

Workshop Report

On

Networking of SHGs
- Concepts, Issues and Practices -

Raunaq Hall, PHD House, New Delhi
24 – 25 March, 2003

NIPCCD
in collaboration with
Sa-Dhan

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1.0. Background and Objectives

The SHG approach has been widely recognized in India as a viable approach for building social capital, to break the systemic barriers between the mainstream financial service providers and poor communities, especially women, and to meet the financial needs of the poor and marginalized households. The growth trajectory of the SHG approach is to take the path of collective action supported by collective mobilization and management of resources. Hundreds of promoting institutions, both government and non-government, are experimenting with innovative approaches to developing clusters and federations of SHGs.

Swashakti is a project of the Government of India, and is presently operating in 9 states, namely, Bihar, Jharkhand, Gujarat, Haryana, Karnataka, Madhya Pradesh, Chattisgarh, Uttaranchal and Uttar Pradesh. It covers a total of 58 districts. Its objective is to strengthen the process that promotes social and economic development of women, and thereby create an environment for social change to improve their quality of life.

For the past four years, Swashakti has been promoting SHGs in the various identified project areas and has achieved its target of working with 12,000 SHGs with the help of 241 NGOs till date. In most of the areas it has also promoted a second tier of institutions called the cluster-level associations of SHGs.

Though the Swashakti project leadership at the district and higher levels has initiated the process of forming clusters, the different levels felt a strong need to learn from the various initiatives that have been taken by the development sector in that direction. In spite of the SHG federation being a recent phenomenon, there are sufficient examples of different typologies and frameworks that have been promoted by NGOs for building people's institutions. To apprise project staff and partners of the ground reality, and the experience and issues concerning the promotion of clusters and federations, a two-day workshop was organized on 24 and 25 March, 2003, at PHD House, New Delhi by NIPCCD, the lead capacity-building organization for the Swashakti Project.

The objective of the workshop was to build on the perspective of the Swashakti District Project Officers and partner NGOs regarding the different models of networking of SHGs into larger associations, and the lessons learnt concerning their role and long-term sustainability.

Collaborating with NIPCCD in this workshop was Sa-Dhan, The Association of Community Development Finance Institutions of India. Sa-Dhan's member organizations have been at the forefront of developing financial and non-financial associations of SHGs. The recently conducted study of federations by Sa-Dhan has put together the experiences of practitioners in the country by mapping out different approaches and designs and processes, the attributes of federations of

SHGs. This study also looks at the respective roles of federations and promoting institutions, critical components of the process of promotion and gaps in operational and institutional systems including the relationship between the federations' role in financing and social mobilization.

2.0. Design of the Workshop

The two-day workshop had four technical sessions, which included presentations, open discussions as well as group work exercises. This was done to make the workshop more participatory and useful. Each session covered a number of topics given as under. (The specific schedule of the workshop is given in Annexure....)

Day 1: 24 March, 2003

2.1. Opening Session

Session Plan

1. Welcome Speech: Dr. Adarsh Sharma
2. About the Workshop: Mrs. Sulochana Vasudevan, Project Director, NIPCCD Swashakti Project & Mr. Mathew Titus, Executive Director, Sa-Dhan
3. Opening Remarks: Mrs. Margaret Alva, Member of Parliament & Chairperson, Committee on the Empowerment of Women

2.2. Technical Session I

Session Plan

1. Ice Breaking for Open House Discussion: Facilitated by Mr. Sanjiv Phansalkar , Sr. Development Specialist
2. Presentation: "SHG Networking: An Institutional Framework", Mr. Sanjiv Phansalkar
3. Questions from Participants
4. Presentation: "SHG Federations – Typology & its features as appearing from the study co-ordinated by Sa-Dhan" , Mr. Vinod Jain, Development Specialist
5. Questions from Participants
6. Open House Discussion

2.3. Technical Session II

Session Plan

1. Presentation: "Role and Design of federation: A Strategic choice perspective", Mr. C. S. Reddy, CEO, Mahila Abhivruddhi Society, AP (APMAS)
2. Questions from Participants
3. Presentation: "Making strategic choice on Role & Design of SHG Federation: The PRADAN Experience" , Mr. D. Narendranath, PRADAN
4. Questions from Participants
5. Presentation on "Financial Intermediation through NGO-Promoted Community Organizations In India", Mr. Ajay Tankha, Sr. Development Specialist

6. Presentation: "SHG Networking: Role transformation of Promoting Institutions - The case of Shramik Bharati", Mr. Rakesh Pandey, Shramik Bharti

