SHG Federation: An Institutional Innovation to Sustain SHGs

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Exploring the great potential of the SHG federations, to address poverty by serving as a platform for providing financial and livelihood promotion services, this article traces their evolution, significance, limitations and uniqueness—where women are the owners, managers, users and beneficiaries

INTRODUCTION

A Self Help Group (SHG) is an informal group of 10–20 members of similar socio-economic background, that come together for a common objective, having developed its own norms and holding regular meetings to engage in savings and credit activities to improve livelihoods. The SHG movement in India began in the 1980s, with several NGOs experimenting with social mobilization, organizing the rural poor into groups for self help and mutual benefit, mainly women's empowerment and poverty reduction. The SHG bank linkage programme (SBLP), under the leadership of NABARD, which built upon these initiatives, will be completing two decades of existence soon. The SHG movement has come to mean more than merely the provision of financial services to group members, composed mainly of poor women. The role of SHGs in financial intermediation holds greatest promise as a means of continued financial inclusion and mainstreaming of poor families, as well as a development model with wider application.

According to a report—'Status of microfinance in India 2011—by NABARD, as on 31 March 2011, approximately 7.5 million SHGs have savings bank accounts and 4.8 million SHGs have taken a loan from a bank. The total amount of bank loans outstanding with SHGs as on 31 March 2011 is Rs 306 billion, with an average per group loan of Rs 122,744. The SBLP in India is perhaps the world's largest community based microfinance programmes in the world. In spite of the phenomenal success in terms of outreach to the poor, many practitioners and policy makers are of the opinion that the SHG–Bank linkage model has not succeeded because it still is an uphill task for an SHG to open a bank account or to access a bank loan in many states in northern and eastern India. (According to Dr. Y.C. Nanda, former Chairman of NABARD, the SHG model has been successful in delivering development interventions through the SHGs; however, the SHG-Bank linkage model has not been successful.) Over a period of more than 20 years, the growth of the SHG movement has been phenomenal, being the strongest in South India. Starting from 1999, the rural development department of state governments has taken up promoting SHGs under the Swarnajayanti Gram Swarozgar Yojana (SGSY), a Government of India (GoI) programme for Rural Development, either through their partner NGOs or directly through their own staff. In some states, the women and child development department also played a significant role in the promotion of SHGs.

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There are a number of issues and challenges associated with scale because there are more than 8.5 million SHGs in India now. (Although only 7.5 million SHGs have bank accounts–some of which were opened several years ago and are not active now–as per NABARD data, there are at least another one million SHGs waiting for the banks to open their account and provide them a bank loan.) The challenges include the uneven quality of SHGs; the limited attention paid to the savings of SHGs; the continued reluctance of bankers, particularly in North and Northeast India, to open bank accounts; the limited capacity of the staff of the SHG promoters; book-keeping issues, irregular meetings and non-compliance to their own norms. A large number of groups do not understand why they have come together; there is limited member education, particularly on financial literacy and group dynamics; these SHGs have become a channel for delivery of various government schemes, becoming a strong demand system; political interference is widespread; not much attention is paid to the annual audit of SHG accounts and leadership rotation at the SHG level; and, above all, the government being the largest promoter of SHGs, these groups are promoted through a target-oriented approach with limited attention to processes, undermining thereby the sustainability of SHGs. The limitations of scaling up without ensuring quality affected the ownership of the SHGs, impairing sustainability. Although these are called SHGs, in practice many of these SHGs do not follow the principles of self-help, self-management, self-control, self-responsibility and self-reliance.

EMERGENCE OF SHG FEDERATIONS

The tremendous success of the SHG movement relied heavily on promoting institutions to mobilize, train and support groups. In the late 1990s, the government became the key promoter of SHGs, especially in South India. As the number of groups grew, the involvement of self-help promoting institutions (SHPIs) and

MAJOR MILESTONES IN THE SHG MOVEMENT IN INDIA

Phase I (1980s): NGOs promote women's SHGs as an alternative to mainstream financial services, to reach the unreached segments of society.

Phase II (1992): NABARD takes the lead in partnering with NGOs to pilot the well-known SBLP.

