project. Major NGOs that promote federations include MYRADA, PRADAN, DHAN Foundation, Outreach, SEWA, VVD, PEDO, IBTADA, ASSEFA, CYSD, PANI, NEEDS, Chalana network, and CARE-NGO partners.

## Government

**Panchayat Raj and Rural Development (P&RD)**, the major promoter in West Bengal and Madhya Pradesh works through NGOs for extension and training. P&RD stated that it would form federations based on activity and location and on the need and pace of the movement.

**Women & Child Development Department (WCD)** is the next major player in the formation of SHGs and their federations are in Orissa, Tamil Nadu, Karnataka, and Bihar. WCD promotes SHGs and federations through large, externally funded government projects such as Swashakti and Swayamsidda. The project vision is to create and support effective and resilient institutions. The project will go on to facilitate access to microfinance services to SHGs, promote improved livelihood demand-based opportunities, and provide access to functional education, support the creation of labour-saving infrastructure, and facilitate women's participation in local governance.

**Women Development Corporation (WDC)** is supported by the Central Government of India to empower women in financial and social issues. It is registered under Indian Societies Act, 1860. The Central government initiated four programmes (Swalamban, Chief Minister Nari Shakshthi Yojana (CMNSY), Swayamsidha and Swashakthi Yojana), which are mentored by the WDC

**Tamil Nadu Corporation for Development of Women (TNCDW)** has been making a considerable attempt in organizing women into Self-Help Groups since 1989. The programme initially called the International Fund for Agriculture Development (IFAD) Project and later Mahilir Thittam, was extended to the entire state by the year 2002 through a network of NGOs. In 1996, before IFAD programme ended it was felt that these groups should be organised into Cluster Level Federations (CLFs) for strength and sustainability.

**Mahila Arthik Vikas Mahamandal (MAVIM)** was founded in 1975 to encourage women to be financially independent and self-reliant. A number of activities and programmes were organized in the last 25 years to achieve this aim by introducing many commercial schemes. In 2001 MAVIM decided to cease its trading activity, but concentrate only on women empowerment programmes based on SHGs. In April 2002, MAVIM established its offices in all the districts of the State and expanded its work of women's empowerment by starting SHGs through various national and state level programmes in all districts of the state.

**Mission Shakti** was launched in 2001 in Orissa by the State Government with the objective of empowering women through formation and promotion of 100,000 self help groups by 2005. The objective has now been enlarged and extended to cover 200,000 SHGs by 2008. This is related to department of women & child development. Mission Shakti receives technical resources and assistance and faculty support from CARE-CASHE. At the same time Mission Shakti provides valuable feedback and support to D-Mass in terms of strategic planning, effective system for smooth running of the SHG movement. To spread this movement Mission Shakti also publishes valuable journals and magazines for the benefit of poor rural women in the society.

## Poverty Reduction Programs

*Kudumbashree* is a women oriented community based poverty reduction programme implemented by the Kerala state Government, supported by the Government of India, NABARD and UNICEF. The programme grew out of the two UNICEF supported poverty alleviation programmes in Alappuzha and Malappuram districts. Different from earlier anti-poverty programmes, this model focuses more on community participation and convergence through Neighbourhood Group (NHG), Area Development Society (ADS), and Community Development Society (CDS). The Government acts as a pro-active facilitator of Kudumbashree programme, by deploying a mission team of those interested and committed to the institution.

*Indira Kranti Patham (IKP)* -UNDP's South Asia Poverty Alleviation Project started in 1994 in Andhra Pradesh and was implemented in 20 mandals (Sub districts) spread across three districts. SHGs in each mandal are federated into a Mandal Samakhya (MS), and are registered under the APMACS Act. This model has been scaled up under the World Bank funded Poverty Reduction Program - Indira Kranti Patham (IKP) in Andhra Pradesh covering all the rural areas in the State.

*Vazhndhu Kaatuvom*, a new project, conceived by the Government of Tamil Nadu and funded by the World Bank, is being implemented. The major focus is on the poor with special focus on the ultra-poor through support for productive activities and investments, using the Community-driven Development (CDD) approach. In this project, NGO involvement is neutralized.

## Special Government Projects as Promoters

*District Poverty Initiatives Project (DPIP)*, a World Bank project, is also a major promoter in Madhya Pradesh and in Rajasthan. However, the model is not an SHG model, but a Common Interest Group (CIG). Project activities are implemented through community and village organizations.

*Rural Livelihoods Project* is also supporting SHGs and SHG federations in Andhra Pradesh, Bihar and Madhya Pradesh. The project is intended to build livelihood opportunities and market linkages for the poor. In Andhra Pradesh the project works with SHGs and federations at the village level under various programs and extends support for undertaking activities. In Madhya Pradesh and Bihar, the project works with savings and credit groups already functioning in the project areas that have achieved a certain discipline in handling finances. They receive special attention in the process of their revival. For credit linkage, MPRLP is adopting the joint liability groups (JLG) model.

## Municipalities and other Government Agencies

Urban Municipalities have recently started forming SHG federations. Few states like Andhra Pradesh, Tamil Nadu, West Bengal and Madhya Pradesh started forming SHGs. Andhra Pradesh has gone further ahead and promoted slum level and town level SHG federations.

## NGOs as Promoters

*MYRADA* has promoted unregistered federations of 15-25 SHGs, which focus primarily on solidarity building, delinquency management and dealing with social issues. MYRADA also promoted CMRCs to offer services for the overall development of the SHG members. MYRADA conducted a three day workshop in 1999 on the subject of federations or 'Apex Bodies'<sup>16</sup>.

*PRADAN* in 1992 promoted the Sri Padmavathi Mahila Abhyudaya Sangham (SPMS) in

Tirupathi (AP). PRADAN also started forming SHG federations in Rajasthan and Madhya Pradesh. DHAN Foundation that was evolved from PRADAN has formed several SHG Federations across South India.

**DHAN Foundation**-The SHG federations promoted by DHAN are nested institutions with SHGs at the village level, cluster of SHGs covering a few villages and federation (called Kalanjium) at the apex level. These are registered under the Public Societies Act.

**OUTREACH** organised SHG federations into secondary and apex organisations mainly consisting of rural women in Tamil Nadu, Karnataka and Andhra Pradesh.

**CARE<sup>17</sup>** initiated its microfinance activity in the early 1990s in Chevella and nearby mandals of Rangareddy district (AP). It has established a three-tier federation structure. Based on experiences, CARE is implementing CASHE project in 3 states: AP, Orissa and West Bengal working with more than 25 NGO partners promoting SHGs and federations. The NGO partners of CASHE project promoted a large number of cluster and block level federations in those states.

**VVD** is promoting federations in Ukrool and Nagaland in North East. **PEDO, IBTADA, ASSEFA** in Rajasthan, **CYSD, PANI and NEEDs** in Uttar Pradesh, **MAVIM** and a few NGOs in **Chalana network** in Maharashtra are also promoting SHG federations.

## 2.6 Growth of SHG Federations

Even though the federating process is still in an incipient stage, the overall number has been impressive. Rapid expansion started in the late 1990s, particularly in South India as a result of interventions by the DRDAs through some large externally funded government projects such as Swashakti and Swayamsidda. NABARD, which has promoted the SHG banking movement in India, has continued to push bank linkages of SHGs, but to-date has not played a prominent role in the development and refinancing of federations.

In 2007, APMAS has made an attempt to collect information on the number of SHG federations promoted by various SHPIs from all the states in the country through telephone contacts and exploration of websites.

Table-2.1 Regional Spread of SHG Federations as on March 2007<sup>18</sup>

		No. of SHG Federations			
	Region/State	Primary	Secondary	Apex	Total
<b>A</b>	<b>Northern Region</b>	<b>121</b>	<b>26</b>	<b>0</b>	<b>147</b>
1	Haryana*	0	0	0	0
2	Himachal Pradesh*	0	0	0	0
3	Jammu & Kashmir	0	0	0	0
4	Punjab*	0	0	0	0
5	Rajasthan	121	26	0	147
<b>B</b>	<b>North Eastern Region</b>	<b>122</b>	<b>10</b>	<b>0</b>	<b>132</b>
6	Arunachal Pradesh	0	0	0	0
7	Assam	122	3	0	125
8	Manipur	0	4	0	4
9	Meghalaya	0	2	0	2
10	Mizoram	0	0	0	0
11	Nagaland	0	1	0	1
12	Sikkim	0	0	0	0
13	Tripura	0	0	0	0
<b>C</b>	<b>Eastern Region</b>	<b>5,745</b>	<b>107</b>	<b>0</b>	<b>5,852</b>
14	Bihar	280	42	0	322
15	Jharkhand*	0	0	0	0
16	Orissa	4,000	0	0	4,000
17	West Bengal	1,465	65	0	1,530
<b>D</b>	<b>Central Region</b>	<b>487</b>	<b>334</b>	<b>0</b>	<b>821</b>
18	Chhatisgarh*	0	0	0	0
19	Madhya Pradesh	455	204	0	659
20	Uttar Pradesh	31	130	0	161
21	Uttaranchal*	1	0	0	1
<b>E</b>	<b>Western Region</b>	<b>663</b>	<b>1</b>	<b>0</b>	<b>664</b>
22	Goa	0	0	0	0
23	Gujarat	63	1	0	64
24	Maharashtra	600	0	0	600
<b>F</b>	<b>Southern Region</b>	<b>59,172</b>	<b>2,093</b>	<b>22</b>	<b>61,287</b>
25	Andhra Pradesh	28,350	901	22	29,273
26	Karnataka	1,940	12	0	1,952
27	Kerala	14,379	1,050	0	15,429
28	Tamil Nadu	14,503	130	0	14,633
	<b>All India Total</b>	<b>66,310</b>	<b>2,571</b>	<b>22</b>	<b>68,903</b>

\* federations exist, but information was unavailable

The data shows that there are around 69,000 SHGs federations in the country. Of these 66,310 are primary federations, 2,571 are secondary federations and 22 are apex federations. Of the total federations, 88.94% are in the southern region (85.87% are primary federations, 3.04% are secondary federations and 0.03% are apex federations) and the rest are in the remaining five regions. All the apex federations are only in Andhra Pradesh. In the southern region, AP is ahead with 42.48% followed by Kerala (22.39%), Tamil Nadu (21.23%). However, the number of secondary SHG federations are

little higher in Kerala (1050) than Andhra Pradesh (901). In the northern states, Orissa (5.8%) and West Bengal (2.22%) have a higher number of federations compared to other states. Though the NGOs like MYRADA, PRADAN and FWFB have a long history and experience in federation promotion, they have formed fewer numbers of SHGs and their subsequent federations. This might be due to the limited operational area in the states. It is also observed that owing to the inception phase of the SHG movement in some of the states, no federation was reported. Annex 1 gives the State-wise and promoter-wise no. of SHG federations. Table 2.1 shows the number of SHG federations promoted by various agencies.

## 2.7 Rating Tools for Federations

APMAS has developed four types of tools: *GRADES*, *Self Assessment Tool (SAT)*, *Social Intermediation Tool (SIT)*, *Commitment Tool for SHGs of persons with disability* to assess the performance of SHG Federations<sup>19</sup>.

APMAS (APMAS, 2003<sup>20</sup> and 2006<sup>21</sup>) has brought out two publications based on the findings of over 400 assessment reports done across India. The financial performance and the sustainability of federations based on various assessments are discussed in detail under the section 'financial performance of federations' of this publication.

## 2.8 Financing Federations

APMAS, in collaboration with NABARD and DRDA/IKP, conducted a series of workshops with various stakeholders in 2006 to share experiences and findings in federation financing and to make recommendations to take federations forward<sup>22</sup>. The participants concluded the need to finance federations as it reduces the workload of both SHGs and bankers, increases the per capita loan for SHG members, provides quality and sustainable services, can leverage diversified financial products, and reduces default rates and cost of promotion of new SHGs. In AP, under the financing federation programme, banks have disbursed Rs. 1399.30 lakhs to 297 federations<sup>23</sup>.

**Financial inclusion<sup>24</sup>:** The growth and repayment performance of the SHG - bank linkage demonstrates good financial discipline in managing SHG economic operations. Consequently, RBI has come forward to use the services of SHGs and SHG federations as intermediaries in providing financial and banking services through use of business facilitators and business correspondent models as a part of financial inclusion. In this context the Government of AP has issued an order about financing of federations<sup>25</sup>.

## 2.9 Legal Forms/ issues and Challenges

Though there are around 69,000 federations in the country, a large majority of them are either unregistered to become a corporate body or are not complying with the minimum requirements as per the law. There are several legal forms that are used for registering SHG federations by the promoting organizations. Some of the federations are registered under the Public Societies Act, some under the Indian Trust Act, and some others under the liberal cooperative acts. In nine States, there is a liberal cooperative act that suits the requirements of the SHG federations as per their objects. These liberal cooperative acts are modeled on the APMACS Act, 1995 which was pioneered by Cooperative Development Foundation, an NGO based in Hyderabad. Various legal forms used for registering federations are presented in the last section of this report.

As explained before, there are several benefits in promoting federations. However, several disadvantages or dangers exist if federations are promoted. The promoters must be fully aware of these and follow a process by which many of these could be mitigated. Federations were seen as an opportunity to ensure that the life of an SHG was not dependent on an external facilitator and with its own support mechanism (the

federation), an SHG could function as its members wanted. However, some SHG promoters and critics still question the need for SHG federations.

MYRADA (1999)<sup>26</sup>, Malcolm Harper (2002)<sup>27</sup> Sa-Dhan (2004)<sup>28</sup> and APMAS<sup>29</sup> (2005) addressed various issues and challenges related to federations. The issues and challenges reported are internal and external. Internal issues include issues of governance, resources, asset quality, design of systems and implementation, efficiency and profitability, and services to constituent SHGs. External issues include commercialization of federations, legal and regulatory framework, target oriented approach, promotion cost, self regulation and supervision, vested interest of the federations and promoting organizations, and external sources of funds. The data collected relating to issues and problems at various phases in federations are analyzed and discussed in detail under the section 'legal compliances, issues and challenges in the promotion and sustainability of federations'.

## Chapter-3

# Typology of SHG Federations

### 3.0. Introduction

As an integral part of the SHG movement, federations evolved locally and are quite varied in different parts of the country. Reasons for variations include:

- (a) Variations in promotion of federation. Each federation is promoted with a few objectives, which may not be uniform across the country. Reddy, C. S., et al. (2007) enumerated, from literature and experience, 18 different objectives for promotion of federations, which were grouped under six categories: (i) strengthening of SHGs, (ii) value added services, (iii) scaling up of programs, (iv) facilitating linkages, (v) facilitating women empowerment, and (vi) taking over some of the of the functions of the promoting organization. Each federation might have evolved with a sub-set of those 18 objectives.
- (b) Promoters' philosophy and resources at their command. The resources include funds, personal power, technical know how, time, etc.
- (c) Primary stakeholders' interest,
- (d) Absorption capacity and willingness
- (e) Local geographical, cultural and socio-economic conditions.

Because of the above factors, SHG federations in India have evolved quite differently and are known by various names throughout the country, making it difficult to generalize when discussing them. Federations will be classified in this chapter according to (a) geographical coverage, (b) their functions, (c) legal status, (d) structure and mode of functioning, (e) source of funds, (f) size, and (g) promoter.

### 3.1. Geographical Unit Based Federations

Federations are more commonly known by geographical unit. A general four tier linear federation structure explains almost all geographical federations in the country. The four tier linear structure is illustrated with the help of Zilla Samakhya (district federation) of the Society for Elimination of Rural Poverty (SERP)<sup>30</sup>. Figure - 3.1 explains the general four tier structure of federations. In this general structure, the basic units, i.e. SHGs, get federated as primary level federations (PLF), which in turn get federated as secondary level federations (SLF) and finally the SLF get federated as apex level federations (ALF). In some cases the SLF of a unit of area get federated as another SLF of larger unit of area. In some cases the PLF get directly federated as ALF. In some cases even the basic units (SHGs) get federated as ALF, which is known as a two tier structure. In SERP, a four tier structure, the basic unit is known as SHG, the PLF is known as Village Organisation, SLF is known as Mandal Samakhya and ALF is know as Zilla Samakhya (figure - 3.1).

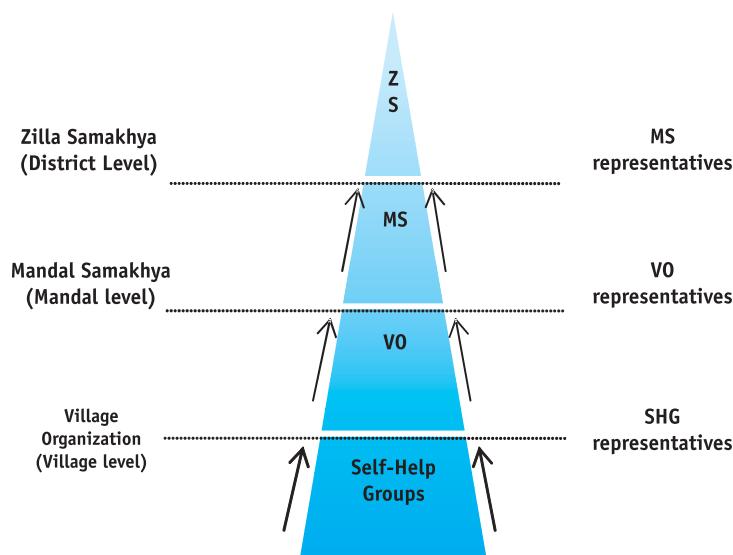


Figure - 3.1: An illustration of four tier linear federation structure - the SERP's ZS

### 3.1.1. Basic Units (SHGs, NHGs, SAGs, DWCRA Groups, SGSY Groups)

The basic units in federations are 'groups of women/ people', which are most commonly known as SHGs. These groups are also known as neighbourhood groups (NHG) in Kudumbashree operational area of Kerala, DWCRA groups in many parts of the country, Boond Bachat Sangh in the operational areas of Shramika Bharti, Kanpur (UP), Self-help Affinity Groups (SAG) in MYRADA operational areas, Kalanjams at DHAN operated areas, etc.

### 3.1.2. Primary Level Federations (PLFs):

These are typically village level, sub-village level, Panchayat level or cluster of villages level federations of 'basic units' (SHGs in the rural context and ward or slum level federations of basic units in urban areas.) Some of these are: (i) Village Organizations (VOs) by SERP in AP; (ii) Panchayat level federations (PLF) by SMS in West Bengal and by Kudumbashree in Kerala. Kudumbashree federations, at Panchayat level, are known as 'Area Development Societies (ADS). Unlike government, NGOs do not cover all families/ communities in any village in their programs. As they focus on certain target families and communities in a village, they usually do not get enough basic units within that village to federate. As a result they federate their basic units/ groups of few nearby villages into PLFs known as cluster level federations (CLFs). For instance MARI in Andhra Pradesh promoted CLFs, with SHGs from 3 to 6 villages. Similarly Women Development Corporation (WDC) in Bihar has promoted CLFs, with SHG from 2 to 4 villages. Dhan Foundation, an NGO in Tamil Nadu had promoted Clusters Development Associations affiliated to 15 to 20 groups in 4 to 5 villages. The CLFs of Kalvikendra consist of six Panchayats and 70 SHGs. ASEFA in TN promoted CLFs. UNNATHI in MP also promoted CLFs. GRAM in AP promoted PLFs at the Mandal level.

In the urban context, ward level and slum level federations are common examples for PLF. Usually it consists of 8 to 10 NHGs. Even though ward level primary federations were conceived in project designs in AP and Karnataka, effectively they were converted into slum level federation to focus sharply on poor. Depending upon size of the slum one or two PLFs were formed in AP. Andhra Pradesh Urban Services for Poor (APUSP)<sup>31</sup> project has promoted about 500 slum level federations in different towns in the state so far. The APUSP, in collaboration with APMAS promoted 28 federations from 42 slums in Gudiwada town, 48 federations were promoted with 44 slums in Guntkal town and in LB Nagar, 30 slum level federations were promoted so far and the process is continuing.

### 3.1.3. Secondary Level Federations (SLFs)

As mentioned earlier, SLFs are federations of PLFs. Normally these are sub-district level federations. In India the administrative units between district and Panchayats are called by different names in different parts of the country, such as Mandal, Taluq, Block, Divisions, etc and their sizes are also different. (A block is a cluster of 100 Panchayats and Mandals in AP were carved in the early 1980s at the rate of one Mandal for 50,000 population.) Though, the SLFs are predominantly sub-district level federation, there are a few district level SLFs also. Mandal level federations (MS) of the SERP in AP, block level federations (BLF) of WDC and IDF in Bihar, BLFs of PEDO in Rajasthan, BLF of B-MASS (Mission Shakti) in Orissa, BLF of Kalvikendra in TN, BLFs of UNNATHI are few examples for SLFs.

In urban areas the secondary level federation started emerging as well. These are federations of PLF at ward or slum level.<sup>32</sup> With the formation of town level federation, the first of its kind in the country, AP crossed yet another milestone in SHG movement. APUSP promoted town level federations, recently in three towns (Gudiwada, Gunthkal and LB Nagar) in collaboration with APMAS.

### 3.1.4. Apex Level Federations

Apex level federations are federations of SLFs. They are usually district level federation. In AP, SERP promoted 22 district level federations. Each of these district level federations covers on average 48 mandal level federations (MS), 1,519 VOs and 31,623 SHGs and 395,771 members as of June 2007 (SERP, 2007). Kalvikendra promoted DLF (district level movement) in Tamil Nadu, consists of 3 block level federations and 3,300 SHGs. In few cases, ALFs were promoted with PLFs that were situated in more than one district. These could be called inter-district level federations. GRAM promoted one inter-district level federation with 19 cluster level MACS, that are situated in Nizamabad and Adilabad district of AP. The research team came across only one state level federation (ASP, an NGO in AP, promoted state level federation, with 85 mandal level federations, known as ASP state Level Federation.) More state level federations may emerge in the near future.

## 3.2. Functional Classification

Functions of different federations could be another important basis for classification of federations. The basic difference in functions of federations is (a) financial and (b) non-financial. The non-financial functions, which are also known as social functions (Sa-Dhan, 2004), could be further divided into (i) sector development functions and (ii) general development functions. Though general development functions could be further divided into different groups, in this study they are divided into livelihood and other functions. If a federation functions in both financial and non-financial spheres, then it is called a multi purpose federation. In this section these concepts are defined and how they evolved over the years is explained.

### 3.2.1. Financial Functions

If a federation provides only financial services to its member SHGs, then it is called a financial federation. At the moment, widely accepted financial functions include - (a) saving, (b) credit, (c) insurance and (d) money transfer. As SHG bank linkages became widespread, the groups' dependence on federation loans declined both in relative and absolute terms. But financial intermediation became 'essential' for federations to sustain themselves. In order to sustain federations, donors/ promoters provided corpus money to federations. The federations were expected to lend the money among their subsidiaries and earn enough to meet their operational cost. Normally each level of federation is allowed to retain a portion of interest to meet their own operational costs. E.g. the SERP provided Rs.6.25 million to each of its MS as corpus, which has to be lent to

SHGs/ members. MS and VO were allowed to earn some interest on the loans. The financial federations are offering some saving products. E.g. SEWA provides both simple saving and fixed deposit services. The Sangatitha of MARI in AP provides compulsory and fixed deposit services. Insurance is rapidly emerging as important service in most of the federations. Many insurance companies are offering life, health, accident and asset insurance products to SHGs and members through federations. Almost all insurance companies found SHG federations as credible and effective business partners. Money transfer services have yet to take off in a significant way. However, a few NGO promoted federations are experimenting with the service with migration workers in different parts of the country. MARI's Sangititha in AP, SEWA in Gujarat, and GRAM's Indur Intideepam in AP, and federations promoted by CHAITNYA are total or predominantly financial federations.

### 3.2.2. Non-financial/ Social Functions

As mentioned above non-financial functions are further divided into (a) sector development functions, (b) development issues, and (c) social issues. These are discussed briefly below.

#### 3.2.2.1. Sector Development Functions

Given members' low awareness levels, less than satisfactory quality of groups at this point, and limitations of promoters, SHG federations have a crucial role to play to strengthen the movement in the following areas:

- a. Sustaining SHGs even after withdrawal of promoters.
- b. Promotion of best practices and updating of internal systems.
- c. Large forum for women for cross learning and collective bargaining.
- d. Hiring of professional services on sharing basis, thus achieving 'scale' advantages.
- e. Supervision.

Federations promoted by PEDO and DHAN predominantly provide these sector development services. Also, the CMRCs promoted by MYRADA provide services to SHGs and other CBOs for a fee.

#### 3.2.2.2. Development Issues

Federations are playing an important role in the promotion of new livelihood options and are strengthening existing livelihoods through developing forward and backward linkages. One of the most common functions of all federations across the country is accessing the government programs and projects and involving their implementation. Dairy has been promoted extensively through SHG programs. Many new members took it as new or supplementary source of income. Many existing members' income from this occupation has gone up because development of the new bulk milk cooling units and collection centres. E.g. SERP's MSs are managing a number of bulk milk cooling units (BMCUs). The project also has linkage with NDDDB and private dairy firms. MS are also engaged in watershed management. In AP, VOs have an explicit role in the implementation of NREGA and CLDP. Marketing interventions are another important area for the benefit of its members in strengthening their existing livelihoods sources. Until June 2007, all the federations of SERP in AP procured agriculture products and non-timber forest products worth Rs.341.15 cr. (SERP, 2007). SERP's 1,209 VO's implemented food security benefiting 1,629,271 families (Ibid). Under food security, the federations procure their requirements like rice, pulses, oil in aggregate. Federations are also being involved in effective implementation of local development programs,

like watershed, drinking water, sanitation, awareness on health issues including HIV/AIDS, PDS, food and nutrition security, adult literacy, etc. It may be noted that about 50% of illiterate SHG members might have gained literacy skills (can sign status) after joining SHGs. MYRADA's CMRCs are predominantly focusing on development issues, particularly livelihood issues. In the future livelihood federations may emerge in good numbers.

### 3.2.2.3. Social Issues

As women empowerment is a major objective of the SHG movement, social issues like anti-alcohol, discrimination against women and female children, domestic violence, atrocities against women and weaker sections, etc naturally form a part of the core business of SHG federations. Some of the federations actively address issues like school enrolment, health care and monitoring of community services like AWC, School, SHC, etc. APMSS is working with village organizations on issues like education, health, women governance, natural resource development and asset building, and social and gender equity. SERP's federations, in 110 Mandals in the entire Krishna district and in select pockets of the state, are working on women empowerment since December 2004. Under this program the federations are supporting women to access their rights within the family and society, to exercise independent decision making in the family, reduce gender discrimination, and develop strong self-help groups that could demand rightful services such as health care and schooling. Detailed actions under this agenda include (i) zero tolerance of violence, (ii) ensure household food security, (iii) self-awareness on reproductive health aspects, (iv) recording of all child births/deaths, (v) registration of all marriages and no child marriages, (vi) no girl trafficking in villages, (vii) removal of superstitions and age old oppressive social and cultural practices such as Banamathi, Jogin, Basivini, Mathangi, (viii) helping women in distress and the destitute in the village, (ix) ensuring that all girls are sent to Anganwadis, ECE centres and regular schools, (x) no to liquor and country arrack, (xi) demand for equal wages, and (xii) protect and develop common lands. Federations promoted by WDC in Bihar and SMS in West Bengal deal with social issues.

### 3.2.3. Multiple Functions

A federation performing at least one financial function and at least one non-financial function is considered a multi-functional federation. In practice, however, the definition is interpreted differently in different contexts. The practice across the country suggests that almost all the SHG federations are multi-purpose federations as they are expected to offer services as per the needs and aspirations of their members. In fact, those SHG federations that are considered financial federations also offer non-financial services. Those considered non-financial federations also offer financial services. For the purpose of clarity, the predominant services that a federation offers, determines the classification of that federation. SHG federations being member-designed, member-owned, member-managed and member-used can not be restricting themselves to one or two services. The practice on the ground also suggests that the role of the SHG federation evolves over a period of time. As federations mature they take on more complex issues that can have a positive impact on their members' livelihoods. Evidence from different parts of the world suggests that chances of success of institutions that function in both financial and non-financial areas is lower, according to Prof. Hans Dieter Seibel, a great authority in mF especially in history of mF (Seibel, H. D, 2005). SERP promoted ZS, MS and VO; ASP in AP, Kalvikendra in TN, CHAITANYA in Maharashtra and WDCW in Orissa are examples of multiple functions.

### 3.3. Structure and Mode of Operations of SHG Federations

The majority of the federations evolved in different parts of the country are linear in nature. The top layer body called the apex federation control governs the SLFs. The SLF in turn guides the PLFs and PLFs supervise the basic units. At the same time the higher level federations are formed with representatives of lower level federations. Like in any democratic set up the ultimate power rests with the members of basic units. There are two triangle models: MYRADA's CMRCs, which are resource centres for SHGs including their federations<sup>33</sup> and other community based organizations (CBOs) independently associated with the local resource centre known as CMRC and DHAN's nested institutions, in which basic units can directly interact with ALF and vice versa circumventing the SLF.

#### 3.3.1. Prominent Models of Federations

The structures of different federations, the relationship between different tiers of a federation and functions of different tiers of a federation are illustrated with five prominent models of federations<sup>34</sup>. These are

- a. MYRADA model of CMRCs
- b. SERP model of Indira Kranthi Patham
- c. Tamil Nadu Women's Development Corporation model
- d. DHAN foundation's Nested model
- e. Orissa Government model adopted in Dhenkanal District

All these models together account for about three fourths of the total federations in the country. Most of the other federations are broadly following these models informally. A few federations are following them formally. The federation promoted by MOVIB are adopting MYRADA's CMRC model. These models are explained briefly at Box no. 3.1, 3.2., 3.3, 3.4 and 3.5.

#### Box 3.1 MYRADA's CMRC model

MYRADA, as a withdrawal strategy, has promoted Community Managed Resource Centres (CMRCs) for every 100-120 SHGs. These CMRCs are managed by the Managing Committee comprising of elected representatives from the SHG and other CBOs are supported by one experienced MYRADA staff and several community resource persons selected by the SHGs. The SHG members pay for all the services that the CMRC extends to them. The CMRC are set up at Hobli (Taluk) level depending on the number of SHGs in the area with the following objectives.