2.4. Technical Session III

Session Plan

1. Recapitulation of Day 1: Mr. C. S. Reddy
2. Presentation: "Financial Practices of Federations undertaking financial Intermediation: Experience from Andhra Pradesh (Study by APMAS)", Mr L.B. Prakash Sr. Vice President, APMAS
3. Group Presentation by States
4. Panel Discussion on State Presentations: Panelists Mr. Ajay Tankha, Mr. C S Reddy, Mr. Ramesh Arunachalam, Mr. Vinod Jain, and Mr. L. B. Prakash. Facilitated by Mr. Mathew Titus

2.5. Technical Session IV

Session Plan

1. Presentation: "Building Financially Sustainable SHG Networks: Basic features and suggested Practices", Mr. Ramesh Arunachalam, Sr. Consultant, MCG , Chennai
2. Presentation: "Formalization of Federations: A comparative analysis of different legal framework", Mr. Ramesh Arunachalam

2.6. Group Work

Session Plan

1. Group Work Exercise – Participants divided into four groups
2. Presentation by Groups & Discussion: Facilitated by Mr. Ajay Tankha & Mr. Ramesh Arunachalam
3. Summing Up: Mr. Ajay Tankha and Mr. Ramesh Arunachalam

3.0. Workshop Deliberations

Day 1: 24 March, 2003

Opening Session

3.1. Welcome Speech

Dr. Adarsh Sharma, Additional Director, NIPCCD welcomed participants to the workshop. She began by introducing the members on the dais to the gathering. While acknowledging the role-played by the Chief Guest, Mrs. Margaret Alva, in the empowerment of women, she also focussed on the "Swayamsiddha" Project. She pointed out that the "Swayamsiddha" Project was based on the principle of empowering women especially through livelihood and micro-enterprise promotion.

3.2. About the Workshop

Mrs. Sulochana Vasudevan, Project Director, NIPCCD Swashakti Project, emphasized the underlining aim of the Project, which is to promote social and economic empowerment of women. She said that since its launch four years ago, the Swashakti Project has covered 9 states, as the result of dedicated and intense work by its project officers and partner NGOs. The project targets all rural poor women, particularly those who are:

- ☞ Single and heads of households
- ☞ Migrants, women in acute poverty, handicapped
- ☞ Commercial sex workers, primitive tribes and those facing social and family harassment
- ☞ Women living in drought and flood or violence prone areas
- ☞ Scheduled caste and scheduled tribe families

Under the Swashakti project, around 12,000 SHGs have been formed, involved in either farm or non-farm activities. To reach the above figure, around 241 NGOs have been roped in. Most of these groups have been linked with the banks. In many places, a second tier of SHG “clusters” has also been promoted. Till date 650 cluster-level associations have been formed. In some places clusters have also formed federations. Twenty such federations have been formed across the country. It has been observed that micro-finance and micro-enterprises have helped in building community-based organizations (CBOs). Income generation activities have also been promoted through micro-finance.

She called the attention of participants to the objectives of the workshop. The two-day program would focus on different existing models of SHG networking all over the country. Their sustainability would be discussed at large. She emphasized that in the forthcoming sessions the findings of the recently concluded study on SHG federations in India would also be shared (the Study was launched by Sa-Dhan and covered 27 federations and their promoting institutions all across India). The workshop would benefit from the findings of the Sa-Dhan study. The outcome of the workshop would be published as a book.

Following on from the introduction, Mr. Mathew Titus, Executive Director, Sa-Dhan introduced “Sa-Dhan” as “The Association of Community Development Finance Institutions”. He explained that it intervened at various levels to create a facilitating environment for the growth of micro-finance in India. He made the following points:

- ☞ The start up finance and working capital requirements of poor women is 53.6% and 22% respectively. The requirement is continuous and needs ongoing access.
- ☞ The Economic Census 1998 shows that nearly 80% of the funds of unorganized enterprises came from their own funds and 16% came from the non-institutional sources. Institutional and government welfare schemes provided only 4% of total funds.

- ☞ In March 1998 commercial bank credit to the weaker sectors amounted to Rs 290 billion, but the same group provided liquidity to the system to the tune of Rs 1,330 billion by way of deposits, which was almost five times what they had received from the system.
- ☞ Financing the poor should not be looked at from a charity point of view. It should be considered as a business proposition by the banking sector. This could be achieved by encouraging MFIs, building strong demand based CDFIs and by incentivising the banks to provide micro-finance.
- ☞ These CDFIs (Community Based Development Financial Institutions) are people owned and managed. They mainly render three kinds of services – savings, credit and insurance. Self help groups and its associations are examples of CDFIs. Development efforts will have to be integrated along with economic activities. The promotion of these CDFIs draws a lot from the ideology, vision and mission of the promoting NGOs
- ☞ It must also be borne in mind that SHGs and their federations have borrowed Rs 598 crores from the banks with as little as Rs 50 crores of support for promotion.
- ☞ Patience is required by the promoting agencies in order to make such movements across the country a success.
- ☞ Micro-finance has been a huge success in the southern part of the country. By the end of March 2001 around 73% of total Self-Help Groups - bank linkages had been established in South India..