Phase III (2000s): State governments, particularly in the South, take a proactive role in the promotion of SHGs in a big way, by providing revolving loan funds and other support, using SHGs as a channel for delivery various welfare schemes.

Phase IV (2005): The SHG-Bank linkage reaches the scale of over a million bank-linked SHGs, much before the projected year—2008.

Phase V (1990s): SHG federations, piloted by NGOs, emerge to sustain the SHG movement and to provide value-added services.

Phase VI (2005): SHGs and SHG federations gain widespread recognition, partnering various mainstream agencies such as financial institutions, the corporate sector and the government.

direct contact with the groups have greatly diminished. The SHPIs find that they are unable to provide groups with similar attention and quality of inputs as they did earlier. The SHPIs began to think of setting up an apex-level body that is able to take on many of the tasks of the SHPI, thus enabling them to leverage their limited resources in the most judicious manner possible. The SHG federation is expected to address many of the issues and challenges faced by the SHG movement in the country and ensure sustainability of the SHGs.

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Considering that these are informal groups, they are less likely to be intergenerational institutions. Also, these being small groups, the economies of scale are an issue. For the promoters to withdraw from SHGs, therefore, there is need for some institutionalized mechanism that will provide need-based support to the SHGs. Although the SHGs have become credible and effective partners to many, they themselves are facing a number of constraints and challenges. These include: (a) the uneven spread of the SHGs across the country, (b) the inability to take up livelihoods promotion, (c) the inability to take up larger issues of gender and social inequality and women empowerment, (d) the limitations of promoters to provide capacity building and other necessary inputs at a desired scale, and (e) the inability of banks to understand and accommodate the needs of SHGs in some parts of the country, especially in under-served regions. In the 1990s, the idea of shifting the role of promoting SHGs to federations, in a given geographic area of a village or a cluster or a block, emerged.

Defining an SHG Federation

The dictionary says a federation is 'an association of autonomous bodies uniting for common perceived benefits'. The Tamil Nadu Corporation for Development of Women (TMCDW) defines a cluster-level federation as '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'. Ajay Nair (2005) defines 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) study, "An 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, an SHG federation has to be necessarily of SHGs, by SHGs and for SHGs." A simpler understanding of an SHG federation could be that a federation is a group of groups; the primary groups may be formal or informal whereas the federation is formal.

Why SHG Federation?

One main objective of promoting SHG federations is to overcome the inherent limitations of small and informal groups–the SHGs–such as limited resources, capacity, and negotiation and bargaining powers, and an inability to deal with the outside world–the government, mainstream institutions, markets, etc. The benefits of federations include those arising from (a) economies of scale, (b) reduction in transaction costs, (c) reduction in default rates at all levels, (d) value added services, (e) reduction in the cost of promoting new SHGs (that is, the cost of reaching out to every poor woman) and (f) increasing levels of financial discipline and accountability among SHGs. Some other objectives are: inter-group rotation of funds; accessing bulk loans and grants from external sources; gradual handover of functions of SHPIs to community-based organizations (CBOs); promoting leadership skills and governance among SHG members; and developing poor people's own institutions. SHG federations function as per the subsidiary principle, meaning they only undertake those roles that member SHGs are not able to do on their own.

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The concept of a federation emerged from the felt need of the SHGs that were functioning well and keen to come together for sharing experience and learning. The rationale behind the promotion of federations is: i) to strengthen existing SHGs, ii) to promote new SHGs of the poor, iii) to access various services to member SHGs, iv) to provide a sense of solidarity among members of different SHGs in an area, v) to enhance sustainability of the SHG movement, 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. SHG federations sometimes assist promoting institutions and at other times are of direct benefit to members. Promoters may have different reasons for federating SHGs at different levels such as i) scaling up, ii) as a withdrawal strategy, iii) becoming issue-based, iv) for collective bargaining power, and v) the principle of subsidiary.

