

# The SHG Sector in India: Toward Self-reliance and Sustainability

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*Building the capacity of selected SHG members to manage and govern village organizations as well as higher-level federations is feasible as demonstrated by the Sector Own Control pilot in Andhra Pradesh*

## THE EVOLUTION OF SHG BANKING

There are three sectors of financial institutions (FIs) in India that provide services to lower-income people: regulated banks, unregulated microfinance institutions (MFIs) and informal self-help groups (SHGs). India has one of the most diversified networks of banks in the developing world, comprising commercial banks, regional rural banks and co-operative banks; these, in turn, are linked to some 1,00,000 agricultural co-operatives (PACS) with credit as their principal service to farmer members. Yet, according to the All-India Debt and Investment Survey of 1981, some 250 million of the rural poor still had no access to formal finance, despite years of massive branch expansion, priority credit programmes for the rural areas and numerous donor credit lines. The National Bank for Agriculture and Rural Development (NABARD), carved out of Central Bank in 1982, analyzed the reasons behind the failure of banking services to reach the rural poor. The main causes were found to be: a singular emphasis on production loans, prohibitive transaction costs for lenders and borrowers, a failure to mobilize savings and the overly complicated procedures.

During the second half of the 1980s, NABARD changed its policy from the old world of supply-driven to a new world of demand-driven finance, stipulating that programmes with the poor have to be savings-led and not credit-driven; and that the poor have to have a say in their design. Inspired by a new regional programme—Linking Banks and Self-help Groups (SHGs) — of APRACA (Asia Pacific Rural and Agricultural Association) and GTZ/GIZ in Asia, NABARD initiated a study of SHGs in 1987, led by MYRADA, based on a new paradigm: *Savings first*. Three options were explored, all hinging on prior savings by the groups: matching grants, matching interest-free loans or bank loans with interest. In a parliamentary debate, NABARD argued against the introduction of the Grameen Bank model of Bangladesh on a national scale, opting instead for a *linkage banking approach*, that is, using the existing infrastructure of banks and social organizations; being savings-driven rather than credit-led; and using bank rather than donor resources in the provision of credit.

With approval from the RBI and an authorization for banks to open savings accounts for informal SHGs, NABARD started a pilot project in 1992, contributing to solving the perennial problem of rural indebtedness and poverty in India. The results were promising, and NABARD decided to mainstream SHG banking on a national scale—setting up a Credit and Financial Services Fund in 1996 for extensive capacity-building and a Micro Credit Innovations Department (MCID) for

programme implementation in 1998, with MCI cells in every state. Transaction cost studies in 2002 found that the SHG banking was highly profitable to banks, and borrower transaction costs were low for SHGs as well as members.

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Since then, the number of SHGs established by NGOs as well as government organizations (GOs) and banks has grown at a tremendous speed. The rapid growth in outreach has been made possible by drawing on a wide array of institutional resources as India's *social capital*—NABARD being the prime mover and refinancing agency; the formal financial sector providing deposit services and credit; NGOs and GOs with experience in group development as facilitators; the RBI, which adjusted the policy framework for banking relations with informal groups; and the political leadership at the union and the state levels. At the same time, the programme has drawn on India's *human capital*, that is, the competence and enthusiasm of the staff in participating agencies; and the willingness of people from the lowest classes to form a group, meet regularly, pool their miniscule savings, lend to members, and establish a documented track record of financial intermediation. On that basis, the groups are then permitted as informal entities to open bank accounts and obtain bank loans, lend to their members on terms autonomously decided by each group. In India, small groups with financial activities attract predominantly women, even if no such bias is built into the programme design; over 90 per cent of the group members are women. Neither social nor human capital would suffice, were it not for the *financial capital* created by the programme—steadily increasing internal resources of the groups, generated through savings and profits from interest income; high

profitability of SHG banking as a financial product of the banks (higher than other rural financial products); and bank refinancing by NABARD.