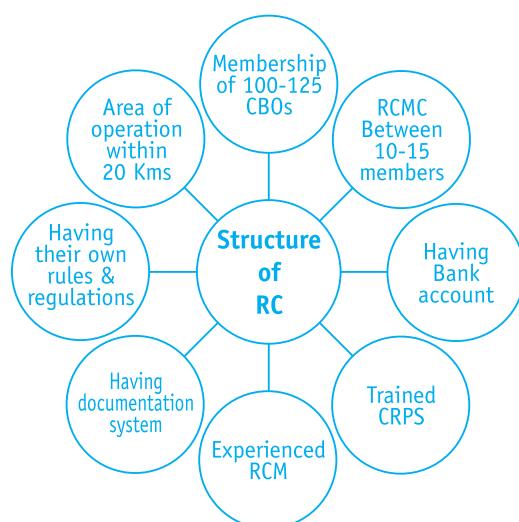
- To keep information relevant to SHGs, poverty, youth, Govt., NGOs,
- To create linkage between SHGs and other institutions like government and private institutions.
- To provide service to the members of SHGs through linkages, capacity building, audit, conflict resolving etc.
- To disseminate information on agriculture, health markets, employment opportunities etc.
- To organize health camps, animal health camps, awareness creation, skill training in association with government and other institutions.

**Box - 3.1: MYRADA's CMRC model**

Two members from each SHG/ CBO are being represented in CMRC. The CMRC has a committee of 6-8 Directors from representatives of SHG and CBOs. This committee meets once a month. The committee changes once a year. The CMRC has one Manager who is from MYRADA. He will be attending the meetings of the committee's federations and the CMRC. Each SHGs coming under the CMRC will contribute Rs.50 per month to the CMRC corpus. The potential members of the SHGs are identified by MYRADA and are given training as trainer, auditors. These members are the resource persons at CMRC. The training components of assistance received by MYRADA at present are implemented through the CMRC. Each SHG is required to pay Rs.25 for training. This is required to have the stake of SHGs in the training. This results in augmentation of the corpus of the CMRC. The auditors identified and trained, undertake the audit of SHGs regularly. A fee of Rs. 100 is charged to the SHG by the CMRC. The auditors will be given a fee of Rs.80 plus actual traveling charges.

CMRCs do not undertake any financial intermediation. It only provides means for stabilisation and sustainability of SHGs. Over a period of time CMRCs will become self-sustaining. Thus CMRC will become an NGO by itself under the guidance of MYRADA.

**Structure of MYRADA's CMRC**



**Box 3.2 Tamil Nadu Women's Development Corporation model of Mahalir Thittam**

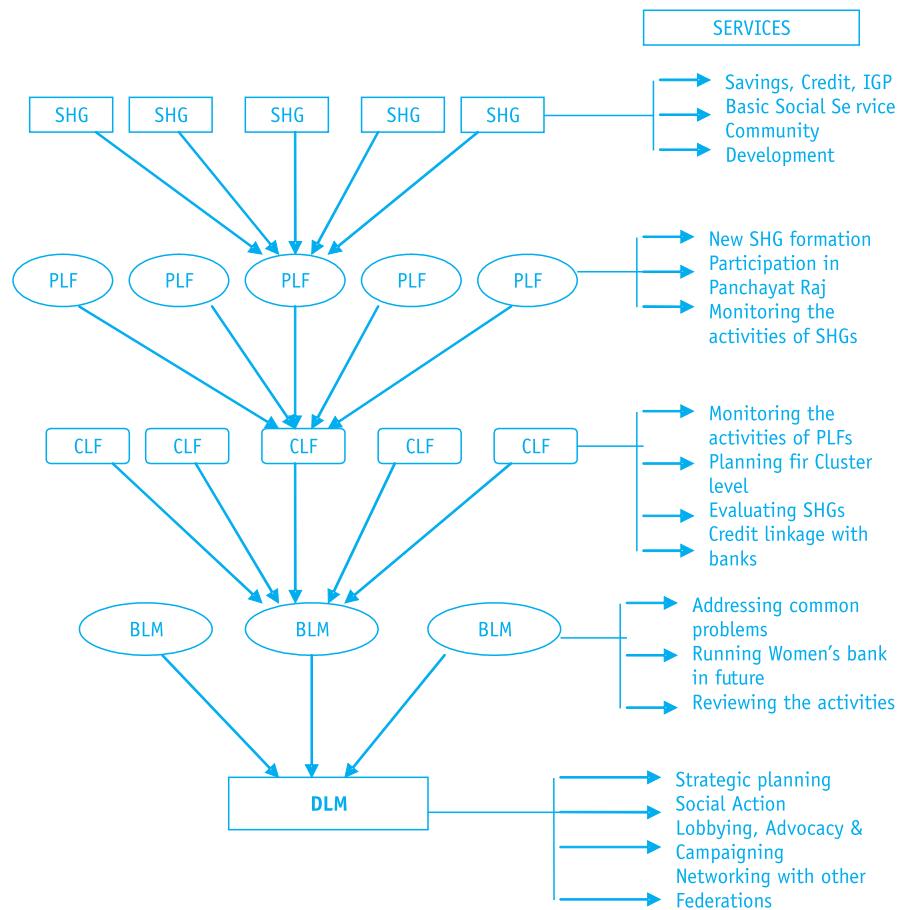
The Tamil Nadu Women's Development Project under the name of "Mahalir Thittam", promoted SHG and federation program covering about 10 lakh poor women of the State over the project period of 5 years. This scheme is intended to promote economic development and social empowerment of the poorest women through a network of Self Help Groups formed with active support of NGOs. The scheme based on the TNWDP (IFAD) experiment, adopts positive learning, while casting away many of the shortcomings seen in TNWDP (IFAD).

The project area encompasses rural areas of all 28 districts of Tamil Nadu except Chennai District. The scheme has been extended to all districts in a phased manner, with the vision of forming and nurturing around 60,000 sustainable SHGs covering about 10 lacks women over the project period in Tamil Nadu. Cluster level federations are formed with the following guidelines.

**Box 3.2 Tamil Nadu Women's Development Corporation model of Mahalir Thittam**

1. 15- 25 groups to a cluster
2. Two representatives from each group
3. Two years tenure for representative
4. Rotation in alternate years
5. Role of Cluster Federations
  - Facilitate formation of new groups by other poor women
  - Organise annual auditing for the groups through a qualified auditor
  - Organise cluster level events
  - Assist and maybe takeover responsibility for SHG grading in the cluster
  - Provide special support for weak groups after grading
  - Financial role not advisable in early period, unless the groups want to have this role for the cluster level in organisation.

**Structure**



**Box 3.3 SERP model of Indira Kranthi Patham**

The Society for Elimination of Rural Poverty (SERP) is an independent, autonomous society registered under the Societies Act to implement the World Bank supported project with the Chief Minister as the Chairperson. SERP is implementing Indira Kranthi Patham Project in Andhra Pradesh. This is a state-wise, community demand driven rural poverty alleviation project covering all rural poor households in the State.

The strategy involves organising poor women into SHGs and then creating higher structures of SHGs. Under this project, the federation model comprises of four tiers:- (i) Zilla Samakhya (ZS), (ii) Mandal Samakhya (MS) (iii) Village Organisations (VO) and (iv) individual SHGs. As on June 2007, 6.96 lakh SHGs were organised into 33,430 VO and 1,059 MS and 22 ZS. Most of the federations are being registered as Mutually Aided Cooperative Societies under APMACS Act 1995. One or two representative from SHGs becomes members of VOs. Similarly, the membership in Mandal Samakhya is through the VOs. The project supports the communities in prioritising the livelihoods by investments in sub projects proposed and implemented by SHGs, VOs, MS, etc. There are three types of sub projects, viz., (a) income generation; (b) productive physical infrastructure; and (c) social development. The major emphasis is on income generation. The MS also access funds from the external sources and lend it to VO. Similarly, VO on-lend to individual SHGs who then on-lend to SHG members. Each tier earns income through interest spread. The MS and VO also collect charges for various services offered by them, to their members.

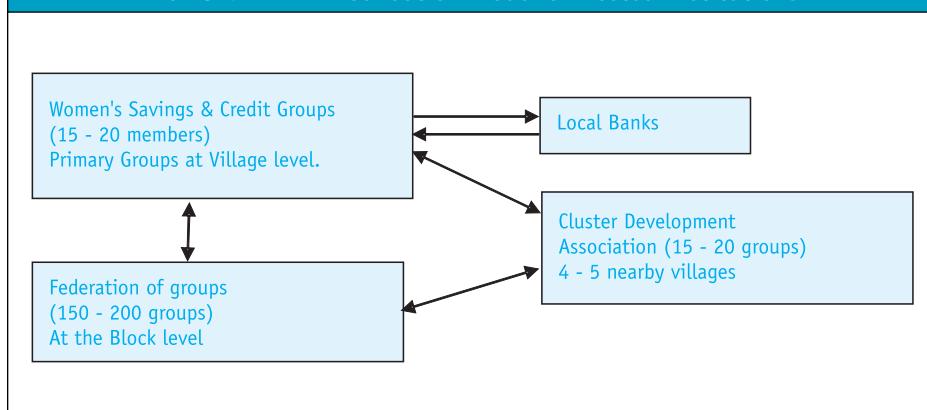
**Box 3.4 DHAN Foundation model of Nested Institutions**

The DHAN (Development of Human Action) Foundation is working with poor women in Andhra Pradesh, Tamil Nadu, Karnataka and Pondicherry. The DHAN Foundation, as part of its Kalanjiam Community Banking Programme (KCBP) is promoting a network of institutions. The network consists of three levels which are the primary groups, cluster development associations (CDAs) and the federations.

Primary group has 15 to 20 members from the same village. All 20 members constitute general body of the group. The functions of general body include framing by-laws, electing office bearers, appointing auditors, etc. The primary group carries out the financial transactions involving thrift and credit. A Cluster Development Association (CDA) is formed by 15 to 20 SHGs in 2 to 3 contiguous villages. Each CDA has 300 to 400 families as members. CDA governance system has three distinct bodies to govern the organisations. They are Mahasabha, general body and executive committee. The cluster is an informal body and is meant to nurture and strengthen the primary groups so as to ensure the quality of the groups. A federation has 200 to 300 SHGs as its members. Ideally, a federation is promoted in an administrative block of the State and it covers around 3,000 to 4,000 families. The federations are registered as public charitable trust. The major roles of the federations are:

- Ensuring systems, meetings, performance standards at SHG and CDA level.
- Managing linkages of federation with banks, apex financial institution, government agencies and Panchayati Raj Institutions.
- Executive auditing for SHGs, CDAs and federations.
- Building the capacity of SHGs and CDAs.

### Box 3.4 DHAN Foundation model of Nested Institutions



### Box 3.5 Orissa Government model adopted in Dhenkanal District

Dhenkanal District has 10,500 SHGs and of this, 8,500 are credit linked to the banks. The state Government has played a pro-active role in the district through ICDs in promoting and nurturing the groups. As a strategy, the SHGs are organised into federal structure and there are three levels of federations. The main objective of the federal structure is to promote quantitative and qualitative growth of SHGs in the district. Three levels in the federal structure are:

- (i) Cluster Federation: A Cluster is formed at the village/ Panchayat level taking 10 to 20 SHGs in its hold. The president and secretary of the representative SHGs are the members of the cluster. The cluster meetings are held once in a month to discuss various issues.
- (ii) Block Federation: The president and secretary of each cluster are represented in block level federation. The block federation meets once in a month. The president and secretary are also special invitees in the concerned BLBC meeting so that there is better interface with the bank branches.
- (iii) District Federation: The president and secretaries of the block level federations are representing in the district level federation. It is an apex body of the SHGs in the district.

The clusters are informal bodies but the block and district level federations are registered under the Societies Act

### 3.3.2 Mode of Operations

The five prominent models' illustration about the structure of federations clearly indicates that resources and information flow layer by layer. That is an apex body, which might have some information/ funds to share with basic units/ members, passes them to SLF only. The SLF in turn passes the information/ funds to PLFs and PLFs in turn to basic units/ SHGs and finally the SHGs to their members. Upward flow also takes the same step by step method. Normally every level of federation transacts directly with its immediate next level on either side. The only exception is in Nested Institutions, promoted by DHAN.

Except in SHG and member transactions, all other transactions take place at the institutional level only, i.e. between federations of different levels and between federations and SHGs. A few exceptions are - in the past, PLFs, which used to act as bank used to directly lend to the SHG members circumventing SHGs. Members used to repay their loans directly to PLFs. Now this practice has reduced significantly. It might have disappeared altogether. Another exception that occurred recently in AP is that in the

initial years MS/ VOs directly lent to members the CIF money leaving aside the SHGs, and members were allowed to repay directly to VO if not to MS. Again this practice is curtailed now.

Federations are broadly divided according to their core functions. But in some federations different layers are focusing on different issues. E.g. in the DHAN promoted 'nested institutions' the lower tier is focusing on financial intermediation, the second tier works on capacity building and the apex body works on linkages with mainstream institutions and government departments.

### 3.3.3. Distribution of Federations as per Number of Tiers<sup>35</sup>

Federations could be of different tiers ranging from two to five. However, most of the present federations are of three or four tier. Table - 3.1 groups the federations as per their tiers.

Tiers	Name of federation
Two	CMRC (MYRADA, Karnataka)
Three	Sangattitha, (MARI, AP); INDUR INTEEDEEPAM (GRAM, AP); NAI DISHA (WDC, Bihar); Unnati Mahila Sangh (UNNATHI, MP); SURADA (B-MASS, Orissa); Block level federation (PEDO, Rajasthan); Nested Institutions (Kalanjiam Foundation (DHAN), TN); BBSF (Shramik Bharti, UP); CDS (Kudumbashree, Kerala)
Four	ZS (SERP, AP); ASP's State Level Federation (ASP, AP), SMS (West Bengal), Block level federation (P&RD West Bengal)
Five	DLM (Kalivikendra, TN)

Note:- Name of promoter and State are given in parenthesis after the name of every federation

### 3.4. Legal Aspects of SHG Federations

Though the SHG federation promotion began almost 15 years ago, in many ways it is still at a nascent stage, especially regarding registering them under an appropriate legal form and complying with the statutory requirements as per the legal form. Though there are about 69,000 federations in the country, a large majority of them are either not registered to become a body corporate or are not complying with the minimum requirements as per the law (Reddy C. S. and N. Tirupathiah, 2005).

Other possible laws, under which the federations could be registered, are 'not for profit (section 25) financial company' and 'non-banking financial company (NBFC)'. Apart from these there are some local appropriate acts, under which the federations are being registered.

Among the sample federations, the federations in AP, Bihar and MP are registered under respective state MACS acts. The federations in Kerala and Orissa are registered under respective states' society acts. DHAN foundation's federations are registered under Indian Trust act 1882. The federations in Karnataka, Rajasthan and West Bengal are not registered at all. In other states also the lower level federations, i.e. basic units and PLFs are not registered in many instances. For example, in DHAN promoted 'nested institutions', the lower two tiers are not registered.

### 3.5. Size of Federations

Size of different federation varies significantly in the country. The variations ranges from less than 10 to over 1,000 SHGs. Study of federations on the typology of size gives useful insights for operational sustainability and coordination feasibility. The Table - 3.2 gives of range in size of different level federations.

Table 3.2 Variations in size of different federations			
Federation	Average	Range	Remark
Basic unit	15	10 to 40 members	Lowest in SHG in many parts and maximum is in NHGs of Kerala
PLF	25	7-130 SHGs	Lowest in some parts like 7(WDC), 20 (Dhan) 25(SERP) and maximum is 130 in GRAM-AP
SLF	70	50- 2,980 SHGs with 23 cluster level MACS	Lowest in many places 50 SHGs (WDC, Bihar) and maximum 3,418 in Indu Intideepam MACS (GRAM) affiliated to apex level federation.
ALF	3,300	3,300 - 33,300 SHGs 65 MS	Lowest in 3300 SHGs and Kalvikendra (TN) 3 BLFs are affiliated with 3300 SHGs. And maximum 16600 to 33300 SHGs with 65 MS(SERP in AP)

### 3.6. Source of Funds

Another way of classifying federations is according to source of funds to meet their organizational expenditure. The sources of funds are going to play an important role in the evolution of federations. There are broadly three types of sources of funds. These are: (a) Membership fee and service fee. (b) Interest income on its corpus, which include savings from their constituents, grants they received and bulk loans they borrow from FIs and others for on lending. (c) Personal support and recurring grants from promoters. Normally each federation gets funds/ resources from all three sources in different proportion. Dominance of each source in total resources of a federation determines its evolution. Implication of each source is discussed briefly below. Attempt is made to place all federations as per predominance of each source of funding

#### 3.6.1. Service Fee

A federation can collect a service fee on each service it provides to its subsidiaries and members. The service could be training, book keeping, marketing, bank linkage, etc. Higher share of this source of funds in total funds indicates that federation is more accountable to its' constituents and members. On the other hand the federations can also get service fee from government and others for implementation of their programs or handling their service delivery. In that case the accountability to its members would be relatively less.

#### 3.6.2. Interest Income on Corpus and Loan Funds

Many promoters and donors have provided grants / seed capital / revolving fund / corpus funds to federations to sustain their operations. The federations on lend these funds and earn income from the interest. Some federations borrow funds from FIs and on lend at higher rates and earn. Higher proportion of these sources of funds makes the federations strong vis-à-vis their subsidiaries and makes them less accountable. This source of income makes the federations drift from their mission. It may be recalled that many NGO promoted federations have got separated from parent body and operate purely on commercial principles leaving social agenda/ issues to parent body/ NGO.

### 3.6.3. Personnel Support and Recurring Grants from Promoters

Many promoters place their professional staff at federation at least in initial years. Federations are expected to have their own staff or to pay the staff they got from promoters. Normally the presence of promoters' staff reflects and operationalizes promoters' domination in federations. Promoters' domination per se may not be bad. But continued presence of promoters' staff for longer period indicates possible mission drift.

It may not be possible to group all federations according to predominant source of funds as the research team did not collect this information. However, evidence from other sources indicates that service fee constitute a small percentage of total resources of federations. Interest income and staff support are predominant sources in almost all federations. Perhaps the only exception would be a few federations promoted by visionary NGOs like MYRADA and DHAN, PEDO and IBTADA. Long ago DHAN understood the implication of different sources of funding in evolution of federations and took measures to make the service fee as predominant source of income to the federations it promoted. MYRADA made a conscious decision to promote CMRCs and downplay the federation concept.

### 3.7. Promoter-wise Classification

Broadly there are two types of federations: Government agencies and NGOs. Initially the rural development and women development departments are involved in the promotion of SHGs and federations in different states. In recent years specialised agencies are being established in many states to promote the SHGs program. Piloting of SAPAP, PRADAN and others indicate that federations could be effective instruments in sustaining the SHG program (Nair, Ajay 2004). As a result federation became an integral part of externally funded all community based poverty eradication projects in different states. Because of availability of enormous resources, the official agencies are able to promote majority of federations in different states. E.g. the SERP in AP has promoted over 30,000 federations accounting for over 90% of total SHGs in the state. On the other hand NGOs, though promoted a limited number of federations through official machinery, provided excellent models.

It appears that federations promoted by NGOs are moving toward local resources, leadership development, non-financial<sup>36</sup> services and need-based agenda. On the other hand the government promoted federations apparently focuses on grants, seed capita, big ideas, project approach, delivery of services and generic models.

### 3.8. Promoter Control Versus Member Control

Another classification of federations is promoter control versus member control (Sa-Dhan, 2004). If the promoter control continues the federations agenda get enlarged, which may address issues beyond members' interest, at least immediate needs. Federation function may be imposed from the top and federations may become delivery channels. In member controlled federations, their agendas get evolved from the local needs and the agendas get focused. The potential negative feature is that, at times, the federation may neglect future challenges and linkages with outside world.

### 3.9. Nomenclature

The above description indicates that federations of same type, level, etc are called by different names in different parts of the country. Compiling them at one place might be very useful. Different names of federations are compiled at Table - 3.3 below.

**Table 3.3: Names of federations in different parts of the country**

Level	Names, with promoters and state in parenthesis
Basic unit	SHGs (most commonly in most states); saving groups and saving and credit groups (in the past); SAG (MYRADA, Karnataka); NHG (Kudumbashree, Kerala); Boond Bacha Sangh (Sramik Bharati, UP); Surya Uthavi Kuzhu (Kalvikendra, TN); Kalanjiam (DHAN, TN rural); NHG (DHAN, TN urban)
Primary Level Federations	The nomenclature variations are clearly visible in Primary Level Federations in the country for instance VO (SERP, AP); Sankul Federation (PEDO, Rajasthan); Cluster Development Federations (Dhan Kalanjiam Foundation, TN); PLF (Kalvikendra, Tamil Nadu); Gram Vikas Sangh GVS (SMS, West Bengal); CLF (MARI, AP); MLF(ASP in AP); Indur Intideepam MACS (GRAM ,AP); CLF (WDC and IDF in Bihar); Unnati Shil Sakh Sahakarita Mariyadhithi (Unnati, in MP), ADS (Kudumbashree in Kerala), CFL (MAVIM), PLF (TNCWD, TN)
Secondary level Federation	Mandal Samakhya(MS) (SERP,AP); Indu Intideepam DLF (GRAM, AP); CDS (Kudumbashree, Kerala); Pragathi Mutually Aided Cooperative Society (PSS, AP); Sangatitha (MARI, AP), Mandal (PEDO); Naidisha Nari Shakthi Mahila Swalambhan Sahakari Samithi Ltd (WDC, Bihar) This federation was registered under Bihar Self Supporting Cooperative Act 1996. CDS (Kudumbashree); Federation of Kalanjiam Community Banking Programme (KCBP) (DHAN, TN); Boond Bachat Sangh Federation (Shramik Bharti, UP)
APEX Level Federation	District Level Movement (Kalvi Kendra, TN) Zilla Samakhya (SERP,AP); ASP State Level Federation (ASP, AP)

### 3.10. Conclusions

To sum up the vast number and variety of SHG federations could be grouped into some useful categories. Of course there is some overlap. These typologies provide very useful frameworks for further studies of federations in the country. Research findings based on these typologies give very useful insights for the healthy development of the SHG movement and federations for poverty alleviation and women empowerment.

## Chapter-4

# Multi Purpose Federations

### 4.1. Introduction

The SHG federation has emerged out of the need to ensure sustainability of SHGs and to perform roles that SHGs are not able to perform as informal groups. These federations offer different types of services. Some provide social services, while others financial services. In many cases, the SHG federations in India offer a range of services and can be termed as multi-purpose federations. However, each federation has a primary purpose and several secondary purposes. In some cases, the primary purpose of a federation could be providing a range of financial services such as savings, credit, insurance and money transfers. The secondary purposes could be livelihood promotion, marketing, collective procurement and social services like health, education, women's issues and community development. In some cases, the primary purpose may be social services and the secondary purpose may be financial services and livelihood support services. As SHG federations evolve and become strong, sustainable organizations, the range of services they offer varies as do the needs of the members. Different capacities of federations develop.

In chapters 5, 6 & 7, financial, livelihood and social federations are extensively discussed. Therefore, this chapter focuses on the range of services provided by multipurpose federations and the implications to governance, systems and sustainability.

Some federations like Shree Kheda Jilla Swashrayee Mahila SEWA Bachat Mandal promoted by SEWA - Gujarat, Unnati Mahila Sangh supported by FWWB - Madhya Pradesh, Ankuram Sangamam Poram, Indur Intideepam MACS federation promoted by GRAM, Sri Padmavathi Mahila Abyudaya Sangam (SPMS) promoted by DHAN Foundation offer multiple services. Government projects like Indira Kranti Patham<sup>37</sup> in AP and Kudumbashree<sup>38</sup> in Kerala play a major role in promotion of multi-service federations for implementing large scale poverty reduction programmes.

### 4.2. Structure and Services

#### *Financial Services:*

- Savings - mandatory, voluntary, fixed deposits and recurring deposits. Also, savings for specific purposes like health, education, marriage, etc.
- Loans - life cycle needs and livelihood activities
- Insurance - life, asset and health

- Remittance services are upcoming
- Act as a business correspondent of the banks as per the RBI circular.
- Act as a business facilitator of a bank.

***Livelihood Promotion Services:***

- Collective procurement of family requirements - rice, pulses, oils, etc. Also, collective procurement of seeds, fertilizer, pesticide, agriculture tools.
- Collective marketing of the produce of the members
- Processing of the agriculture produce of the members
- Linkages for skill up-gradation and training on micro-enterprises.
- Inputs for development of assets and increasing the incomes from the existing livelihoods

***Social Services:***

- Capacity building of SHGs, formation of new SHGs
- Support in the areas of book keeping, self-grading, auditing, etc
- Facilitate linkage with quality health care and education services
- Provide information to members on various government schemes and programs.
- Participate in the affairs of the Gram Panchayat
- Address women's issues like rights and entitlements.

Every SHG federation may not be able to provide all these services. However, they may provide some of these services to address the needs of the members. For example the SHG federations promoted by SERP are good examples of multi-purpose federations. While the village level federation provides some of the services like lending to SHGs, collective procurement, collective marketing and distribution of old age pensions, mandal level federation provides services like lending to village level federations, managing bulk milk cooling units and offering training & monitoring services to SHGs and village level federations. The district level federations offer life insurance, legal counseling and management support to the mandal level federations.

Overall the services provided by the multi purpose federations to the SHGs, could be classified into financial and non financial services. Federations offer multiple services for the holistic development of its members and their families with the support of various functional committees at different levels.

#### **4.2.1 Financial Functions**

The primary financial services provided by federations are loans and savings. The mandal samakhya of IKP manage more than Rs. 600 crores (USD 150 million) of "seed" capital provided to them by the project for on-lending and recovery. District level federations promoted by IKP are providing specialized insurance products in collaboration with Life Insurance Corporation India (LIC). Approximately 1.8 million women have joined the micro-insurance scheme of the district level federations called Janashree Bhima Yojana (JBY). Some of the district federations have also developed health insurance schemes in collaboration with a local hospital. All the SHG federations of IKP at different

levels have a savings component: women members save in SHGs, SHGs save monthly in village level federations and village level federations save monthly in the mandal level federations.

Sri Padmavathi Mahila Abyudaya Sangam (SPMS) having demonstrated its capacity to handle loans, was approached by the National Housing Bank<sup>39</sup> with bulk housing loans to allow the SPMS to offer housing loan products. To access larger loans from financial institutions, federations offer saving services to their members. To improve the repayment performance of the SHGs, federations assist SHGs with loan recovery in cases of default through sub-committees. Federations also help SHGs and VOs with bookkeeping and help maintain records and documents through building the capacities of the SHG and VO bookkeepers. Few federations like Unnati, Indur Intideepam MACS Federation and ASP also take responsibility for SHG level bookkeeping. IKP Federations also help the SHG improve their performance through regular monitoring and evaluation with a monitoring committee at the VO and MS level.

Cluster level accountants of Unnati shil federation in Madhya Pradesh look after SHG level bookkeeping. Each SHG maintains two books. The first book comprises of member wise ledger and meeting minutes. The other book contains day book, which explains the transactions made each day, the receipt and payment book. All books are kept in the Unnati shil office. At the SHG level, minutes books are maintained by one of the group leaders. Receipt and payment books are maintained by the cluster level accountant. The Unnati shil accountant conducts internal auditing of SHGs. Unnati shil also prepares the annual trial balance and Income & Expenditure statements for each SHG.

#### 4.2.2 Non-Financial Functions

The non financial services (bank linkage to member SHGs, trainings, grading the performance of SHGs) are provided by federations. Where the banks are directly linked to SHGs, the federations are facilitating linkages with the banks. The federation's staff monitors the performance of SHGs in the federation's operational area. The federations participate in various welfare and developmental activities of the Government.

The federations promoted by IKP are providing much needed visibility to SHGs which enable the SHGs to link with banks and government agencies. Strengthening weak SHGs and promoting new groups is undertaken by the federation through Community Resource Persons strategy<sup>40</sup>. IKP federations at the village level are providing collective marketing and procurement services, such as grain or dairy to sell their products. In a few places these federations also make various kinds of merchandise available to the members. Few of the IKP federations undertake community development programmes such as healthcare, housing, education, vocational training and effective running of childcare centres and take the lead in mobilising action on social issues like child labor and violence against women.

#### 4.2.3 Governance

Multipurpose federations require managerial skills and professional caliber for managing diverse and complex functions of the federation. Based on the SHG federation assessments carried out by APMAS and also the study of federations in eight different states, governance of SHG federations seems to be an area which needs improvement since many SHG federations are nascent. SHG federations that have been functioning for over five years are still dependent on the promoting institutions to manage the affairs of the federation. While the Executive Committee / Board members of the

federation attend meetings regularly and conduct their meetings once a month, they need to gain clarity on the roles and responsibilities of the board and have a long term vision and strategy to work effectively

In the IKP promoted federations, high quality staff is recruited and trained by IKP. In a few federations like Unnati (MP), one of the board members who play the role of chief functionary is competent enough to perform multiple activities. In these cases, the staffs are committed and able to carry out routine work efficiently. However, they need to gain knowledge on technical aspects to manage strategic roles of the federation. In both cases the work burden on staff in multiple service federations is high; as a result the staff is not able to monitor SHGs effectively.

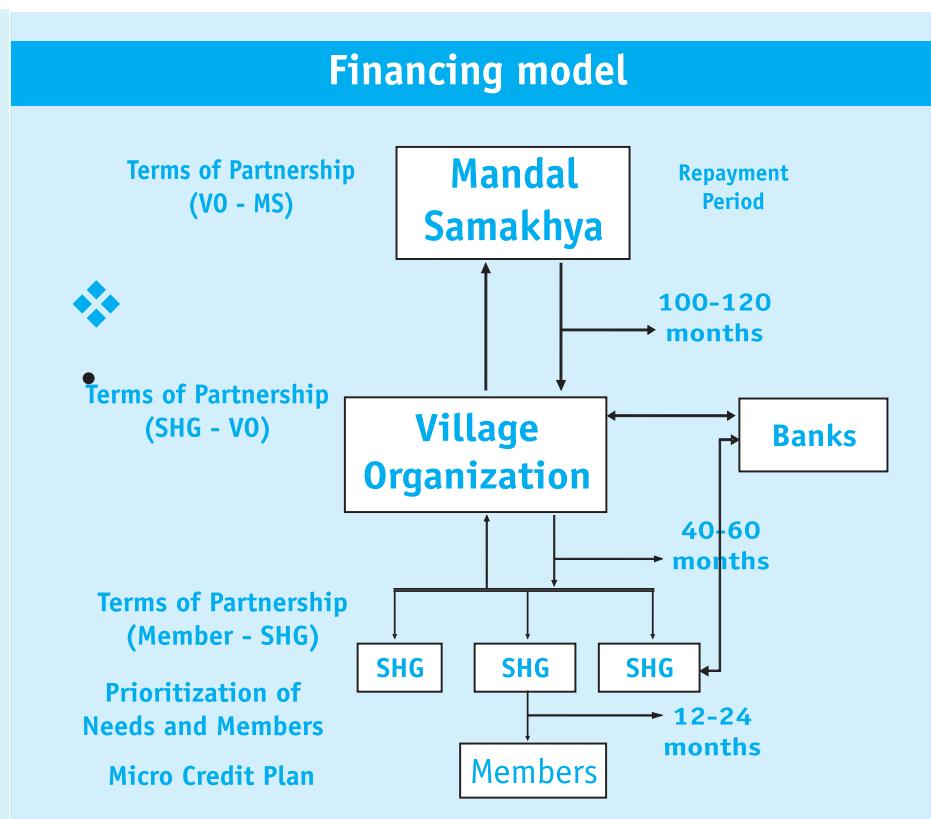
IKP also facilitates the federation board to manage functions in an effective manner by forming sub-committees for monitoring of staff and management of the federation activities. In these federations, IKP places great emphasis on training community leaders and giving them exposure on their roles and responsibilities. SHPI staff provides support to federation board members to monitor the performance of the SHGs and work of the federation staff. However monitoring by the federation representatives is certainly not independent.

