An approach towards self-reliance and sustainability of the SHG sector in India: SHG Sector Own Control

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Abstract

Initiated by NABARD in 1992, *SHG banking* had enabled 7.5 million SHGs, with 100 million members, to open bank savings accounts; 4.8 million SHGs had a bank loan outstanding (31/3/2011). This has been paralleled by the emergence of 163,730 SHG federations, 97% of them village organizations (31/3/2010). While providing an institutional framework to informal groups, the potential of the federations is far from being fully utilized. This paper reports on a project piloting self-regulation and self-supervision of the SHG federation system, or *SHG Sector Own Control*, in Andhra Pradesh, with some 40,000 SHG federations licensed as *Mutually Aided Cooperative Societies* (MACS). In interaction with SHGs two support activities have been designed: *(i) establishing a cooperative SOC system (s*tandardized bookkeeping, reporting, auditing, rating, annual planning; annual elections; legal compliance as per MACS Act; delegation of representatives from SHGs to all federation levels); (ii) *capacity building as* the social capital formation process by which the SOC system is inculcated in the minds and practices of SHG members, selecting all trainees (bookkeepers, auditors, supervisors, financial literacy facilitators) from within the SHGs and building their capacity as internal service providers. The SOC pilot has demonstrated that building the capacity of SHG members to manage and govern village organizations and higher-level federations is feasible. Upscaling in Andhra Pradesh and other states has been initiated. Research across several states is proposed, examining the experience and capacity of village organizations as the emerging "mother organization" of SHGs, with a wide spectrum of services, including collection of voluntary savings and financial intermediation.

The evolution of SHG banking

There are three sectors of financial institutions in India which provide services to lower-income people: regulated banks, unregulated microfinance institutions (MFIs)[1] 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 cooperative banks, which in turn are linked to some 100,000 agricultural cooperatives (PACS)[2] with credit as their principal service to their 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 programs for rural areas and numerous donor credit lines. The National Bank for Agriculture and Rural Development (NABARD), carved out of the central bank in 1982, analysed the reasons behind the failure of reaching the rural poor: a sole emphasis on production loans, prohibitive transaction costs for lenders and borrowers, failure to mobilize savings, and overly complicated procedures.

During the second half of the 1980s NABARD took a first step turning from the old world of supply-driven to a new world of demand-driven finance, stipulating that programs 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 program of APRACA and GTZ/GIZ in Asia, *Linking Banks and Self-help Groups*,[3] NABARD initiated a study of self-help groups (SHGs) in 1987, led by MYRADA and 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 (NABARD 1989: 53-58). 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*: 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 (Kropp & Suran 2002; Nanda 1992, 1995; Seibel 2005).

With approval from RBI[4] and an authorization for banks to open savings accounts for informal SHGs[5], NABARD started a pilot project in 1992, contributing to the goal of solving the perennial problem of rural indebtedness and poverty in India. 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 program

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[1] The MFIs are in fact microcredit organizations (MCOs). Due to excessive growth in recent years and a lack of both self- and external regulation and oversight, some of them have come under criticism for breaking up SHGs into joint-liability groups (JLGs), irresponsible lending resulting in overindebtedness and allegedly suicides, and harsh collection methods, particularly by agents. The whole sector has come under international scrutiny and damaged the reputation of microfinance worldwide. To insure customer protection the Government of Andhra Pradesh has reacted with a stop to loan recovery, which is threatening the survival of the MFIs and curtailing access to short-term credit.

[2] After a great start during the first thirty years as of 1904, the credit cooperative sector is now in a state of crisis and restructuring, due to decades of government interference and regulatory neglect (Seibel 2009). Due to mergers and closures their number has been declining in recent years.