Concluding his presentation, Mr Titus emphasized that sustainable and self-sufficient community institutions would require qualitative and patient working in building these institutions. He also advocated a facilitating legal and regulatory environment for the emergence and growth of these institutions.

3.3. Opening Remarks

Mrs. Margaret Alva, Chairperson, Committee on the Empowerment of Women, delivered the opening remarks. She was the Chairperson of NIPCCD. She put on record her appreciation of the initiatives taken by NIPCCD for promoting women's empowerment. Initially, only pregnant or nursing mothers were the focus of NIPCCD. Her consistent efforts led to the creation of a separate department in the institute that deals with issues related to women. She was also of the opinion that "grass-root" reality was now being targeted more than ever before in government interventions. According to her, the decentralization of power structures, through strengthening of Panchayat Raj Institutions had its own influence on development at the ground level. The 33 percent reservation for women in parliament would definitely increase women's participation in decision-making at the highest level. These changes have forced people to think of women's issues beyond pregnancy and sexual harassment.

Political empowerment at the grassroots level is very important for unheard voices to be heard. "Panchayats to Parliament" which began during the term of Rajiv Gandhi, has definitely gained momentum. She said that at present 1.2 million women have been elected to local bodies. According to Mrs. Alva, these elected women members are a resource pool, which needs to be tapped. She then went on to cite examples from her own experience. She said that in her constituency in Karnataka around 80% of land was under forests. Forest encroachment was a challenge in the area. She was of the opinion that local wealth needs to be utilized to improve the quality of local life. SHGs, which are unions of women, could deal with such issues.

She pointed out that the conflicting guidelines of the various government schemes need to be reviewed to reduce confusion on the ground. She felt there was a need to produce richly illustrated books for the grassroots level. She appreciated the efforts made by NIPCCD in this direction.

She shared her hands-on experience in the promotion of micro-enterprises for SHGs. This intervention has helped in redeeming and strengthening the systemic changes required for the economic well being of SHG members. She emphasized the role of federations in tying SHGs to economic activities.

She was critical of the low interest rate paid by banks for people's savings. She felt that the banks are subsidizing the Non-Performing Assets (NPA's) of the rich with the savings of the poor. She said that she has raised this concern on numerous occasions with the leading banks and the Ministry of Finance (MoF). She also felt that the present target set up according to the RBI directives for the priority sector is highly underestimated. She believed that an alternative channel of banking, a "Woman's Bank", would solve the issue. She emphasized the importance of linking micro-enterprises with micro-finance. Linking SHGs to economic activities was absolutely imperative. She mentioned the "**Streevana-Women for forest**" project that has been launched by her in her parliamentary constituency. The project aims at protecting forests and the interests of the women. The women are responsible for the protection of the forest and in turn are allowed to make use of the forest produce to make objects of commercial use which has increased their incomes. It was encouraging that some 2 million bamboo plates made by these women are exported every year during the Haj to the Middle East. The women also make bamboo curtains, which are in high demand in the hotel industry. Mrs Alva felt that the federations need centralised marketing linkages. Her vision: to take women entrepreneurs beyond the 3P strategy of Pickle, Papad and Curry Powder.

- She concluded by highlighting three important issues that need to be addressed. Alternate banking channel, the need of the hour.
- ☞ An urgent need for training materials in the local language at the local level.
- ☞ A big gap in Self-Help Groups' formulations, which need to be addressed. Issues like regular contribution, regular meetings and linking SHGs to economic activities are some issues.

Technical Session I

3.4. Ice Breaking

The session opened with an ice breaking exercise. Mr. Sanjiv Phansalkar, Sr. Development Consultant, was the facilitator. The participants were asked to introduce themselves and answer three questions.

1. Poor women should form SHGs because.....
2. SHGs must form federations because.....
3. Promoting organizations and officers must try to make federations stand on its feet in _____ years because.....

Each participant wrote down answers on colourful strips of paper. The outcome was then analysed by the team. Interestingly, clusters of opinions emerged on each topic. Mr. Phansalkar shared the answers of the exercise later in the session.

3.5. "SHG Networking: An Institutional Framework"

Mr. Sanjiv Phansalkar set out the institutional framework.

He emphasized the importance of the issue of sustainability of SHG networks. According to him, sustainability needs to be analysed and understood at the same time. "Sustainability" could be financial as well as operational.

He defined federations and SHGs in economic terms. He referred to SHGs as member-oriented firms (MOFs) and federations as investor-oriented firms (IOFs). He went a step ahead in making a detailed distinction between the MOF and the IOF.