#### 4.2.4 Sources of Funds and Sustainability

In a majority of the financial federations, funds are mobilized through paid up share capital from members, members' savings, grants and loans, and retained earnings form the source for on lending to Self Help Groups. SHG federations promoted under externally aided projects like IKP have access to bulk funds in the form of "seed" capital for on-lending to SHGs or through intermediary structures. Source of funds for multipurpose federations include membership fees, service fees, grants, interest, and fines.

Federations utilise members' savings, revolving funds and loans from banks and other financial institutions to on-lending.

For example in the SERP implemented IKP, important source of funds for federations is the seed capital. This acts as a catalyst in capital formation at all levels including SHG, VO and MS and offers great leverage for raising bank funds. The flow chart describes the fund flow.



Cost of social activities in multipurpose federations is met through income generation from lending activities and grant funds from SHPIs or resources generated through service fees from the members. Federation leaders are absorbing some of the costs as they undertake several activities of the federation voluntarily or for an honorarium. In a few cases like Unnati federation, the SHPI has withdrawn and the federation is facing sustainability issues of their new initiatives other than MF. These types of federations maintain an internal fund for initiating social activities. But due to their lack of technical knowledge from external agencies, they could not manage their social initiatives. Continued support of SHPI, with an evolving role, is critical for federations to offer new and innovative services to their members based on the emerging needs.

**Learnings:**

- It remains a challenge for federations to offer multiple services to their members, while ensuring quality sustainability.
- It is good to focus on one aspect initially and as the federation matures, multiple services can be tried out only if there is an underlying need for such services. Between social and financial functions, performing multiple roles can be difficult, as both the functions require different culture in the federation, which is difficult to be maintained by a single body. However, after a certain level of maturity, different sub-committees in the federation can be responsible for performing these different roles.
- To ensure sustainability of the federation offering multiple services, the books of accounts need to be set apart and separate balance sheets need to be prepared by the federation.
- The emergence of the federation and also different services provided by federation must be based on the felt need of the SHGs. A bottom up approach will ensure much greater ownership among members and much stronger chances for sustainability.
- Irrespective of the number of tiers of a federation, each level requires focus on sustainability aspects, both institutional and financial, from the beginning.
- Promoting SHG federations is expensive and time consuming. While grant funds would be necessary for the promotional purposes, to build the stake of the members and to ensure that strong ownership is developed, grant components should be minimal and contribution from members in the form of service fees and membership fees would be critical to ensure sustainability.

#### 4.2.5 Conclusion

The majority of the SHG federations are multipurpose federations in India. While the capacity of the Executive Committee or the Board of SHG federations is limited, their ability to perform multiple functions is also limited. As mentioned earlier, there is a need for clarity in the vision and strategy of the organization. An important non-negotiable of the SHG federation is that **the services of the federation must benefit a majority of its members**. While single purpose federations are desirable, the members of SHG federations have multiple needs. To respond to those needs, the federation may have to offer those services by itself or link the members to appropriate service providers. Irrespective of the services the federation provides, effectiveness of the services matter and the ability of the federation to provide those services as long as those are required is a core issue of concern. Federations must be useful to their members and be sustainable to provide the services over a long period of time. Multipurpose federation must ensure that a majority of their services benefit their members.

## Chapter-5

# Financial Federations

### 5.0. Introduction

With the emerging needs of SHGs, federations started playing the role of financial intermediaries, while some even transformed themselves into Financial Federations (FFs)<sup>41</sup>. The term 'financial federation' here refers to the federations that have the exclusive purpose of providing financial services - savings, credit, insurance and remittances - to its members. The vast established banking infrastructure with a large branch network, including the Regional Rural Banks (RRBs) and State Cooperative Banks operating through the Primary Agriculture Cooperative Societies (PACS) has failed to reach all the citizens of the country. The alternatives to reach the un-reached include SHGs, MFIs and new generation Cooperatives. FFs are emerging as potential financial institutions owned and managed by the poor themselves, providing a wide range of services to their members. These FFs, however, are facing criticism. This chapter will examine the concerns related to these FFs, like the range and reach of services provided by FFs, nature of products offered, issues related to governance, legal compliances, constraints, the implications, and the way forward.

### 5.1. Current trends

Until recently, NGOs, Government agencies and Panchayat Raj Institutions were active players in the promotion of SHG federations. The other major stakeholders in the SHG movement, Banks and NABARD, limited their promotional activities to SHGs only. Federations are not yet properly recognized as financial institutions, because of their development-oriented nature. Under the "Business Correspondent" Model<sup>42</sup>, RBI permitted NGOs/ MFIs set up under Societies/ Trust Acts, Cooperative Societies registered under Mutually Aided Cooperative Societies Act or the Cooperative Societies Act of States, Section 25 Companies, registered NBFCs not accepting public deposits and Post Offices to act as Business Correspondents. In addition to activities listed under the Business Facilitator Model, the scope of activities to be undertaken by the Business Correspondents will include (i) disbursement of small value credit, (ii) recovery of principal / collection of interest (iii) collection of small value deposits (iv) sale of micro insurance/ mutual fund products/ pension products/ other third party products and (v) receipt and delivery of small value remittances/ other payment instruments. Below is an example of SHG village level federations playing the role of Business Correspondent:

### Village Organizations (VO) as Business Correspondent

On a pilot basis around 160 VOs in Warangal and Karimnagar districts in AP were identified as business correspondents (BC) by the banks as part of financial inclusion. Approximately 50,000 members are the beneficiaries under these VOs. The VO as BC started its work by introducing smart cards<sup>43</sup> to its beneficiaries<sup>44</sup>. Concerned banks/FINO<sup>45</sup> have provided the VOs with the biometric machines and the funds to the respective VOs to carry out the transactions of distribution of pensions and wages. With the help of smartcard the beneficiaries could receive their pensions and wages. For the services rendered by VO as BCs, they get Rs.1,000 as service fee from banks. Few banks have also given a commission of 0.5% of the transactions value to the VO.

VO appointed one SHG member among them as staff to carry out the operations and the staff is paid an honorarium of Rs.500-600. All BC expenses (including staff honorarium) are met from the service fee they receive.

## 5.2. Services offered by Financial Federations

The FFs' services are being considered as poverty reduction initiatives. Though the operations have become similar to banking services, FFs are encouraged to see the benefit of underprivileged sections of the community. These federations view financial services to women, as a means for women to empower themselves. The three common financial activities of federations used to be acting as an agent and manager of external credit funds, assisting SHGs with loan recovery in difficult cases, and strengthening weak SHGs, so that they are able to carry out their savings and credit function smoothly. But now, as the federations are growing, they are providing a wide range of financial services to the members. Pension is the new area coming up.

### Financial services:

- Savings, the primary way of building financial assets
- Credit; both short and long term
- Insurance for the lives and livelihoods of the poor: health, crops and livestock
- Other services such as remittances, business correspondent and facilitator of banks

### Indur Intideepam MACS Federation Ltd (IIMF)<sup>46</sup> - financial federation

IIMF objective is to build sustainable institutions for outreach under the lead role of women targeting the poor and ultra-poor and build collaborations and partnerships with the various financial institutions and develop the capacities of the member MACSs. The MACS extends its services to the two districts of Andhra Pradesh and covers 3,418 SHGs with 43,684 individual members through the 19 registered mandal level federations.

### Services offered:

**Financial services:** MACS provides different financial services like savings, credit and insurance. The credit services are extended to various activities like agriculture, animal husbandry, micro enterprises and consumption purposes. **The present loan outstanding is around Rs.16 Crores, maintaining very good repayment at 100%.** Besides financial services, services like capacity building, social and livelihood services are also offered by IIMF. Though IIMF offers various services, its major focus is financial.

### 5.2.1. Savings

The savings component at the SHG level is seen as essential by almost all federations. But, as the different legal forms like mutual benefit trust, societies act and unregistered federations are not giving saving services, this component is still not a common practice at federation level. The federations registered under the liberal cooperative laws such as the APMACS Act 1995 are accepting savings from their members. Following are the saving products offered by such Federations:

1. **Compulsory Savings** - In most of the federations, where a savings component is there, the member savings is a fixed amount decided by the federation (Compulsory Savings). Generally, the compulsory savings product involves non-withdrawable savings. In a few federations, the savings for a fixed period is mandatory, but the amount varies as per the convenience of SHGs. Unnati of Indore is using this approach in savings collection.
2. **Voluntary savings** - In voluntary savings amount and frequency of savings is as per member convenience. Federations like ASP of Hyderabad are encouraging voluntary savings. The voluntary savings product allows for free withdrawals and deposits.
3. **Saving deposits** - Recurring and Fixed - Some other federations are providing additional options for saving deposits also. Few federations are also offering FD and RD services as well. Grameen Mahila Swayam Siddha Sangh of Maharashtra, promoted by Chaitanya, is an example for this.

Savings at the SHG level are usually of two types. In most of the cases, the SHGs open a savings account in the bank and save monthly. Other SHGs do not have a bank account, but have their savings account at the federation level. Some SHGs save in both. Different practices are adopted for the collection of savings. In many federations, though the member is the shareholder, the savings are collected from the Groups' funds so that members do not feel the burden of paying an additional amount. In other federations the saving amount for the federation is taken by SHGs along with SHG savings, and later transferred from the SHG account to the federation account. But, protection of member savings and giving interest on savings is not happening as a stated agenda in many of these Federations.

**Sangatitha<sup>47</sup> offers various kinds of savings products to its members. The following are the saving products:**

#### At Federation Level

**Fixed Deposit:** 15% margin money for each loan shall become a security deposit or fixed deposit for a period of one year or for 15 months according to the loan term. This deposit shall be reimbursed to the respective cluster level MACS after the maturity of loan repayment with an interest of 5%.

#### At MACS level

**Compulsory Savings (CS):** Member SHG will pay compulsory saving of Rs 4,500 initially in MACS. Every year MACS may declare a particular amount as a CS in order to increase their own funds. Interest on savings is at 5%. These savings are reimbursed only in case of group withdrawal from MACS.

**Voluntary Group Savings (VGS):** This is voluntary in nature. Member SHGs can make a group saving of Rs 100 per month. These are time bound (1 - 2 years). After maturity the sum matured will be paid to the respective SHGs. The interest on VGS is at 3%. If the SHG withdraws before the maturity, they are not eligible to receive interest on the same.

**Voluntary Member Savings (VMS):** Individual members of SHG can have monthly savings of Rs. 50 and its multiples. These are time bound. The interest rate is 3%. On maturity the savings are returned. If the member withdraws before the maturity period, they are not eligible to receive interest.

**Fixed deposits:** Individual member of the SHG may have a fixed deposit of Rs 5,000 and its multiples for a period of one year to five years. The interest rate is at 5%. The members cannot withdraw their deposit before the maturity period.

## 5.2.2. Credit

Credit giving patterns in federations vary. The Credit is given from two kinds of sources -

- From self generated funds - The credit given from equity from SHGs, grants from NGO and accumulated profit.
- Leverage from external sources - mobilization of loan funds from commercial lending organizations

Federations generally provide bridge loan<sup>48</sup>. Because of their prioritization to the needy while lending, one can say that the federations' lending is more need-based.

Following are the purposes for which the credit is usually given by federations:

- Consumption like health, education, house needs, etc.
- Livelihood needs like, agricultural investments/inputs, agri-based activities, livestock, entrepreneurial / IG activities, etc.
- Asset creation and development - Housing including repairs, land purchase/development, etc.

Most of the Federations, especially which are promoted by NGOs and projects like SGSY (e.g. SGSY in Madhya Pradesh, West Bengal, IKP promoted federations in AP) and rural livelihoods projects in various states, are encouraging credit for livelihood activities. Another interesting thing to observe is that some federations are even giving part of the loans in kind. For example, one of the federations in Gujarat, Gram Vikas Mandal (GVM) promoted by BAIF, is promoting livelihood financing. In order to avoid loan diversion by members, GVM is providing livelihood implements.

### Financial service federations

Grameen Mahila Swayam Siddha Sangh<sup>49</sup> was formed with the purpose of developing capabilities of rural poor especially women and adult girls by forming strong sustainable people's institutions, to enable them to lead the process of development for a better quality of life. The major services offered are saving, fixed deposits, credit for income generation activities & housing, insurance life, insurance livestock. Total savings of SHG in federation is around Rs.8.2 lakh with loan outstanding of Rs.68 lakh.

### Housing Credit

Savera Mahila Manch<sup>50</sup> provides housing loan to its member SHGs. Presently the promoter has given the fund to federation for the housing loans. The promoter is trying to get external loans from commercial bank for the same. At present, the SHG members have to pay Rs. 500 as installment per month, irrespective of the loan amount.

**Kulumai-SHG Federation<sup>51</sup>:** The Federation is legally registered under the Societies Act and is functioning with an annual turnover of Rs 178.75 lakhs. It enabled nearly 3,000 men and women in the region to get credit and saved them Rs 14 lakhs from moneylenders. Kulumai has been insisting on the differential rate of interest for different needs. The repayment rate is more than 90%. Through commercial banks and government development departments, the federation mobilized nearly Rs 57 lakhs, which benefited nearly 1,500 SHG members. The loan taken from the federation, SHGs have utilized for various purposes. With the support of loans from banks, 329 men and 269 women in the groups started small business activities.

### 5.2.3. Insurance

The FFs are now concentrating on member-security and risk management. Micro-insurance services are the main value added services provided by federations. These services are valuable since the insurance companies either have little reach in the populations being served by the federations or do not have products suitable to the needs of the poor. The information advantage of a member owned entity, and an established financial system, allows the federations to provide insurance services in spite of the relatively small number of clients. The range of products is expanding depending on the interest and need of members. The state Governments are also taking keen interest in building insurance linkages with federations. Few states are even providing subsidies on insurance components.

#### SHG Federation as micro-insurance agents

Insurance Regulatory and Development Authority (IRDA)<sup>52</sup> in its policy stated the NGO or a SHG or a Micro Finance Institution (MFI) can act as micro-insurance agents for distribution of micro-insurance products.

Federations are now collaborating with insurance companies like LIC, ICICI Lombard, Healing Field Foundation and Royal Sundaram to offer insurance services. SHG federations provide a gateway to a large number of families and absorb administrative costs both at the time of insuring and in claim settlement, keeping the premium to the minimum. The different insurance products that are adopted by federations include -

#### DHAN

**Insurance:** Federations offer insurance services to the members and their families. This insurance service has been in operation for the past seven years and has extended the service to more than 163,000 members during this period. The types of insurance include life insurance for member and husband, health insurance for family, livestock insurance and housing insurance. The federations identify the local needs and design suitable products in consultation with the insurance companies. Where the number of members is high in case of mature federations, the products are offered and managed on their own (known as "mutual" insurance, as it is viable and cost effective. In case of new federations the products of the existing companies are availed. In both the cases the federation acts as an intermediary and collects the premium from members and maintains the database and liaises with the insurance companies. The federation ensures timely settlement of claims to members. The federation out of the premium collected recovers all the costs of offering these services.

1. **Life Insurance** - The SHG federations active in Tamil Nadu have been able to provide life insurance products through an internally administered scheme. In AP, the apex federations (Zilla Samakhyas) are acting as agents.

**Abhaya for the Poor - Life Insurance** - Chittoor Zilla Samakhya (ZS - district federation) is not only providing good range of services to its members, but is recognized as a nodal agency by LIC of India. The federation developed a tie up with the LIC in the year 2006 and delivering a product called "Abhaya". The product offers both individual and dual policies including the spouse of the member. By the end of July 2007, the ZS could mobilize 192,622 policies, of which 143,494 were dual policies and 49,128 were individual policies. By now, 505 claims were made, of which 494 were accepted by LIC. Now, ZS is planning to take a toll free number, to avoid the call cost to the members.

### Benefits:

- The immediate relief of Rs.5000/- given by the ZS at the time of death helps the members, once the ZS receives the total claim amount from the LIC.
- The ZS has established the call centre for the easy access of the claims. In case of any death, the MS representatives and Abahaya Mitras would inform call center immediately. The whole scheme is monitored by the ZS Executive Committee bringing in more involvement of SHG members.
- **Risk Coverage** - The risk coverage under this policy as follow:
- For member - Rs. 15,000 in case of Natural death, Rs.30, 000 for accidental death, Rs.20, 000 for full disability in accident, Rs. 10,000 for partial disability in accident. In case of Husband - Rs. 30,000 in case of Natural death, Rs.75, 000 for accidental death, Rs.75, 000 for full disability in accident, Rs. 37,500 for partial disability in accident
- Apart from the above risk coverage the members will get the educational scholarship for their children studying between eighth standard to graduation.

2. **Health Insurance** - Some federations are offering health insurances as well. ASP in AP and Kudumbashree in Kerala are some examples.

ASP, a state level federation in AP, is providing health insurance in collaboration with Healing Field Foundation. Annual premium of Rs.350 covers 5 members in a family. 75% of the total medical expenditure will be paid by the company directly to the hospital, and the remaining should be bared by the member. This way member can avail an amount of Rs.15,000 per annum for medical expenses.

3. **Livestock Insurance** -

One of the PRADAN promoted federations, Saheli Sangathan, Rajasthan, has a tie up with the HDFC bank for Insurance for buffalos. In case of any animal death, the claim is settled only after an appraisal, done at SHG, cluster and Federation levels. PRADAN developed a people own insurance system where they insure the goats themselves. The federation also offers some paid services(Rs. 100/- per year per member) for basic health services, vet support, regular deworming & vaccination, etc

#### 5.2.4. Other services

Federations are also planning the launch of innovative products like hut insurance, food security, pension schemes, remittance services, etc. Currently, few NGOs are providing these services. Federations presently do not have the capacities to manage these services, but may take over in the future.

A limited menu of financial products are offered, as most of the FFs provide only one type of loan product -- a 3:1 or 5:1 multiple of a member's savings balance -- is offered, with no variation according to risk levels (borrower repayment capacity, type of activity financed, and other risk factors). These types of loans are not flexible enough to meet members' diverse credit needs, including short-term working capital for micro entrepreneurs and agricultural inputs for small-holder farmers. There reason behind is the low fund availability and could not able to meet the member demand. Though the services provided by the federations to SHG members complement those provided by the primary groups, more crucial are the services provided to the SHGs. These include accounting support and auditing, monitoring and co-ordination, conflict resolution, training services and facilitating SHG-Bank linkage. Monitoring is central to improving the performance of SHGs, especially lowering default rates.

### 5.3. Resource Mobilization

Federation builds corpus with

- Self generated - share capital from members, membership fee, Savings (compulsory and voluntary), service fee.
- Mobilized - credits and grants (generally used as revolving fund or seed capital).

Many Federations make several efforts to mobilize resources - both internally and from external sources. Sangatitha, GRAM, DHAN, KVK<sup>53</sup> and SPMS<sup>54</sup> are the few examples for this. These federations are internally organizing the savings campaigns for increasing the regular savings and popularizing product-linked savings. Savings, which is the cheapest source of non-subsidized capital, is not the major source of capital. The primary mode of external resource mobilization in KVK federation is from the commercial banks through the SHG- Bank Linkage program, though the recent loans (especially the housing loans) received by KVK have significantly increased the federation's share in total SHG liabilities. In SPMS, the primary source of external funds is the federation, since SHGs have started receiving loans directly from banks only recently.

External funds are being mobilized at federation level from various private commercial banks like ICICI, UTI, HDFC, etc. The federations promoted by DHAN Foundation have accessed loans from apex lending organizations such as SIDBI, RMK, HDFC and HUDCO having fulfilled their creditworthiness criteria. The specialized housing finance agencies fill an important gap in the loan portfolio not available to other SHG federations.

Other forms of resources are the service fee (audit of SHGs, bank linkage, trainings, monitoring, grading, bookkeeping etc) charged and the contribution from SHGs in the form of membership fee. Presently these are not the major source of resources.

Generally, mobilization of resources at various levels is as follows:

At SHG level:

- Savings and service from members  
Interest income on loans.
- Loans from local banks and federations

At Federation level:

- Membership fee, savings & equity
- Service costs and interest income on loans
- Loans from apex/development banks for housing & microfinance.
- Loan from secondary federations in case of multi tier federations
- Grants from promoters and other agencies

In most of the Federations, initial cost of promotion and lateral operational cost are met by the promoting agencies in the form of in-kind subsidies apart from the subsidized loans. For example, Panchayat and Rural Development in West Bengal through DRDC has provided infrastructure and bearing the cost of staff salaries for Mahila Bikash Co-Operative Credit Society. In case of Unnati federation, FWWB has given a seed capital of Rs.1.25 lakh for federation bank linkages. CBMF<sup>55</sup> is spending Rs.60, 000/- per month as operating expenses to maintain federation activities. At present these expenses are meeting by Intermone Oxfam through BASIX.

## 5.4. Governance in FF

Governance in the federations is important for the development of federations into member owned and member managed self-reliant institutions. Many federations though member owned tend to be promoter managed - whether they are NGO promoted or government promoted. Due to lack of technical capacities and board role limited to sanctioning and recovery of loans, the promoters' tendency of involvement in decision making and also service delivery is high. During the field visits, the APMAS team observed that the federations' capacities have not reached up to the extent of independent management of financial intermediary role. Boards of these federations have an understanding of the general purpose and services of federations. During the board meetings, however, important aspects are missing in the agenda, which include the review of performance of member SHGs and the financial aspects of the federation. Board members' knowledge on the credit policies, loan portfolio reports and financial analysis of the federations is a concern that still needs attention. In addition, these Boards are also lacking proper support for their vision-building and Business Development Plans. As registered institutions, it is imperative on the part of federations to ensure proper legal compliance. Where legal compliance exists, it has been completely handled by the promoters, as the Board members lack the ability to deal with. Another important reason for adequate governance being difficult is due to the time constraints and target-oriented nature of time projects. This leads to quick election of leaders, without regarding their capacity to lead.

Based on the design of federations, there could be space for external members to take part in decision-making processes. For example, the EC in BMASS of Orissa, comprises of 14 members, of whom 3 are externally nominated. In case of SMBT<sup>56</sup> in Rajasthan, loan appraisals are done by the Chairperson and the CEO with out the involvement the Board. Needless to say, these external persons can easily influence the decision making, despite not being members of the federation. Absence of financial literacy and insufficient organizational experience constrain the governance capacity of federation board members. One example of this weakness was the insufficient understanding of auditing expressed by the board members interviewed; members perceived auditing more as a means to check for accounting errors rather than as a check on management.

The promoting organizations are attempting to address this issue by investing in capacity building of the board members. But given the enormity of the challenge, capacity building needs to be supplemented with other measures.

## 5.5. Systems in FF

The design and the maintenance of the established systems always define the way the processes are carried out effectively. The establishment and maintenance of systems such as the recording and the accuracy of the same is of prime importance. Good systems are useful in any organization, but in organizations that are democratically structured with ever-changing leadership, there can be no compromise on systems.

### 5.5.1. Quality of design and implementation of systems

SHG federations engaged in financial intermediation must have the required book keeping system and also the management information system for decision making during the board meetings. Required books of accounts (receipts & payment vouchers, loan application, loan approval forms, agreements for loans, cashbook, general ledger, etc) are in place and are maintained moderately in many federations. During the field visits of APMAS team, it was observed that in some federations, vouchers, loan applications are missing, and cash books not updated - whiteners used for few transactions. The tendency is that general ledgers are not maintained and where they are maintained they are not updated. The loan ledger is updated but the recording quality is not up to

mark. While looking for the details of loans in the loan ledger, the important information is missing. In majority of the federations, up-to-date information about the status of their member SHGs and performance is not available.

Based on a previous APMAS report<sup>57</sup>, only one of the 83 federations studied had systems worth learning from. Over 40% of the federations scored less than 50% on the quality of systems they had. Although NGO promoted federations were slightly better, most of them, too, did not have good systems or did not use them well

However there are a few federations where the accounting systems and procedures are well laid out and the updating and accuracy of records is good. Few federations like GRAM promoted federations, Mahila Vikasa MACS, COVA, in AP, BMASS supported by CARE-CASHE in Orissa, CBMFI etc, have computerized the accounting transactions and the reports generated are utilized to some extent.

### 5.5.2. Management Information Systems (MIS)

In most of the cases, limited information is available at federation. This limited information is not processed, consolidated, analyzed or reviewed. Information flows from SHG ' Primary ' Secondary Federation but not vice versa. Information flows from the SHGs to CBMFI with many reports being generated. But, information from CBMFI back to SHGs is missing. The information flow is similar in the ASP federation structure. In case of Kalvikendra promoted district level movement, information flow between all levels is moderate. Members at SHG level know the kind of services offered by the federations, but board members are not fully aware of the performance of the SHGs. The necessary reporting and analysis are mostly done in the NGO promoted federations, but the reports are not been used for decision making during the meetings by the board members.

In many federations, annual plans and budgets are not being formed. In Sangatitha, however, the management information's are well established. Annual plans & budgets are prepared and reviewed once every three months. Monthly progress reports are prepared along with the portfolio quality reports which are reviewed in board meetings.

### 5.5.3. Internal control systems

The internal control system comprises of default management, internal audit, staff reviews, business policies etc. To maintain low default rates, proper control mechanisms need to be in place. NGO promoted federations appeared to have better quality internal controls, than the Government promoted federations. Collection of fines, peer pressure, staff and director visits to the federation do not seem to be effective in keeping default rates down. During the field visits it was observed only 60% have good default management mechanisms. 50% of federations were not managing cash in a satisfactory manner. It's been found that norms for cash management practice have not been established. Internal audit helps to find gaps in process and helps hold federation members accountable. In few federations, promoter staff would do internal audit, but audit observations are not documented. While IIMF does internal monitoring and internal audit of federations, statutory audit is done by certified auditor.

In the case of ASP, staff review is been taken up by the regional staff of ASP leaving no room to the federation board. Only in case of Sangatitha and few federations promoted by IKP project, the staff reviews are done by the board members during the board meetings.

In majority of the federations, business policies (like credit policy, fund management etc) and management policies (HR policy) are not developed. However in the cases of Sangatitha and Pragathi Apex level institutions, the internal control mechanisms are well laid out and practiced.

## 5.6. Sustainability of FF

*The concept of sustainability on the other hand has its origins in natural resources management as part of systems analysis linked to the technical concept of "carrying capacity" of an ecosystem (McNamara and Morse, 1998).*

To provide sustainable financial services the federation should be able to cover all its costs from its operational income. It is extremely important to sustain any kind of financial intermediary service and be able to meet the cost of loan losses, any recurring grants provided by the promoted and any financial costs which are initially covered by subsidized funds.

Core financial performance indicators for micro finance activity which are CGAP recommended is Repayment Rate, Efficiency and Profitability ratios. It is difficult to see the performance of SHG federation in these areas since the availability of the regular book keeping and the proper information system are not maintained.

### 5.6.1. Efficiency indicator

Few of the examples	
Federation <sup>58</sup>	OCR <sup>59</sup> %
Maheshwaram MACS Maheshwaram, AP	23
Sangatitha- Warangal, AP	24
Sri Padmavathi Mahila Abhudaya Sangam, Tirupathi, AP	19
Rompacharla Mandal Samakhya, Chittoor, AP	21
Unnati Mahila Sangh- Indore, UP	17
Boond Bachat Sangh - Kanpur, UP	32

In financial efficiency, the federation performance is assessed through the Operational Cost Ratio<sup>60</sup> (OCR) against the lending activity performed by the federation. In the financial federation this cost is high as reflected in the table. It implies each federation incurs these costs against maintaining of Rs.100/-loan portfolio. APMAS findings of the 83 federations assessed during the 2003 and 2005 shows the average Operational Cost at 12.5%.<sup>61</sup> The ratio varies and depends on the scale of operations, maturity of operation, range of financial services provided, and the extent of support to the other non-financial services.

### 5.6.2. Sustainability indicators

The profitability and the sustainability of micro finance operations of federations or MFIs can be measured by the sustainability indicators like Operational Self Sufficiency (OSS) and Financial Self Sufficiency (FSS).

Few of the examples		
Federation <sup>62</sup>	OSS%	FSS%
Maheshwaram MACS - Maheshwaram, AP	23	79
Sangatitha <sup>63</sup> - Warangal, AP	106	101
Sri Padmavathi Mahila Abhudaya Sangam, Tirupathi, AP	125	68
Unnati Mahila Sangh- Indore, MP	88	108
Boond Bachat Sangh - Kanpur, UP	108	71
	103	

The OSS<sup>64</sup> defined as Income covers all the operational expenses, loan loss provisions and financial costs. The Financial Self Sustainability (FSS<sup>65</sup>) is defined as the federation's "income covers all costs plus adjustments for subsidies on borrowings, unreported and hidden subsidies, in-kind grants, grants for operational deficits, loan loss provision as per portfolio quality, opportunity cost of equity capital and the like". Few of the examples mentioned in showing OSS performance of the SHG federations, these are the federations could able to meet their operational expenses through their operational income, its not included the salaries paid by the promoting institutions, if that is considered then the federations performance comes down. However the federations performing financial activities are able to sustain operationally with minimum grant support by the promoter.

The scenario has been changing slowly in few federations. For example, Sangatitha is providing the staff salaries which amount to Rs.100, 000. It is meeting its cost by the margin of interest on the loans lent to the cluster level MACS. The average rate of interest on borrowing is 13%. The interest rate charged to MACS is 16%. A detailed case has been attached as an annexure for the performance and sustainability of the federation. APMAS findings of the 83 federations show the average OSS is at 138%. This indicates good performance by the federations to reaching towards sustainability

The examples show the difference of OSS and FSS, for any microfinance performing federations reaching towards the financial sustainability is a big challenge. The OSS can be achieved easily compared to the FSS. However the financial federations are slowly reaching towards the financial sustainability. The best example is Sangatitha federation, which is achieving financial sustainability and meeting all its cost. For the sustainability of the federation the promoter has a critical role, providing continuous support in the area of resource mobilization, systems development and staff monitoring etc.