Until 2007, NABARD ignored the widespread emergence of SHG federations, excluding them from its mandated innovations. Girija Srinivasan & Ajay Tankha (2010) say, "NABARD does not view the financial intermediation role of federations favorably and is willing to accept the same only as an unavoidable necessity where it could be done with profitability and sustainability." Of course, financial intermediation by federations is not the only alternative; the other one being their role as a support organization. Besides capacity building, supervision and other services, this might also include the facilitation of access of SHGs to bank loans. In September 2007, NABARD issued a circular on providing grant support to strengthening existing SHG federations involved in social intermediation. SHG federations have the potential to bridge financing agencies with the SHGs, to meet the loan fund gap in the period that they have an active loan from the bank, during which period they are not eligible for another bank loan.

Whereas a strong case for federating SHGs has been made so far, based on more than 15 years of experience of working with SHG federations, it must also be stated that there are certain limitations and risks related to SHG federations, which must be effectively addressed when designing and promoting them, to optimize the benefits of the members. In the context of many state governments being aggressively involved in promoting SHG federations, using external funds from multilateral agencies and the National Rural Livelihoods Mission (NRLM), also called Aajeevika Mission, is a GoI initiative to address rural poverty. The mandate of NRLM is to reach out, mobilize and support an estimated 7.0 crore rural poor households across 600 districts, 6,000 blocks, 2.5 lakh *gram panchayats,* in 6.0 lakh villages in the country into their self-managed SHGs and their federal institutions and livelihoods collectives; link them to livelihoods opportunities and nurture them till they come out of poverty; and enjoy a decent quality of life. In its reckoning, strong and vibrant institutions of the poor at various levels are central for the poor to emerge from and stay out of poverty. Adopting the SHG federation model in its implementation framework, these limitations and risks become more pertinent:

- Building SHG federations requires significant investment of funds and a higher level of capability among the promoting agency in institutional development.
- SHG federations face the real risk of political and elite capture.
- Different tiers of SHG federations being co-terminus with the administrative structure of the state governments, there is possibility of the state co-opting these federations. An SHG federation may become a delivery channel for government schemes and may not be able to evolve into a strong demand system.
- If an SHG federation fails, it may adversely affect all member SHGs.
- If SHG federations are built on a weak foundation, that is, the SHGs are not vibrant or self-managed, a weaker SHG federation may become a burden on the SHGs.
- If SHG federations do not recruit staff emerging from the SHG movement, the women may not be able to manage hired staff, resulting in the staff running and controlling the SHG federation, leading to weak governance and ownership.
- There is a strong temptation for SHG federations to get into financial intermediation, in spite of weakness in governance, management and systems.
- SHG federations may acquire a legal status that may not suit their business.
- Lack of vision of the promoters may lead to non-sustainable SHG federations.
- SHG federations should be promoted only after the SHGs are strong when there is a felt need among the SHGs to federate and build strong social capital.

The promoters need to be fully aware of the benefits and the risks of promoting SHG federations. These must also be effectively communicated to SHG members during their meetings for them to make informed choices. In the ultimate analysis, SHG federations have significant benefits even when these associated risks are taken into consideration. Based on the experience of promoting autonomous and self-reliant SHG federations, lessons learnt and the emerging best practices, the risks can be minimized, if not completely eliminated, and SHG federations can be promoted in a manner that will add great value for the SHGs and their members.