Item	MOF	IOF
Ownership	Members as a group are owners in this case	Investors are the owners
Management	Leaders manage the administrative issues	Either the investors or hired managers are in charge
Purpose	The main aim is to provide service to the members	Here the main aim is to earn profit
Relationship	Users are the owners in this case i.e., dual ownership.	Here there exists no such duality
Growth	Is related to increasing the number of services,	Is usually measured in terms of reinvestments

	members	made and the degree of expansion
Leadership	Members are the leaders	Entrepreneurs here are leaders
Ideology	Strong ideology forms the basis of such firms	Ideology is irrelevant in such types of firms

- ☞ He talked about social sustainability in detail. While explaining this, he cited the example of some Adivasi women in a particular village in Tamil Nadu who were managing and running a hospital on a very small scale. When he brought up the issue of financial viability, the women told him that “if 12,000 women in the *taluka* wanted it to be viable, it would be viable”.
- ☞ Social sustainability was termed as a prerequisite for financial viability.
- ☞ Homogeneity was highlighted as an important factor for the sustainability of federations. Elements like caste, creed or religion of the members were listed as factors that could lead to disintegration of federations. He said that “free riding” activities should not be promoted in the federations. Profits should be given to only those who work hard. This would lead to a discipline of hard work among the members of the federations.
- ☞ A “one-woman-show” should be discouraged. The activities of the federation should stay focussed on the needs and wants of the members. One must also bear in mind that the needs keep changing with time and area. Value should be shown to the members in federating and then they should be allowed to manage it.
- ☞ He shared another framework, “Communities of Practice”, for promoting institutions. In this case the groups should be informal in nature, spontaneous, organic and evolutionary in nature. He also professed different factors that had to be kept in mind while nurturing the community of practice:
 - Free flowing dialogue should be promoted.
 - Infrastructure will have to be provided to the organization.
 - One must listen and not dictate. This finds its root in the PRA methodology.
 - The support individuals should also attend the meetings.
 - Ideas should be encouraged and tried.
 - One must not have know-all attitudes. Instead learning should be considered an on going process, and using and building of knowledge should be promoted.
 - The “Inside-Outside” approach should also be adopted to manage the federations. According to this framework, the community leaders should manage the internal affairs and leave the external affairs to professionals. This would result in a greater degree of sensitivity of the leaders to the concerns of members.

He also spoke about another framework called the “Simultaneous Loose Tight framework” for defining goals and objectives. In this particular framework Mr Phansalkar dealt with the issue of rigidity and firmness with respect to goals. A

certain degree of flexibility is required while setting guidelines. The guidelines should also not be too stringent in nature. The rules in the guidelines should **guide** proper action and not **dictate** it.

3.6. Questions from Participants

There were questions on the Inside/Outside approach. Mr Phansalkar cited examples to explain his point. He stated that in this particular framework the NGO as the promoting federation is the outsider and the women (members) are the insiders.

The other point that came up in discussions was the time factor. Participants were of the opinion that the process of empowering women is a long-term process. It requires time and projects do not provide any extra time.

The discussion again was centered on the financial-social sustainability mix. It was observed that concentrating on any one social issue would not be enough to aptly motivate the members of the group. The gathering also agreed that the social issue had to be dealt with as an entry point activity. Eventually, a correct blend of social issues along with financial activities would be required for sustainability.

3.7. "SHG Federations – Typology & its features as appearing from the study co-ordinated by Sa-Dhan"

Mr. Vinod Jain presented the findings. He made the following points

- ☞ The definition of federation: "an informal or formal, registered or unregistered, association of SHGs."
- ☞ The national-level study "Federation of SHGs", conducted by Sa-Dhan along with its members, covered 27 SHG-federations: 13 in the South (Tamil Nadu, Kerala, Karnataka, AP), 3 in the West (Maharashtra), 5 in the North (Rajasthan, UP), 3 in the East (Orissa, WB) and 3 in the North East (Assam, Manipur). Federations promoted in the Southern States were older, provided a wider range of services, and were formalized. Federations in the East, West and North were only emerging, while in the North East region they were at a nascent stage.
- ☞ In India, the SHG federation model has emerged from the community development paradigm. Initially, savings groups of both men and women were formed; women SHGs were found more viable over time. The SHG model for bank linkage is a development innovation for the Indian micro-finance sector. This has largely been able to integrate financial and social sustainability concerns .
- ☞ Aggregation of SHGs occurred at different levels. Aggregation of groups at the cluster level – 10 to 15 SHGs in the same village or adjoining 2/3 villages,

seemed to be a natural corollary to the promotion of a number of SHGs in a pocket. Cluster federations provided identity to the groups at the local level. Design of subsequent levels or tiers of federations was contingent on the vision of the promoting organization (PO).