### 5.6.3. Issues relating to financial sustainability

1. Few of federations are operationally sustained, but the financial sustainability remains the challenge.
2. Many development interventions have treated federations mainly as a short-term mechanism to channel donor-funded loans for the improvement of livelihoods. A long-term vision is lacking, which hinders for the development of a financial organization that is financially autonomous and able to provide financial services to its members.
3. Initially, the federations are provided capital grants to start the operations and this has been continuing for a long period, putting less focus on repayment status. The best examples are government promoted federations where the fund management and the repayment status is lower than the other federations which are accessing funds from the external financial institutions.
4. Serious delinquency problems will reduce portfolio quality, resulting in high loan loss provisions. Deterioration in portfolio quality has also resulted in de-capitalization of portfolio, thus loss of interest income.
5. Continuous technical support from the SHPIs: In many cases federations could better manage more aspects of their operations if the initial support included appropriate systems and training. However, the concern is about the ability of the federation to run effectively over the long term. The SHPIs provide support in aspects of resource mobilization, linking the federations to the banks, statutory audit, legal compliances, and managing proper MIS system. Ensuring the sustainability of ongoing technical support is still a challenge in most of the cases.

#### 5.6.4. Issues related institutional sustainability:

Microfinance federations can achieve financial sustainability with good resource mobilizations, fund rotation, good repayment status, and effective systems and procedures. The big challenge that remains is institutional sustainability. The following are the main sustainability issues:

- The need of the federation and forming higher level federations is felt by the promoter rather than the SHGs itself. It has become the promoter's interest to sustain that institution financially and operationally.
- The Governance of the federations still looks to promoters for support, without thinking of self sustainability. The Governance role is very limited in aspects like resource mobilization from the external sources, and monitoring of staff. The SHPI staff plays major role in the above mentioned aspects and in developing the systems and procedure. All of this hinders self-sustainability
- The legal framework requires a staggered leadership rotation. Though this is a good practice at the SHG level, the practice hinders sustainability at the federation level because it does not allow members sufficient time to understand their roles and the functions of the federation to optimize their leadership potential.

#### 5.7. Legal Options and their suitability to Financial Federations

Though SHGs do not have any legal or body corporate entity, the RBI recognized them to do financial transactions with banks. On the other hand; the federations are facilitated to choose a best formal structure under an appropriate law so that they can have a legal entity to provide services to the individual members or member SHGs. The advantage of getting federations registered is not only seen in acquiring legal entity status, but also to allow federations to access credit from external sources, enter into legal contract to act as service providers, can acquire assets in its own name, and can sue and be sued. More importantly, it allows the federation to have perpetual succession, so that the responsibilities of the federation continue irrespective of the changes in members of the board. Legal status surely made the process of bank linkage much easier and opened up other possibilities to get grants or funds as well. But, as there is no uniform legal structure for the federations, the federations are facing inadequacies in their financial operations in many ways. The most common registration forms used in different states are Societies Act, Trusts Act, and Cooperatives Act. However, the MACS Act is recognized as the most appropriate legal form for the federations that have financial intermediation as their core business. So far, only nine states implemented this Act.

#### 5.8. Conclusion

Financial Federations seem to offer saving, credit and insurance services to members. Some federations have gone beyond to offer services such as hut insurance and money transfer. Overall, the majority of FFs are limited to offering single products. FFs seem to be doing better in the delivery of services such as training, conflict resolution, grading and monitoring of SHGs. In financial federations, as the board members do not have adequate technical capacities, dependency on promoters and staff is high. The success of external linkages from various financial institutions seems to be increasing because of support provided by SHPIs rather than the governance of the federation. Systems like fund management, internal controls, bookkeeping and legal compliance, require considerable improvement. The issue of operational sustainability looms large, as most of these federations have a high OCR and seem to be surviving on financial support from promoting institutions. For FFs to become viable and sustainable CBMFIs, there is a need to focus on a long term strategy for achieving sustainability, providing a range of products and building the capacities of the governance in terms of technical aspects related to managing financial federations.

## Chapter-6

# Social Federations

### 6.0. Introduction

Federations are growing with strength, increasing their functions daily. From mere savings and credit, the groups and their federations are taking new roles and responsibilities that lie at the very core of livelihood security for the poor (Ramesh, Jairam, 2007). The increasing agenda is considered an integral part of the evolution of federations. As federations add layers to their structures, they enlarge their agendas. It can also be viewed the other way around. As the federations find new challenges they may add new layers in their structures. Another important reason for the expanding agenda and expanding functions of SHG federations is that more and more official agencies, corporate sector players, donors, and civil society organizations are coming forward to partner with federations to implement their own programmes. In other words, federations are becoming trustworthy as effective delivery channels and business partners to different stakeholders.

As mentioned elsewhere in the text, federations could be divided into *financial* and *non-financial federations*. The latter are also commonly known as *social federations* (see e.g. Sa-Dhan, 2004). The functions of social federations can be further divided into sector development functions and general development functions. The sector development services basically deal with activities related to strengthening the SHG movement and general development functions deal with all other functions. Though livelihoods also form a part of social federations' agendas, given the importance of the issue, the federations that focus on livelihoods are discussed in the next chapter. This chapter deals with sector development functions and general development functions other than livelihood related functions of social federations.

### 6.1. Sector Development Functions

These services are meant to strengthen the SHG movement. Services include the promotion of new SHGs; providing professional services, particularly book keeping and facilitating bank linkages, monitoring, auditing, and managing quality. In a way the promoters use the federations to expand, improve the quality, and sustain programmes after their withdrawal. The promoters also use these federations in advocacy activities to obtain pro-poor and pro-women policies and programmes.

#### 6.1.1. Promotion of New Groups

A federation's role in the promotion of new groups is quite known. SERP, for example, in AP, with its vast network of 30,000, federations of VOs, MSs and ZSs, promoted about 2.7 lakh new groups during the last three years (SERP, 2004 and 2007). Similarly PEDO, Rajasthan used internal resource persons for promoting new groups (APMAS and CmF, 2006). The

experience of SERP's federations in AP and the CARE-CASHE project, P&RD, West Bengal suggest that the community resource persons (CRPs)<sup>66</sup> are very effective in awareness generation and improving the systems.

### 6.1.2. Professional Services

Though India has the largest network of rural financial institutions numbering about 1.6 lakh, the poor are often still marginalized from them. Even now many SHGs do not like to do business with banks on their own. On the other hand, banks are not in a position to deal directly with the poor because of shortage of staff, procedural problems, and mindset. There exists a need for professional services, free from exploitation, in the medium term. One of the functions of almost all SHG federations in India is to facilitate the bank linkage. Federations are also proving to be very useful to banks for recovering their dues. The SERP promoted SHG federations are helping the banks in recovery of any problematic debts.<sup>67</sup> As a result the banks are lending liberally to SHGs in AP.

Book keeping is another crucial area for groups. Federations all over India are providing this service. Apart from identifying, training, and positioning an adequate number of book keepers, federations facilitate sharing of the services of book keepers among several SHGs in each village or area. Some federations also undertake SHG auditing on an annual basis. Establishing appropriate MIS and using it for problem solving and decision making are other services of the federations.

### 6.1.3. Quality Management

Though monitoring of a group's performance and quality management are among the stated functions of social federations, it appears very few federations are doing these functions formally. MYRADA's Community Managed Resource Centres (CMRC), though not officially federations, do exhibit this function quite well. The CMRCs perform many of the same functions as federations but differ in their makeup as CBOs are included in their primary membership in addition to SHGs. A CMRC will rate the CBO before admitting it into its folder. It also undertakes rating of its constituents, i.e. SAGs and CBOs every year (Fernandez, Aloysius P, 2004). Other federations also perform the function well. The research team observed that the Kalivikendra promoted federations in Tamil Nadu monitor the SHG performance. The team also observed that the Mahila Bikas Maha Sanga (MBMS), West Bengal is grading its SHGs, once every six months. IBTADA promoted federations adopted the mutual evaluation method. Under this model known as 'Peer-Evaluation for Self-Monitoring', SHG federations are evaluated in clusters by each other and based on the evaluation a colour-coded grade is awarded. The clusters were also assessed in a federation meeting, by each other. This strategy has helped in improving the performance of the SHGs and clusters and motivating members to improve their performance.<sup>68</sup> PEDO promoted federations also started self-monitoring. PEDO's federations meetings are being organised by its constituents, PLF or SHGs in rotation. Such practices are expected to compel the SHGs to maintain some standards and quality. They have a practice of annual dividend distribution, which attracts members' interest in SHGs and federation activities (APMAS, 2006).

### 6.1.4. Sustainability of SHGs

Promotion of SHG federations became an important strategy adopted by many SHPIs.<sup>69</sup> PRADAN might have been the first NGO to promote federations as a withdrawal strategy. Sakhi Samithi- a self-managed federation promoted by PRADAN in Kishangarh Bas, in Alwar district in Rajasthan, started in 1997. After 6 years, PRADAN withdrew support (APMAS, 2003). Now Sakhi Samithi is self-managed and the members elect their own leaders. The federation also forms and trains groups, facilitates bank linkages along with providing supplementary credit to SHGs from its "Sakhi Suvidha Fund," which operates independently and serves as a bridge fund to fill the delay in receiving loans

through the bank linkage initiative.<sup>70</sup> MYRADA has promoted 53 CMRCs in its different project locations as its withdrawal strategy (Fernandez, Aloysius P, 2004). The Seema Mahila Samithi (SMS) has been transferring its functions related to health and livelihood promotion to its federation SSF. In this way the SMS is withdrawing from certain functions if not from the area.

### 6.1.5. Policy Advocacy

SHG federations, under the guidance of their promoters, are working on lobbying and policy advocacy to obtain pro-poor and pro-women policies and programs. Federations promoted by ASP, DHAN and MYRADA are leading examples for policy advocacy. DHAN and KALANJIAM FOUNDATION promoted the Indian Network of Federations of Microfinance Self-help Groups (INFOS), which could be considered as one culminating institution for advocacy of not only policy but also best practices (Box - 6.1).

#### Box 6.1 Indian Network of Federations of Microfinance Self-Help Groups (IFOS)

INFOS was promoted by DHAN Foundation and Kalanjiam Foundation in 2003. It was formally launched in October 2004 and registered under Indian Trust Act 1882 in 2006-07. The vision is to emerge as a resource network with regional centres to build the capacity of member institution, advocate best practices including self regulation, involve in policy advocacy, develop links with academic and mainstream institutions, address poverty and empowerment issues and provide services to members at affordable costs. As of now, the INFOS has a membership of 16 federations of 87,000 poor families from different parts of the country.

## 6.2. General Development Functions

In India, there is an enormous scope for federations engaged in social intermediation. India's abysmal record in human development index and severe bottlenecks in implementation of different rural development and poverty alleviation programs and faulty delivery of different vital services like health and education, give ample scope for functioning of civil society organizations (CSOs) and community based organizations (CBOs). As a result more and more SHG federations are taking up a social agenda. It may not be an exaggeration to say that almost all SHG federations are dealing with general development issues either exclusively or in combination with financial and/or other sector development issues. The numerous general development functions of SHG federations could be grouped into four broad categories. These are:

1. Awareness generation
2. Delivery of services
3. Emergency relief
4. Right based approach

Under each of above categories, federations are dealing with a number of issues. Important functions of different federations under each category are discussed below.

### 6.2.1. Awareness Generation

Awareness among poor women in rural India is very low, as majority are illiterate. They are not aware of their basic rights, legal rights, political rights, their entitlements, or how to access their entitlements. In many areas, women are not aware of basic health and hygiene issues. In most areas, their knowledge about environment and livelihoods is imperfect, at best. Access to information has been a major issue as many of them are not aware of the schemes and programs meant for the poor.

A number of social federations are working on awareness generation on a number of the above listed issues. One of the most common functions of the SHG federations is a literacy program.<sup>71</sup> To illustrate, B-MASS of Orissa, is working on a functional literacy program (FLP). It is running 73 FLP centres in its operational area. Box - 6.2 explains how an individual's concern for education became the agenda for her federation. Intideepam - MACS, Nizamabad, AP, is conducting health awareness camps through community health picnics. Himalayan Action Research Centre (HARC), Uttaranchal, promoted federations are disseminating information on a variety of themes such as Gram Sabha, health, nutrition, sanitation, education, and various schemes of governmental departments such as the installation of hand pumps, mid-day meal programmes to secure benefits for themselves and the community. The SERP federations in AP organizes a number of awareness camps in collaboration with a number of line-departments and CSOs on issues like legal, HIV/ AIDS, family planning, NREGP, etc. DHAN foundation promoted federations create awareness on social issues by using different methods; an important one is conducting Mahasabha once in a year and discussing various social issues and taking resolutions for solving the issues.

**Box - 6.2 One woman's concern for education became a federation focus.**

'Sabetha Devi, the treasurer of Gulabha Swayam Siva Manila Vices (GSSMV), Pulvari Sherif Block, Patna district, Bihar mentioned that she was ashamed of herself being a treasurer and illiterate. Though she did not have any formal education, she was elected treasurer. She was happy being elected, but ashamed of being illiterate. In one of the cluster meetings, she came to know about a Non Formal Education Centre in Chillbilli village. With her group support, she convinced her husband and joined in NFE centre and learned the alphabet and also basic mathematics. Now she is not only able to write the SHG books, she is also able to teach alphabets to her group members. At present out of 13 members in her group 10 can sign their names, one is able to read the SHG minute book and news paper and also teach other SHG members.'

## 6.2. 2. Delivery of Services

Implementation of rural development and poverty eradication programs and projects, in India, is full of loopholes and laced with corruption. SHG Federations are fast emerging as credible implementers in some of the development programs and facilitators in some other programs. The federations also increasingly take upon themselves the monitoring of implementation of development programmes and projects, the functioning of local institutions like PRIs, schools, health centres, water supply and sanitation, etc. Some examples are given below.

The SERP federations in AP are implementing watershed programmes and mid-day meals for school children. They are also managing public distribution systems (PDS) in many areas. In some of the mandals they are managing Bulk Milk Cooling Unit (BMCU) and procurement centres of maize and paddy on behalf of the government procurement agency to offer a minimum support price. SHG federations are undertaking social audit of various government programs like NREGS. SSFs, West Bengal are working on streamlining the service delivery systems by establishing linkage with line departments to avoid delays, leakages, corruption, etc. Nai disha Nari Shakthi federation preparing and supplying of supplementary nutrition food at federation level to the ICDS centres. Bharatiya Grameen Mahila Sangh (BGMS), Indore, promoted federations are delivering fortified nutritive supplement to about 50 Anganwadi centres. MYRADA's CMRCs are providing a variety of services such as land records, advice on agriculture, etc to the members on a fee for service basis. The SSFs, West Bengal run the all community development activities such as health activities, family counseling centres, etc.

### 6.2.3. Emergency Relief

The natural calamities and man-made disasters occur quite frequently in India. It is a well known fact that the poor are more vulnerable to such calamities. The Catholic Relief Services (CRS) an international donor understood in the wake of the super cyclone in Orissa in 1999, that SHGs and their federations are effective partners in disaster preparedness and recovery operations (Wilson, Kim, 2002). Since then a number of national and international NGOs are partnering with SHG federations in disaster preparedness and rehabilitation. If there are no federations in the potential disaster prone areas they are being promoted. This process got accelerated after the Tsunami of December 2004. CARE India started such initiatives in March 2005 in Andaman and Nicobar Islands, Pondicherry, Tamil Nadu and Andhra Pradesh.

SSF, West Bengal are playing an important role for immediate response and rehabilitation activities and are also involved in preparation of contingency plans for disaster management and rehabilitation aspects. Federations promoted by two NGOs, Sravanthi and Action, in West Godavari, are involved in immediate relief and response activities and are also playing an important role for preparation of contingency plans. SERP promoted federations are involved in Tsunami rehabilitation activities. These federations have distributed nets and boats to Tsunami affected people in the coastal areas of Andhra Pradesh.

### 6.2.4. Right Based Approach

Right based approach (RBA) insists that poverty is neither natural nor inevitable, but has roots in political and economic decisions. RBA helps to identify the structural and societal causes of poverty and marginalization; aims to address relations between those who wield power and those who do not; provides a means of strengthening people's capacities to claim and exercise their rights; and brings to the attention of those in authority their duties to those they serve (CARE, Undated). Obviously the poor and marginalized sections either as individual and a small group of 10 to 12 members can not address these issues. Social federations are ideally suited to take up these issues. In fact almost all SHG federations are dealing with these issues in one way or another. Some examples are given below.

B-MASS, in Orissa has established grain banks for food security during lean season. The IKP federations are involved in food security activity, under which not only rice, but some other essential communities are procured in the market made available to members on a credit basis also. SAMPARK promoted Bhil Adivasi federation, in Jhabua district; MP is addressing a range of social issues such as bride price, alcoholism and labour issues.<sup>72</sup>

ASP state federation in AP is working with 80,000 members, of whom 80% are of the Dalit (SC/ ST) community, Mr. Jyothi Neelaiah CEO of ASP has mentioned during the interaction with this study team that the ASP promoted federations are addressing Dalit issues through participation of federation board directors in national and international conferences. Andhra Pradesh Mahila Samatha Society (APMSS) promoted Utkur federation fought for Dalit issues. In Utkur village, Dalits were prevented from entering the temples. There was a two glass system, where Dalit and upper caste members would be served water and drinks in separate sets of glasses. The federation successfully fought for removal of these inhuman practices. APMSS promoted federations are focusing on gender issues in Panchayat Raj Institutions (PRIs), accessibility of available resources and asset creation from CPR lands at Hanwada village and also collective forming in Koilakonda federation in Mahbubnagar district. At the same time federations also are reviving some age old traditions, which give the members peace and tranquillity (Box - 6.3).

### Box - 6.3 Federations keeping alive cultural systems

In Nai disha federation, Bihar, each of the cluster level Board of Directors brings a Diya (earthen lamp) to cluster level meetings. They put Diyas in the centre of the meeting hall in a circle and begin the meeting with the prayer. When asked about the practice of Diya, Ms. Sunitha Devi, president of Shiv Shankar group, said that they feel that 'attending a cluster meeting' is like 'visiting a temple'. Therefore they started the practice of carrying a Diya to the meetings. This practice, according to her, is giving them peace and tranquility and they are able to vent about their domestic stresses.

## 6.3. Governance and Functioning

Each federation's governing body gets elected from the representatives of its constituent federations/groups. Invariably, the ALF/SLF has staff, which is on deputation from the promoters. Usually the promoters meet the staff cost in the initial years and expect the federation to takeover the staff cost gradually. Usually the governing body, which meets once or twice a month, takes all decisions. In the initial years, the staff members implement the decisions of the governing board. Initially the staff members facilitate the organization of meetings and their proceedings. Gradually, the office bearers take an active role in organization of meetings and in discussions. They also start taking an active role in implementation of the governing board's decisions. As federations mature, they start appointing sub-committees to implement different decisions of the governing board.

Some promoters provided corpus funds to federations. For example, SERP provided Rs. 67.5 lakh per MS to about 900 MSs and smaller amounts to remaining MSs. PRADAN facilitated SAKHI SUVIDA FUND to SAKHI SAMITI federation, in Alwar district, in Rajasthan. The federations have to on lend the money and use the interest income to meet their operational expenses. Some federations earn their revenue from line departments for service delivery. E.g. the VOs in Andhra Pradesh were provided with about Rs.8,000 to provide basic facilities like drinking water at APREGS work sites. Some federations get membership fees from their members as revenue. These federations collect both a one time membership fee and annual fee. Usually NGO promoted federations collect the member fee and annual fee. The federations of DHAN, PEDO and MYRADA's CMRCs get membership fees from their constituents. Federations also collect service fees for specific services like bank linkage, training, book keeping, audit, etc., from their constituents.

Government promoted federations does not receive adequate annual fees or specific service fees from their constituents. The official promoters provide operational costs and staff salaries to federations. Perhaps relevance and quality of service may be one of the reasons. Another reason could be that the federations' agendas might not have evolved from the bottom. Yet another reason could be that the SHGs and members may not be feeling that they are owners of their federations.

## 6.4. Sustainability

Federations need money to meet their operational costs. The funds requirement depends on the size of the federation, area of operation and its functions. The CMRC needs about Rs. 20,000 per month to meet its operational costs including the salary of the manager (Fernandez, Aloysius P, 2004). The MS in AP needs about Rs. 50,000 per month. Most of the PLF, which are working in a village/ Panchayat or ward/ slum are getting good opportunities to deliver different services on behalf of different official agencies and others are getting good revenue, over and above its operational costs. Some of the NGO promoted federations, which are fulfilling the felt needs of their

constituents, are also getting enough funds from the contributions of constituent members. For example, in the PEDO promoted federations the SHGs contribute to the operational cost of federations in the proportion of their income in that year (Box - 6.4). CMRCs have come even within two years (Ibid). The federations which involve in rotation of their corpus may have potential conflict of interest with bank linkage program. The federations that are yet to break even depend upon promoters to meet their deficit. In the absence of promoters' support, federations tend to rationalize their services/ functions and tend to focus more on revenue generating activities. At times federations even neglect

#### Box 6.4 Revenue generation by Dambola Federation of PEDO, Rajasthan

This federation's major sources of income are (a) annual membership fee of Rs. 50 from members of SHGs, (b) 1% processing fee on loan to the SHG members (both internal and bank loans) and (c) service fee. The annual budget is prepared for the federation with the participation of the President and the staff of the federation with the support of PEDO. The budget covers administrative expenses like staff salaries, travel costs, stationery, meetings, general body meeting, audit fees etc. Based on the budget every SHG contributes its share based on their income earned for the year. The SHG share of budget is paid to the cluster and the clusters would in turn transfer the funds to the federation. The systems that have been inculcated for all the different tiers -of monthly reporting, meetings, trainings, review, budgeting etc. have facilitated the process of management. The major work however, is done by the employees of the federation whose performance is monitored and reviewed by the federation. The federation is self-sustainable in terms of meeting all the operational costs from the year 2006-07. Earlier, PEDO had met all the costs.

All federation promoters are investing a great deal in capacity building of office bearers of their federations. The SERP in AP is, perhaps, leading in this aspect. DHAN is, perhaps, the pioneer in capacity building of their federations' office bearers and facilitating co-learning. 'One of the "Kalanjiam Leaders" Chinnapillai has been honored with Stree Shakthi Puraskar, a national award by the former prime minister of India Atal Behari Vajpayee (Vasimalai, M. P and K. Narender, 2007)'. ASP trains its federations in cooperative values, gender awareness, women's rights, health related issues, best practise in the federation, dealing with various social issues, and awareness about the various government schemes etc.

Inability of federations to find their own staff is a big challenge in their sustainability. Even after the federations attained financial self sufficiency, the staff remained on deputation from the promoters. One of the reasons could be that the staff prefers to stay on the rolls of the promoters, which are usually financially strong and stable. Another reason could be the promoters themselves may be interested to keep the status quo to keep in touch with, if not to control over, their federations.<sup>73</sup> Continuous association with promoters has both positive and negative implications for the federations. The positive factor is that federations continuously get guidance and support from promoters in realizing their vision and mission. The potential negative implication is that the agenda of federations get influenced by the promoters, which may or may not address the locally felt needs.

## 6.5. Conclusions

In India there is vast scope for social intermediation. Social federations, being the poor women's own CSOs, can play an effective role in articulation of the aspirations of the poor and downtrodden women, in proper delivery of services for poverty eradication and women empowerment.

## Chapter-7

# Livelihood Federations

As part of the study, this chapter takes the reader through SHG federations taking up livelihood promotion activities. It examines the perspectives and experiences gained at different levels across the country.

### 7.1 SHG Federations and Livelihood Services - An Introduction

The **'self-help'** process, which began with a small agenda of thrift and credit, slowly gained momentum. There was the pro-active involvement of members in different development programmes with an aim of **livelihood promotion**. Stakeholders at different levels viewed self help groups (SHGs) as a first step to empower women and thus contribute positively towards poverty reduction. Gradually, initiatives took shape and evolved as a means for carrying out and contributing towards bringing required change and add value to the livelihoods of the poor with required transformation of their role through institutionalization processes required for collective action.

The members of SHGs, in rural and urban areas are predominantly women, representing the poor sections of society. While SHGs and its federations have been providing financial services to their members of a reasonable extent, experience suggests that finance is only 'one of the necessary conditions' to poverty reduction. For optimum and better utilization of financial services, the poor require a variety of livelihood promotion services, for which federations are best suited as they are owned and self-managed by the poor and can work for themselves under the 'self-help'.

Self-help groups, as a major means by which delivery of microfinance in India is taking place, have brought dramatic changes in the lives of many women. Andhra Pradesh, with strong support of the government, has the largest network and has gone beyond such conceptual provisions of credit, and assumed many delegated and non-delegated responsibilities for themselves. The Andhra Pradesh model is a pioneer of its kind, which has emerged on its own, that could be strengthened further and considered for wider replication. It might be true that SHGs have been conceived fundamentally as entities for savings and borrowings. This may have been true, at emergence stages of SHGs, but today, in some parts of the country, SHGs and their federations are taking on new roles and responsibilities that lie in securing livelihoods of the poor. Indeed, with the emergence of such social capital, they offer great potential for addressing the concern for themselves, which needs to be greatly recognized, praised and encouraged.

### 7.2 Capacities of SHG Federations to Provide Livelihood Services

Over the past few years, two schools of thought have emerged with regard to the capacities of these community based organizations (CBOs) in taking up additional

tasks of playing prominent roles in promoting livelihoods through different initiatives including NRM, small enterprise promotion, and marketing.

An impact assessment study<sup>74</sup> done by BASIX, revealed in its observations, that micro credit is a portfolio that involves credit services alone and can be handled by SHGs or any other forms of savings, thrift and credit groups. It further states that livelihood finance<sup>75</sup> will require large amounts and may require more than just loans such as equity or risk minimization and/or mitigation funds with some public subsidies. This subsidy component will go a long way, being always for collective purposes to get rid of people's vulnerability.

This was substantiated even earlier when some of the bi-lateral projects (DFID, World Bank) and programmes (in promoting livelihoods) piloted in various states led to elevation with enormous confidence levels among federations and groups to take up the role of facilitating different livelihood activities. This had led to a huge infusion of grants and channeling of funds through these institutions, for the purpose of livelihood promotion activities. The process does not end up here; these village level women federations are made as channels to route capacity building funds to take up monitoring roles with formation of sub-committees in supporting and reinforcing different activities in the village. In Andhra Pradesh, this proved to be a good examples of conducting social audit for mega programs like National Rural Employment Guarantee Schemes, taking active part in health and education schemes, NRM programmes, taking risks, and promoting peoples' participation in all development programmes etc.

There are a few best practices, in the form of cases available within Andhra Pradesh. (NPM and IPM practices by *kosgi mandal mahila samakhya* with the facilitation by WASSAN and IKP, *Daulatabad Mandal Samakhya* in Mahbubnagar implemented 14 watersheds and bulk marketing of agriculture produce, NTFP, revival of BMCUs by *Kotapally mandal samakhya Bobbarachilaka Village Samakhya, Chennuru Vennela BMCU* respectively in Adilabad facilitated by APMAS under IKP initiatives). These are being effectively implemented by these federations of women SHGs at village and mandal, district as well as state level linkages. These federations were receiving intensive support and inputs in terms of effective role to be played by human resources in handling activities, nurturing and mentoring support from projects like UNDP, IKP, local NGOs and facilitating agencies in crafting them to take up such tasks.

Further, it is observed that whosoever is involved in facilitating these processes, federations have been successful in projecting their planned activities for implementing and reaping financial benefits from collective trade on various commodities like maize, rice/paddy, NTFP etc with a business development perspective. This is almost similar to the selected cases studied, across the country with various institutional forms promoted for improving their livelihoods, whether it is SHG federations or commodity cooperatives, producer unions that are promoted and supported by pioneer institutions like SEWA, Pradan, CDF, and SIFFS etc. Findings from the present study made in selected states of the country show that other states like Orissa, Rajasthan, Gujarat and others in the Northeast are trying to replicate, with appropriate modifications, the model of SHG federations promoted in Andhra Pradesh for its duality: micro finance and livelihoods of which to some extent is driven by donors too.

Promotion of activity based SHGs and federations and registering them into producers' cooperatives and companies in Madhya Pradesh was initiated by PRADAN and followed by rural livelihoods program. SGSY is reaping good results, in improving the income levels of poor through external marketing linkages and facilitating bulk marketing for the commodities produced by poor. These initiatives are being seen as an effective institutional form in promoting livelihoods of the poor.

To stress up on, promotion of livelihoods requires long-term thinking and continuous capacity building or skill up-gradation plans to arrive at logical conclusions. This involves a chain of activities where indigenous knowledge may need to be coupled with required technological upgrades from time to time, to serve the purpose. This is a dynamic intervention and the institution has to be prepared to handle the timely changes that occur due to various externalities. In this backdrop the study also reveals that the SHG federation model could travel to a degree of extending credit services to such sustainable livelihood initiatives with the help of donors, formal financial institutions and also by making use of their own savings. The government set-up is also promoting such initiatives, through credit-worthy institutions to cater to different services and multiply their activity that helps them to come out of poverty.

### **7.3 Institutional Elements for Livelihood Promotion - An example of collective marketing initiative by Indira Kranthi Patham<sup>76</sup>**

Promotion of livelihoods relies more on institutionalization process with appropriate internal systems, norms, control mechanisms, legal entity to do business activities, internal governance along with required transparency to maintain with. The existing models promoted by IKP in AP, stand as examples for federations as institutional models to promote livelihoods. They got evolved in the course of promotion of federations through IKP, seeking learnings from different interventions taken by Outreach, MYRADA and others in the state.