As reported by NABARD at the Micro-finance Summit 2011, as of 31 March 2011, 7.5

million SHGs had opened savings accounts in banks, with an outreach to some 100 million members (the average group size seems to have dropped from around 15 to somewhere above 13), covering a population of around half a billion; the total bank deposits amounted to Rs 69.26 billion (\$1525 million). At the same time, 4.81 million SHGs had outstanding bank loans amounting to Rs 306.27 billion (\$6,787 million). However, as impressive as these figures are (doubted by some as to their validity), outreach across the states is very uneven and the suitability of the SHG banking for thinly populated and remote areas has been questioned. The depth of financial services is not very much: an average Rs 9,177 (\$204) in bank deposits per SHG, or around Rs 700 (\$15) per member and Rs 63,625 (\$1418) in outstanding bank loans per SHG, or around Rs 4,850 (\$108) per member. The internal resources of SHGs (comprising mandatory savings and profits) are a multiple of their bank deposits, serving as an additional source of 'loan-able' funds. Andhra Pradesh is regarded as the leading state in the development of the SHG movement, accounting for a disproportionate share of outreach in India: 18 per cent of the SHGs with bank savings accounts and 16 per cent of the aggregate amount, 35 per cent of the SHGs with bank loans outstanding and 42 per cent of the outstanding bank loan balance (Table 1). The Society for Elimination of Rural Poverty (SERP), with its World Bank-supported SHG project, Indira Kranthi Patham (IKP),

has greatly contributed to this achievement.

NABARD has focussed on the quantitative growth of the outreach and on credit linkages of SHGs. It has also provided funds for capacity building of promoting NGOs, government organizations and banks; but the group quality and operations have been left to the promoters. As a result, there is no standardized book-keeping and auditing system; the internal financial intermediation of SHGs is not monitored and consolidated; the financial operations of SHGs are not supervised, neither directly nor indirectly. Contact with bank branches may have given SHG members an opportunity to open individual bank accounts but their number is limited, and not systematically promoted. There is anecdotal evidence of members establishing micro-enterprises and some even growing into small enterprises; but SHG banking has not included promoting graduation to micro- and small-enterprise finance.

### THE DEVELOPMENT OF SHG FEDERATIONS

Building informal groups without the concept of supporting secondary and tertiary structures of SHGs has had one major consequence,

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unintended by the NABARD: others took the building of such structures into their own hands, among them NGOs and state governments. NABARD did not involve itself in supporting such structures until 2007. As Srinivasan & Tankha (2010: 199) put it, "NABARD does not view the financial intermediation role of federations favourably and is willing to accept the same only as an unavoidable necessity where it could be done with profitability and sustainability."

Among the earliest initiatives were by CARE India and Dhan Foundation in the early 1990s and UNDP's South Asia Poverty Alleviation Project (SAPAP) in 1996 in Andhra Pradesh, up-scaled during the 2000s by SERP of the Government of Andhra Pradesh in its Velugu/IKP project with World Bank support. In Kerala, the state government promoted federations state-wide through the Kudumbashree programme. In Tamil Nadu, the government promoted primary federations throughout the state through its Mahalir Thittam (MT) project; similarly, so has the Government of Maharashtra. PRADAN, MYRADA, DHAN and CARE are among the NGOs pioneering SHG federations in several states. Overall, the results of the efforts towards building a wider institutional framework have been stunning. As of March 2010, there were a

**Table 1: SHG Bank Linkages in India and Andhra Pradesh, 2011 (in Bn Rs)**

Parameters	India	Andhra Pradesh	AP in % of All-India
SHGs with bank savings accounts	7,547,269	1,351,330	17.9
Bank savings balance	69.26	10.89	15.7
SHGs with bank loans outstanding	4,813,670	1,683,993	35.0
Amount of bank loans outstanding	306.27	128.69	42.0

total of 1,63,730 federations (138 per cent more than in 2007), comprising 1,58,166 primary level Community Based Organizations (CBOs) or Village Organizations, VO, (96.6 per cent), 5,465 secondary level (3.3 per cent) and 100 tertiary level federations (0.1 per cent). In 11 states, there are more than 1,000 federations, the largest numbers in West Bengal (51,354) and Andhra Pradesh (45,752); there are seven states without any federations (Table 2).