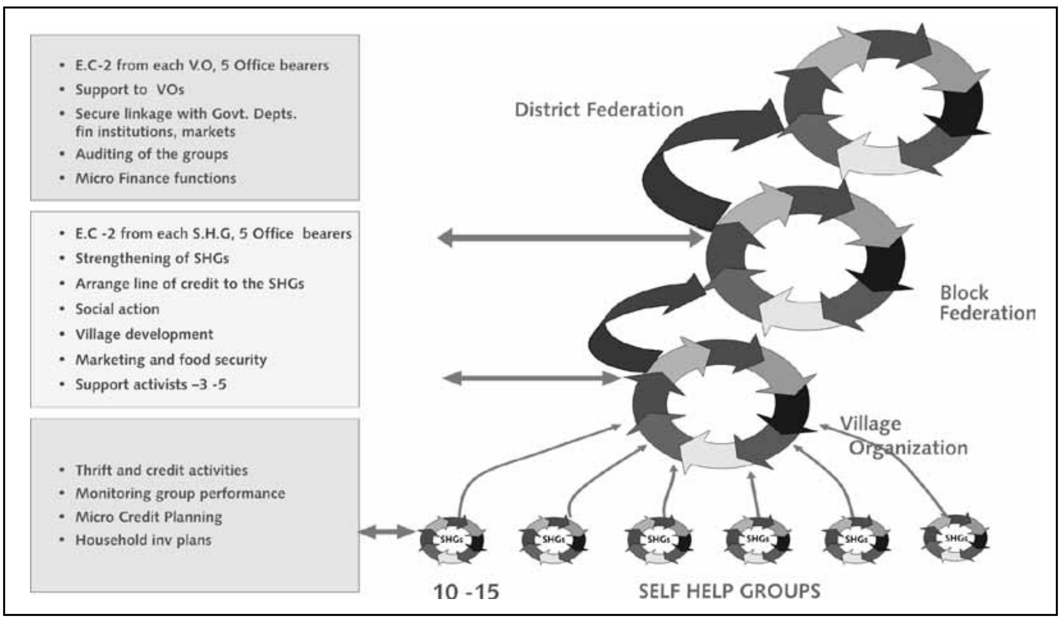
Multi-tiered Federation Structures

In India, SHG federations are multi-tiered. The women in a village are organized into SHGs; the SHGs in a smaller geographic area (usually a village) are organized into primary-level SHG federations (PLFs). Several PLFs in a given area are organized into secondary level federations at sub-district level (SLFs). These secondary federations may be further networked into apex federations either at district or state levels (ALFs). In the urban areas a similar structure is promoted, namely, the SHG slum-level federation, town-level federation, and the corporation-level federation. In smaller municipalities, there is a 3-tier structure. In municipal corporations, there is 4-tier structure, promoted by the Urban Community Development (UCD) department of the corporation.

PLFs are typically at the village level, sub-village level, *panchayat* level or village cluster-level or slum-level federations of SHGs, for example, village organizations and *panchayat*-level federations. Unlike the government, NGOs do not cover all families/communities in any village in their programmes. They focus on certain target families and communities in a village and usually do not get enough SHGs within that village to federate. As a result, they federate their groups of few nearby villages into PLFs known as cluster level federations (CLFs). The SHG being an informal group, this primary level network is the first level of formalization.

SLFs are federations of PLFs. Usually these are sub-district level federations. In India, the administrative units between the district and the *panchayats* are called by different names in different parts of the country such as *mandal, taluka,* block and division; the area of each of these is also different. ALFs are federations of SLFs. They are usually district-level federations. There is a real rush to promote multi-tiered SHG federations, particularly among government promoters in Tamil Nadu, Bihar, Orissa, Madhya Pradesh, Rajasthan and West Bengal, which have federations at each of the administrative levels: village *(panchayat),* block and district. Based on APMAS ratings and assessments of almost 500 SHG federations in ten states and working very closely with more than 1,000 SHG federations, both in rural and urban areas, it is found that the primary federations at the village or cluster level, which are closer to the SHGs and their members, are the most valued federations by their members because they can demand services, easily relate to them and participate actively in their management. The process of promoting SHG federations has to

Fig 1: SHG Federation Model



follow a participatory approach. After having supported the SHGs to promote their own primary level federation, if at a later date, the need for a higher order federation emerges, need-based support can be provided by the promoter. In the initial period, the SHG federation may be an informal body, which is registered when its by-laws and business rules are finalized. A higher order networking of primary SHG federations could act as self regulatory bodies and for issue-based policy advocacy. Another possibility for a registered federation of SHGs could be at the sub-district level, with SHG federations at village/ *panchayat* level being the branches of the registered federation.

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Growth and Spread of SHG Federations

In India, there is no official data about SHG federations. For the past few years, APMAS has been compiling SHG federation data from web search, direct contact of major resource agencies and from the database of ENABLE, a network of seven resource NGOs, anchored by APMAS (Hyderabad, Andhra Pradesh), with Centre for Microfinance (Jaipur, Rajasthan), Chaitanya (Rajgurunagar, Maharashtra), Indian School of Microfinance for Women (ISMW, Ahmedabad, Gujarat), Reach India (Kolkatta, West Bengal), West Bengal SHG Promotional Forum (WBSHGPF, Kolkatta, West Bengal), Sampark (Bangalore, Karnataka) as it members, working together to build the capacity of SHPIs and for policy advocacy for community based microfinance.