Rice credit line, non timber forest produce procurement and marketing, family and legal advisory services, health camps, and collective marketing, are some of examples of promoting livelihoods. With a view to bring the SHGs together in the village and empower their members socially and economically, a federation of SHGs was assigned the role of livelihood promotion in Indira Kranthi Patham with the following objectives:

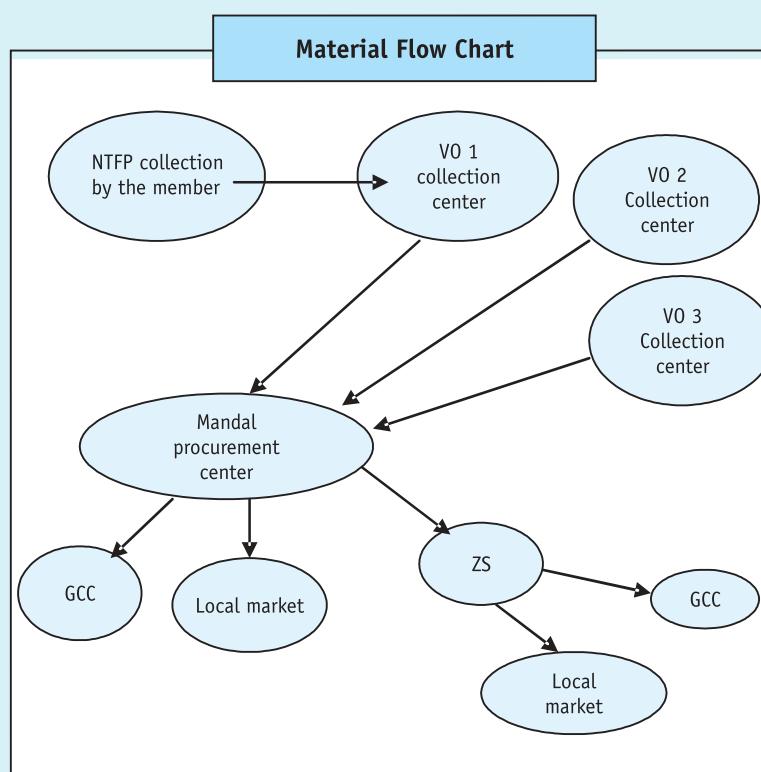
- Increase the income and economic status of the community with a focus on women
- Get benefits by reducing expenditure and making use of local resources as inputs for livelihood activities
- Encourage risk mitigation processes and approaches for sustainability of activities
- Increase the number of wage days and income levels at household level

These activities began with financing the livelihood activities through the process of developing a micro credit plan to ensure the need and feasibility of the livelihoods being taken up and followed by monitoring the usage of fund allocation, ensuring external aid and support viz., facilitating external linkages through formal financial institutions, risk reduction through the adoption of cost-effective steps, insurance component built within the loan component, and reducing the time taken by the members to sell their produce by external market linkages and promotion of consortium selling/collective marketing with better bargaining power.

### 7.3.1 SHG Federations - Initiatives on Promotion of Livelihood - Case Studies

#### 7.3.1 (a) Collective Marketing of NTFP by SHG Federations

The marketing interventions in IKP have registered a significant increase during the past three years. Project interventions in commodities such as Lac, Gums, Pongamia, Shatavari and other medicinal plants have picked up from 2004-05. In addition, the VOs and MSs have successfully implemented village level collective marketing of neem, redgram, soybean, castor, groundnut, turmeric, cashew, etc. The material flow chart for the collective marketing is as given below.



#### Procurement process

1. Grades and minimum quality standards are set in tune with market requirements for each product
2. Each shandy day is usually the weekly procurement day
3. The collectors accumulate produce and bring it to the procurement center on that day.
4. The members are paid instantly on delivery of stock
5. Each procurement center is equipped with basic infrastructure such as weighing balances and gunny bags. Rooms are hired on rent for storage purpose. In a few places they have been notified with the forest department for such collections to be made.

#### Maintenance of Books

1. At the procurement center a bill book and a stock book are maintained
2. As the activity belongs to the MS, the books are maintained at the procurement center on behalf of MS
3. The present stock receipt is similar to delivery challan but does not contain all required details such as receiver, permit and mode of transport, way bill etc.
4. Procurement team indents for cash required and MS releases the advance
5. Stock monitoring is done once in a week by the botanist

#### Process steps in selling

Procurement centers were set up at Mandal level and the Village level to facilitate collection of the product at one place. The members were paid then and there by the VO. A sub committee in each village is formed at the VO level that represents their village at the Mandal level. This committee was responsible for procurement, proper weighing of the produce and payment to the members. Until March 2007, 416 MSs and 3,029 VOs have been involved in this collective marketing covering more than one lakh families with 57 types of commodities. The turnover from this activity has been more than 25 crores up until now.

- The District Federation scouts for orders and negotiates with bulk purchasers. It further communicates with MS on the requirements, price, and the supply. It also timelines the activities.
- The MS gets into the deal, if the price and other conditions are satisfactory and notifies VOs for their acceptance.
- The MS settles the advance account on lifting the stock from VO.
- The stocks are lifted from the VO stock points and sent to bulk purchasers directly avoiding downloading and uploading at MS and ZS levels.
- Stock and procurement details are discussed in the monthly EC meeting of MS.
- The costs of transport after VO, including loss in weight, storage and transit losses expenses are incurred with respect to cash deposit and bank charges and travel expenses of the procurement team. These are borne by either the MS or the purchaser depending on the agreement made between.
- The packing and hamali (loading) charges are borne by the VO at their level.
- The case of livelihood services through SHG federations need enormous amount of inputs to make this institution feasible.

#### 7.3.1 (b) Promotion of Enterprising Model - BMCU<sup>77</sup>

Gangavaram is a Mandal (an administrative unit consisting of 35-40 villages) in the District of Chittoor in Andhra Pradesh. People mainly depend on rainfed farming. Continuous drought in this area has lead to increased migration, daily wage labour, and looking for alternative livelihoods. The SHG federations while developing the micro credit plan short listed milch animals as one of the possible alternative livelihood option the members can pursue, members sought loans for purchase of milch animals under the Community Investment Fund and credit from formal financial institutions.

Marketing was one of the concerns discussed by the MS members and an idea to start milk collection centers and a bulk milk cooling unit (BMCU) came up during the discussions among the officials and community.

DRDA agreed to support the federation with grant funds for the construction of building as well as the machinery under the SGSY program. As a result, in the year 2005 discussions were held with NDDDB promoted Balaji dairy and an MOU for buying the milk was arrived at between Mandal Samakhya and the Balaji Dairy.

BMCU began functioning during March 2005 in a rented building with a grant of Rs. 815,481 for the machinery from DRDA. A sub committee with three members was formed in the MS, whose role was to ensure at least 3000 lts of milk procurement from the villages under the purview of federation, check quality of milk being collected at the centres, interact with village level clients to ensure that they do not pour milk to private milk collectors and ensure timely and periodical payments through cheques. DRDA has provided Rs. 975,000 for the construction of the building. The MS will also have its office in the same building.

### **Role of Mandal Samakhya**

- Ensures that Balaji Dairy receives 3000 lts of milk per day
- The quality of the milk has to be checked by the village federations and MS
- Ensure the cooling process has been properly done
- Pay the BMCU staff
- See that more members enroll themselves to sell milk
- Discuss and resolve issues and conflicts in the monthly meetings
- Invite veterinary doctors for providing orientation to members on management and diseases or epidemics occurring to the milch animals
- Facilitate insurance for the milch animals whenever purchased by the members at a premium of Rs. 550, a one time payment

### **Role of Balaji Dairy**

- Payments to MS in time as per the price agreed upon
- Payment of commission to MS @ 35 paise per litre
- Payment made to the Palamitras @ 4% per litre cost
- Transportation cost towards the carrying of milk from the milk center to the BMCU
- Provide quality cattle feed and mineral mixture at reasonable prices to the beneficiaries through the Palamitras<sup>78</sup>

### **Coverage**

About 490 SHG members from 102 SHGs of 12 VOs in 29 villages are being served through this BMCU.

### Financial Costs and Sources for Payment

- A separate bank account is opened with Indian Bank in that area with sub committee members as signatories
- All the payments are made through cheques to the beneficiaries/members who sell the milk to the BMCU
- Beneficiaries receive Rs.9.50 to Rs.12per liter for the milk given in collection centers.
- Payments are made one in 15 days to these milk sellers/beneficiaries

### Staff Appointed and Payments Made

- The federation has appointed a typist, a computer operator and a helper at the BMCU and they are paid by the federation from the commission they receive from the Balaji Dairy which is 35 paisa per liter.
- Balaji Dairy has appointed one Para workers called Palamitra for each village whose responsibility includes collection of milk at the milk center and send it to the BMCU. These Palamitras get 4% per litre from the Balaji Dairy for these activities

### Major Issues and Challenges

1. Ensuring quality in the context of more private buyers coming in.
2. Ensure that 3000 lts of full capacity is pooled in every day because many of the private buyers approach the members and collect the milk.

### Achievements

1. As of March, 2007 the MS could make a net profit of Rs. 60,000 from this initiative.
2. The beneficiaries earn a gross profit of Rs. 1,800 per month on an average depending on the number of milch animals they possess.
3. The MS has demonstrated this as a successful venture, which became a model in the District. With this experience there are more numbers of BMCUs coming into existence in the District.

This initiative proves that with proper facilitation, such kinds of enterprises can be successfully promoted and proper systems would lead to increased incomes to the poor.

### 7.3.2. (c) Promotion of Livelihoods Through SHG Federations - NRM Initiatives<sup>79</sup>

Outreach has promoted SHG based federations at cluster level each consisting of 10-20 SHGs and number of villages ranging from 5-8 depending on the size and geographical area. Each CLA (Cluster Level Association) provides financial and non-financial services to its associated members and groups. Outreach as a promoting agency raises funds for these CLAs to offer lending to the members and also to provide required support towards strengthening their livelihoods.

## Functions of CLA Include;

- Collection and consolidation of agriculture inputs required for members
- Plan development programs such as watersheds and natural resource based livelihood programs
- Conflict resolution among the SHGs
- Trading activities of various commodities such as agriculture inputs and outputs
- Represent and lobby with institutions for linkages
- Recommend loans for the SHGs
- Promotion of individual and group enterprises
- Represent village/members' needs such as electricity, water etc. at the Panchayat and Mandal offices

Sources of funds to carry out activities include savings, donations, interest on principle, fines or tariff, contributions, program costs, membership fees, interest share on loans, trade/service, profit from business activities, bank interest, and interest on IGP loans.

With the efforts of Outreach, the government allotted 9 watersheds to 9 CLAs, one each for implementation on a trial basis. These 9 CLAs of women could implement the program successfully following the best practices and process guidelines in watersheds and could generate Rs. 78000 per watershed through productivity enhancement activities taken up, which is added to their corpus for loans to the members. Other than this, following outcomes counted towards their efforts made in those villages. These CLAs stand as a good example for taking up government programs and addressing the livelihood needs of their members in 9 Gram Panchayats successfully.

Such involvement gave a different perspective in enhanced capacities of women SHG federations and building confidence levels to take up such livelihood interventions effectively. This experience had brought more learning, which could be discussed to understand the widened roles that SHG federation had taken up in promotion of livelihoods on their own collecting required support from facilitating and or promoting agency to succeed further.

## Process Steps and Role of CLA in Implementation of Watersheds

The CLAs had a monitoring committee consisting of 7-10 members to facilitate the following;

- Preparation of participatory watershed plans in an integrated manner with a ridge to valley concept through net planning and covering the poor as beneficiaries through allocation of funds for different components as per the guidelines.
- Formation of training committees at village level, in orienting the members with the support of project facilitating agency.
- Mobilization of contributions from the beneficiaries and ensuring the quality of structures as well as ownership for further maintenance.
- Operation of separate bank account for watershed development fund towards post watershed maintenance.
- Allocation of works to the labor groups in a systematic manner for better execution of works and bringing equity parameters.

- Payment of timely wages with all necessary quality and record maintenance.
- Service fee payment to community organizer for looking after micro finance activities.

Such involvement gave a different standpoint ensuring capacities of women SHG federations and building confidence levels to take up the livelihood interventions effectively. This experience could bring more learning which may be discussed to understand the widened roles that SHG federation can take up in promotion of livelihoods on their own with required support from facilitating or promoting agency to succeed further.

#### 7.4 Observations

- Federations providing livelihood promotion services have good bearing on SHGs and the federations have savings and credit activities on their agenda.
- The few above mentioned cases demonstrate working models on context specific livelihoods of one kind and not supporting multiple livelihoods.
- The livelihood finance comes from externally aided projects whether government or independent donors and internal resources are not sufficient enough to carry such activities by the federations along with appropriate linkages.
- The programs are supported and nurtured intensively by the promoting agency and their roles are limited to monitoring of the activities, loans and facilitating systems and procedures within the federation.
- On average, the promoting agencies have been working for around 10 years and continue work on the livelihood agenda.
- The federations are registered under different legal forms to fit the livelihood activities they pursue with such initiatives.
- SHG-Federation model is followed to ensure repayments, to bring in uniformity with the processes and to draw resources internally.
- Internal control systems may not work fully in the absence of an external agency that can provide catalytic support due to equal amount of share hold by members.

For SHG federations to implement livelihood activities effectively there must be strong and vibrant SHGs at the base who can own-up such initiatives, seek services from other federations as well as line departments and follow norms evolved to promote livelihoods. Strong governance at the federation level with good leadership to spare time and energy towards these initiatives, orient themselves towards different aspects involved in promotion of livelihoods is the key. Along with good governance, institutionalizing internal control mechanisms and financial systems and the ability to do cost-benefit analysis is important to integrate the livelihood initiatives with market-oriented approach.

## 7.5 Conclusions

Going back to the important question of whether SHG federations are the right kind of institutions for the promotion of livelihoods, the following issues and concerns require serious thinking. Inputs need to be designed along those lines.

SHG federations can definitely be an appropriate institutional form, if the following aspects are taken care of:

- Federations can be sustainable as an institutional form with an initial role of bringing the community together to discuss common issues related to their livelihoods and action that has to be taken up collectively.
- Activity based subgroups within the federation are essential, so that services towards livelihoods are not limited to a single activity or a group of members alone.
- There is a need for continued technical support from external agencies which are competent and committed to the agenda of promoting sustainable livelihoods.
- There is a need for external infusion of capital along with right kind of linkages from the government and the promoting agency with a synergetic approach.
- Livelihood involves a sequence of activities which cannot be delivered by one agency and requires a collaborative approach in providing the skill base.
- Livelihoods need to be promoted based on the asset base that the poor have or create an asset base with better access for sustainable impact creation.
- It has to be a long term intervention plan.
- The practices promoted need to be local to make access and maintenance easier.
- Focused studies on overt and hidden costs need to be undertaken to plan for covering these costs everyday.

## Chapter-8

# Performance of SHG Federations in India

### 8.1. Introduction

This chapter presents the performance of SHG federation across India. Since its inception, APMAS has been focusing on the sustainability of the SHG movement. It has developed a rating tool called GRADES<sup>80</sup> for assessing the quality of SHG federations in India. Over the years, more than 400 SHG federations have been assessed by APMAS, primarily in Andhra Pradesh and also in Orissa, Tamil Nadu, Maharashtra and Rajasthan. In addition to that, a team of professionals from APMAS studied seventeen federations from eight different states in India. This chapter presents the findings of the analysis of the quality assessment data of 83 federations assessed during 2003-2005 and also the seventeen federations studied during July - September 2007 (table 8.5). This chapter looks at the performance of the federations on aspects including governance, resources, asset quality, design and implementation of systems, efficiency and profitability, services to constituents, and SHG performance. Different kinds of federations have been studied such as cluster level federations, block level federations, registered, unregistered, those promoted by government and those by NGOs.

SHG Federations, in the microfinance sector over the years, have evolved into vibrant institutions providing a variety of services to the constituent SHGs. The structure and the functions of the federations, however, vary from promoter to promoter and from place to place. A federation is not a spontaneous social institution emerging out of the people's initiative. It has to be consciously promoted and nurtured by a self help promoting institution (SHPI). The federation is a cooperative activity and the conventional idea of cooperation is in the federation, but the structure is an advancement over the conventional arrangements. Hence, representative and participatory processes govern it. The main objectives in establishing such institutions is to support the growing SHG movement with an organized solution to problems arising from time to time in the constituent SHGs and provide support to their strengthening. The federations serve the purpose by not just facilitating social empowerment in the SHGs but also providing a financial base to build and transform the institutions into effective institutions for poverty alleviation. There are a large number of federations functioning in the country that provide a wide range of services like micro finance, livelihood promotions and social support, and also the other services as per the need identified at the members level (different typology of federations is given in chapter-3). It is also important to look at the performance of these federations and their potential for sustainability. The effectiveness of federations depends not only on the financial turnover achieved but also on the quality of services provided to their members.

## 8.2. Governance

Governance plays a critical role in the overall performance and sustainability of the SHG federation. Governance in a federation consists of various components such as a member's ability to set long term strategies to realize long term objectives, understanding the role of the board and office bearers to steer the federation in the correct direction, ability to frame and apply the by-laws which are essential for organizational structure, comply with statutory requirements according to the legal form, ensure two way communication flow between primaries and federation in order to ensure endured member's participation, and place the systems for operational management and financial accountability. Greater control over the governance of the federation by the members is considered better performance. This could manifest through representation of members in the executive board, or through other parameters such as frequency of meetings, transparency, budgetary discussions, etc. Federations are promoted by the promoting agency according to their project objective/philosophy which ultimately influences the objectives of the federation, which often may not relate to the core interests of the members. In this process federations are over dependent on their promoters. Major challenges in promoting good governance in member owned and member managed institutions are addressing the issue of ownership which is often caused due to conflicting interests of promoters and members' core interests. Effective governance could be ensured by integrating the members' interests and promoter's agenda in order to evolve a shared vision among the members which can create greater ownership.

In a majority of federations, the board members have a reasonable understanding of the federation's vision, objectives, functions, roles and responsibility, but they do not have a long-term strategy with an articulated business plan. The board meetings are regular with low attendance in all cases and decision-making is based on majority. However, only a few board members participate in the discussions, and often decisions are as suggested by the President and/or Secretary of the federation. In some of the federations, board members do not review previous decisions, progress, MIS, or staff performance in their monthly meetings. At levels closer to the SHGs, the representatives of the members seem to have a greater say in operations. Their presence diminishes as one moves up the tiers of the structure where the professional staff has a greater say in determining how things are run.

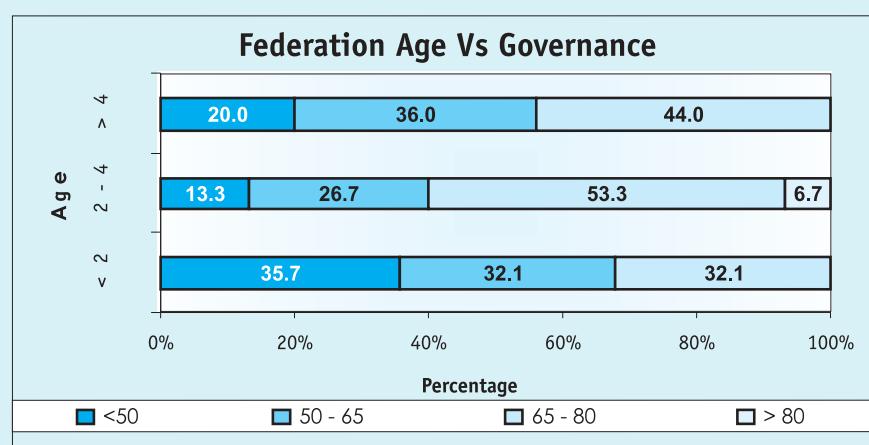
There is a marked absence of second line leadership, at the federation level. Once the board of directors changes by rotation, the second level board members do not have same level of capacity to manage the affairs of the federation. In some federations, namely those promoted by the government, compulsory change of leadership is advocated by the SHPI. Suddenly, some "become" leaders, and by the time they come to understand fully the functioning of the federation, it is time for them to retire. Absence of second level leadership at the federation level results in staff dominating the decision making and influencing policy, over a period of time. Also, as the operations of the federations become more complex, staff tend to dominate.

With high member managed and controlled federations, quality of governance and social sustainability is enhanced to impact the social fronts. It was noticed that federations that take up women's empowerment and/or livelihood issues along with financial intermediation (multi purpose federation) have greater ownership and, interestingly, on pushing the external linkage with panchayats, government departments and local banks. They seem to do well on these fronts by engaging or collaborating with the external agencies. These federations have limited focus on portfolio quality and financial sustainability.

Almost all the federation in Andhra Pradesh are registered under the Andhra Pradesh Mutual Aided Cooperative Societies Act, 1995 (APMACS); in Tamil Nadu under the Mutual Benefit Trusts Act; and other parts of country registered under the State Societies Act or Trust Act or new generation cooperative act (like APMACS Act). The board members have limited understandings of statutory provisions and legal compliances.

### SHG federation age Vs Quality of governance

As per APMAS' assessments in Andhra Pradesh during 2003-05, governance improves with age in the initial years. Later, the quality reduces. As may be seen from the following graph the federations with very high quality of governance were of 2-4 years of age. Overall, too, federations in the 2-4 years age group were better at governance than those less than 2 years of age. However, where 60% of federations between 2 and 4 years of age had scored more than 65% on governance parameters, only 44% of federations above 4 years of age scored as much. So, too, federations that had scored less than 50% were lowest (at 13.3%) for the 2-4 year old federations, and while this was expected to be even lower for those aged over 4 years, that was not borne out by the data. It appears, therefore, that governance initially improves with age, only to begin to slip again, with further aging. This could be due to the reduced support/ withdrawal of the promoters.



N=83 federations assessed in Andhra Pradesh during 2005-07

Governance is directly proportionate to the performance of the federation. If the quality and the understanding of the governance are good, then the performance of the federation automatically increases. Good governance is a result of the SHPI's role in facilitating inputs on governance.

### 8.3 Resources

#### Human Resources

The majority of federations are heavily dependent on the promoter for their resources. Often, the federations receive grants, both as corpus, for meeting recurring expenses, and as seed capital/revolving funds. Almost all SHG federations have paid staff. In many cases, the federations' staff are recruited, trained and paid by the SHPI. The SHPI recruited staff are qualified, competent and have reasonably good field experience. The staff residing locally or appointed locally (especially women staff) are more committed compared to the promoting organization recruited staff. The local staff members are able to carry out routine work efficiently; however, they need to gain knowledge on technical aspects, fund management, and accounting. It is observed that local staff members seem more accountable to the board.

Human resources in federations appear to mature with the age of the federation; the older federations have better quality of people working for them. Most SHPIs invest considerably in human resource development, and this appears to have paid dividends. NGO supported federations, have good quality of human resources compared to government supported federations, because NGO supported staff are focused and monitored closely by the NGOs. Staff employed with financial federations seems to

perform better than staff employed with federations providing social services.

### Financial Resources

A good federation looks towards making funds available for lending to member-SHG. It is observed that at the federation level the fund availability per SHG is insufficient to meet member SHG demands. In some cases, the fund availability in the federation(s) is much lower in comparison to the funds in SHGs. In such cases the SHGs are not interested in being a part of the federation. Federations started internal fund mobilization from SHGs in the form of savings. Based on APMAS' assessment, just above 13% of federations have more than 20,000 per SHGs which is much less than average NABARD bank linkage per SHG. Funds available with federations clearly grow with the age of the federation, and nearly a third of federations over 4 years of age, have more than Rs 20,000 per member available, for lending. Very few federations have accessed external borrowing from financial institutions. Idle funds are high at the federation level compared to what is expected as per good practice. This is a paradoxical situation as SHG members want larger loans, and yet there are high idle funds both at SHG and federation level.

Table 8.1 Funds per SHG			
	Funds per SHG (in Rs.)	No. of Federations	
		No.	%
1	< 5,000	26	31.3
2	5,000-10,000	32	38.6
3	10,000-15,000	10	12.0
4	15,000-20,000	4	4.8
5	> 20,000	11	13.3
	<b>Total</b>	<b>83<sup>81</sup></b>	<b>100.0</b>

Inadequate fund management capacity results in high amount of idle funds. Each SHG member want a loan of Rs. 10,000 to Rs. 30,000. However, the funds of SHGs and the federation together are much lower than the requirement as shown in the table. However, the situation has improved in Andhra Pradesh with average loan size from bank per SHG being Rs.100,000 for SHGs that have a repeat loan. The large gap between supply and demand clearly indicates limited fund flow from banks and other financial institutions to the SHGs & federations. The income source for social intermediation federation is service charges on various services provided to SHG members. The federations get funds from donors in the form of capital grants resulting in high Capital Adequacy for the federations.

### 8.4 Asset Quality

Asset quality is measured here by using Portfolio at Risk (PAR)<sup>82</sup> and Arrears Rate<sup>83</sup>. PAR is considered to be a more appropriate measure of Asset quality as compared to Arrears Rate. In majority of federations using repayment rate is used as one of the indicator to assess asset quality. However, for those federations that are not involved in financial intermediation, this is not applicable as they provide non-financial services and collect a service fee.

It is generally observed that at the SHG level, there is over 90% repayment of external borrowings i.e., loans from Banks and other Financial Institutions. Loans from Federation are seen more as internal loans, and usually are given a second priority in the case of repayment. The recovery performance at federation level with respect to SHGs is lower than repayment to banks. The repayment rate appeared better for the federations that were neither too young, nor too well established - federations less than 2 years and more than 4 years age categories, reported low loan recovery from member-SHG. Because the federations too are in the nascent stage, they did not have repayment schedule

and credit discipline and federations more than four years have a bigger loan size. These trends can be observed in government supported federations. The Portfolio at Risk (PAR)>90days has been increasing in older federations; it ranges from 10% - 100%. Where there is good loan monitoring, the federation level recovery rate is generally above 85%. In general, it was found that the financial federations have maintained a low level of PAR vis-à-vis multipurpose federations. This could be attributed to the presence of effective default management mechanisms. In financial federations, the staff and member orientation on credit discipline is found more effective as compared to multipurpose federations. It was observed that application of key delinquency control tools like portfolio tracking, ageing of loans which are used to control delinquency are largely absent with a few exceptions. The management was not aware of the level of delinquency in most cases. Neither was there any policy on delinquency found in most of the federations. Even where such a policy was spelt out, it was not enforced.

Loan Diversification is confined primarily to Agriculture & Animal Husbandry (primarily dairy). These two major sectors have more than 60% share of the loan portfolio. High exposure of the loan portfolio to agriculture makes the repayment performance dependent on the monsoon. The increase in the financial resources would surely lead to the increase in the quantum and quality of the asset, mainly the loan portfolio that has to be maintained and effectively managed by the federations for their financial stability.

**Table 8.2 Internal Repayment and PAR of SHG Federations**

	Internal Repayment Rate (%)	Federations		PAR > 90 days (%)	Federations	
		No.	%		No.	%
1	< 65	31	37.3	< 5	23	27.7
2	65 - 80	15	18.1	5 - 15	15	18.1
3	80 - 95	19	22.9	15 - 25	10	12.0
4	> 95	18	21.7	> 25	35	42.2
	<b>Total</b>	<b>83</b>	<b>100.0</b>		<b>83</b>	<b>100.0</b>

Age of the overdue seems to have more of a serious impact on sustainability than just absolute levels. The federations with huge overdue (>90 days) were found worse on various aspects including sustainability. Portfolio quality has also suffered in cases where the annual growth in portfolio was found to be very high (*excess of 30 per cent*) in government supported federations. There are a lot of idle funds (*especially borrowed funds on which the institution loses money*). This could be attributed to inadequate capacity to handle the growth in portfolio. Hence, contrary to the belief, scaling-up does not always improve or guarantee sustainability. Capacity to handle growth remains the key. Spreading growth over a number of years, in line with capacity to manage growth/complexity (*interdependencies*) appears important.

### 8.5 Design of Systems & Implementation

The SHG federations engaged in financial intermediation should have appropriate systems compared to the federations doing social intermediation. It is observed that the performance of the federation in record keeping, managing internal control and information systems is moderate.

#### Accounting

The federations have slowly picked up in maintaining books of accounts which are most important and compulsory for any financial federation. These books include minutes book, loan ledger, cash books, and general ledgers. Updating of books and accuracy is still an issue in all the federations irrespective of the age. The federation maintains receipt and payment vouchers, but the supporting documents are missing. APMAS' experience during the Quality Assessment of the federation in Andhra Pradesh revealed

that there are a huge number of files and records maintained according to the external funds mobilized and there were also a number of new sets of books introduced as required by the donor or funding organization. This was seen in both the NGO and government promoted federations. As a result there is a huge gap in maintenance and updating of books regularly.

### **Management Information System and Internal Control**

Information system is a major concern in SHG federations. There is abundant information and data, all of which is scattered and the big challenge is to process this data and get it into a usable form which can help the management in decision making processes. The two way flow of information in the federation is found in very few numbers of federations. The flow of information from federation to SHG is very minimal compared to information flow from the SHG to the federation. The member SHGs and members are aware about the kinds of services provided by the federation, but there is not much update about changes taking place, either in the services or policies at the federation level. Staff prepares the monthly and quarterly reports which are submitted to the promoter or project, but this information is not shared with the board members. Most of the federations lag behind in preparation of annual reports, annual budgets and conducting statutory audit etc.

Internal control systems are not up to the mark whereas this is a crucial aspect of the federation. The board members play a very limited role in fund management, physical cash verification, reviewing the staff and functional committees except default management. Default management system is cared for by the committees set up for the

#### **Federations Implementing good systems**

##### **Unnati Federation - Indore**

BASIX as a part of its Institutional Development Services provided Rs.1 lakh loan to Unnati Mahila Sangh (Unnati). Unnati in turn lent this amount to Unnati shil for purchasing hardware and software (Famis). The loan is repayable in 36 installments with Rs.9000 interest. BASIX also provided training to Unnati shil staff on MIS and Accounting system.

##### **District level movement, Villupuram District- Kalivikenra in Tamilnadu**

##### **Auditing of SHGs**

Every year external audit is done for the SHGs. The auditors are appointed by the Kalvi Kendra and the fee for audit Rs. 300 is paid by the SHG. Internal audit and grading for Revolving Fund is done by PLF for which the SHGs pay Rs. 50 as the fee to PLF

##### **Nai disha Federation - Bihar**

Is promoted by the WDC and IDF NGO and they have developed the 5 core principles

- To ensure that all the federation members should embark on livelihood activity
- Networking with SHG, Cluster and Federation and make these structure as powerful institutions
- Convergence with main stream departments
- Infrastructure development
- Creation of MIS

purpose of appraisal and recovery of loans. Whenever there is a default the committee visit the member SHG and the individual member for the recovery to identify the problem and use different mechanisms for recovery.

SHPI plays a major role in development of systems. The quality of the systems have proportionate link with the interest of SHPI. There are a few federations in the country which have developed good systems with the help and interest of promoters and donors. A few examples are mentioned in the box. There are a few federations developing annual budgets and annual reports and keeping up with legal requirements like conducting general body, external audit and submitting return to the cooperative departments.

## 8.6 Efficiency and Profitability

### Efficiency

In assessing the performance of federations there are two levels of efficiency to be looked at. One is human resource or staff efficiency and the other is financial efficiency. These two important levels directly affect the performance of federations differently.