There is no harmonized system, either in terms of legal forms or of

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functions. Federations have been registered under different legal forms, most prominently under parallel liberal co-operative laws similar to the Mutually Aided Co-operative Societies (MACS) Act of 1995 in Andhra Pradesh. They may function as support organizations, including capacity building and monitoring and supervision, as well as facilitators of the flow of credit from banks and other sources and financial apexes. After 20 years of SHG development, one may ask: "What is going to be the fate of SHGs in the next 20 years?

Will they remain informal? What will be the

**Table 2: State SHG VOs and the Higher-level Federations, 2010**

State	Total No. of Federations	VOs	VOs in % of total number
West Bengal	51,354	49,433	96.3
Andhra Pradesh	45,752	44,502	97.3
Kerala	18,101	17,040	94.1
Tamil Nadu	13,617	13,443	98.7
Orissa	8,895	8,502	95.6
Maharashtra	8,167	8,161	99.9
Jharkhand	6,391	5,944	93.0
Karnataka	4,527	4,517	99.8
Madhya Pradesh	3,819	3,617	94.7
Bihar	1,235	1,228	99.4
Uttar Pradesh	1,102	1,065	96.6
6 states with 33–351 federations			
5 states with 1–7 federations			
7 states with 0 Federations			
<b>Total</b>	<b>163,730</b>	<b>158,166</b>	<b>96.6</b>

Source: *Micro-finance India: State of the Sector Report 2010* by N. Srinivasan

role of SHG VOs and higher-level federations? Might there be a role for SHG federations in meeting the loan fund gap during the time period that SHGs have an active loan from a bank?"

### **The role of Sector Own Control (SOC) in Andhra Pradesh**

Andhra Pradesh has been a leading state in the evolution of a comprehensive system of SHG federations. These cover the whole state and are registered as autonomous MACS under the Act of 1995. As of December 2011, there were 38,300 primary level federations at the village level, 1,099 at the sub-district level and 22 at the district level, covering about a million SHGs in all. Virtually, all of them are registered as MACS, except eight per cent of the VOs, which are in the process of registration. (Table 3)

The registration of federations under the MACS Act is a major achievement because it removes them from direct domination and shareholding by the government and places them under their own by-laws, stipulating board meetings at least monthly; general body meetings (GBMs) within a period of six months from the close of the financial year; elections in the manner specified in the by-laws of the federations; audit of accounts by a chartered accountant (in addition to internal audits), submitted to the GBMs of federations for approval; filing of returns annually before

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the statutory authorities, within 30 days from the date of the annual general body meeting.

In 2007, the Registrar of Co-operatives determined that the enforcement of legal compliance of federations with the AP MACS Act does fall under his responsibility. Yet, the scrutiny of the Registrar does not go beyond ascertaining receipt of

the required reports; there is no over-seeing of financial or non-financial performance. However, the enforcement of compliance with the MACS Act had two major effects. First, it has compelled almost 40,000 SHG federations to have their books audited and hold the required GBMs, where the results of the audits (including the discovery of fraud and other inconsistencies in the books) are presented. Second, it has motivated federations, together with SERP as a promoting agency, to impose the same requirements via by-laws on the SHGs and to control compliance, even though such compliance cannot legally be enforced among informal organizations.

The enforcement of compliance has underlined the urgency of (i) regular and reliable book-keeping and auditing among the 1.5 million SHGs in Andhra Pradesh, requiring the training and supervision of large numbers of book-keepers and auditors; and (ii) the importance of regular elections and meetings, requiring member education and financial literacy training to disseminate familiarity with

**Table 3: Registration of SHG Federations under MACS Act in Rural Andhra Pradesh, 2011**

SHG Federations	Number	MACS
District – Zilla Samakhya	22	100%
Sub-district – Mandal Samakhya	1,099	100%
Village Organizations	38,300	92%

rules and regulations, roles and responsibilities.