Table 1: SHG Village Organizations and Higher-level Federations, 2010

State	SHG Federations	Village-level Federations
West Bengal	51,354	49,433
Andhra Pradesh	45,752	44,502
Kerala	18,101	17,040
Tamil Nadu	13,617	13,443
Orissa	8,895	8,502
Maharashtra	8,167	8,161
Jharkhand	6,391	5,944
Karnataka	4,527	4,517
Madhya Pradesh	3,819	3,617
Bihar	1,235	1,228
Uttar Pradesh	1,102	1,065
States with fewer federations	770	714
Total	**163,730**	**158,166**

Source: APMAS data, 2010

Whereas there were very few SHG federations (maybe less than 1,000) in India till 2000, a sudden spurt was seen during 2003–2010 because a large number of the SHG federations were promoted by the state governments of Andhra Pradesh, West Bengal and Orissa. The latest APMAS data (July 2010) reveal that the number of SHG federations in the country is 1,63,730; of these, 1,58,166 are at the primary level. The distribution of federations across the country is skewed. Of 1,63,730 total federations, little over 50 per cent federations are in South India and another 41 per cent are in East India. In fact, four states, viz., West Bengal, AP, Kerala and Tamil Nadu, account for about 80 per cent of the total federations, and West Bengal and Andhra Pradesh alone account for about 60 per cent—almost all of these being state government-promoted. SHG federations are particularly weak in West Bengal. Considerable institutional development work has been done in Andhra Pradesh, Kerala and Tamil Nadu, including the adopting of innovative strategies such as using community resource persons (CRPs—women who have been in SHGs for more than five years, have successfully come out of poverty with the support of the SHGs, have played a significant role in ensuring that their SHGs and federations have become a 'best practice' organization and are willing and able to go to other districts and states to strengthen the SHG movement) for institutional capacity building, providing 'seed capital' for SHG federations to engage in financial intermediation, and by recognizing them as agents for procuring agriculture produce. However, the PLFs being in very large numbers, as per the APMAS ratings analysis of the financial data of the federations, almost 50 per cent of these still require considerable improvement, in terms of governance, management and systems. Unless SHG federations perform the functions of being self-regulatory organizations (SROs), taking responsibility for internal controls, audit, elections and planning, the existing weaknesses cannot be completely addressed.

Table 1 indicates an uneven spread of the SHG federations, which corresponds to the spread of the SHGs in the country. With the launch of NRLM, by 2017, it is expected that there will be more than 10 million SHGs (just in rural India!) and almost 5,00,000 SHG federations in the country. There is a possibility of NRLM improving the quality of the existing SHGs; there will be much greater emphasis on organizing the unorganized, particularly the poorest of the poor, into the SHG system. Simultaneously, there will surely be a strong emphasis on federating SHGs at village and block levels, to channel NRLM benefits, undermining self-reliance.

With NRLM ready to kick start, there is a parallel effort by NABARD to revisit the SHG bank linkage model and come up with a new 'avatar' of the SHG model for the future, hopefully with greater emphasis on financial literacy, savings including voluntary savings, annual auditing of e-SHGs, innovating on bank loan products to SHGs and identifying a suitable role for SHG federations. To make bank linkages more effective, NABARD is likely to invest much greater effort in galvanizing the banking sector, through training and capacity building and other strategies.

Federations, like CBOs in other parts of the world, offer a number of services to SHGs and individual members, in the initial years. The whole range of services provided by federations could be grouped into four categories, viz., institutional development, financial intermediation, livelihoods and business development services, and social intermediation. SHG federations specialize as they mature and conditions change. Many

Financial Services	SHG Strengthening Services
◆ Credit	◆ Auditing
◆ Mandatory savings	◆ Grading (rating or assessing)
◆ Voluntary savings,	◆ Book-keeping
◆ Savings for health, education, etc	◆ Training and financial literacy
◆ Insurance	◆ Monitoring
◆ Pension savings	◆ Bank linkage and other linkages
◆ Housing loans	◆ Problem solving, leadership rotation
◆ Hire purchase	◆ New groups formation