[3] In 1986 linkage banking was taken up by APRACA, an association of agricultural and central banks in Asia and the Pacific, as a regional program and disseminated among its member institutions. With TA by GTZ, Indonesia was the first country starting a pilot, 1988-91, serving as an experimental field station visited by member countries. The Philippines and Thailand (both with TA by GTZ since 1990) and India (with TA by GTZ as of 1998) followed with own projects. (Seibel 1996: 62-75, 2005, 2006)

[4] On 24 July 1991 RBI issued a circular to commercial banks (RPCD.No.Plan.BC.13/PL-09-22/90-91), advising them to actively participate in a non-mandatory pilot project, refinanced by NABARD.

[5] RBI circular DBOD.No.BC.63/13:01:08/92-93, January 4, 1993

implementation in 1998, with MCI cells in every state. Transaction cost studies in the 2002s found that SHG banking was highly profitable to banks (Seibel and Dave 2002), and borrower transaction costs were low for SHGs and members (Karduck and Seibel 2007).

Since then the number of SHGs established by NGOs as well as GOs and bank has grown at tremendous speed[6]. As reported by NABARD at the Microfinance Summit 2011[7], as of 31/3/2011 7.5 million SHGs had opened bank savings accounts, with an outreach to some 100 million members[8], covering a population of around half a billion; total bank deposits amounted to Rs69.26 billion ($1525 million). At the same time 4.81 million SHGs had bank loans outstanding, amounting to Rs306.27 billion ($6787 million). However, as impressive as these figures are (doubted by some as to their validity), outreach across states is very uneven, and the suitability of SHG banking for thinly population and remote areas is has been questioned. Depth of financial services is shallow: on average Rs9,177 ($204) in bank deposits per SHG, or around Rs700 ($15) per member, and Rs63,625 ($1418) in bank loans outstanding per SHG, or around Rs4,850 ($108) per member. Internal resources of SHGs (comprising mandatory savings and profits) are a multiple of their bank deposits, serving as an additional source of loanable 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% of SHGs with bank savings accounts and 16% of the aggregate amount, 35% of SHGs with bank loans outstanding and 42% of the outstanding bank loan balance (Table 1). SERP, with its World Bank supported SHG project Indira Kranthi Patham (IKP), has greatly contributed to this achievement.

Table 1: SHG bank linkages in India and Andhra Pradesh, March 2011 (in bn Rs)

	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 w. bank loans outstanding*	4,813,670	1,683,993	35.0
Amount of bank loans outstanding	306.27	128.69	42.0

NABARD has focused on quantitative growth of outreach and on credit linkages of SHGs. It has also provided funds for capacity building of promoting NGOs, government organizations and banks; but group quality and operations has been left to the promoters. As a result there is no standardized bookkeeping and auditing system; 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 microenterprises and some even growing into small enterprises; but SHG Banking has not included promoting graduation to micro and small enterprise finance.

[6] The rapid growth in outreach has been made possible by drawing on a wide array of institutional resources as India's *social capital*: Nabard as 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; RBI which adjusted the policy framework for banking relations with informal groups; and the political leadership at union and state levels. At the same time the program has drawn on India's *human capital*: the competence and enthusiasm of the staff in participating agencies; and the willingness and 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, onlend 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 program design; over 90% of the group members are women. Neither social nor human capital would suffice were it not for the *financial capital* created by the program: 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. (Seibel 2006)

[7] These figures differ slightly from those reported by Srinivasan (2012).

[8] Average group size seems to have dropped from around 15 to somewhat above 13.

The development of SHG federations

Building informal groups without a concept of supporting secondary and tertiary structures of SHGs has had one major consequence, unintended by 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 CARE India and Dhan Foundation in the early 1990s and UNDP's *South Asia Poverty Alleviation Project* (SAPAP) in 1996 in Andhra Pradesh, upscaled during the 2000s by SERP of the Government of AP in its Velugu/IKP project with World Bank support. In Kerala state government has promoted federations statewide through the Kudumbashree program. In Tamil Nadu the government has promoted primary federations throughout the state through its Mahalir Thittam (MT) project, similarly the Government of Maharashtra. PRADAN, MYRADA, DHAN and CARE are among NGOs pioneering SHG federations in several states. Overall the result of efforts building a wider institutional framework has been stunning. As of March 2010 there was a total of 163,730 federations (138 % more than in 2007), comprising 158,166 primary level CBOs or Village Organizations (96.6%), 5,465 secondary level (3.3%) and 100 tertiary level federations (0.1%). 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 1). (N. Srinivasan 2010: 29-30; cf. APMAS 2007: 13)