This corresponds to the concerns of the SHGs identified by APMAS and the IKP team together with the representatives of SHGs and their federations in Andhra Pradesh.

**Internal funds:** Low levels of savings; no interest paid on (mandatory) member savings; reluctance to increase regular savings; tendency of distributing accumulated surplus among members; idle internal funds due to restrictions imposed by banks.

**External loans:** Shift of focus from internal lending to external loan channelling; inadequate access to loans of appropriate size and timing.

**Systems and processes:** Inadequate operational capacities of SHGs and federations; lack of information processing and feedback by federations; inadequate and uncontrolled record-keeping, leading to mis-management and fraud.

### **SOC: DESIGN AND APPROACH**

The interaction between APMAS and SERP/IKP with SHGs and their federations led to the decision of piloting self-regulation and self-supervision of the SHG system, or SHG SOC, with the overall objective of ensuring that SHG members set their agenda and manage and control the processes, so that the SHG system works effectively and sustainably for their benefit. A three-pronged strategy has been tried and tested: (i) identification and training of eligible members of SHGs as internal service providers (book-keepers, auditors, facilitators,

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trainers) and as office bearers; (ii) compensation of internal service providers by SHGs from their own income as a basis of financial self-reliance and institutional sustainability; (iii) management and control of the system of training and compensation by a tiered structure of federations, which are in turn staffed and self-managed by elected representatives of the respective lower tier (VOs by representatives of SHGs, sub-district/*Samakhya* federations by representatives of VOs, district/*Zila* federations by representatives of the sub-district federations); along the same lines, the tiered structure is self-financed from below.

The project holder has been APMAS, an NGO domiciled in Hyderabad, which is focussed on quality assurance for an envisioned 'Sustainable Self-Help Movement in India'. Established in 2001, APMAS has done pioneering work in developing various capacity building modules, rating tools and innovative approaches to strengthen the SHG movement. The German Co-operative and Raiffeisen Confederation (DGRV), a national auditing federation backed by a history of emerging self-control and supervision of savings and credit co-operatives since the middle of the 19th century in Germany, has provided capacity building and technical assistance to the pilot project, 2008–11. SERP is APMAS' senior partner in promoting SHG federations and up-scaling SOC throughout the state. SERP is an autonomous society established by the Department of Rural Development of the Government of Andhra Pradesh and chaired by the Chief Minister of Andhra Pradesh. It implements the IKP, a state-wide project

funded by the World Bank promoting SHGs and SHG federations as the foundation for poverty reduction. APMAS's main instrument of collaboration with SERP is capacity building of its staff and management and piloting innovative approaches such as SOC, to promote self-reliance and sustainability of the SHG movement in Andhra Pradesh. In a similar vein, APMAS also works with the Mission for the Elimination of Poverty in the Municipal Areas (MEPMA) of Andhra Pradesh.

The pilot project area is the Kamareddy cluster in Nizamabad district, Andhra Pradesh, comprising 128 villages. The cluster comprises six sub-districts, or *mandals*, each with its own SHG federation (*Mandal Samakhya, MS*); these are multi-service federations, each with a staff of six to nine, half of them paid by IKP and the other half from the own income of the federations. The federations in the cluster are co-members and co-owners of the district-level federation (*Zilla Samakhya*). Since February 2011, they are under a cluster supervisory federation, *Paryavekshka Samakhya*—the result of institutionalizing the pilot project co-ordination committee. The six *mandal*-level federations comprise 172 primary federations, or VOs, an average of 1.3 per village and 30 per *mandal*. Each VO comprises on an average 35 SHGs: a total of initially 4,408 and now 6,084 SHGs in the cluster, all ranging from one to seventeen years old, as of March 2010. The total number of members is 75,000, ranging from five to 19 and averaging 12 per SHG. The members of the SHGs are all women, comprising poor and the poorest of the poor (PoP), as defined by the government. Of the total number of 34,762 PoP households in the cluster, 99.5 per cent are members of the SHGs.