Business Development Services	Social Initiatives
◆ Marketing services	◆ Domestic violence
◆ Processing and value addition	◆ Child marriage
◆ Business plan development	◆ Gender discrimination
◆ Promotion of entrepreneurship	◆ Child labour
◆ Enterprise financial management	◆ Social discrimination
◆ Livestock management	◆ Rights and entitlements
◆ Input supply	◆ Drinking water
◆ Bulk purchasing	◆ Health
	◆ Family counselling
	◆ Anti-liquor campaigns

federations in South India undertake financial intermediation using seed capital. (State governments provide grant funds to the SHG federations in the form of 'seed' capital. The SHG federations offer the funds as loans at reasonable interest rates to their member SHGs and recover the funds from the SHGs. The fund available to SHG federations is expected to grow over a period of time as it generates interest income. A part of the SHG federation profit is used for meeting the expenses of the federation, including staff salaries.) In some cases, federations were forced to take up financial intermediation, due to the apathy of bankers. Some federations have limited financial intermediation or business to earn sufficient funds to meet their operational costs. Some federation structures have clear role divisions for different layers of federations. In a few cases, separate institutional structures have been promoted to take up different sets of services. In India, about 50 per cent of the federations provide financial services.

Financial and Institutional Sustainability of SHG Federations

GoI and many of the NGOs that pioneered the SHG model estimated Rs 10,000 to 12,000 for promoting and sustaining one SHG over a period of five years. In 2010, Srinivasan and Thanka

(2010) conducted a study on the costs and sustainability of SHG federations engaged in financial intermediation. They estimated that the total cost of promoting an SHG federation, including the SHGs, is in the range of Rs 15,000 to 25,000 per SHG over a period of five years. Policy makers and promoters must carefully assess the costs and returns of promoting the SHG federation. Whereas federating SHGs at the village level seems to be justified and the associated costs may be lower, higher tier federations would be costly to promote and even costlier to sustain in the long run.

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The institutional sustainability of an SHG federation constitutes the ability of the federation to be self-governed, self-managed and self-reliant. Those SHG federations that become corporate bodies by registering under an appropriate legal form would have to also ensure that they are audited annual by a chartered accountant, prepare an annual report and present it in the annual general body meeting as well as file the report with the registrar of the respective registering authority. APMAS rating findings suggest that the SHG federations that have a weak SHG base tend to have governance deficit and high dependence on the promoter. Also, in government-promoted SHG federations, the system being largely top-down, there is limited space for women to govern, manage and regulate their own SHG federation system. Based on the SHG federation best practice study conducted by APMAS (2010), once an SHG federation is formed, the federation requires support for at least 3–5 years. After that, the federation should be able to manage its affairs.

Financial sustainability of a federation would imply its ability to meet its costs, which include staff honorarium, office rent, travel costs, cost of books, audit fee, interest to be paid on loans borrowed, interest to be paid on savings received from members and costs related to conducting monthly executive committee meetings and annual general body meeting. There are broadly three types of sources of funds for a SHG federation to meet its costs. These are: (a) membership fee and service fee, (b) interest income (mobilized only by those SHG federations that are involved in financial intermediation) on its corpus, which includes savings from their constituents, grants received and bulk loans borrowed from FIs and others for on-lending, (c) personnel support and recurring grants from promoters. Broadly, there are two types of federation promoters: government agencies and NGOs. Initially, the rural development, and women and child development departments were involved in the promotion of SHGs and federations in different states. Several international agencies such as IFAD, DFID, World Bank and CARE also played a significant role in providing funding and technical support in promoting SHGs and SHG federations. NABARD was also one of the important players. In recent years, specialized autonomous agencies are being established in many states by the state governments, to implement the national rural livelihoods programme (NRLP) in a mission mode, their predominant role being providing the sensitive support system for the SHG federation system promoted and nurtured by them. These autonomous societies are funded by the World Bank under NRLP and through the Ministry of Rural Development, GoI.