Table 2: SHG village organizations and higher-level federations by state, March 2010

State	Total no of federations	Village organizations	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			
Total	**163,730**	**158,166**	**96.6**

Source: Microfinance India - State of the Sector Report 2010 – N Srinivasan

There is no harmonized system, neither in terms of legal forms nor of functions. The federations have been registered under different legal forms, most prominently under parallel liberal cooperative laws similar to the Mutually Aided Cooperative Societies Act (MACS) of 1995 in Andhra Pradesh. They may function as support organizations including capacity building and monitoring & supervision, facilitators of the flow of credit from banks and other sources, and financial apexes.

After twenty years of SHG development, one may ask: What is going to be the fate of SHGs in the next twenty years? Will they remain informal? What will be the role of SHG village organizations and higher level federations? Might there be a role for SHG federations meeting the loan fund gap during the time period SHGs have an active loan from a bank?

SHG federations in Andhra Pradesh and the role of a *Sector Own Control (SOC)* pilot

Andhra Pradesh has been a leading state in the evolution of a comprehensive system of SHG federations. They cover the whole state and are registered as autonomous *Mutually Aided Cooperative Societies* under the MACS Act of 1995. As of December 2011 there were 38,300 primary level federations at village level, 1,099 subdistrict level and 22 district level federations in rural areas, covering about a million SHGs. Virtually all are registered as MACS, except 8% of VOs which are in the process of registration. (Table 3)

Table 3: Registration of SHG federations under MACS Act in rural AP, 2011

SHG federations	Number	MACS
District – Zilla Samakhya	22	100%
Subdistrict – Mandal Samakhya	1,099	100%
Village organizations	38,300	92%

The registration of the federations under the MACS Act is a major achievement, as it removes them from direct domination and shareholding by the government and places them under their own bylaws, stipulating: board meetings at least monthly; general body meetings within a period of six months from the close of the financial year; elections in the manner specified in the bylaws of the federations; audit of accounts by a chartered accountant (in addition to internal audits), submitted to the general body meetings of federations for approval; filing of returns annually before the statutory authorities within 30 days from the date of the annual general body meeting.

In 2007 the Registrar of Cooperatives determined that 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 oversight of financial or non-financial performance. However, 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 general body meetings, where the results of the audits (including the discovery of fraud and other inconsistencies in the books) are presented. Second, it has motivated the federations, together with SERP as a promoting agency to impose the same requirements via bylaws on the SHGs and to control compliance, even though such compliance cannot legally be enforced among informal organizations.

Enforcement of compliance has underlined the urgency of (i) regular and reliable bookkeeping and auditing among 1.5 million SHGs in Andhra Pradesh, requiring the training and supervision of large numbers of bookkeepers and auditors; and (ii) the importance of regular elections and meetings, requiring member education and financial literacy training to disseminate familiarity with rules and regulations, roles and responsibilities.

This corresponds to concerns of SHGs identified by APMAS and the IKP team together with 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 channeling; 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 recordkeeping, leading to mismanagement and fraud.

Sector Own Control: 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 Sector Own Control*, 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 (bookkeepers, auditors, facilitators, trainers) and as office bearers; (ii) compensation of internal service providers by the 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: village organizations by representatives of SHGs, subdistrict/Samakhya federations by representatives of village organizations, district/Zilla federations by representatives of subdistrict federations); along the same lines, the tiered structure is self-financed from below.