The implementation process proceeded along the following lines: (i) designing and testing the capacity building modules and methodologies

in the Kamareddy cluster (starting with a pre-pilot in 2007, supported by InWEnt); (ii) joint strategic planning and promotion of SOC with SERP/IKP, with technical assistance from DGRV; (iii) capacity building of IKP staff and, on a limited scale, of MEPMA staff through training of trainers (ToT) for implementation throughout Andhra Pradesh; dissemination of the pilot experience and the SOC approach among diverse stakeholders, including NABARD, Gol and NRLM (2011).

The support activities under SOC are result-oriented and comprise two steps: (i) establishing a co-operative SOC system, comprising standardized book-keeping, reporting, auditing, rating, annual planning and monitoring; systematic annual elections (by secret ballot); legal compliance as per the MACS Act at all federation levels and similarly in SHGs; delegation of representatives from the lowest (that is, the SHG) level to all federation levels; and (ii) capacity building as the social capital formation process by which the SOC system is inculcated in the minds and practices of SHG members and SHG representatives and office bearers in federations, selecting all trainees (book-keepers, resource book-keepers, auditors, supervisors, financial literacy facilitators) from within SHGs and building their capacity as internal service providers. The main lines of the implementation process are presented in Figure 1.

At a different level of capacity building, this process model, comprising the establishment of an SOC system and its inculcation in the participants, is transmitted to replicators for up-scaling, such as SERP and MEPMA at the state level and others at the national level; elements of it may also be incorporated in the ongoing reform of the co-operative sector under NABARD.

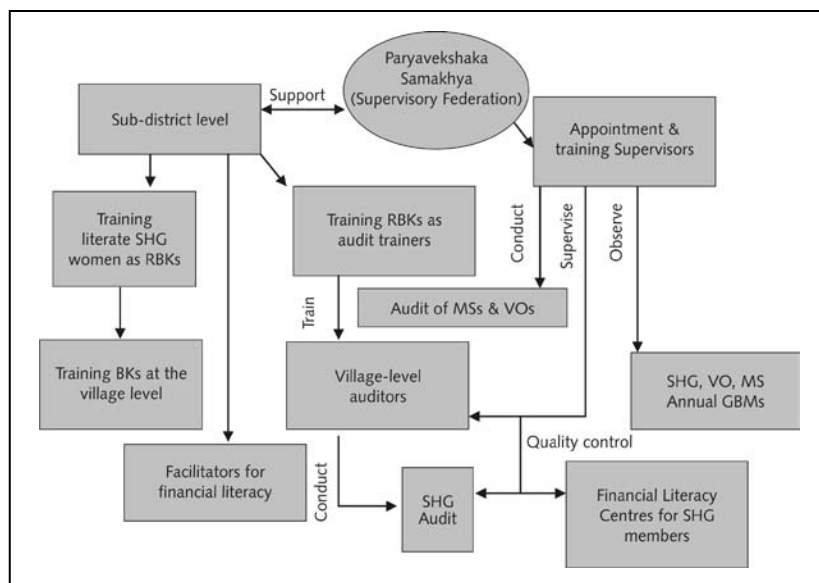


## RESULTS IN KAMAREDDY CLUSTER

APMAS has tested and published a complete set of capacity building materials in 18 modules in English and Telugu, covering all basic aspects of SOC; some are also in Gujarati, Bengali, Hindi, Marathi and Kannada. Whereas qualitative responses are difficult to measure, the figures of outreach and effective

participation speak a language of their own. Table 4 reports the results of establishing a system of GBMs, elections, auditing and reporting at the federation levels. The coverage is comprehensive: all the MSs and the VOs hold annual meetings and elections, and submit printed annual reports as required by their by-laws, and all the MSs and all but

**Figure 1: Field Implementation Process**



**Table 4: Results at the Federation Level in Kamareddy Cluster, December 2011**

GBMs of VOs and MSs completed as per by-laws	All 172 VOs and 6 MSs
Elections conducted regularly as per by-laws	All 172 VOs and 6 MSs
Annual reports printed and submitted to the GBMs	All 172 VOs and 6 MSs
SHGs internally audited by community auditors	4738 out of 6,084 SHGs
Per cent of SHGs found in loss <sup>1</sup> (as of March 2010)	31%
Second audit conducted	1190 SHGs
VOs regularly audited by chartered accountants	172 out of 178 (6 unregistered)
VOs audited internally	172 out of 178
MSs regularly audited by chartered accountants	All 6

<sup>1</sup>Losses were found to be mainly due to lower interest income from internal loans, as a result of inadequate margins.