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APMAS ratings and assessments of SHG federations across India suggest that mature SHG federations, involved in financial intermediation, are both institutionally and financially sustainable. However, various policies of the central and state governments may affect NGO-promoted SHG federations engaged in financial intermediation. For instance, the AP MFI Regulation Bill (2010), which is strongly in favour of government-promoted and supported SHGs and SHG federations, adversely affected NGO-promoted SHG federations. Myrada's experience has shown that non-financial federations can also be institutionally and financially sustainable if the promoters have a long-term vision and provide effective mentoring and handholding support. Though Community Managed Resource Centres (CMRCs) promoted by Myrada, which are service providers to member SHGs and other user-groups 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, either multipurpose or non-financial, are also recovering some of their operational costs through service fee. Some federations offer a wide range of services, acting as implementing agencies for government programmes. There are several federations that have been prudently cautious about what they take upon themselves and what they do not.

The SHG federation is recognized by RBI, NABARD, IRDA, GoI, state governments, NGOs and the corporate world as important people's institutions providing value-added services to their members. [The RBI circular on Business Facilitators (BFs) and Business Correspondents (BCs) recognizes SHG federations as institutions that can serve as BFs/BCs. GoI recognizes SHG federations as important institutional forms for promoting financial inclusion. State governments, the central government and NABARD recognize the SHG federations' role in strengthening existing SHGs and in promoting new SHGs (as SHPIs). Companies have signed agreements with SHG federations to work on procuring and marketing of agriculture produce and FMCG items.]

APMAS SHG federation best practice study (2010) suggests a near-unanimity on the need for SHG federations to provide non-financial services to members contributing to SHG sustainability. Registered SHG federations are already working as BFs of banks and, in some cases, as BCs in Andhra Pradesh and Tamil Nadu. However, there is divided opinion on federations performing a financial intermediation role. Irrespective of the divided opinion, almost 50 per cent of the SHG federations in India are engaged in some form of financial intermediation role when they manage the 'seed capital' given by state governments in Andhra Pradesh, Orissa and Tamil Nadu. Some of them term themselves as Community Based Microfinance Institutions (CBMFIs) and have been accessing bulk finance for on-lending. In fact, 17 SLFs *(mandal samakhyas)* in Andhra Pradesh have already got a bulk loan of Rs 5 million each from commercial banks. Some of the federations in Andhra Pradesh and other states call themselves '*mahila* banks' (women's banks). They have shown their willingness to develop performance standards, undertake self-rating and have also undergone rating by a third party, to access loans from FIs. 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.

Evidence from existing data of the SHG federations suggests that they can become both institutionally and financially sustainable with robust systems and processes. To ensure sustainability of SHG federations as institutions of the poor, there is need to have a well-developed system of self-regulation and self-supervision, focusing on internal control, annual audit, annual elections, annual planning and, in SHG federations, conducting annual general body meetings effectively.

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Need for an Effective Third Party Rating System

APMAS has developed four types of tools for undertaking quality assessment of SHG federations: GRADES for rating an SHG federation involved in financial intermediation; Self Assessment Tool (SAT) for an SHG federation undertaking self-grading; Social Intermediation Tool (SIT) for assessing an SHG federation involved in social intermediation; Commitment Tool for SHGs of persons with disability. Using GRADES, APMAS has undertaken the rating of almost 500 SHG federations in India. The uniqueness of the rating tool developed by APMAS gives 40 per cent to the performance of the SHGs and the remaining 60 per cent for various aspects of the SHG federation performance. Other agencies have also developed rating tools to assess SHG federations.

Issues and Challenges

In recent years, SHG federations have become popular. Except for NABARD, most of the other stakeholders have accepted SHG federations as desirable both as social and financial intermediaries. The number of SHG federations being promoted in different parts of India is steadily growing and is likely