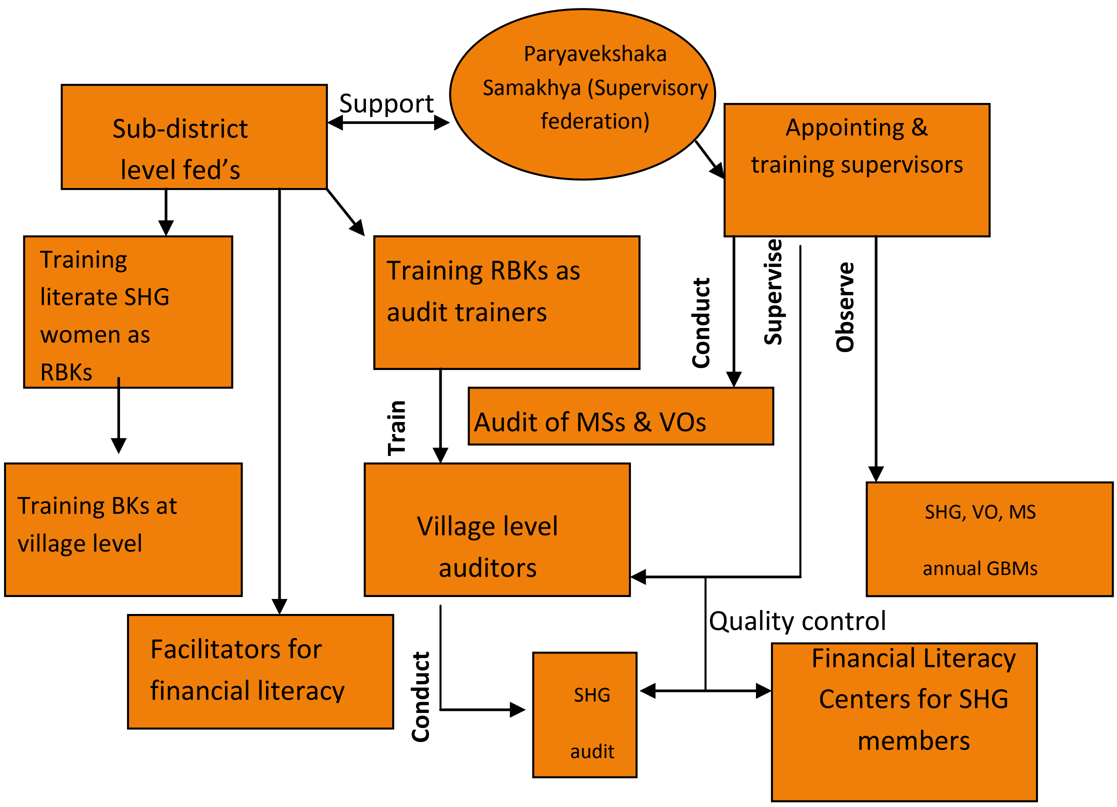
Project holder has been **APMAS**, an NGO domiciled in Hyderabad, which is focused on quality assurance for an envisioned "*Sustainable Self-Help Movement in India*". Established in 2001, APMAS has done pioneering work in developing various capacity building modules, rating tools and innovative approaches to strengthen the SHG movement. The German Cooperative and Raiffeisen Confederation (**DGRV**), a national auditing federation backed by a history of emerging self-control and supervision of savings and credit cooperatives since the middle of the 19^{th} century in Germany, has provided capacity building and technical assistance to the pilot project, 2008-2011. **SERP,** Society for Elimination of Rural Poverty, is APMAS' senior partner in promoting SHG federations and upscaling 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. SERP implements Indira Kranthi Patham (**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 it staff and management and piloting innovative approaches such as sector own control, to promote self-reliance and sustainability of the SHG movement in Andhra Pradesh. In a similar vein, APMAS also works with **MEPMA**, Mission for the Elimination of Poverty in Municipal Areas of AP. The project was evaluated in 2011 by Seibel (2011) on behalf of DGRV.