#### Staff Efficiency

In any organization, there is optimum staff strength - too many staff members affect profitability, and too few, affect efficiency. Staff performance and efficiency is more related to the number of the SHGs managed by the staff irrespective of the kind of services provided for them and reflects in overall performance of the federation. In NGO promoted federation only one staff manages all the SHGs in primary federation in the second tier federation or apex federation 5 to 6 staff (excluding the tier one staff) takes care of all the operations of the apex federation. The staff has to play multiple roles if the number of SHGs are more than 20 taken care by them at the tier one federation, in few of the cases in government promoted federation like IKP, Mission Shakti, MAVIM<sup>84</sup> etc. only one staff has to manage all the development programs channelized through the federations apart from their regular activities as a result concentration on the actual roles that they need to perform comes down.

#### Financial Efficiency

Financial efficiency of the federation is measured with Operation Cost Ratio<sup>85</sup>. It is calculated against the outstanding loan amount. OCR is very high in the SHG federations resulting in paying out of a large amount of operational expenses to perform the lending activity. Findings of APMAS rating show high operational costs against the loan outstanding at 12.5% (Average of 83 federations assessed). In other states also federations incur around 17% as seen in the Unnati federation where as in Boond Bachat Sangh of Kanpur is also at 32% and few of the other federations for e.g. BMASS is at 17%, MAVIM federations is at 23%. These costs are higher in the multipurpose federations.

There are various reasons for very high operational costs, such as complex organizations and operational structures, investment in the fixed assets rather than lending activity which increases the depreciation and related costs. Use of high cost fund sources, less focus on internal fund mobilization through saving, poor portfolio quality management with the high defaults where the loss of income from interest and this results in high loan loss provisions and time lag between the funds borrowed and the on-lending are other reasons. There are huge funds lying idle in the banks and yielding low interest earning. However, in those financial federations that have a large fund base, the operating costs are very low. The ratio varies and depends on the scale of operations, maturity of operation, and range of financial services provided and the extent of support to other non financial services.

## Profitability

The profitability and sustainability of microfinance operations of a federation can be measured by the sustainability indicators like Operational Self Sufficiency (OSS) and Financial Self Sufficiency (FSS). The OSS<sup>86</sup> defined as *Income covering all the operational expenses, loan loss provisions and financial costs*. Few of the examples mentioned show OSS performance of the SHG federations being more than 100%; these are the federations able to meet their operational expenses through their operational income. There are the federation operationally self sustained.

The performance of some of the examples mentioned in Chapter -5 show the range of OSS from 88% to 125% and FSS from 68% to 108%. There are federations like Unnati meeting all operational costs from their operational income. The box below shows the

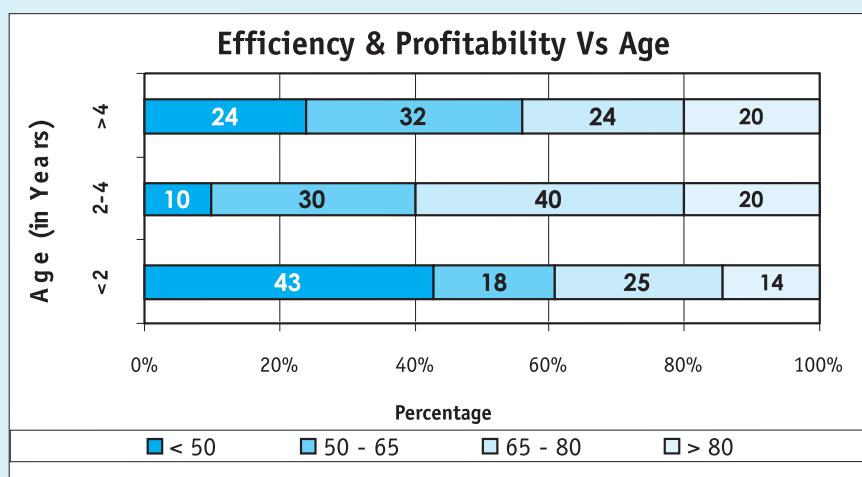
**Finding form** the stated figures in these federations is average Operational Self Sufficiency (OSS) is 138% and Financial Self Sufficiency (FSS) is 73%. Most of the costs of the SHG federations are born by the promoting institution. Those federations that have been around for more than 5 years are able to meet some of their costs while younger federations are dependent on the grant funds.

**Table 8.3 OSS and FSS of SHG federations**

S. No.	Range in %	Federations			
		OSS		FSS	
		No.	%	No.	%
1	< 50	18	21.7	36	43.4
2	50 - 75	6	7.2	22	26.5
3	75 - 100	5	6.0	8	9.6
4	> 100	54	65.1	17	20.5
	<b>Total</b>	<b>83</b>	<b>100.0</b>	<b>83</b>	<b>100.0</b>

## Efficiency and Profitability in Federations - Age-wise Overview

It is observed from the assessment of 83 federations in AP by APMAS that the performance of the federations in efficiency and profitability is changing according to the age of the federation. The federation of the age group of 2 to 4 years were better performers than those younger and those older. Less than 2 years old, 43% scored less than 50%, while of those that were over 4 years of age, 24% scored less than 50%. Those that scored more than 80%, came from all 3 age categories, in more or less the same proportion.



details of the federation meeting its expenses. The federation is not dependent on any kind of operational grants for meeting its expenses; the federation achieved OSS and FSS and both at 108% with providing multiple services.

### Finding from the APMAS Assessment

The federations which are doing only financial intermediation have become operationally self sufficient within four to five years whereas the federations that have financial and social intermediation have problem to become financially self sufficient even after five years. The profitability of the federations depends on the increase in the quantum of the portfolio and its quality. Higher funds being available at federation level for on-lending to SHGs with improved internal capacity and systems would result in federations achieving sustainability. It has high positive correlation between profitability and asset quality.

### 8.7 Services to SHGs

Credit is the one of the important product offered by the majority of federations to the member SHGs. Some federations have initiated activities like agricultural input supply and output marketing. Majority of the federations offer limited range of services due to the inadequate capacities of board in evolving strategy and designing of products and services.

Some of the federations are providing different kinds of savings products like compulsory, voluntary savings, fixed deposits, recurring deposits, term deposits etc. There are a range of products available for different purposes and few of the federations are already implementing and few of them moving towards diversified credit services. Federations are also focusing on the need based services for example the Sangatitha federation providing different kinds of loans for different purposes with varying interest rates and installments. The SPMS is providing a good number of housing loans to the members. The latest change and vast expanding services where few of the federations are successfully providing insurance services include. BMASS Orissa, Unnati, SMBT, Nai Disha federation, Chittoor Zilla Samakhya, ASP, Sangatitha, GRAM and few other federations in Andhra Pradesh.

Different loan products provided by Sangatitha Federation

Loan Product	Amount of Loan	Rate of Interest	Interest Method	No of Installments
Income Generation	10,000-1,00,000	18%	Diminishing	10 - 15 months
Agriculture	10,000- 25,000	24%	Diminishing	Balloon payment after 6 months
Housing	5,000 - 25,000	15% - 18%	Diminishing	10 - 60 months
Consumption	5,000 - 10,000	18%	Diminishing	10 months

#### Achievement of SPMS services - Tirupathi

Creating Housing: in collaboration with HUDCO and National Housing Bank SPMS has provided fund for new houses to 415 members and repairs of 1500 houses. SPMS has provided loan of Rs.249 lakhs to the members as on March 2006.

Children education: to provide quality education with the low fees the federation has established a school on the name of Padmavathi Vidyamandir in the year 2001.

Apart from the financial services the federations are also focusing on building the capacities of the member federation and SHGs in the aspects of strengthening governance in areas of conceptual and role clarity, leadership development, management aspects etc. The federations also facilitate the linkages with the local financial institutions and auditing the books of accounts and providing training to the accountants and book keepers.

Federations also focus on the social and development activities as needed in the villages. There are federations that are fighting the anti liquor movement, stopping child marriages,

and encouraging child education. These are the few examples of federations providing social services.

**Namma Dhwani Information Centre (part of Jagruthi Resource Centre, Boodikote in Kamasamudram MYRADA Project.)**

As part of improving information communication in rural areas, the Project is engaged in a pilot initiative in collaboration with VOICES (and UNESCO). Under this programme the 9 SAGs of Boodikote village have formed Namma Dhwani (ND) a group that manages and runs a narrow casting and cable casting programme. The programme has a well equipped recording station, computers, printer, cameras, photocopier, etc. It now has cable connection in the village and school and is able to narrow cast its programme daily for 2 hours. ND has 3 trained staff (local people) to run the centre and several volunteers to help in the production of the programmes. So far they have recorded 408 programmes of which 204 have been narrowcast and several have been taken and aired by All India Radio. Children, youth and interested people come to the centre regularly to learn to surf the net and browse.

***Civic Intervention -Access to Health Services***

Kadamalai Kalanjia Vattara Sangam (KKVS) is an autonomous and financially self sufficient federation of the Self Help Groups (SHGs) at Mayiladumparai - Kadamalaikundu block in Theni district. As of 31st March 2005, 270 Kalanjiam primary groups have become members of this federation, which cover 4,668 poor families in the block. The federation initiated its activities with the focus of addressing financial needs of the members and today it has emerged as a civic institution. It has identified and undertaken various development issues in the block. Mayiladumparai - Kadamalaikundu is a remote and one of the most backward blocks in the State. It is well known for addressing development issues such as low literacy rate, high infant mortality rate, poor health care access, high incidents of female suicides and infanticides, lack of employment opportunities, poor infrastructure facilities, high level of exploitation by informal financing systems etc. The federation identified poor health status of women and children as a predominant and important development issue in the block and took several measures to address it.

**8.8 SHG Performance**

SHG federation members are SHGs, and they are the purpose for the federation to exist. Hence the performance of the SHGs is very important in the overall performance of the federation.

The SHG members' awareness and understanding about the purpose of the group and the reason behind the formation of SHG is the core for the SHGs to sustain. The assessments also have shown that members in the SHG level have very good awareness about the activities taking place in the group and individual savings, loan details and bank procedures. The SHG members actively participate in the group activities and decision making process also. Meeting in the SHG is good but the concern is about member attendance in the meetings; where the meetings are conducted regularly, the attendance levels continue to be high but if there are any gaps in the meetings, the attendance is low.

The members are aware about the bank procedures and processes involved in the bank linkage and getting the loans from the banks. In Andhra Pradesh members visit the bank on a rotational basis to deposit the savings amount in the bank and leaders go to the bank to withdraw the amount. The members having limited understanding about the concept of SHG federation across the country and were to some extent aware about the kind of services

offered by the federation and less knowledgeable about the other aspects of the federation. There is a big issue of ownership of the federation. In some cases members feel that the federation is owned by the promoting organization and they are just availing services offered by the promoter.

The book keeping system in the member SHGs is a matter of concern, books are available but not updated. In most cases, the minute books are updated every month; other books like loan register, saving register are updated when the book keepers have sufficient time to update. The quality of books maintained at the SHG level is dependent on the support provided by the promoters.

The financial transactions are done during meetings. The norms exist but enforcement is poor. The social performance of the SHGs is not laudable. Adult literacy has to be given importance. It was noticed that there is inverse relationship between the SHG age and SHG performance; younger SHGs seem to perform better compared to the older SHGs. In fact, many of the APMAS studies reveal that SHGs that have been around for more than 7-8 years have poor performance and some even disintegrate, again this could be due to reduced support and monitoring of the promoter.

**Table 8.4 Few of the SHGs indicators from APMAS quality assessment**

Member-SHG - an overview				
	Particulars	Average	Min	Max
1	Age of SHG (in years)	4.1	1.0	10.8
2	Member-SHG in federation	218	29	1314
3	Regularity of meetings	58.2%	20.0%	100.0%
4	Attendance in meetings	59.1%	20.0%	100.0%
5	Member participation in decisions	46.9%	20.0%	94.0%
6	Member awareness	48.9%	20.0%	83.0%
7	Quality of book keeping	49.5%	20.0%	96.0%
8	Regularity of savings	90.3%	35.0%	100.0%
9	Corpus (Rs)	72,625	4,337	466,566
10	Velocity of internal lending	0.7	0.0	7.5
11	Idle funds as % of total funds	8.8%	0%	66%
12	Loans outstanding (Rs)	55,312	2,400	264,500
13	Loan amount per member (Rs)	5,033	1,053	28,682
14	No. of loans per member	2	1	9
15	Loan size (Rs)	3,750	1,025	29,490
16	Loan outstanding with member (Rs)	6,849	2,033	75,700
17	Loans outstanding with leaders (Rs)	11,773	1,700	82,200
18	External repayment rate	88.0%	35.0%	100.0%
19	Arrears Rate > 90 days	27.0%	0%	100%
20	Portfolio at Risk > 90 days	33.4%	0%	100%

N = 328 Total SHGs (in 83 SHG federations)

\* the performance of the SHGs is based on the score received during assessment

## Conclusion

Federations' performance is improving slowly in the areas of governance systems, asset quality of financial federations and services provided to the member SHGs. The assessment and studies proved that SHG federations are taking larger segments in the microfinance sector and working towards operational and financial sustainability. However, the challenges in institutional sustainability and ownership are not improving. The attention and focus is more on federations, as a result SHG quality and the awareness level in the SHG members about the federation remains low. The financial federations are moving towards achieving the operational and financial sustainability and the challenge remains in the social service providing federations.

Table 8.5 Details of APMAS studied SHG federations

Name of the federation	Promoter	Type	No of villages /Block	No. of members Federations	No. of SHGs	No. of Members	Registration
<b>Andhra Pradesh</b>							
1 Ankuram Sangamam Porum(ASP), AP	Dappu Network	3 tier	11 District, 85 Mandals	85	6000	80000	APMACS Act. 1995
2 Sangatitha- Warangal, AP	MARI	3 tier	35 villages	29	2080	20085	APMACS Act. 1995
3 Sri Padmavathi Mahila Abyudaya Sangam , AP	RASS	3 tier	22 wards & 36 slums	35	767	9845	Societies Act 1860
4 Indur Intideepam MACS Federation Ltd, AP	GRAM	3 tier	19 Mandals	19	3418	436984	APMACS Act. 1995
5 Chittoor Zilla samakhya, AP	SERP	3tier	65 Mandals	65 MS, 1040 VOs	26050	330000	APMACS Act. 1995
<b>Tamilnadu</b>							
6 District level movement, Villupuram District, Kalvikendra, Tamil Nadu	Kalivikentra NGO	4 tier	3 Blocks, 275 GPs and 771 habitations	3 block level federations	2430	30000	Unlimited Companies act
7 Indian Network of Federations of Microfinance Self-Help Groups (INFOS), Tamilnadu	DHAN	NA	8 states	16 federation	NA	NA	Indian Trusts Act (1882)
<b>Karnataka</b>							
8 Pragati Resource Center, Karnataka	MYRADA	2 tier	41 villages	NA	120	NA	Unregistered
Dhanalakshmi SAG Federation, Karnataka	MYRADA	2 tier	NA	4 federations	700	9100	Unregistered
<b>Orissa</b>							
9 Block Mahila Sanchayika Sangha, Orissa.	Mission Shakt and WCD	2 tier	25 GPs and 254 villages	NA	1106	12795	Societies Act, 1860
<b>Maharashtra</b>							
10 Savithri Bai Phule Mutual Benefit Trust, Maharashtra	BASIX & NGOs	4 tier	185 villages	4 CBMFIs	610	7930	Mutual Benefit Trusts Act
<b>Rajasthan</b>							
11 Sarvodaya Mutual Benefit Trust, Rajasthan	ASEEFA	2 tier	NA	NA	30	434	Mutual Benefit Trust
12 Dambola Federation, Rajasthan	PEDO	3 tier	26 villages	8	154	1800	Unregistered
<b>Bihar</b>							
13 Nai disha Nari Shakthi Mahila Swalamban Sahakari Samithi Ltd, Bihar	WDC & IDF NGO	3 tier	19 villages	6	50	650	Bihar Self Supporting Cooperative Act 1996
<b>West Bengal</b>							
14 Sreema Stotoshwini Federation, Duttaphula, WB	Sreema Mahila Samithi (SMS) RD & PR and DRDC	4 tier	7 GPs & 28 booths	7	719	10000	Unregistered
15 Mahila Bikas Maha Sang, Tamluk Block, WB		3 tier	20 Panchayats	20	505	6500	Unregistered
<b>Gujarat</b>							
16 Shree Kheda Jilla Swashrayee Mahila SEWA Bachat Mandal, Gujarat	SEWA	2tier	246	NA	600	15000	Bombay Trust Act
<b>Madhya Pradesh</b>							
17 Unnati Mahila Sangh, Indore, MP	ASRA	2 tier	3 Slums & 5 villages	3	187	2431 Act 1973	MP Societies
<b>Utter Pradesh</b>							
18 Boond Bachat Sangh- Kulgaon village, UP	Shramik Bharati, Kanpur, UP	2 tier	1 village	5 informal clusters	136	1943	Mutual Benefit Trust Act

\* In few of the federations individual members is an estimated figure. \*\* NA-Not applicable and Not available

## Chapter-9

# Enabling Environment

Previous chapters clearly indicate there is a role for federations in India. A few studies conducted on federations indicate that federations create economies of scale, reduce promotional and transaction costs, enable provision of value added services and increase empowerment of the poor (Nair, Ajay, 2001). But it is not known how federations emerge, operate, and sustain. An attempt is made in this chapter to identify the enabling environment that is required for the formation, operation and sustainability of federations.

### 9.1. Recognition of Federations, the Opportunity

As discussed in chapter 1, SHGs emerged because of the failure of mainstream institutions to provide financial and other services to the majority of the population in the country. As the mainstream institutions recognized the potential of SHGs, they adopted them for delivering financial and other services to achieve financial inclusion. Similarly the federations also have emerged because of the failure or inability of mainstream institutions to serve the SHGs, where they have been formed and extend the program to underserved regions and sections. Federations proved to be cost effective tools in expanding the program and providing sector development services to their constituents (Ibid). As mainstream institutions recognized the potential of federations, they have started adopting the federations as their partners, delivery channels, agents, and facilitators. Thus, recognition of SHG federations' potential is the main reason for their spread and rapid growth across the country. The recognition also posed certain challenges to federations. Among the different mainstream institutions, which have different stakes in federations, are SHPIs, NABARD, banks, government departments and the corporate sector.

#### 9.1.1. SHPIs

As discussed earlier, promoting agencies found federations as effective tools in expanding programs and providing sector development services in a cost effective manner. Some of them are also considering federations as a withdrawal strategy. Yet another potential of federations recognized by the promoters is that they can be powerful instruments in self governance. The institution could be more accountable to their members than PRIs and also more closely linked with the poor (Fernandez, Aloysius P, 2004). Most of the states governments' externally aided poverty reduction projects, which are being implemented in recent years, have 'community based institutions' as starting points. These projects became major promoters of federations in the country. To illustrate, SERP alone promoted over 90% of federations in Andhra Pradesh. The same is true in other states where externally assisted community based poverty reduction programs are being implemented.

### 9.1.2. Reserve Bank of India

The central bank of the country has been deeply concerned about the financial exclusion of the large proportion of India's population as they do not have access to formal financial institutions. In 2006, RBI issued a circular by introducing an innovative concept called Business Facilitator and Business Correspondent. Registered SHG federations could act as either a Business Facilitator or Business Correspondent of a bank to provide last mile connectivity to banks to provide a full range of banking services as an agent of a formal financial institution. Through SHGs and SHG federations, banks are also opening no frills accounts for those hitherto did not have access to banking services.

### 9.1.3. NABARD

The NABARD, the apex financial institution, which has facilitated and promoted SHG bank linkage programs in India, has recognized the importance of federations in sector development and general development including the promotion of livelihoods. Recently, NABARD issued circular facilitating financial support under the micro finance development equity fund (MFDEF) to the SHG federations. However, to start, the support is limited to non-financial federations only (Box - 9.1).

**Box - 9.1: Abstract from NABARD's circular no. 1058/ MCID/ 2007, dated 14th September 2007**

Considering the emerging role of the SHG Federations and their value addition to SHG functioning, NABARD has decided to support the Federations of SHGs on model neutral basis and on merits of the proposal. The assistance to Federations will be covered under MFDEF. Federations can continue to be supported under our existing promotional schemes of MCID, DPD (NFS), DPD (FS) etc; as well. Following broad norms would form the basis for deciding the financial assistance from MFDEF.

- Federations of SHGs should be evolved based on the felt need of the SHGs and the group should have freedom to or not to join the federation.
- The promoting organization may adopt any of the existing models or devise its own model but should commit itself for mentoring the SHG Federation so as to ensure that it is able to function on sustainable basis. This would mean that the SHG Federation should have put in place a mechanism for pricing its services to the members.
- The federations need to be evolved as member-owned, member-driven institutions so that they can function in a democratic manner, keeping in view the aspirations of their constituents, the Self Help Groups.
- The process and system of federations need to be designed in such a way that these federations do not depend on the promoter perpetually and become self-managed over a period of three years.
- The federations should not normally involve themselves in managing financial resources of SHGs and in on-lending to groups as it is likely to weaken the self reliance of the groups. However, they can act as business facilitator and business correspondent to the banks.
- Federations should endeavor to cover their costs on their own; proposals for seeking financial assistance could be for meeting part of the cost.
- Proposals seeking support for SHG federations should clearly establish value additions to the SHG functioning

#### 9.1.4. Banks

Banks are major stakeholders of SHGs. Now in many parts of India, banks have realized the potential of federations in facilitating bank linkages and recovery. As a result banks are lending liberally to SHGs in those parts. Andhra Pradesh having nearly 45% to 50% of total federations in the country could be one of the reasons for fast growth of bank linkage amount in the state<sup>87</sup>, even at higher levels. The AP share in cumulative bank linkage amount is over 39%, i.e. Rs. 7,121 cr. out of total of Rs. 18,041 cr. In 2006-07 alone, AP's share in total bank linkage amount is about 34%, i.e. Rs. 2,275 cr. out of Rs. 6,643 cr. (NABARD, 2007). Though the banks are getting enormous services from the federations they are not directly paying for these services. The RBI issued guidelines for using 'others' as business facilitators and banking correspondents. Banks, in under-serving regions, could take advantage of NABARD's support (Box - 9.1) and RBI guidelines to promote federations for providing sector development services, particularly bank linkage and general development services to SHG members.

#### 9.1.5. Government

Many government departments have recognized the potential of federations and use them in delivering their services. The women and children development departments, rural development departments, health departments, the Panchayat Raj departments, educational departments and organizations, which are involved in HIV/ AIDS, human right issues, livelihoods, water and sanitation are increasing partnerships with federations. They are even willing to pay for the services of the federations.

#### 9.1.6. Corporate Sector

The corporate sector, especially insurance companies, is rushing to partners with federations to market their products. Even other companies like Hindustan Lever (HLL) and Indian Tobacco Company (ITC) are dealing with federations to market their products and source their raw material requirements. The process is getting accelerated. Some of these linkages are not only expected to benefit federations and their members but also the whole rural sector. Even corporate responsibility institutions are partnering with federations. A few corporate sectors' interventions with federations are given in Box - 9.2).

#### Box - 9.2: Private sectors business and social interventions with SHG Federations

**HLL - DRDA - SHG Federations in AP:** They initiated 'Project Shakthi' aimed at making SHG members as retailer dealers of HLL FMCG products. 2,000 women become entrepreneurs in AP alone.

- **Scojo Foundation:** An US based spectacles agency, piloted their social enterprise model of selling reading glasses through SHG Federations in Ranga Reddy, AP.
- **Pioneer Seeds:** A seed company tried out selling their seeds through SHG Federations of PEACE (NGO) in Nalgonda, AP.
- **TATA AIG** is selling their insurance products through SHG Federations.
- **Byrraju Foundation:** Working with SHG Federations and VOs on social issues such as Health, Sanitation and Safe drinking water under Corporate Social Responsibility
- **Jersy Dairy:** Promoting SHGs with milk producers and link up with banks and other service providers to strengthen its procurement capacity.

## 9.2. Recognition of Federations, the Challenges

The above description clearly indicates that there is all-round interest and support for federations in the country. But this over appreciation of federations' roles also poses certain challenges. One of the challenges is the ever expanding role of federations causes potential mission drift, replacing the primary stakeholders in many development projects. As a result the line department officials take advantage of federations' ignorance. These result in sub-optimal output and impact of different development projects. To deal with a variety of clients and tasks, the federations need to get sophisticated. This process is making the staff and professionals strong in the federation management and marginalizing the leaders.<sup>88</sup> Another series problem is that federations were provided grants and seed money generously by the donors, SHPIs, government and others. But many of the federations are not able to manage them properly. APMAS quality assessment study indicates that federations have poor loan portfolios. All these do not mean that others should be barred from doing business with federations. But, federations must be strengthened to meet these challenges, which can transform to opportunities. The capacity of the leaders should be built to internalize the complexities and sophistication of dealing with the challenges (or opportunities). Until then, the federations' roles should be limited to those functions, in which the leaders have core competence to deal with. Even more important is to give the opportunity to the federations to decide their role and function. Even for such decision making federations need certain mentoring and handholding.

## 9.3. Strengthening of SHG Federations and Capacity Building of their Leaders

Strengthening of federations and capacity building of their leaders are issues easier said than done. They are time consuming and at times frustrating. Promotion of APMAS kind of organizations could be one of the ways (Box - 9.3).

APMAS was established in 2001 to provide sector building inputs to the government and SHPIs. Over the years APMAS contributed a lot in sector development particularly in AP and in the country as a whole. APMAS has large partnership with the SERP in training its staff and office bearers of federations. APMAS also has partnerships to develop models in the field. It has placed its staff in 90 Mandals, i.e. 10% of project Mandals to develop these as resource federations. The experience of APMAS suggests the need for an independent resource organization in every state. APMAS also contributed to the emergence of APMAS kind of organizations in some states. It has taken a lead role, recently, to develop a network of such resource organizations of different states to strengthen the self-help movement in the country.<sup>89</sup>

Another important service provided by the APMAS to the sector is development of different grading/ rating tools for assessing the quality of different institutions and CBOs. Among them, 'GRADES' is important for assessing the quality of SHG federations. Using this tool, APMAS rated about 400 SHG federations in the country, of which most are in AP. The grading gives a wonderful opportunity to the federations to know their strengths and weaknesses and strategies to overcome them. Many rated federations benefited from the inputs provided by the rating team and their report. Yet another important service provided by APMAS is research. It has provided a number of research studies and useful data to the sector. Another pioneering work initiated by APMAS, this year, is the Sector Own Controls (SOC) with technical support of InWent<sup>90</sup>, Germany (Box - 9.4)

## 9.4. Legal Environment

Apart from internal capacity building, the federations need favorable legal environment. As on today microfinance institutions can get registered under seven different acts, viz. Societies, Trusts, Section 25 Companies, Non-banking financial companies, Mutually-

Aided Cooperative societies (MACS), Cooperative banks and Producer Companies (Sa-Dhan, 2006). Of these, registration under NBFC and Cooperative Banks is extremely difficult and the former needs Rs. 2 cr. start up capital. Almost all registered federations are registered under either MACS or Society or Trust act. In nine states, where the MACS act was enacted, almost all federations were registered under it. In the absence of MACS, federations were registered either under Society or Trust act. If a federation is registered under mutually aided trust it has more flexibility in its operations such as deposit mobilization, investing, etc (Ibid).

Though most federations are registered under MACS, they are not appropriate acts for having groups as members (Fernandez, Aloysius P, 2004; Reddy, C. S. and L. B. Prakash, 2003). Perhaps federations need a separate act (Reddy, C. S. and L. B. Prakash, 2003). Because of these concerns and the recent MFI crisis in Krishna district, the Government of India introduced a bill, which is known as mF bill, in the Lok Sabha on 20th March 2007 to facilitate "orderly growth of mF sector" in the country. There are strong objections from various people. The reservations range from inappropriateness of the act to address the problems like Krishna district crisis to conflict of interest for NABARD. However, the most pertinent criticism relevant to SHG federations is that bill facilitates small NGOs, who are promoting SHGs and federations to become MFI with zero capital adequacy and relatively lenient prudential norms. It is expected to help the financial inclusion (Shylendra, H. S. 2007). But some scholars argue that such provisions would hamper flexibility and innovativeness of NGOs and may subject them to restrictions. On the other hand, converting NGO promoters as MFIs may siphon out the funds from SHGs and federations, resulting in greater disempowerment. As this new class of MFI was subjected to liberal prudential norms, the savings of poor women would be at greater risk (Premchander and Chidambaranatam 2007).

Because of objections from different sections of people, the bill has been referred to the Parliament Standing Committee on Finance. The Committee is considering the opinions and inputs of diverse stakeholders in the sector and making a final recommendation to the Parliament. While a regulator framework for the microfinance sector is a welcome step as it is driven by practice, SHG federations registered under different legal forms being brought under the purview of the bill would seriously undermine the autonomy, self-management and self-reliance of the SHG federations as many of the federations are registered under liberal cooperative laws which give them complete autonomy to offer financial services to their members including mobilizing deposits from members.

## 9.5. Self Regulation

There is a considerable section of people questioning the relevance of formal regulation of the informal groups like SHGs and their federations and civil society organizations. A well-developed self regulation mechanism would be most suited for the SHG federations. INFOS promoted by Dhan Foundation is developing a self regulation system. APMAS is also piloting a Sector Own Control (SOC) system in collaboration with DGRV and InWent of Germany in Kamareddy cluster of Nizamabad district, Andhra Pradesh (Box - 9.4).

#### Box - 9.4: Piloting of sector own controls (SOC)

The central challenge for the SHG federation structure is how to become a self-reliable and sustainable cooperative financial system. According to experiences with well-operating cooperative financial organizations in other countries and good cooperative practices, an effective SOC is a necessary condition for achieving self-reliance and sustainability as the multi tier and multi functional SHG federations are evolving, there is no ready made self regulation model suitable to these structures. Therefore, APMAS planned to develop a 'model self regulation' for SHG federations in collaboration with InWent and DGRV Germany. DGRV has rich experience in self regulation of cooperatives and InWent would facilitate the transfer of technology and adoption of it to the SHG federation structures in India. According to international well-founded experiences and cooperative good practices, an SHG SOC-system should comprise in particular the following basic elements:

1. Adequate norms and standards (external and internal)
2. Approved common bookkeeping and accounting
3. Effective internal control of management and risks
4. Sector-wide reporting, monitoring and rating (off-site sector control)
5. Compulsory cooperative audit
6. Follow-up activities
7. Institutional protection, deposit insurance
8. Linkage to the Financial Regulator for regulatory and supervisory duties.

An appropriate model would be designed with the above elements and adopted to local current and emerging conditions. The current and emerging scenario includes (a) The SHG federation building is still in an incipient phase characterized by different development stages and probably also different opinions and intentions with regard to further development. Therefore, the new SOC is to address diverse needs. Furthermore, not everyone might be convinced that SOC will be necessary for successful system development. But for proper SOC implementation a sufficient broad common understanding and acceptance among SHG federations and stakeholders will be required. (b) The just started cooperative banking reform as well as legal amendments currently in preparation might also influence SHG federation development and SOC implementation.