**Table 5: Results at the SHG level in Kamareddy Cluster, December 2011**

	Number of SHGs	Per cent: of Total 6,084 SHGs
Internal savings of SHGs monitored	5,958	98
GBMs	4,836	80
SHG annual planning	3,927	65
SHG-level election process	3,225	53
Interest paid on members' savings	4,056	67
Financial literacy training sessions	5,171	85
SHGs with book-keeping by trained book-keepers	4,758	78
SHGs audited (by 201 community auditors)	4738	78

one VO are regularly audited by chartered accountants. Within the framework of SOC, it is the task of federations to organize and supervise the process of GBMs and elections of SHGs as well as book-keeping and auditing. This requires adequate social capital, which is developed through capacity building (see Table 6). All this takes time; it is not to be expected that coverage of the total number of SHGs is attained during the pilot project period. Table 5 presents the results of establishing

the foundations of an SOC system at the SHG level: the number of SHGs covered and the percentage out of a total of 6,084 SHGs in the cluster. At 98 per cent, the coverage of book-keeping is most impressive.

Table 6 reports the direct results of capacity building, in terms of persons trained for various functions required in a self-reliant SOC, particularly book-keeping, auditing and financial literacy.

**Table 6: Capacity building: Persons Trained (Social Capital Formed)**

Function	Number
SHG resource book-keepers	195 *
SHG book-keepers (target: one for every three SHGs)	1,564
Community auditors for the SHG audits	201
Audit trainers	17
Audit supervisors at <i>Paryavekshaka Samakhya</i> level	6
Audit sub-committee members at the VO and the MS level	62
Community resource persons	125
VO book-keepers	192
Financial literacy facilitators	240

\*195 trained, currently using the services of 60 RBKs (135 employed by IKP).

**Achievements:** With technical assistance from DGRV, the SHG SOC pilot project in Andhra Pradesh, designed and implemented by APMAS, has attained the following objectives.

- ♦ Developing and testing systems and processes of the SHG SOC in the Kamareddy cluster as a pilot, in the framework of the national SHG Banking Programme of NABARD
- ♦ Gaining from inception the approval and partnership of SERP/IKP, a state-wide outreach to the SHG federation system, with a mandate of poverty alleviation and women's empowerment
- ♦ Developing the required modular training material in English and Telugu and translating core material into five other Indian languages
- ♦ Building the capacity of women selected from SHGs as book-keepers and auditors to implement the book-keeping and financial reporting of SHGs and federations
- ♦ Building the capacity of women to manage, govern and control their SHGs
- ♦ Promoting the capacity of women selected from SHGs as representatives and office bearers to manage, govern and control the federation system
- ♦ Improving financial literacy among SHG members
- ♦ Targeting the very poor effectively
- ♦ Installing systems of annual assembly meetings of SHGs and federations, including elections by secret ballot and annual planning
- ♦ Ensuring legal compliance as per the MACS Act
- ♦ Improving transparency and accountability at all levels
- ♦ Establishing shareholding ownership of federations by SHGs
- ♦ Installing self-financing through savings and retained earnings from loans and services at all levels
- ♦ Aiming at promoting growth of funds and profitability of SHGs and federations, addressing the contradictory challenges of smart support and non-smart subsidy policies of the government
- ♦ Documenting systems and processes adopted in the pilot for dissemination
- ♦ Providing exposure visits and training programmes to potential adopters of the SOC approach
- ♦ Building the capacity of SERP/IKP to implement the SOC system throughout Andhra Pradesh
- ♦ Collaborating with the ENABLE (empowering persons with disability) network members and other governmental and non-governmental agencies in adopting the SHG/SOC approach in other Indian states
- ♦ Communicating with NABARD and GIZ about the potential of disseminating SOC strategies
- ♦ Integrating elements of the SHG/SOC approach in the government's new national poverty alleviation programme, NRLM, launched in June 2011