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*); these are multi-service federations, each with a staff of six to nine, half of them paid by IKP and half from the federations's own income. 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 coordination committee. The six mandal-level federations comprise 172 primary federations, or village organizations (VOs), on average 1.3 per village and 30 per Mandal. Each VO comprises on average 35 SHGs: a total of initially 4,408 and now 6,084 SHGs in the cluster, of an average age of 5.8 years (ranging from 1 to 17 years) as of March 2010. The total number of members is 75,000, ranging from 5 to 19 and averaging 12 per SHG. The members of the SHGs are all women, comprising poor and poorest of the poor (PoP) as defined by the government. Of the total number of 34,762 PoP households in the cluster, 99.5% are members of SHGs.

The implementation process proceeded along the following lines: (i) designing and testing capacity building modules & methodologies in 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 SOC approach among diverse stakeholders, including NABARD, GoI and NRLM (2011).

The support activities under SOC are results-oriented and comprise two steps: (i) establishing a cooperative SOC system, comprising standardized bookkeeping, reporting, auditing, rating, annual planning and monitoring; systematic annual elections (by *secret ballot*); legal compliance as per MACS Act at all federation levels and similarly in SHGs; delegation of representatives from the lowest (ie, 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 the SHG members and the SHG representatives and office bearers in the federations, selecting all trainees (bookkeepers, resource bookkeepers, auditors, supervisors, financial literacy facilitators) from within the SHGs and building their capacity as internal service providers. The main lines of the implementation process are presented in Figure 1.

Figure 1: Field implementation process



At a different level of capacity building, this process model, comprising the establishment of a SOC system and its inculcation in the participants, is transmitted to replicators for **upscaling**, such as SERP and MEPMA at state level and others at national level; elements of it may also be incorporated in the ongoing reform of the cooperative sector under NABARD. (APMAS 2011; Seibel 2011)

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, Marati and Kannada.

While qualitative responses are difficult to measure, figures of outreach and effective participation speak a language of their own. Table 4 reports the results of establishing a system of general body meetings (GBMs), elections, auditing and reporting at federation levels. Coverage is comprehensive:

all MSs and VOs hold annual meetings and elections and submit printed annual reports as required by their bylaws, and all MSs and all but one VO are regularly audited by chartered accountants.

Table 4: Results at federation level in Kamareddy cluster, December 2011

GBMs of VOs and MSs completed as per bylaws	All 172 VOs and 6 MSs
Elections conducted regularly as per bylaws	All 172 VOs and 6 MSs
Annual reports printed and submitted to GBMs	All 172 VOs and 6 MSs
SHGs internally audited by community auditors	4738 out of 6,084 SHGs
Percent SHGs found in loss[9] (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

Within the framework of SOC it is the task of the federations to organize and supervise the process of general body meetings and elections of SHGs as well as bookkeeping 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 a SOC system at SHG level: the number of SHGs covered and the percentage out of a total of 6,084 SHGs in the cluster. At 98% the coverage of bookkeeping is most impressive.

Table 5: Results at SHG level in Kamareddy Cluster (in % of 6,084 SHGs), Dec 2011

	Number of SHGs	*Percent*
Internal savings of SHGs monitored	5958	**98**
General body meetings	4836	**80**
SHG annual planning	3927	**65**
SHG level election process	3225	**53**
Interest paid on members' savings	4056	**67**
Financial literacy training sessions	5171	**85**
SHGs with bookkeeping by trained bookkeepers	4758	**78**
SHGs audited (by 201 community auditors)	4738	**78**

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

Table 6: Capacity building: persons trained (social capital formed)

Function	*Number*
SHG resource bookkeepers	195 *)
SHG bookkeepers (*target:* one for every three SHGs)	1564
Community auditors for SHG audits	201
Audit trainers	17
Audit supervisors at Paryavekshaka Samakhya level	6
Audit subcommittee members at VO and MS level	62
Community resource persons	125
Village Organization bookkeepers	192
Financial literacy facilitators	240

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

[9] Losses were found to be mainly due to lower interest income from internal loans, as a result of inadequate margins.