The designed model would be field-tested and piloted in Kamareddy, Biknur, Machareddy, Tadwai, Sadasivanagar and Domakonda. Mandals of Kamareddy cluster/ division in Nizamabad district for about a year and then would be scaled up.

## 9.6. Conclusions

There is well-rounded interest in, and support for SHG federations in India. However, it appears that federations and their leaders are ill equipped to take up the work and agenda offered to them. Federations need to be strengthened to take up the challenges and even to decide about their own agenda. Formal regulations may hamper the growth of the sector. The sector should be encouraged and enabled to have its own controls or regulations. If the formal regulations have to be put in place, wider consultation should be made before taking up such tasks.

## Chapter-10

# Emerging Practices

## Challenges and Recommendations

The concept of SHG federation has come a long way, over the years, improved by practice. While the debate on whether to federate or not to federate continues, a few developments have taken place recently recognizing SHG federations as a legitimate participatory body having a role to play in the areas of women empowerment and poverty reduction. These include IRDA recognizing registered SHG federations as potential agents for micro-insurance, the Reserve Bank of India circular including SHG federations to be considered to play the role of a business facilitator/correspondent, and more recently NABARD issuing circular extending grant support to the promoters of SHG federations with a caveat that the federations should be involved in providing non-financial services to SHGs. For more than five years, many state governments have recognized SHG federations as an institutional model to reach the un-reached with a range of financial and non-financial services, as partners of the state governments in the development. The concept of SHG federations has finally arrived with the 11th plan document of the Planning Commission considering the SHG federation model as a nation-wide model for rural development.

There are several issues and challenges faced by the SHG federation promoters and the federations themselves, as they evolve into sustainable organizations of the poor. The majority of the SHG federations are multipurpose organizations; some are financial federations, some are livelihood promotion federations, and a few others are social federations. The APMAS study covering eight different states that have functioning federations has helped to analyze their structure, role, services and performance to identify issues and challenges and to make appropriate recommendations.

Some of the key questions that arise in the minds of the promoters considering the possibility of promoting a federation are: When is the right time to federate SHGs? Should federations be initiated by Promoting Organisation or by the SHGs themselves? What are the services that a federation should offer to its members? Should the federation be registered or unregistered? If registered, under what legal form should it be registered? Another common concern is: at what stage and in what manner can the Promoting Organization initiate the process of withdrawal from the federation? What training should be imparted to the federation for establishing its legitimacy and credibility? How to ensure that the federation becomes institutionally and financially sustainable? Finally, it is important to identify an appropriate role for Promoting Organizations to ensure sustainability.

### 10.1 Emerging Practices

SHG federations by the virtue of their inherent strength and credibility are able to nurture some of the best practices in the process of their evolution. There are good

practices and also there are not so good practices. This section lists some of the emerging practices from the field.

**Bank linkage to SHGs:** Over the past five years, SHG - bank linkage has been showing significant growth. SHG federations have been providing motley of support services for the benefit of their constituent member SHGs and one such service is facilitation of SHG - bank linkage for accessing loans from national and regional rural banks. Since most of the SHG members are illiterate and unable to write the inter-se agreement and other loan documents, they depend on the federations for assistance. Thus, federations identify good SHGs and support them for bank linkages, including grading of SHG. Promoting agencies like MYRADA and DHAN are encouraging the emergence of such practices. Federations formed by IKP support their member SHGs in preparation of micro credit plans (MCP) and submitting those plans to the banks for total financial inclusion (TFI). A large number of functioning SHG federations could be one of the important contributing factors for the exponential growth of SHG - bank linkages that ensure more than 90% repayment through the sub-committee approach.

**Matured federations:** Though a large proportion of SHG federations in the country are still nascent, several federations have matured and are serving as role models for others to follow. Having strong and sustainable federations also contribute to the up-scaling of the model. Some of the mature federations are able to access bulk funds from mainstream financial institutions for on-lending. The maturity of a federation certainly determines its functional strengths in terms of mobilizing funds from government programs, providing capacity building inputs to the SHGs, and creating social capital for better performance of the SHGs and federations.

**SHG federations effectively manage insurance, distribution of pensions:** The federations are establishing partnerships with insurance companies and designing specific products to suit SHG members and rolling out the same in large scale. Through this, insurance services generate some revenue. The district administration distributes the old age pensions through federations.

**SHG Federations are able to offer services:** Most federations established good rapport with the line departments and have taken up several new products and services. Some federations supply supplementary nutrition program (SNP) tied up with ICDS department, some manage mid-day meal programs, and some facilitate the NREGS program. And, federations are playing a pivotal role for proper implementation of literacy, health, education, and nutrition programs. Federations are also playing important roles to ensure regular book-keeping, conducting trainings for book keepers and SHG members and also conducting audit every six month.

**Responding to natural disasters:** Federations are playing a major role during the occurrence of natural calamities; most are involved in disaster response, relief, and rehabilitation activities. Federation also involves in preparation of contingency plans and SHG and federation leaders are acting as task force teams for disaster preparedness and restoration programs. During recent Tsunami disaster, SHGs and SHG federations played a vital role in disaster response.

**Concerned about sustainability:** All the promoters of SHG federations and the members of the SHG federations are concerned about the sustainability of federations. This has promoted them to develop innovative products and sound business models for the federations to become sustainable. While financial federations meet their costs from interest income, non-financial federations charge a fee for their services. In a majority of the federations, they are not able to meet their costs. However, financial federations are more likely to achieve sustainability. The non-financial federations are more likely to be dependent on grant funds for a longer period of time. The federations are bound

to look into the future of SHGs with their sustained regular activities like, savings, meetings, repayments etc.

**Mobilize funds to meet their cost, at least partially:** Federations are generating funds to meet the operational costs and other costs by way of collecting admission fees, which are regular contributions from SHGs. They also earn money through offering services. They also collect fines during meetings from deviant member SHGs, interest earned through Fixed Deposits and savings in the banks. Yet, a majority of federations are depending on external support to meet at least some costs.

**Performing monitoring, social audit:** Federations are playing an important role in creating huge social capital in the sector. This includes leaders of SHGs, board of directors of federations and also emerging sub-committees. The social capital monitors the SHG and federation performance, focusing on conflict resolution, loan recovery, asset management, and implementing insurance and other innovations.

**Second line leadership:** Rotation of leadership is one norm in SHGs and SHG federations, due to the best norm existing in the SHGs and SHG federations. Most of the new members are getting the opportunity to take up leadership roles and responsibilities. This consistently builds the confidence among the members reflecting on their SHGs and members families. A more serious issue seems to be lack of capacity of the second line leadership. While the initial leaders are excellent and considerable resources are invested in building their capacities, the new leaders elected / selected do not have the same level of support or input which weakens the federation.

**Linkage, recovery, planning for loans (through MCP):** The federations are acting as business facilitators of the banks and facilitating the bank linkage and recovery process. This practice is prevalent mainly in Andhra Pradesh as the Government treats these federations as implementing agency in the field.

**Peer learning models-CRPs:** Keeping in view the widespread growth of the SHGs and SHG federations, the promoting agencies are introducing the concept of Community Resource persons, bare foot workers, animators, and community activists across the country. This is a very cost effective concept. CRPs are selected mostly from the community itself and contribute to the sector by scaling up the SHGs and best practices.

**SHG federations are being rated for financial linkages:** The federations are rated for financial linkage and also improve the quality of the federations. Almost all financial federations that access bulk loans from financial institutions undergo a rating from a recognized rating agency. APMAS has rated nearly 400 federations across the country. SIDBI and other financial institutions use the services of M-CRIL and CRISIL for rating large-scale federations.

**Systems are still weak, greater attention needed:** Federations are still weak in some areas, decreasing participation in the federation affairs, few leaders & promoting agency staff domination, lack of technical/ management skills are a few reasons that deserve attention. One of the major problems remain book keeping and accounting at SHG and federation level. Though there has been some improvement it is still an area of major concern for all the stakeholders. Internal control systems and MIS also are weak.

**Getting formalized-registration:** It has become an urgent need of these institutions to go for registrations (presently the SHPI insist), which entitle them to play a substantial entity role in getting benefits. Non financial federations are not yet registered.

**Partnerships with diverse stakeholders:** Partnerships have been established with banks, insurance companies, corporate sectors, government, business facilitators/ correspondents of banks to improve the financial inclusion, system adaptation, and enhancing experience. The networking relationship with potential institutions has broadened their horizon of thinking, thus paving the way for taking big loans and projects. The economic status of the members has improved over a period of time.

**Professional approach:** There is improved level of sophistication as the federations are recognized by diverse stakeholders and new partnerships are emerging. As federations work with banking, corporate sector, government and others, the demand for better performance gets created. This has led to professionalization. Also, the members demand services as they contribute to the costs of the federation, which also pushes them to be more efficient and effective. It is apparent that the federation members are found to be capable enough to approach and deal with higher level institutions and officials of government departments to mobilize bigger programmes.

**Federations' role in Panchayat Raj Institutions, HIV/AIDS, child labor etc:** With the growing issues in society, the federations are proactive in accepting the challenges like HIV/AIDS, child labor, RCH and other social issues by conducting health/animal husbandry camps in collaboration with PRIs. In the process strong rapport is built between these institutions.

**Going beyond members- community services, non-member services:** While members of the federations remain central to the existence of the federations, through diversification of services, they are able to offer some services to the community at large as the federations have bargaining power and collective strength. Some federations are providing government schemes/ programmes to non-members.

**Different federations for different purposes:** Majority of the SHG federations being multipurpose to start with, several institutions of the poor are emerging in the same geographical area with different purposes. There are different federations based on the needs mainly for SHGs, agri-marketing, watersheds, seeds and fertilizers etc. This gives ample scope for emergence of more such federations in the future.

**Recognition:** Finally the SHG federation concept has arrived and is here to stay. SHG and SHG federations are creating a momentum and are being recognized as the tool for poverty reduction and are also creating a road map for evolving National Poverty Mission (11th plan). Also, NABARD issued circular for facilitating financial support for federation promotion under its MFDEF.

**As the majority of this report has focused on the positive side of federations, it may be useful to look at potential negative implications of federations for future research. Some of them are listed below:**

1. Are promoters imposing vast agenda? Who sets the agenda; is it members or SHPIs?
2. Are the poor benefiting? Does federating result in marginalizing the poor?
3. Does federating create further marginalization of the already-marginalized?
4. Is there a need to sustain SHG federations? At what cost? Does this help SHGs?
5. Do SHG federations weaken SHGs?

## 10.2 Internal Challenges

### 10.2.1 Governance:

**Lack of Clarity of Vision:** In South India several matured federations are functioning, while in the rest of the country the concept is still nascent. A majority of the federations' Boards and Executive Committees have not developed a shared vision or strategy for their federations. Even if the federation has certain objectives, members of the federations and the office bearers are not much aware of the vision and objectives of federation, even though they exhibit good commitment and interest to build their own institution. How to ensure that the vision of the federation is driven by its members is a real challenge.

**Limited Board quality and ownership feeling:** Accountability and transparency in most of federations is low because of weaknesses in governance and ownership feeling. The federation board does not feel true ownership of the federation. Most of these federations have socially-motivated members who tend to put a priority on the institution's achievement of social objectives. The board of directors of most such institutions are often ineffective in overseeing the institutions; frequently they are chosen because they are vocal and active with inadequate understanding of the financial management aspects of microfinance. The staff of the promoters have limited capacity to build the capacity of the Boards.

**Development of By-laws and implementation of those:** Most SHG federations studied have developed certain norms for them to function effectively. Implementation of those require further effort to make those sustainable institutions. Some of the federations are registered as cooperatives under the liberal cooperative laws where they exist and others are registered as either societies or trusts. Informal SHG federations require considerable support and facilitation to ensure that they have clear objectives and by-laws building on their norms to make the transition from informal federations to body corporate.

**Limited understanding on technical aspects of finance by the Board:** The federation Board largely depends on the promoting agency for fund management besides the operating systems, procedures and practices, and the availability of support services are minimal to track the financial performance. Even the promoting agencies (NGO or Govt.) come from a social service background. Thus, most federations suffer from low levels of managerial and technical understanding of banking and finance, leading to adoption of inappropriate accounting practices, insufficient information system, inadequate internal control, and ineffective risk management. The federations that offer non-financial services require much lesser rigor and they seem to manage their affairs. Most of the SHG federations that were studied are mature organizations, yet their ability to manage the affairs is limited.

**Tenure and time spending of the Board:** Too short a tenure of federation Board is a problem in many federations studied, where office bearers (or board members) change every year. Giving board members (or at least the President) sufficient financial compensation to permit them to spend more time on federation-related duties would also improve the effectiveness of governance.

**Second line leadership:** Development is not being given enough emphasis, particularly at the federation level, and promoters seem more comfortable to work through the staff, who are articulate and are more comfortable in "understanding" issues. This hampers knowledge development of the Board members, and also leads to staff domination at a later stage. It has been noticed that the federation staff, while competent and efficient, see themselves as being accountable to the promoting organizations, rather than to the federation Board. Well developed plans are not in place to develop capacities to take on governance.

**Legal compliance:** A majority of the SHG federations are not registered under an appropriate legal form. One would ask a question: why should federations be registered? If they have to be effective organizations combining the strengths of informal SHGs with the formal federations they do need to acquire body corporate status under an appropriate legal form. In those federations that are registered, the bylaws are not formulated by them. They tend to adopt the model bylaws available which may not reflect the work of the federation. The Board has limited understanding of the bylaws of their own organization. Many federations, which are registered as cooperatives, do not get their accounts audited and do not present their annual reports and accounts to their members in an annual general body meeting. Some formats are prepared by the SHPI staff, or the federation staff, but very rarely are these presented to the general body of the primary. Submitting the reports to the appropriate legal authority is also an issue.

### 10.2.2 Resource

**Quality and Trained Human Resource:** has been observed that most of the federation staff are trained and are able to perform their roles effectively. However, there is a high turnover of the staff which affects the performance of the federation. The majority of the promoters of SHG federations found use of the services of the "best practitioners" from good federations as an effective strategy for promoting and strengthening a large number of federations. What remains a real challenges is to ensure that all the staff positions of the federations to be filled by women SHG members they are more likely to continue and be more accountable to the federation. Ongoing training and mentoring is necessary.

**Staff review:** In most of the federations, staff are recruited, trained, and paid for by a promoting agency in the initial period. So, the staff becomes accountable (or committed) towards promoting institutions rather than federations. At the same time Board members are rotating every year. Invariably, the Board members depend on the staff. So the federation Boards find it difficult to review the staff performance. Board members find it difficult to hold staff accountable.

**Fund availability to SHGs at federation:** Those federations that act as financial intermediaries do not have adequate funds to on-lend to their members to meet the credit demand. The federations perform the role of bridge financing as a large quantum of credit needs are met through the SHG - Bank linkage. Some of the federations have borrowings from Financial Institutions (FI). Federations performing non-financial functions mobilize membership fees, service fees, and other grants to meet their costs. However, a majority of them are dependent on grant funds to meet their costs. While promotional costs could be paid for from the government, generating enough income to meet their recurring costs still seems to be a challenge.

### 10.2.3 Asset Quality of Financial Federations

**Portfolio quality:** The major challenge in the federations is systems to ensure good portfolio quality. Due to weak internal control systems for loan tracking, the repayment rates are low.

**Lending methodology:** As the federations start seeing themselves more as Financial Institutions, direct lending to members and bypassing the SHG starts becoming the norm. Lending through SHGs ensures that SHG continues to be the building block of the federation. Across federations, it is noted that SHG members have simultaneously taken more than one loan, and often differentiation is made between loans from SHG funds and loans from Federation/Bank funds. SHG leaders use their influence either to take a larger chunk of the SHG loan portfolio or take on more loans simultaneously. Reaching the poorest of the poor would be an issue in the federation structure unless

there is a clear strategy to prioritize loans for them. One of the questions that require further research would be the reach of poorest of the poor through the federation.

#### 10.2.4 Design of Systems and Implementation

**Two way communication:** Instead of the current bottom-up only data transfer, it would help if SHG members were more aware about the federation activities and functioning, and would help facilitate emergence of second line leadership. It is noted that often there is a data transfer between the SHG and federation. However, this data is not shared in a format that would help the Board analyze the information and understand the performance of the member SHGs. Effective book keeping and MIS is a weak area that requires further work.

**Systems and operating processes:** Good systems and sound processes are the backbone to an efficient and well-performing federation. It is one that requires immediate attention. Quality and regularity of book keeping and MIS are the two major areas which need to be improved. Though the records maintained at the SHG level are adequate, accuracy and timeliness in recording information is low. With federations handling multiple activities, and geared to play a major role in the social and economic empowerment of women, having strong systems would help in building institutions with long term sustainability. SHGs being the building block of the structure, a simple and user friendly MIS would help the federations to understand the status of SHGs better and work towards strengthening the SHGs, by providing appropriate capacity building inputs and interventions.

**Monitoring:** In most of the federations, monitoring of the financial performance of member-SHG is mentioned, but the systems for monitoring these are not reported. Some of the federations associated with the partners of CARE, GRAM, Unnati, SIFFS, do appear to be receiving regular financial statements from member-organizations, and these are consolidated and possibly reviewed at the federation and even SHPI level. For a federation to analyze financial statements of members and to advise them on the basis of such analysis, the member units need first to prepare such data, and present it to the Board/general body for consideration. When such data is presented to the federation, it can be taken as authenticated data - data which those responsible cannot deny at a later stage.

#### 10.2.5 Efficiency and Profitability

**Sustainability:** The challenge associated with sustainability currently being faced by SHGs is twofold; it refers to both financial and operational sustainability. In this context, financial sustainability is whether the SHG federation is being held afloat using grant money or on its own accord. Institutional sustainability is defined as the ability of the overall organization to continue to exist as a social institution. As mentioned above, one of the rationales behind creating SHG federations is that they are more likely to become sustainable than individual SHGs. Although this might be the case, the current state of federations across the country demonstrates low financial sustainability. There is enough evidence to show the contribution of SHG federations for the sustainability of SHGs, but the issue of SHG federation sustainability is by far the most significant challenge in the future. Questions remain: Federation sustainability at what cost? Are the federations being funded by their SHGs? Do they get value for the money? Over a period of time are the federations likely to become a burden on the SHGs?

#### 10.2.6 Services to Constituents SHGs

**Services and products:** Many federations that APMAS studied offer diverse products and services to their constituent members. However, the menu is still limited. Federations should offer different saving, loan and insurance products and non-financial products

and support services aimed at strengthening the performance of its members on a fee-for-service basis in order to sustain the federation. While federations can not be "all things to all people", they do need to make strategic choices based on the needs of their members and the opportunities out there. There are several opportunities like federations being micro-insurance agents, business facilitator/ correspondent and as livelihood promotion organizations. There is still considerable work, including some pilots on product development that the SHPIs need to undertake in partnership with federations to enhance the product range.

**SHG Member Awareness:** At every level, the furthering of the interests of the primary member is central to the setting up of a tier, and the vibrancy of its member-organizations is vital to its own vibrancy. However, the more tiers there are within the federation, the more removed the individual members become from the core decision making process. Also, each tier would add costs and should not be added if they do not add value. Therefore, one major challenge associated with the creation of SHG federations is to retain member awareness even as the structure of the institution grows from individual SHGs to federations. This challenge is especially difficult when the federation is located far from villages, which is not often visited by members. If two-way communication is not practiced in the federation, and systems are lax, it can be extremely difficult for individual members to gain an understanding of the federation and its roles and responsibilities. The benefits of the federations must be felt by the women members of the SHG federation.

### 10.3 External Challenges

**Business-like approach of federation:** Most federations do not adopt a business-like approach in pricing their products and services or consider their operations to be commercial. The widespread perception among microfinance providers appears to be that social considerations should predominate and overshadow profit concerns, because their operations target poor households. As a result, the interest rate charged by many federations is insufficient to cover their operating costs. Their pricing policies do not aim to protect the erosion of capital from inflation. Similarly, the emphasis on operational efficiency is inadequate. Therefore, many federations require continued subsidies. Fixing the service fee for the services that the federation provides and the interest rate they charge on the loans must keep in mind the benefit to their members and their continued existence to offer the services.

**Conceptualization of federation:** Informed by practice, there are a few generic models that are emerging with the underlining principles. Over the past few years, there have been intensive efforts to facilitate cross learning. In fact, many of the World Bank funded projects are building on the SHG federation model of Andhra Pradesh. Various exposure programs conducted by APMAS and others have contributed to enhanced understanding of the federation promotion. The strategy and vision of the SHPI has an important role to play in the process of institutional growth towards self-reliance. A large number of SHPIs are in the process of adopting the SHG federation model with limited understanding of the generic nature of the issues and concerns related to the SHG federations. Due to lack of information of existing structures, role of the promoting organizations and the institutional needs of the federations for becoming viable and self-sufficient community based institutions leave a large gap in proper conceptualization of federations. There is a need for wider dissemination of the learning.

**Legal and Regulatory Framework:** A secured transactions framework is of great importance in enabling federations to move toward sustainability by reducing their credit risks and costs of lending. In nine Indian States there is a favorable cooperative act that gives full autonomy for the members to establish their own bylaws and business rules. In those states, the SHG federations may adopt the cooperative legal form. In

other states, the federation registration may be preferably under the Societies Act or Trust Act. The Companies Act, the federal law governing corporate entities, has too many statutory requirements that make it difficult to incorporate SHG federations under it. Though Sangamitra, a section 25 company promoted by MYRADA, is not a federation of SHGs; the SHGs have a stake in it and Sangamitra provides loans to SHGs. More such institutions are likely to emerge the bridge finance SHGs.

**No Framework for Self-regulation:** Self-regulation is one alternative to government regulation that many promoter practitioners (or federations) are considering. The MF bill introduced in the Parliament includes SHG federation registered under any legal form under its realm. As SHG federations registered under liberal cooperative laws are allowed to provide financial services to their members, these being covered by the MF bill may hinder their ability to function as autonomous member-owned and member-managed organizations. INFOS, a financial federations network promoted by DHAN Foundation is evolving a self-regulation system. APMAS is piloting a self-regulation system in Andhra Pradesh which will have lessons for the SHG federation promoters in the country. All states having liberal cooperative laws for the SHG federation to come up and flourish would be of future agendas.

**Target-oriented approach:** Though the federation concept has finally arrived and is well accepted by diverse stakeholders including the regulators, governance, systems and processes are not well developed. In most of the poverty reduction projects, SHG federations are being promoted. Building a sustainable federation through a participatory approach will be time consuming and expensive. Building the institutions of the poor also requires specialized skills. However, most of the federation promoters are not able to follow the process and have the staff with necessary skills and the mind set. As a result, the federations are being promoted in a project model (target-oriented manner). Such an approach undermines the sustainability of the federation. Furthermore, the federations are promoted without strengthening the member SHGs. This results in a weak foundation for the federation.

**Capture by vested interest:** SHGs of 10-20 women are too small and informal for the vested interest to capture. However, with SHG federations having women membership ranging from 100 - 100,000 or even more would be attractive to the vested interest. There is scope for the better off within the federation to use the organization to serve their own agenda and not work in the interest of the majority of members. Another possibility is the staff that work for the federations could manage these federations as their own organizations. In theory it is an organization owned, managed and controlled by members. However, in practice it might be the Chief Executive of the federation who makes all the decisions and manages it as per her/his wish. Another distinct possibility is the political capture. As these federations manage large volume of funds and become a significant player in the local economy, the politician will either try to have their own persons in the leadership and management roles or would use the federation for political gains. It has already become a political issue. The question of how to address this concern remains.

**Capacity of Promotional Agencies:** Limited organizational capacity of promoter organizations is a major constraint in federating SHGs. Promotion of federations requires institution-building skills beyond what is needed for the promotion of SHGs. Although NGOs have been the primary agencies involved in promoting SHGs and SHG federations, there are very few NGOs that have the skills to promote federations. Of late, many government agencies have also become involved in forming SHGs and their federations though they lack the grassroots organizing skills needed for this. Some governments have sought to overcome this limitation by creating special agencies such as SERP and utilize community resource persons to serve as extension agents. This has been a successful model worth emulating.

**Cost of promotion:** Promoting SHG Federations is a costly activity for a promoting institution to undertake. Two types of costs involved in promoting Federations are promotional costs and operational costs. While estimating the cost of group formation is difficult and depends on the quality and quantity of support provided, the Ministry of Rural Development has established a norm of Rs. 10,000 per SHG. If there is an average of 250 SHGs in one Federation, the cost is an astonishingly high 2.5 million rupees. In addition to the SHG promotion costs, there are considerable costs to promote federations. It may cost Rs. 2 - 5 lakh to promote a smaller federation and Rs. 10 - 25 lakh to promote larger federation. Considering PIs estimate it takes anywhere from 5-10 years for a federation to become sustainable. Thus, promoting institutions must incur tremendous costs simply to promote one federation. There is an indication that the 11th plan would make allocation for the promotional cost of federations. The funds of Rural Development department could also meet some of the operational costs of the federations. Does this undermine their autonomy?

**The challenge of decentralization:** Our study on federations finds that to enable greater member participation most of the formal/informal federations have three or four tier structures i.e. the SHG, the village organization/cluster/panchayat level federation, mandal/ block federation and in a few cases district level federation. As the federation grows in size and complexity, maintaining member participation becomes one of its biggest challenges. Appropriate training needs to be provided by the promoting institution to ensure that the members remain the owners, users and managers of the federation and the federations power and resources do not get appropriated by a few. As and when the organization grows in size, there is a possibility of creation of vested interest and power base in one place. It should be ensured that accumulation of power at top level of federation does not happen.

**Institutional sustainability:** While the management skills of federation members and leaders in changing environments was seen as important, their ability to contribute effectively was limited due to their low literacy levels and the limited exposure to the formal sector and with formal systems.

## 10.4 Recommendations

The SHG federation has finally arrived and is here to stay. It has recognition by RBI, NABARD, IRDA, Government of India, State Governments and NGOs. There is near unanimity on the need for SHG federations to provide several non-financial services to the members contributing to SHG sustainability. However, there is divided opinion on federations performing a financial intermediation role. Irrespective of the divided opinion, almost 50% of the SHG federations in India are performing some sort of financial intermediation role. Some of them term themselves as Community Based Microfinance Institutions (CBMFIs) and have been accessing bulk finances for on lending. Some of the federations call themselves "Mahila Banks" (women banks). They have shown their willingness to develop performance standards, undertake self-rating and have also undergone quality assessment (rating) by a third party to access loans from financial institutions. Many financial federations have demonstrated both operational and financial self-sufficiency by covering their costs from the interest spread. They have also begun to offer savings and insurance services to their members.

Though the Community Managed Resource Centres (CMRCs) promoted by MYRADA with SHGs and other CBOs, strictly speaking, cannot be called SHG federations, they have demonstrated that they could be self-sustaining by providing useful services to members for a fee. Many other SHG federations which are either multipurpose or non-financial are also recovering some of their operational costs through fees. Some of the federations are offering a wide-range of services almost becoming implementing agencies of government programs. With limited capacities, providing multiple services with quality

and efficiency need to be ensured. There are several federations which have been extremely cautious about what they would take upon themselves and what they would not.

Based on the study of federations in eight states and APMAS' experience in supporting SHG federations over a period of six years, the following recommendations are made to contribute to the body of knowledge and to invite the attention of policy makers and practitioners to what can be done to facilitate sustainable growth of SHG federation to fill the void of institutions to address issues of poverty and women empowerment;

#### 10.4.1 For Primary Stakeholders

While networking has distinct advantages, it also has several disadvantages. It is absolutely critical that these federations are built based on the **felt need of the members through a process-oriented approach**. The promoters need to have **long-term vision on developing sustainable institutions of the poor**. It is essential for the SHG federation promoters to ensure that the staff have the required capacities and the appropriate mind set to build sustainable institutions of the poor.

While SHGs are informal groups, SHG federations need to have body corporate status so they have to **register under an appropriate legal form**. In those states that have a liberal cooperative act like the APMACS Act, the federations could register under that act. Another possible option is for the federations to be registered under the Societies Act. The federations could also opt for Indian Trust Act. Becoming a not-for-profit Section 25 Company is another legal form available. Except for the liberal cooperative acts, all other acts have some disadvantages. Also, the MF bill is likely to be applicable to all these legal forms which will hinder their autonomy and self-reliance. There is a need for strong advocacy for liberal cooperative laws in all the states of India. The government of India could ensure this.

The federations are registered under the various acts but the federations are **not complying with the legal obligations**. The federations should work towards complying with all legal obligations and requirements in time. Particularly, all federations, registered or unregistered, must ensure annual audit of their accounts by a qualified auditor, prepare their annual report and conduct annual general body meetings (AGMs) ensuring at least 50% of their members' participation. The AGM could be conducted as a business and social event to celebrate their success and to show their collective strength. This could enhance their collective strength.

Federation meetings are platforms to discuss and review the progress and performance of institutions. But most of federations' agendas of the meetings confines only to financial transactions. The SHPI has to facilitate and ensure that the meeting agenda cover the overall performance of federation. Specifically, the SHG federations must routinely review the performance of their member organizations for initiating appropriate action as may be necessary. The federations should also invite resource persons to these meetings to know about various schemes and to gain knowledge on issues related to women's rights, women's health, education, livelihood opportunities, etc.

Most of the **Board members of the federation and the office bearers are not aware of their roles and responsibilities** but exhibit good commitment and interest in building their own institution. **Awareness building exercises** should be done for the members to bring in awareness about the institution, roles and responsibilities of the Board and functions to be carried out by the federation. Exposure visits to well functioning federations would be an excellent way for learning. Use of "best practitioners" from good federations as trainers and change agents would be another way to enhance the quality of SHGs and SHG federations.

**Federations may federate** at the apex level (more than two tiers) to form an independent but interdependent federation, to play the role of a catalyst to bring about social change; this would function like an NGO/PIA (Project Implementing Agency) and focus on strengthening the primary federation & SHGs. This would help the social agenda not getting mixed with the financial activity, and thereby not get diluted. Such a federation would also **help creation of a pressure group of the members**, to ensure proper functioning of the primary federations. This federation may not be a viable entity, and may depend on grant funds for its functioning, while also raising resources on a fee-for-service basis from the primaries (i.e. primary federation and SHGs). It is very important to have role clarity among various levels of federations.