**Risks:** The SHG/SOC approach is emerging as a strategic component in government programmes of poverty alleviation and women's empowerment at state and national levels. Given the incipient success of the pilot project and the support rendered to

SHGs and SHG federations from many sides, APMAS, together with its stakeholders, cannot ignore a fundamental question: Whose agenda will SHGs and SHG federations carry forward—their own agenda or that of the state? Just like the century-old (state-aided) credit co-operative system in India, the new (*mutually* aided) SHG federation system with its concern for SOC faces the risks embedded in the contradiction between principles of institutional autonomy and self-help, and government support and subsidies. Much can be learned from the German system of co-operative self-help gained over a period of more than 150 years and similar experiences of other countries.

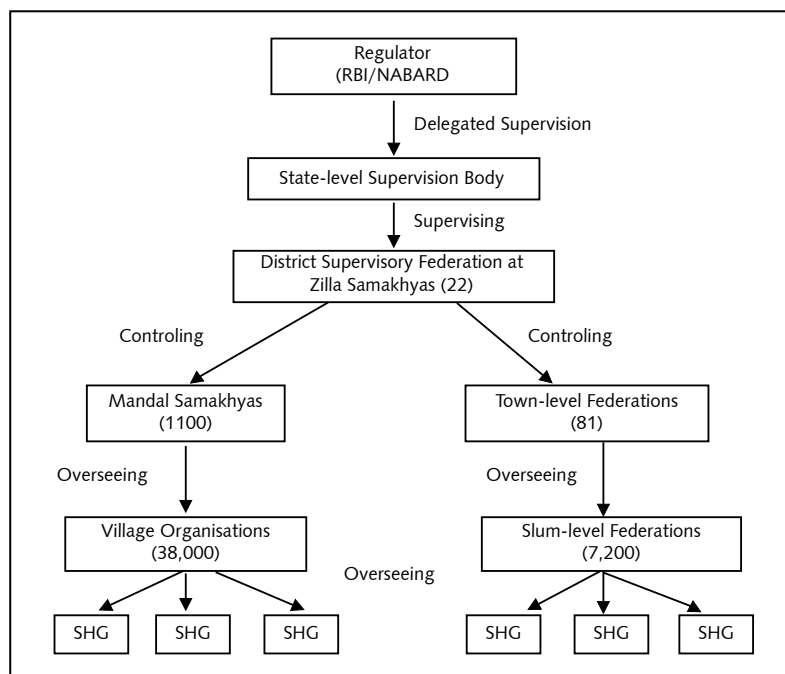
### THE WAY FORWARD: MAINSTREAMING SHG/SOC IN ANDHRA PRADESH

SOC, as discussed at wrap-up sessions, aims at establishing a fully self-controlled sustainable SHG federation system in Andhra Pradesh,

with its financial component institutions under (delegated) supervision recognized by the RBI. This would include four components: (i) up-scaling the SHG SOC approach throughout Andhra Pradesh, with continual enhancement of autonomy and effective self-control at all levels; (ii) completing the SOC structure by establishing an SHG federation at the state level; (iii) establishing a co-operative apex bank of the SHG federation system (accomplished as of end-2011); (iv) establishing a system of regulation and (delegated) supervision for the SHG federation system recognized by the RBI, as presented in Figure 2.

Partners in the process of mainstreaming SOC in Andhra Pradesh include SERP/IKP for rural areas, MEPMA for urban areas, NABARD for bank participants and as a representative of the RBI as the national financial sector regulator and supervisor, and the Registrar of Co-operatives for regulation and supervision of MACS compliance at the state level.