Conclusions

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

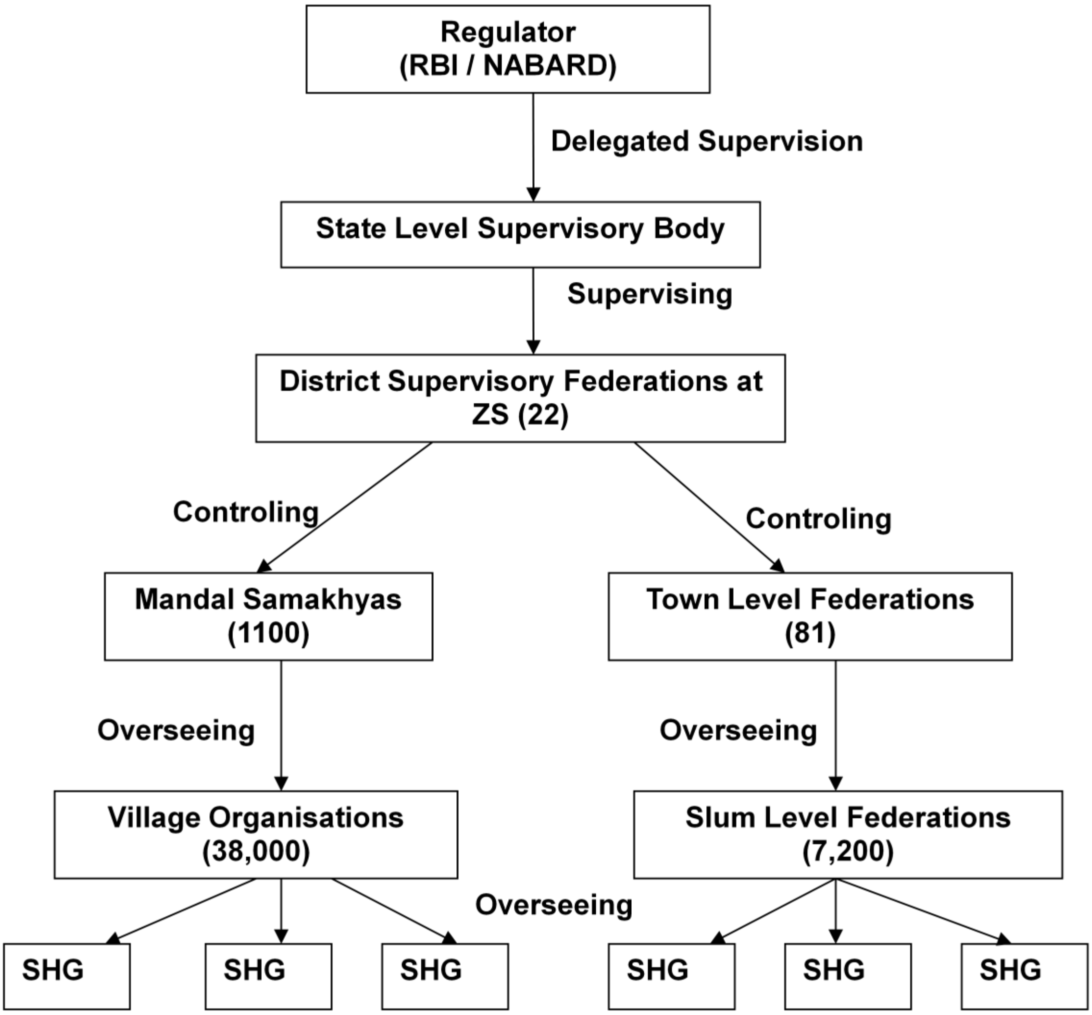
- developing and testing systems and processes of *SHG Sector Own Control* in Kamareddy Cluster as a pilot, in the framework of the national SHG Banking program of NABARD
- gaining from inception the approval and partnership of SERP/IKP, a parastatal of state-wide outreach to the SHG federation system, with a mandate of poverty alleviation and women's empowerment
- developing the required modular training materials in English and Telugu and translating core materials into five other Indian languages
- building the capacity of women selected from SHGs as bookkeepers and auditors to implement the bookkeeping 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
- effectively targeting of the very poor
- installing systems of annual assembly meetings of SHGS and federations, including elections by secret ballot and annual planning
- ensuring legal compliance as per 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 government
- documenting systems and processes adopted in the pilot for dissemination
- providing exposure visits and training programs to potential adopters of the SOC approach
- building the capacity of SERP/IKP to implement the SOC system throughout Andhra Pradesh
- collaborating with ENABLE 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 program *National Rural Livelihoods Mission* (NRLM 2011), launched in June 2011.