- ☞ SHG federation model adopted small and large group characteristics. While SHGs were task groups, clusters and federations aggregated and provided functional support services, identity, external interface and most importantly stability of a large group.
- ☞ Through a representational system, the members were distant from the leaders in large multi-tier federations, and interacted indirectly and periodically. In such federations, leaders were closer or interacted more frequently with PO leaders than with members. PO leaders became role models for federation leaders.
- ☞ POs face a significant dilemma in balancing financial and social intermediation. Financial and social intermediation requires different approaches and mind sets. Financial intermediation for sustainability entails strict adherence to rules and norms with little or no relaxation. Federations became (low cost) instruments for providing credit and implementing the program rather than an end themselves. Social intermediation on the other hand requires greater flexibility and investment in members for diverse capacities.
- ☞ Federations being promoted across the country represent a variegated kaleidoscope and it was not possible to generalize or to study all the federations without understanding the different types of federations. The study has arrived at a typology of federations based on field observations.
- ☞ There were two broad categories that emerged according to the functions – federations engaged in financial functions and federations *not* engaged in financial functions. Federation undertaking financial functions were further categorised as those providing only micro-finance services and those providing integrated development support with empowerment as a dominant component and/or livelihood support along with micro finance services.
- ☞ Second differentiation was made on account of management control of federations- Federations in which the promoting institution (PO) is playing a dominant role in management, and federations with members managing their affairs.
- ☞ This analysis has led us to four types of federations undertaking financial operations and two types of federations engaged in non-financial operations

Financial Federations

High PO Managed/
Controlled

Q1	Q2

High member
Managed/Controlled

	Q3	Q4
	Finance	Finance Plus

Non financial federations

High PO Managed/
Controlled

High member
Managed/ Controlled

C1
C2

☞ Dominant features of "Finance & Low member managed/controlled federations - Q1": These federations have a very large spread of members ranging from 30,000 to 60,000, adding about 3000 members/year, and covering a number of blocks in a few districts. The large reach was achieved by two different strategies - large numbers of 2-tier SHG-cluster organizations or single multi-tier embedded organizations. These federations provide loan assessment, monitoring, guarantees, share capital etc. The focus was on systems, MIS and computerization. Many promoting organizations in this category were champions in promoting SHG bank linkages. However, it was observed that direct bank loans to groups was decreasing in magnitude. Operations and policies were flexible but were implemented rigorously once they were handed down. The procedures are manualized.

☞ Dominant features of "Finance plus & low member managed federations- Q2": These federations have medium level of coverage with about 5000 to 6000 members, adding about 500 to 600 members every year and covering 1 or 2 blocks within or in adjoining districts. These were three-tier structures with most vibrant middle and bottom levels. Federations became the conduits for providing different services, doing credit assessment and monitoring etc. Operations were flexible and rigorous. Their future trajectory is linked to the vision of the promoting institution. When PIs see an opportunity in these federations to reach a scale they begin to shed "credit plus" activities and focus on providing financial services. Looking at the evolutionary trajectories of federations in Q1, it is found that a number of them were earlier in the Q-2 category. It was also observed that federations under the Q4 category were earlier managed by PIs. As the community leaders develop and take more and more responsibilities, the PI transfers management control to community leaders.

☞ Dominant features of "Finance only & High member managed federations - Q3": The cases that were studied by the team under this category have witnessed the complete withdrawal of the promoting organizations. The federations have a small geographical coverage in a block, and within a district, from 1000 to 2000

members, and adding 150 to 200 members annually. These are three-tier structures with weak middle levels. Federations are engaged in providing services like credit, bank linkages for a service charge, assessing & monitoring etc. Operations were flexible and not rigorous. These federations are showing signs of withering in the absence of strategic periodic support in planning and building the capacity of its leaders.

- ☞ Dominant features of "Finance Plus & High member managed federations -Q4": These federations have medium level coverage with micro-finance. Members vary from 5000 to 6000, and adding 500 to 600 members per year. The geographical coverage was 1 or 2 blocks within a district or in an adjoining one. They have three-tier structures with all the levels quite vibrant. The focus of the federations was social issues - accessing government services, women's issues, education, health, besides credit assessment & monitoring etc. There was lot of emphasis on training, exposure, involving community leaders in decision-making.
- ☞ Dominant features of "Non finance low member managed federations-C1": It was evident that on their maturity, these federations might take up financial functions for sustainability. The coverage varied with the age of the micro-finance operations with membership varying from 350 to 3000. The structure ranged from 2 to 3 levels. The focus of such federations varied. Some would gravitate towards large credit institutions as in Q1 and others to Q4. As of then these federations were totally supported by the promoting organizations.
- ☞ Dominant features of "Non finance High member managed federations - C2": These federations were local, at a cluster level , and covered a few villages often under a panchayat. The membership varied from 100 to 250. It had a simple structure of 2 tiers of SHGs and clusters. The primary function was providing peer support and learning. They also took up local social issues and facilitated recovery, bank linkage etc. They are unlikely to be very vibrant for long unless they take up finance activities - some showed such inclination.