**Figure 2: Regulation and Supervision of SHG Federations in Andhra Pradesh**



## WIDER RELEVANCE OF SOC FOR INCLUSIVE FINANCE

SOC, implemented by SHG federations, can provide a sustainable organizational framework on a legal (MACS and similar) basis for informal groups nationwide. Core functions are self-organized promotion, capacity building, self-regulation and self-supervision, including monitoring and reporting of internal financial intermediation of SHGs and advocacy. SHG VOs, as primary level federations, have emerged at the centre of the SHG system, close to 1,60,000 in number, accounting for 97 per cent of all federations. They are owned, financed, managed and governed by SHGs as shareholders. SHG VOs are the evolving 'mother organization' of SHGs and perhaps of specialized livelihoods groups/organizations, with the potential of service delivery convergence as envisaged by NRLM (2011). The key functions include:

- ♦ Intermediation between SHGs and second-tier federations
- ♦ Monitoring, supervising and grading SHGs as grass-roots financial intermediaries
- ♦ Control over multiple borrowings of SHG members, serving as a village credit bureau
- ♦ Financial literacy training for SHG members
- ♦ Evolving a village-level financial intermediation (village bank)

The provision of village-level financial services is of greatest concern to the government. Banks have not provided such services in the past and it takes great optimism to believe they might do so in the future, as directed by the government. Also, agency banking services, as in the case of pygmy deposit schemes and

recently among several MFIs, have not fared well in India. So far there is no convincing evidence that Banking Correspondents will fill the void.

In all likelihood, there is no single best solution; but SHG VOs, existing in large numbers and expanding rapidly, might emerge as one of the newly competing village-level financial intermediaries. Most importantly, as mutually aided co-operative societies under the MACS and similar Acts, they are authorized to mobilize voluntary withdraw-able savings, in addition to providing credit; in fact, they may be the only trusted organization in sight, which might do so at low depositor transaction costs. The evolving spectrum of financial functions and services may include the following:

- ♦ Voluntary withdraw-able savings of SHG members
- ♦ Working with SHGs as collectors of deposits and repayments
- ♦ Liquidity exchange between SHGs within a village
- ♦ Refinancing SHGs in co-operation with banks and other providers
- ♦ Providing individual loans to enterprising SHG members (with soft collateral)
- ♦ Facilitating individual bank lending to enterprising SHG members
- ♦ Managing insurance (life, health, pension), at present handled with difficulty by SHGs
- ♦ Product innovation
- ♦ Evolving division of tasks and responsibilities between SHGs and VOs.

Higher-tier federations at the sub-district and district levels will provide a back-up structure

for VOs, potentially with the following functions:

- ♦ Implementing SOC
- ♦ Monitoring and supervising VOs
- ♦ Communication with banks, NABARD, NRLM, state government and other stakeholders
- ♦ Implementing capacity building for SHGs and VOs
- ♦ Back-up facilitation of lines of credit, insurance, other services and programmes
- ♦ Advocacy regarding a conducive framework
- ♦ Advocacy regarding smart subsidies (geared to institution building)

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*The SOC pilot in Andhra Pradesh has demonstrated, in principle, that building the capacity of selected SHG members to manage and govern VOs as well as higher-level Federations is feasible.*

and govern VOs as well as higher-level federations is feasible. As a next step, research across several states is needed, examining the experience and capacity of VOs as the emerging 'mother organization' of SHGs, with the potential of service delivery convergence as envisaged by NRLM. The possibility should also be explored whether, in

states with very low SHG penetration, the establishment of self-managed VOs might be a first step for savings mobilization and bank linkages, as has been the case in many countries. The proposed research is expected to contribute to the objective of establishing a self-reliant, self-regulated and self-supervised system of SHGs and SHG federations owned, managed and governed by the poor—as the poor's own micro-finance organizations. This in turn is to contribute to the development goal of inclusive access of all, including the very poor, to a full range of adequate financial services for improved livelihoods in rural areas.

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