Table 2: SHG Federation Rating Tool–GRADES

Parameters	Total %	Qualitative Indicators		Quantitative Indicators	
		No.	%	No.	%
Governance	16%	5	14.0%	4	4.8%
Resources	6%	1	1.2%	5	8.6%
Asset Quality	10%	1	1.4%	0	0.0%
Design of Systems and implementation	10%	4	10.0%	5	12.0%
Efficiency and profitability	12%	0	0.0%	0	0.0%
Services to SHGs	6%	3	6.0%	3	3
Sub total	60%	14	32.6%	15	27.4%
SHG performance	40%	12	21.0%	11	19.0%
Grand total	**100%**	**26**	**53.6%**	**26**	**46.4%**

to reach saturation by 2020. With more and more number of federations being promoted through a top-down approach, there is fear among some of the stakeholders that the SHG federation system may go the way cooperatives have gone in India. Of course, the lessons learnt from the ongoing cooperative reform process must be integrated into the SHG federation promotional processes. Due consideration must be given for SHG federations to evolve at a pace at which women can trust their own institutions, take responsibility to manage them and exploit the full potential there is. Based on evidence from more than 15 years of experience of working with SHG federations, a strong argument in favour of SHG federations and evidence about their institutional and financial sustainability has been presented in the previous sections of this paper. However, the following are some of the major issues and challenges faced by a majority of SHG federations in India.

- A large number of SHG federation promoters have limited capacity and vision as to why they promote SHG federations and what the implications are.
- A national policy and strategy on SHG federations is absent.
- Barring in nine states, there is no suitable law for SHG federations to become body corporate. Even in these nine states, self-reliant cooperative laws are primarily meant for cooperatives and not for SHG federations.
- Banks are reluctant to open bank accounts for SHG federations or give bulk loans to the SHG federations. Bulk loans are only being given to SHG federations under government pressure.
- Limited work has been done on federations offering a variety of savings products to meet the savings needs of members. For SHG federations to have much greater ownership among members, their savings and share capital are very important. Their commitment to SHG federations is directly proportionate to their stake in the institution.
- A well-developed and accepted system of self-rating and third-party rating is needed for SHG federations, particularly those involved in financial intermediation, to become strong, vibrant and sustainable.
- There is urgent need for a self-regulation system for the SHG movement.
- If SHG federations do not add value, they should not be promoted. Experience suggests that multi-purpose federations are not effective and sustainable in the long-run. In the initial years, federations can be multi-purpose and unregistered. In the medium to long-term, SHG federations must be single-purpose organizations registered under an appropriate legal form such as self-reliant cooperative laws, for example, the AP Mutually Aided Cooperative Societies (AP MACS) Act 1995.

CONCLUSION

SHG federations have evolved as an institutional base, providing sustainability to the SHG sector and of significant scale and widespread acceptance. Though not a panacea, there is great potential for the SHG federation model, to address poverty by serving as a platform for providing financial and livelihood promotion services. In many ways, the model is unique—the women are the owners, managers, users and beneficiaries. The SHG federation model is here to stay and will be significantly strengthened under NRLM because there will be significant investments, both financial and human, in making the SHG federation institutional architecture a strong mechanism to serve members. Whereas there are many benefits of the SHG federation system, it has several limitations. There is need to focus on financial literacy, voluntary savings and institutional capacity building. Developing the village-level SHG federation (village organization) as a strong institution that takes responsibility of 15–30 SHGs in that village by playing a strong social intermediation role and, where necessary, being the 'bridge' financing agency within the reach of the SHGs and their members, is most needed. The systems of auditing, elections, planning and rating must be introduced and all the SHGs must follow these. At the least, SHG federations can play a strong service role in support of their member SHGs by providing training, rating, auditing and facilitating linkages. A separate legal form at the state/national level for the SHG federations would be a great enabler.

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There is distinct possibility of SHG federations promoting their own microfinance institutions or 'SHG banks' to serve the supplementary financial needs of SHG members. Some of the SHG federations are already playing a financial intermediation role, though not as effectively as one would expect them to be. Specialized SHG banks at the district level or for a cluster of districts would be interesting to explore. To meet the ever growing financial needs of the SHG members, several innovations are needed, including using smart card and mobile phone technologies. Mature SHG members could become direct individual borrowers of the banks with SHG/federation recommendations.

A national alliance to support community based microfinance is needed to advocate for the sustainability of the SHG system. Though it is a challenging task to sustain a large number of SHG federations, it can and must be done. What is necessary is a synergetic effort by policy makers, planners and implementers. There is also need for public-private partnership to make it a reality.