3.8. Questions from Participants

Participants wanted to know more about the activities of non-financial clusters.

Mr Jain replied that from the study it emerged that the activities fell under two categories: activities undertaken for social intermediation namely, peer learning and support activities (finding unique solutions to problems); and, different activities for providing direct financial services or for facilitating bank linkages.

He mentioned that invariably promoting organizations play an important role in the promotion of clusters and federations.

3.9. Open House Discussion

The following issues dominated the discussion:

- ☞ Self-Help Group's will have to be seen from the empowerment point of view.

- ☞ NABARD, however, sees them solely from the business point of view. This unfortunately has led groups to become credit-push-instruments.
- ☞ Federations are helping in redefining the role of women. The voices of women are being heard wherever federations have been formed. A sense of unity has empowered women, enabled them to voice their opinions.
- ☞ From experts, and from the results of the previous exercise, it was revealed that federations would take at least 3 years to function independently.

The participants were keen to know the precise role of federations. They also wanted to be acquainted with some success stories. The example of Sakhi Samiti was cited. It was promoted by PRADAN in Alwar, Rajasthan, 10 years ago. The promoting institution has withdrawn 4 years ago. Sakhi Samiti is managed and run by SHG members who have been elected by SHG members themselves. They are engaged in forming and training groups. They also facilitate bank linkages. However, the federation is facing serious constraints in raising financial resources for delivering services. This results in the waning of interest among members to be a part of the federation. Also a bridging fund, "Sakhi Suvidha", with Sakhi Samiti has not grown over a period of time. The growth in membership has constrained the fair management of the fund.

Another example cited is of federations supported by the DHAN foundation. Contrary to the previous example, the DHAN supported federations continue to receive support from the promoting organization. Management is in the hands of the women on the lines devised by the promoting organization. As a result the federations are in a position to provide multiple services to their members and also maintain systems and procedures. As a social activity the women have taken up the issue of drug addiction. The federations also facilitate marketing of products made by SHG members.

The panel members were of the opinion that the federation should perform two main functions at the grassroots level:

- ☞ They should try and answer the issue of savings and linkages, which are generally not possible without the federation. Many cases were also cited to exemplify the role that can be played by federations to check the concentration of power in a few hands at the local power centers.
- ☞ They should also focus on social issues. This function has a direct impact on the income and participation of women.

Participants were told about an incident in Jaunpur. An SHG member was thrown out of her house by her in-laws. The women *gheraoed* the *thana*. The incident took place two days before Holi, the festival of colours. Since they were a small group they were easily dispersed by the local police force. This made the women even more adamant about pursuing the matter. They campaigned hard and succeeded in persuading the women of three clusters, some 500 in number, to join hands. This time they were successful in *gherao*-ing the *thana* on the night of Holi. This incident made them realise their collective strength. It eventually resulted in the formation of federations.

However it was suggested that some initial income should be generated in order to maintain the motivational factor. This incident emphasised another aspect of the evolution of federations. The need must

arise from the grassroots. Otherwise there should be sufficient evidence on the ground to show SHG members the benefit of coming together. However, promoting organizations can still moot the idea of forming federations. Another cautionary note from the panel was not be too ambitious with clusters/federations.

Technical Session II

3.10. "Role and Design of the federation: A Strategic Choice Perspective"

Mr Reddy, CEO Andhra Pradesh, Mahila Abhivruddhi Society (APMAS), spoke on the subject.