Risks. The SHG SOC approach is emerging as a strategic component in government programs of poverty alleviation and women's empowerment at state and national level. 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, its own agenda or that of the state? Just like the century-old (*state*-aided) credit cooperative system in India, the new (*mutually* aided) SHG federation system with its concern for *sector own control* is facing 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 cooperative self-help gained over a period of more than 150 years and similar experiences of other countries.

The way forward: mainstreaming SHG Sector Own Control in Andhra Pradesh

SOC II 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 RBI. This would include four components: (i) upscaling of the SHG Sector Own Control approach throughout Andhra Pradesh, with continual enhancement of autonomy and effective self-control at all levels; (ii) completion of the sector own control structure by establishing an SHG federation at state level; (iii) establishment of a cooperative apex bank of the SHG federation system (*accomplished as of end-2011*); (iv) establishment of a system of regulation and (*delegated*) supervision for the SHG federation system recognized by RBI, as presented in Figure 2.

Figure 2: Regulation and supervision of the SHG federations in Andhra Pradesh



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 RBI as the national financial sector regulator and supervisor, and the Registrar of Cooperatives for regulation and supervision of MACS compliance at state level.

The wider relevance of SOC for inclusive finance in India and the role of SHG village organizations

Sector Own Control, 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 village organizations (VOs), as primary level federations, have emerged at the center the SHG system, close to 160,000 in number, accounting for 97% of all federations. They are owned, financed, managed and governed by SHGs as shareholders. SHG village organizations 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). Key functions include:

- Intermediation between SHGs and 2nd tier federations
- Monitoring, supervising and grading SHGs as grassroots financial intermediaries
- Control over multiple borrowings of SHG members, serving as a *village credit bureau*
- Financial literacy training for SHG members
- Evolving 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 (Murdoch and Wright 2011).

In all likelihood there is no single best solution; but SHG village organizations, existing in large numbers and expanding rapidly, might emerge as one of the newly competing village level financial intermediaries. Most importantly, as *mutually aided cooperative societies* under MACS and similar acts, they are authorized to mobilize voluntary withdrawable 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 withdrawable savings of SHG members
- Working with SHGs as collectors of deposits and repayments
- Liquidity exchange between SHGs within a village
- Refinancing SHGs in cooperation 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…), presently handled with difficulty by SHGs
- Product innovation
- Evolving division of tasks and responsibilities between SHGs and VOs.

Higher-tier federations, at subdistrict and district level, would provide a back-up structure for village organizations, potentially with the following functions:

- Implementing SHG sector own control
- 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 programs
- Advocacy regarding a conducive framework
- Advocacy regarding *smart subsidies* (geared to institution building)

The SOC pilot in Andhra Pradesh has demonstrated, in principle, that building the capacity of selected SHG members to manage and govern village organizations as well as higher-level federations is feasible. As a next step, **research** across several states is needed, examining the experience and capacity of village organizations 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 village organizations 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 microfinance 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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