SHG federations have gained prominence as **livelihood promotion organizations**. Many SHG federations are involved in collective procurement and marketing activities. Federations are also managing watershed programs and playing a key role in NREGA. Facilitating NPM/IPM practices has been successful through federations. SHG federations could play the role of aggregators and also link up with retail chains and private sectors. While there would be limitations on what a federation can do, livelihood promotion could be part of the agenda of the SHG federation to ensure optimum utilization of the financial services and also to meet the demand that has been expressed by a large number of women SHG members.

SHG federations managing BMCUs, maize/paddy procurement centers have been very successful. These are some of the critical interventions for the poor to come out of poverty. Based on a careful analysis of the livelihood options in a given geographic area, SHG federation could identify a few livelihood activities to take leadership in by either providing those services or linking them to appropriate providers.

One of the important purposes of the SHG movement is **women empowerment**. SHG federations need to play a much greater role in the area of social empowerment. The services in this area need to be further developed. SHG federations need to focus on issues like women's rights, women's health, child labor, HIV/AIDS, political spaces for women, and other related issues. A much sharper focus on the social agenda can have a lasting impact on poverty.

The federations have only **credit product and have limited non-financial products**. Some of the federations have been successful in offering savings products and also micro-insurance. These need to be taken to scale. In fact, federations should embrace the business facilitator / correspondent model and enhance their product range. The federations need to develop **tailored products addressing members' needs** and offer support services aimed at strengthening the performance of members on a fee-for-service basis in order to sustain the federation. With the liberalization of the insurance sector, the SHG federations have a unique opportunity to play the role of an agent in ensuring appropriate insurance services for their members. SHG federations could negotiate with micro-insurance service providers to ensure best possible products. It is strongly recommended to have pilots on innovative products including federations being the agents of banks using the smart card technology to deliver financial services.

SHG federations have multiple objectives and perform multiple functions. While in the initial stages this may be appropriate, to ensure sustainability of SHG federation, there may be a need to **establish different institutions for different purposes**. For example, to undertake marketing activities, an SHG federation could promote a commodity cooperative. Similarly, to pursue social agendas there may be a need for a separate organization promoted. The same women could be in different organizations with different objectives. Of course, many SHG federation form sub-committees of the Board of Executive Committee to manage different services of the federation. While this approach has some merit, how effective such an approach would be in the long-run needs to be

studied. At the very least, the SHG federation must keep separate books of accounts for different activities and prepare separate financial statements to understand which of their activities are sustainable and which of those are not.

The changing complexities of member management, human resource development, financial management have necessitated availability of professional assistance to SHG federations through **adequate trained and professional paid staff** on appropriate terms working under the general guidance of a democratically elected body. It is suggested that the promoters and SHG federations develop some of their women members to take on the role as federation staff in the long-run. This would reduce costs and also dependence on external staff. SHG federations could also access consultancy services of professionals as per their needs to augment their internal capacity.

At present the federations have **limited funds available** per SHG to meet the members' needs. Federations must continue to work for SHG-bank linkage as the federation may never be able to meet the credit needs of all the women members. Those federations that lend to their members could perform the role of bridge financing as a bulk of the credit needs are met from the linkage banking. The financial federation should develop linkage with banks and other Financial Institutions (FI) to meet credit demand of the members, to have diversified sources of funds and increase SHGs in the federation to improve its Operational and Financial Self Sufficiency. For federations to attract mainstream funds, they must demonstrate excellence in governance, systems and sustainability. NABARD may formulate appropriate guidelines to facilitate SHG federation - bank linkage. NABARD has issued guidelines offering grant support for promotion of non-financial federations. There is scope for NABARD to consider SHG federation - bank linkage as appropriate. Alternatively, NABARD could support the business correspondent model for the SHG federations to take advantage of. Bankers will have to be trained on the concept of the federation and the process to be followed in appraising the SHG federations. Once the SHG federation is bank linked, the member SHGs will not be eligible for bank linkage as it may lead to duplicating the effort and monitoring may prove difficult.

For non-financial federations to be sustainable based on **service fees**, a business model need to be developed. Existing practices could be reviewed and a task force approach could be followed to have a viable business model for non-financial federations to provide high quality need based services and be sustainable.

For financial federations to access commercial funds from banks and other financial institutions, they must get themselves **rated by a credible rating agency**. The rating will give an objective assessment of the strengths and weaknesses of the SHG federation and also the credit worthiness of the federation for the financial institution to have third party assessment. This could form the basis for improving the institutional capacity and strengthening the systems and processes. APMAS has developed SHG federation rating system and has done rating of a large number of federations.

**Recovery performance** at federation and SHG levels should be improved through regular monitoring and follow up, by strengthening the default management system. The findings from APMAS ratings and grading of SHGs suggest that there is a high level of default from members to SHGs if the loans are taken from their own savings. Low repayment of loans taken from members' savings would eventually affect the repayment of SHGs to banks and also to the federations. There must be a tracking system in the SHG federations to monitor the repayment of loans given from members' savings. This would serve as a sensitive indicator to show the health of the SHGs. A computerized MIS and use of smart card technology could be considered options.

The **grading system** and the monitoring of the SHGs have to be practiced from time to time for enabling good disbursement and effective recovery rate.

SHG federations are gaining prominence in **urban and tribal areas** as well. There are successful models of SHG federation promotion in urban areas. For policy makers, planners and practitioners the time has come to consider strategies to promote SHG federations in urban areas on a large scale. The experience of Kudumbashree in Kerala and Dhan Foundation in South India clearly indicate the great potential that exist in promoting sustainable SHG federations to promote livelihoods in urban areas. Though tribal areas have sparse populations, experience has proved that SHG federations are effective institutions for tribal development. A clear strategy and action plan is required for this.

#### 10.4.2 For Secondary Stakeholders

In nine Indian States there is a liberal cooperative act that is most suited for SHG federations. A similar act may be necessary in other states for SHG federations to emerge as intergenerational organizations having body corporate status. Improving the **legal and regulatory framework** to facilitate SHG federations and building their capacity so that they can be scaled up. There is also a need for a Self Regulation Organization (SRO) to regulate & supervise the SHG federations at a decentralized level. The likely MF regulator could recognize the self-regulation arrangements and support further development of those to further promote self-reliance and autonomy of the SHG federations to provide much needed services to their members.

Building a large number of institutions of the poor requires adequate **availability of professionals with adequate knowledge, skills, competencies and experience**. The available human resources for facilitating emergence of SHG federations in the form of clusters, village organizations and higher level federations are limited. There is a need to make significant investments in developing professionals and para-professionals to escort the emerging SHG federations. Capacity building, including on-the-job support and exposure visits, needs to be provided to the staff of the federations and members of the federations on an on-going basis to enhance the function of the federations.

Across the organizations, there is a need to improve the **accounting, information system and internal controls**, develop and establish system. For the financial institutions to run efficiently and effectively, accurate and up-to-date accounting and reporting is necessary. The capacities of the Board of Directors of federations need to be built to interpret the financial statements such as balance sheets, receipts and payments, and income and expenditure statements. There is a need for suitable software to meet the MIS needs of the SHG federations.

The SHPI need to develop a 3-5 year **Business Development Plan** with the involvement of federation board and staff which would include vision building and an articulated withdrawal strategy.

Development of formal **policies and modules** related to Credit, Human Resource, Accounting, Training, livelihood promotion, social services, Organizational Systems and Internal Control should be done. A participatory monitoring system needs to be developed for the staff. SHG federations also require a self assessment tool to improve performance.

**Building up the infrastructure** required to support better access, including infrastructure to support small value payments/money transfer systems and the credit information infrastructure that can help reduce lending costs associated with information asymmetries and create valuable "reputation collateral" to members and small entrepreneurs that lack significant physical assets. Use of SHG federations as business correspondent using smart card technology is already being piloted, based on the results such a model need

to be up-scaled. There is tremendous potential for the SHG federations to play the role of business correspondents to provide the last mile connectivity for the banks and to be agents promoting financial inclusion.

SHG federations require services from a variety of stakeholders. They need to have **linkages with Government, Banks, service providers and private sectors**. The capacities of the federations need to be built to establish and manage partnerships with a variety of players to further their objectives. This would be a major task for the promoting organizations.

**Setting of minimum performance standards** and benchmarks are necessary. All the major stakeholders need to put their heads together to evolve these. Models like INFOS and the national network of resource organizations supported by Ford Foundation with APMAS, Centre for Microfinance (CMF), Chaitanya, Indian School of Microfinance for Women (ISMW), and Reach India could take a lead in this process. Networks like INAFI and Sa-dhan have a role to play as well. Most important role will have to be played by the federations themselves.

In **conclusion**, SHG federations have been evolved as a model that promotes sustainability of the SHGs and provides the much needed institutional base for the women to realize their dreams and aspirations. The SHG federation model has achieved significant scale and considerable acceptance among all the major stakeholders. There is great potential for the SHG federation model to address issues of poverty. In many ways, the model is unique - the women are the owners, managers, users and beneficiaries. This is here to stay. While there are many benefits of SHG federation model, it has several limitations. The promoters need to be aware of both. Within the SHG federation model there are several variations driven by the local considerations and the strategy of the promoting organization.

APMAS as a resource organization is deeply committed to support the sustainability of the SHG federations. What makes the task almost impossible is the large number of institutions that need to be strengthened. The present estimates suggest that there are more than 68,000 SHG federations. Considering 30% of India's poor to be covered under the SHG program, there will be more than 5,000,000 SHGs in the country. If there is one SHG federation for every 25 SHGs, the number of SHG federations that may develop over the next 5-10 years would be 200,000. Developing these into strong, vibrant and sustainable organizations serving their members is a mammoth task for all the major stakeholders. Though it is a challenging task, it is doable and must be done. Though the SHG model is not the panacea for women empowerment and poverty reduction, it holds a promise if the experience in the past is any indication. What is necessary is a synergetic effort by policy makers, planners, and implementers. There is also a need for public-private partnership to make it a reality.

**ANNEX-1: REGIONAL SPREAD OF SHG - FEDERATIONS AS ON 31 MARCH 2007**

Region / State	Promoters	No. of SHG Federations			
		Primary	Secondary	Tertiary	Total
<b>Northern Region</b>		<b>121</b>	<b>26</b>	<b>0</b>	<b>147</b>
Himachal Pradesh		0	0	0	0
Rajasthan	BCT	0	1	0	1
	CECOEDECON	0	12	0	12
	HVVS	9	0	0	9
	IBTADA	19	2	0	21
	PEDO	70	8	0	78
	Pradhan	17	2	0	19
	Progress	6	0	0	6
	Sakhi Samithi	0	1	0	1
	Total	121	26	0	147
Haryana	Swashakthi	0	0	0	0
Punjab		0	0	0	0
Jammu & Kashmir		0	0	0	0
<b>North Eastern Region</b>		<b>122</b>	<b>10</b>	<b>0</b>	<b>132</b>
Assam	Bosco Reach Out	0	1	0	1
	Prochesta	0	1	0	1
	Sonali SHG Unnayan Samithi	122	0	0	122
	Mahila Shakti Kendra		1	0	1
	Total	122	3	0	125
Magalia	IFAD -GISIKSAN SHG Federation	0	1	0	1
	Turshaphrang Women SHG Federation	0	1	0	1
	Total	0	2	0	2
Tripura		0	0	0	0
Sikkim		0	0	0	0
Manipur	VVD - Imphal	0	1	0	1
	VVD - Ukul	0	3	0	3
	Total	0	4	0	4
Nagaland	Eleutherous Christian Society	0	1	0	1
Arunachal Pradesh		0	0	0	0
Mizoram		0	0	0	0
<b>Eastern Region</b>		<b>5,745</b>	<b>107</b>	<b>0</b>	<b>5,852</b>
Orissa	CYSD	80	0	0	80
	BMASS	23	0	0	23
	Fellowship	30	0	0	30
	BISWA, Swayam Sree, Gramodhav, FARR*	3,867	0	0	3,867
	Total	4,000	0	0	4,000
Bihar	WDC- Swashakthi	170	40	0	210
	Jeevika piloting	10	2	0	12
	All NGOs	100	0	0	100
	Total	280	42	0	322

ANNEX-1: REGIONAL SPREAD OF SHG - FEDERATIONS AS ON 31 MARCH 2007

Region / State	Promoters	No. of SHG Federations			
		Primary	Secondary	Tertiary	Total
Jharkhand		0	0	0	0
West Bengal	PR & RD	820	16	0	836
	Swayamsidha social welfare Development	295	39	0	334
	Sreema Mahila Samithi		2	0	352
	Bagnan - 1	350	1	0	1
	SPADE		1	0	1
	Other NGOs		6	0	6
	Total	1,465	65	0	1,530
<b>Central Region</b>		<b>487</b>	<b>334</b>	<b>0</b>	<b>821</b>
Madhya Pradesh	Action for Social Advancement BLF)	0	1	0	1
	Asha Niketan Welfare Centre	6	0	0	6
	Centre For Advanced Research and Development	70	0	0	70
	IFFDC	0	150	0	150
	Indore Diocese Social Service Society	77	0	0	77
	Jabalpur Diocese Social Service Society	18	0	0	18
	Khandwa Diocese Social Services	3	0	0	3
	Kripa Social Welfare Society	43	0	0	43
	Manava Vikas Seva Sangh	233	2	0	235
	ASRA	5	0	0	5
	P & RD dept. (SGSY)	0	51	0	51
	Swashakthi	0	0	0	0
	Total	455	204	0	659
Chhatishgarh		0	0	0	0
Uttar Pradesh	Grameen Development Service	20	0	0	20
	Pratham Samaj Sevi Sansthan	4	0	0	4
	PANI (BLF)	0	130	0	130
	UPVHA	2	0	0	2
	Vinobha seva ashram	5	0	0	5
	Swashakthi		0	0	0
	Total	31	130	0	161
Uttaranchal	REWAIN Women SHG Federation	1	0	0	1
<b>Western Region</b>		<b>663</b>	<b>1</b>	<b>0</b>	<b>664</b>
Gujarat	SEWA (cooperatives)	12	1	0	13
	Others	51	0	0	51
	Total	63	1	0	64
Maharashtra	Mahila Samyukta Samithi	600	0	0	600
Goa		0	0	0	0

**ANNEX-1: REGIONAL SPREAD OF SHG - FEDERATIONS AS ON 31 MARCH 2007**

Region / State	Promoters	No. of SHG Federations			
		Primary	Secondary	Tertiary	Total
<b>Southern Region</b>		<b>59,172</b>	<b>2,093</b>	<b>22</b>	<b>61,287</b>
Andhra Pradesh	IKP	27,350	894	22	28,266
	APUSP	409	3	0	412
	GRAM	19	1	0	20
	MARI	14	1	0	15
	PEACE	5	0	0	5
	PSS	18	1	0	19
	Navajyoti	3	0	0	3
	Krusha	7	0	0	7
	ASP	85	1	0	86
	Other NGOs(YIP, CEED, COVA, etc)**	440	0	0	440
	<b>Total</b>	<b>28,350</b>	<b>901</b>	<b>22</b>	<b>29,273</b>
Karnataka	MYRADA	94	0	0	94
	Donbosco	24	0	0	24
	Nisahay	12	0	0	12
	Grama	6	0	0	6
	Grama Vikas	1	0	0	1
	SJM	5	0	0	5
	Govt.	301	0	0	301
	Sri Kshetra Dharmasthala Rural Development Project	1,434	8	0	1,442
	OUTREACH	63	4	0	67
	<b>Total</b>	<b>1,940</b>	<b>12</b>	<b>0</b>	<b>1,952</b>
Kerala	Kudumbashree	14,339	1,050	0	15,389
	KAIROS	35			35
	KIDS	5			5
	<b>Total</b>	<b>14,379</b>	<b>1,050</b>	<b>0</b>	<b>15,429</b>
Tamil Nadu	WDC- Mahler Thirttam	12,405	0	0	12,405
	DHAN Foundation	2,000	130	0	2,130
	MYRADA	47	0	0	47
	CDS	7	0	0	7
	TRUPA	4	0	0	4
	Universal Welfare Foundation	20	0	0	20
	AVVAI Village Welfare Society	1	0	0	1
	Dhan foundation	11	0	0	11
	CARDS	1	0	0	1
	RED	1	0	0	1
	Navajeevan Trust & CPE	1	0	0	1
	SEVA	1	0	0	1
	Hand in Hand	1	0	0	1
	M. S. Swaminathan Foundation	1	0	0	1
	VBEDS	1	0	0	1
	CERD	1	0	0	1
	<b>Total</b>	<b>14,503</b>	<b>130</b>	<b>0</b>	<b>14,633</b>
	<b>All India</b>	<b>66,310</b>	<b>2,571</b>	<b>22</b>	<b>68,903</b>

Note: Above information is collected from websites, through telephone calls and field visits. Federation are there in the states of Himachal Pradesh, Jharkhand, Haryana, Chattisgarh and North East states, but data is not available

\* Approximate figures, few of the NGO have promoted federation, which now have been changed to MFIs

\* \*Approximate figures

# References

## Chapter-1 Introduction

<sup>1</sup> Institutions here means, banks, cooperatives and government (which include post office, etc.)

<sup>2</sup> At the behest of the NABARD, the RBI issued a circular on 24 July 1991 to commercial banks advising them to actively participate in the pilot project, refinanced by NABARD, for linking SHGs with banks. The groups may be registered or unregistered, have 10-25 members, should have been in existence for at least six months, and should have actively promoted the savings habit. Further details of the pilot scheme were to be evolved by NABARD in consultation with the banks and NGOs.

<sup>3</sup> The AGM, NABARD said in an interaction with on of the present research team members, that about 90% of profits in rural bank branches, in Nizamabad, is coming from SHG lending. According to him, this figure came up in one of district level bankers committee meetings.

<sup>4</sup> This way, some of the roots for current unprecedented boom in real estate sector in the state, perhaps elsewhere in the country, could be traced to SHG bank linkage program.

<sup>5</sup> SIDBI sponsored impact studies also found that mF (including joint lending group (JLG) members) experienced higher improvement in their economic conditions vis-à-vis controlled (non) members

<sup>6</sup> E.g. the research team compiled the number of federations in the country as on 31st March 2007. But individual authors used the latest federations' figure in their chapters.

## Chapter-2 Evolution Of Shg Federations In India

<sup>7</sup> Friends of Women's World Banking (FWWB, India), (1998), "India's Emerging Federations of Women's Savings and Credit Groups".

<sup>8</sup> Tamil Nadu Corporation for Development of Women Ltd. (TNCDW), (1999) "A Guide to SHG Federations".

<sup>9</sup> Ajay Nair (2005) Sustainability of Microfinance Self Help Groups in India: Would Federate Help? World Bank Policy Research Working Paper No. 3516

<sup>10</sup> APMAS Promotion of Vibrant and Sustainable Federations of SHGs- unpublished report by APMAS.

<sup>11</sup> Shashirajagopalan (2003) Rajagopalan, Sashi; Designing Secondary Institutions of Self Help Groups- A paper for Discussion, APMAS, June 2003.

<sup>12</sup> EDA Rural Systems & APMAS (2006), " Self Help Groups in India: A Study of the Lights and Shades"

<sup>13</sup> Rajasekhar, D. (1994). *Savings and Credit Systems of the Poor: Some Non-Governmental Organization (NGO) Experiences: NOVIB and HIVOS.*

<sup>14</sup> Harper, Malcolm (2002), *Do We Really Need SHG Federations?*

<sup>15</sup> Ajay Tankha's presentation on "Financial Intermediation through NGO-Promoted Community Organizations in India" in the workshop "Net working of SHGs-Concepts, Issues, and Practices" organized by Sa-Dhan.

<sup>16</sup> *Ibid*, MYRADA, 1999

<sup>17</sup> CARE (2000). *State Level Convention on Federations: A Report.*

<sup>18</sup> A more detailed list of federations promoters, state wise, is at annex 1

<sup>19</sup> APMAS (2006), "5 years of strengthening the self help movement" Annual Report 2005-06.

<sup>20</sup> Reddy, C.S. and LB Prakash; *Status of SHG Federations in Andhra Pradesh- APMAS Assessment Findings*, APMAS, March 2003.

<sup>21</sup> APMAS (2006), "Status of SHG Federations in Andhra Pradesh" Quality Assessment 2nd report.

<sup>22</sup> APMAS in collaboration with NABARD and SERP jointly organized five district level workshops at Adilabad, Mahabubnagar, Prakasam, Warangal and East Godavari during 22-28th September 2006. The objectives of the workshops are To understand the perspective of bankers, SHPIs and Federation representatives on functioning and financing of the SHG Federations; and to identify issues / problems / challenges faced by various stakeholders in operationalizing financing Federation guidelines issued by Govt. of AP/NABARD/SLBC of AP and collate expectations and suggestions to improve guidelines for proper implementation of financing federations scheme.

<sup>23</sup> APMAS collected this information from DRDA/IKP and NGO on telephone from the promoters.

<sup>24</sup> Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

<sup>25</sup> Government of Andhra Pradesh, Panchayat Raj and Rural Development (RD.III) Department, National Bank of Agriculture and Rural Development, G.O.Ms.No.237 Date: 30-07-2003. (NABARD) - Working Group of financing SHG Federations/MACs/MFIs - For securing financial assistance from banks to support SHG members

<sup>26</sup> *Ibid*, MYRADA, 1999

<sup>27</sup> *Ibid*, Harper (2002)

<sup>28</sup> Sa-Dhan (2004), "SHG Federations in India: Emerging Structures and Practices".

<sup>29</sup> *Ibid*, APMAS, 2005

### Chapter - 3 Typology Of Shg Federations

<sup>30</sup> Society for Elimination of Rural Poverty (SERP) is a society promoted by Government of Andhra Pradesh to implement various poverty reduction projects. SERP implements one of the largest poverty reduction project with financial support from the World Bank known as Indira Kranti Patham (IKP). SERP is considered as one of the most successful institutional model for innovative approaches to social mobilization and targeting the poorest of the poor to address fundamental issues of poverty. SERP has been successful in achieving scale and focusing on sustainable institutions of the poor.

<sup>31</sup> It is DFID's supported project.

<sup>32</sup> Though, it is conceived as ward level federations in towns in different states in their project formulations, practically they turn out to be slum level federations in different towns in the country.

<sup>33</sup> MYRADA reduced the importance to federations, in order to reduce the emphasis on financial intermediation. The CMRCs are discharging the traditional agenda of federations, i.e. sector development services.

<sup>34</sup> NABARD, in its circular no. /MCID/2007 (Ref. no. NB.MCID/1058/ SHG federations/ 2007-08), issued to facilitate the financial support to federations mentioned these five models.

<sup>35</sup> It may be noted that the basis units/ SHGs are also considered one layer/ tier in the federation structure.

<sup>36</sup> A few NGO promoted federations are exclusively focusing on financial services and gradually moving towards commercial microfinance.

#### Chapter - 4 Multi Purpose Federations

<sup>37</sup> **Indira Kranti Patham (IKP)** is a statewide poverty reduction project to enable the rural poor to improve their livelihoods and quality of life through their own organizations. It is implemented by Society for Elimination of Rural Poverty (SERP), Dept of Rural Development, Govt of AP. SERP is an autonomous society registered under the Societies Act, and implements the project through District Rural Development Agencies (DRDAs) at the District level (source: [www.rd.ap.gov.in](http://www.rd.ap.gov.in)).

<sup>38</sup> **Kudumbashree** is a poverty eradication project officially launched by the Government of Kerala with the active support of the Centre and NABARD for wiping out absolute poverty from the State within 10 years. Based on the success experienced in 'Alappuzha' (urban model) and 'Malapuram' (rural model). Government of Kerala extends this project to entire state under the name of Kudumbashree. (source: [www.kudumbashree.org](http://www.kudumbashree.org))

<sup>39</sup> The National Housing Bank (NHB), the apex level financial institution for the housing sector in the country, was established on July 9, 1988 under the National Housing Bank Act, 1987. The NHB works as a facilitator in promoting Housing Finance Institutions and providing financial and other support to such institutions (source: [www.nhb.org.in](http://www.nhb.org.in))

<sup>40</sup> CRP strategy is a community to community cross learning approach. The women, who came out of poverty by participating in SHGs, supported strengthening her own SHG and become as a role model to SHG/community share her own experiences/her group experiences with other women to bring positive changes in their life.

#### Chapter - 5 Financial Federations

<sup>41</sup> Financial Federations are also called Community Based Micro Finance Institutions (CBMFIs) or Community Owned Financial Institution (CoFI)

<sup>42</sup> Ibid, RBI 2006

<sup>43</sup> Photo identity biometric card

<sup>44</sup> Social security pensioners & AP rural employment guarantee scheme workers

<sup>45</sup> Financial Information Network & Operations Ltd. is a pioneering Application Service Provider (ASP) based out of Mumbai, India

<sup>46</sup> IIMF in AP is promoted by GRAM in the year 2002

<sup>47</sup> District level federation (Apex institution) promoted by MARI in AP

<sup>48</sup> Loan given to those SHGs that are not getting loan from banks and a small amount given to an SHG as the loan from the bank is not sufficient.

<sup>49</sup> Federation of 3 tier in Maharashtra is promoted by Chaitanya in the year 1991

<sup>50</sup> SHG Federation, promoted by IBTADA, Rajasthan

<sup>51</sup> [www.mssrf.org](http://www.mssrf.org)

<sup>52</sup> Insurance Regulatory and Development Authority Notification, Hyderabad - 10<sup>th</sup>

<sup>53</sup> KVK is a federation of SHGs near Madurai,

<sup>54</sup> SPMS is a federation of SHGs in the temple town of Tirupati in Andhra Pradesh

<sup>55</sup> The Community based Micro Finance Institution was formed in Marathwada region of Maharashtra by few NGOs in Jamin Adhikar Andolan movement in February 2004 as a part of this Livelihoods enhancement programme. The overall goal of the program is to provide access to financial services (savings, credit & insurance) to landless and marginal farmers dependent on grazing lands.

<sup>56</sup> Chairperson is a nominated member of NGO.

<sup>57</sup> APMAS - Status of SHG Federations in Andhra Pradesh, Quality Assessment 2nd Report 2006

<sup>58</sup> Maheshwara MACS - Mandal level MACS member of ASP federation, Rompacharla MS- Mandal level MACS member of Chittoor Zilla Samakhya. Boond Bachat Sangh- promoted by Shramik Bharati

<sup>59</sup> Ratio are calculated from the audit reports and financial statements provided by the federations,

<sup>60</sup> Total operational cost / Average loan outstanding

<sup>61</sup> The federations assessed in the Andhra Pradesh, including the GO and NGO promoted with different ages of the federation and the loan outstanding ranges from Rs.40,000/- to Rs.204.24 lakhs.

<sup>62</sup> Boond Bachat Sangh- promoted by Shramik Bharati

<sup>63</sup> Is a Apex level federation at District providing financial services to the members- which is promoted by Modern Architects of Rural India (MARI)

<sup>64</sup>  $OSS = \text{Operational Income} / (\text{Operational Expenses} + \text{Financial Expenses})$

<sup>65</sup>  $\text{Financial Self Sufficiency (FSS)} = \text{Operational Income} / (\text{Operational Expenses} + \text{Financial Expenses} + \text{Adjustments for subsidies and inflation})$

## Chapter - 6 Social Federations

<sup>66</sup> CARE - CASHE use to call them as barefoot workers.

<sup>67</sup> Community Based Recovery Mechanism Committee (CBRMC) are introduced by SERP are selected from Village level organisation and each VO is 4 to 5 members as committee as CBRM and role of this CRM is ensuring the 100% repayment of bank loan

<sup>68</sup> Mr. Sachin Bansal's response to Mr. C S Reddy's query about SHG Federations in India in UNDP's Solution Exchange on mF.

<sup>69</sup> It was successfully piloted by the UNDP in its SAPAP in Andhra Pradesh.

<sup>70</sup> Mr. Sachin Bansal's response to Mr. C S Reddy's query about SHG Federations in India in UNDP's Solution Exchange on mF.

<sup>71</sup> In fact, total literacy campaign is one of the impetus for growth of SHG movement in Andhra Pradesh.

Gulabha Swayam Seva Mahila Vikas is cluster federation of Naidisha of WDC promoted in Bihar.

<sup>72</sup> Rahul Banerjee's response to Mr. C S Reddy's query about SHG Federations in India in UNDP's Solution Exchange on mF

<sup>73</sup> E.g. Ms. Santosh of Sa-Dhan, in a letter to the present research team said that the leading NGOs in the sector also finding it difficult to withdraw from federation support activity even after a decade.

## Chapter-7 Livelihood Federations

<sup>74</sup> Reference from the paper *Micro Credit to Livelihood Finance* by Vijay Mahajan (2005)

<sup>75</sup> Mr. Vijay Mahajan defines Livelihood finance as a comprehensive approach to promote sustainable livelihoods for the poor, which includes-financial services, agriculture and business development services and institutional development services. It is beyond providing small loans and savings while providing required other services

<sup>76</sup> The project is implemented by SERP, which promotes livelihood through SHG federations.

<sup>77</sup> This case is taken from the Federation of Gangavaram Mandal running the Bulk Milk Cooling Unit in Chittoor district

<sup>78</sup> The members get the cattle feed @ Rs.185/- per bag which is Rs.250/- in the outside market

<sup>79</sup> A case study from interventions facilitated by Outreach with the Cluster level association in Madanapalle - Chittoor district

## Chapter- 8 Performance of SHG Federations in India

<sup>80</sup> GRADES, represents the key assessment areas of the Federation Assessment - Governance & Strategy, Resources, Asset Quality, Design of Systems & Implementation, Efficiency & Profitability, Services to SHGs in addition to the SHG Performance. It has been revised every year and GRADES ver 2.0 is being used currently.

<sup>81</sup> The data provided is only for the federations assessed by the APMAS

<sup>82</sup> PAR is related to principal loan outstanding of over due loans. So any loan falls in overdue entire principal loan outstanding will be taken to calculate PAR. The formula for calculating PAR is : Principal balance of all loans with late payment/Total Loan Outstanding.

<sup>83</sup> Arrears rate is related to over due (or past due) installments. The formula for calculating Arrears rate is: Past dues/Total Loan Outstanding

<sup>84</sup> MAVIM is revising the structure and strategy of the federations - the given information is upto the year 2005

<sup>85</sup> Measured : Total operational cost / Avg. loan outstanding

<sup>86</sup> Operational Self Sufficiency (OSS) = Operational Income / (Operational Expenses +Financial Expenses)

## Chapter - 9 Enabling Environment

<sup>87</sup> In a personal interaction with one of the current research team the AGM, NABARD, Nizamabad said that those bankers in North-east India envy bankers in AP, who get enormous services from vast number of SHG federations in the state.

<sup>88</sup> Ms. Santosh, Sa-Dhan letter to the study team mentioned that had observed this trend in her field visits in different parts of the country.

<sup>89</sup> With Ford Foundation support

<sup>90</sup> It is a German Government organization, which works for capacity building internationally.

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