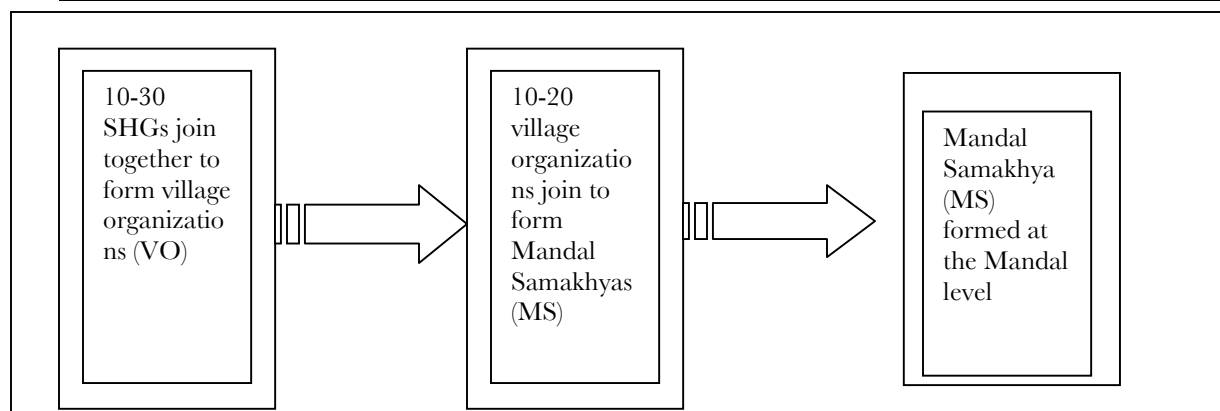
- ☞ Quality assessment is an important tool that has to be deployed for monitoring and controlling groups and federations.
- ☞ According to government data, there were 4,39,000 SHGs in Andhra Pradesh (AP) and almost 3,64,194 groups are linked to banks. The challenge in AP is to set in place quality assessment of SHGs to identify their capacity building needs. This would ensure quality of SHGs and the repayment rate, and would encourage banks to seek SHG linkages.
- ☞ AP has reached a stage where financial service providers for the poor have started competing among themselves. The process of formation of SHGs should be kept as simple as possible. Too much retrospection on the part of the promoting agency can be dangerous.

The concept of opportunity cost should be kept in mind while designing systems and procedures for SHGs and federations. SHG members devote their productive time (they could otherwise have been spending that time productively at home or in some economic activity) performing duties assigned to them in the collective structure. Generally they are not remunerated for these assignments, as they themselves are also beneficiaries.

- ☞ The Mutually Aided Credit and Thrift Societies (MACS) Act is being used by micro-finance (MF) practitioners in the state to transform their operations into a facilitated regulated regime. There are at present 1800 MACS in AP.
- ☞ The MACS Act is a parallel act enacted by the Government of AP in 1995 and has the following features:
 - It provides freedom to members to manage the affairs of their institution
 - It limits bureaucratic control
 - Government cannot contribute to the share capital of the MACS
 - MACS can borrow funds from external sources, including government

- ☞ It has also been seen that the groups in AP suffer from what is known as *overlapping*. This phenomenon occurs when an individual woman becomes a member of several SHGs simultaneously.
- ☞ The general observation has been that groups need capacity building inputs.

Diagrammatic overview of the three-tier system mostly prevalent in AP



- ☞ Building peoples' institutions, like federations, involves a very complex process, which is at the same time resource intensive and time consuming. It was highlighted that efforts should aim at enabling these institutions to eventually become self-managed, and function independently of the promoting institution.
- ☞ While replicating any activities or initiatives, it is important to understand and analyze the local conditions.
- ☞ Fixing an optimum size while forming networks is required.
- ☞ The federation being an institution would require institutional discipline for smooth functioning.

3.11. Questions from Participants

The participants were interested to know how much time it has taken to form 4.5 lakh SHGs. They also wanted to know who monitors the groups, who manages the MIS and how many people were involved in the monitoring exercise.

In his reply Mr Reddy said the Self-Help Groups movement has gained momentum in AP in the 1980's as part of the anti-arrack movement. The DRDA authorities usually do the monitoring. Every three months, data is collected for the MIS, but its reliability remains highly questionable. There are around 20 officials per district involved in the monitoring. On the contrary the Vellugu project has deployed 200 professionals per district.

The participants raised several more issues like:

- ☞ The problems of overlapping (same person having membership of different groups formed under different programs)
- ☞ The hijacking of SHGs by different implementing agencies

- ☞ Different agencies incorporating different policies on similar issues under their respective schemes.

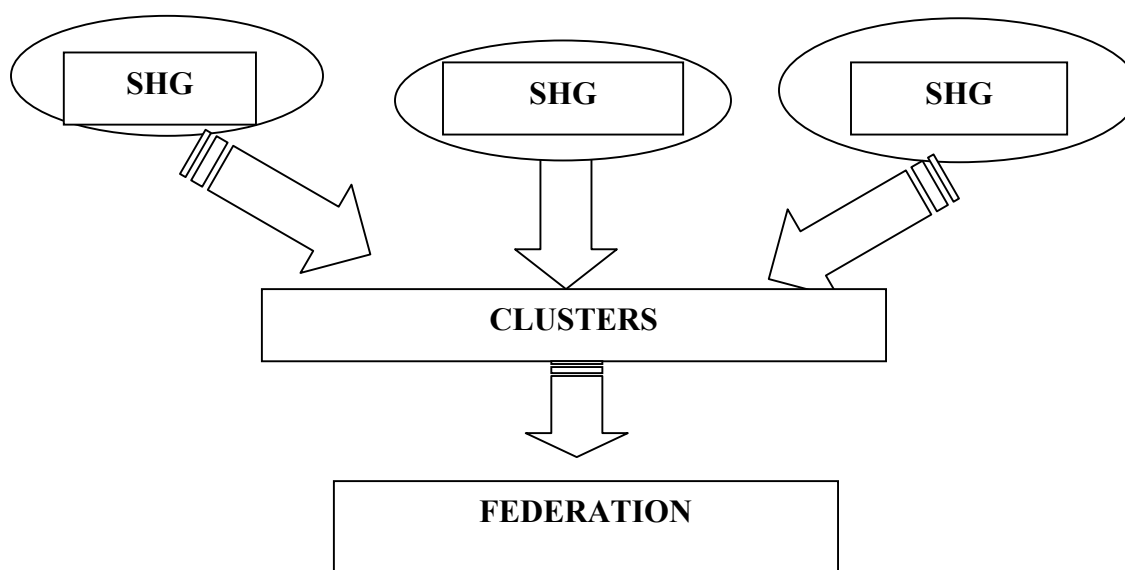
In response to a question on entry-level activity, Mr Reddy said the objective of coming together should be decided first. It would facilitate the defining of single/multiple entry level activity.

3.12. "Making a strategic choice on Role & Design of SHG Federation: The PRADAN Experience"

Mr. D. Narendranath, Team Leader, PRADAN, has been associated with the NGO for the last fourteen years. He shared PRADAN's experiences in the promotion of federations.

- ☞ The primary unit of functioning is the SHG. Financial discipline of the group is strictly looked at (issues like credit). Understanding the group dynamics is of utmost importance.
- ☞ PRADAN as an organization does not involve itself in financial intermediation.
- ☞ The withdrawal is an ongoing process for them. Their involvement with the promoted federation becomes gradually less with the passage of time. It is also at this particular juncture that inter-group learning is promoted leading to networking which is usually done at the panchayat and the block level.

Diagrammatic overview of networking as practiced by PRADAN:



- ☞ Three members from each group represent the cluster level. Two members from each cluster are elected to the federation. A governing body and executive council is formed at the federation level.
- ☞ PRADAN as an organization firmly believes in the concept of *small is beautiful*. It considers the panchayat level forum to be more useful. Its personal experiences have showed that networks were not very effective in handling financial intermediation.

3.13. Questions from Participants

The participants wanted to know about the training and training material used by PRADAN for SHG training. Mr Narendranath said in reply that PRADAN conducted different levels of training for leaders and accountants and the other members of the group. They also had training modules for the members at the cluster level. All the training modules are essentially participatory in nature.

Every meeting of the group has a PRADAN representative. The meetings are mostly participative in nature. Meetings are lengthy since they are held once a month. Training is a continuous process and takes place at all the meetings. Cross visits usually occur after the cluster meetings.

The other issues that have to be considered are issues of economic implication. The participants showed general concern regarding the TA/DA of members attending the meeting. Mr. Narendranath said the actual expenses incurred in terms of money for attending these meetings is minimal, but there was an opportunity cost in terms of time invested in the meetings.

The PRADAN experience, however, showed that women came for the meetings even without monetary benefits. They were of the opinion that the alternate way of motivating members to attend would be by making the meetings useful and productive. A lot of hard work was required to design the meeting in a participatory and interesting manner. However, the general opinion of the participants was that some benefit in monetary terms needs to be given to members.

3.14. "Financial Intermediation through NGO-Promoted Community Organizations in India"

The presentation was based on the study of 7 organizations undertaken by Mr Tankha, a Sr. Development Specialist.

In his view NGOs play a very important role in establishing networks. The changing role of the NGO with the evolution of Self-Help Groups and federations has to be understood.

He rationalised the bank linkage approach by looking at it from the banker's and the NGO's points of view. It is profitable for the bank as there is considerable reduction in transaction cost in reaching out to a large numbers of small accounts. It helps NGOs in social and economic upliftment of the communities when they use the widespread banking infrastructure as a vehicle for meeting the financial needs of the poor women.

He categorised the Self-Help Groups development in financial terms under the following heads:

SHGs linked directly to banks on a permanent basis.

SHGs/federations of SHGs linked to various types of banks.

Experience showed that even after NGO facilitation the SHGs are generally not equipped to engage directly with banks and other agencies. There has been a need for non-financial cluster level associations, for cross learning and for NGO monitoring. The well-known fact that interest rates increase with the increase in number of intermediaries was also reinforced. The study further reveals that graduation of Self-Help Groups' members to larger individual loans is not evident.

This was an important aspect of the study as it has helped in understanding the realities involved in forming linkages. The availability of funds from the local banks is often determined by the degree of interest shown by the bank manager.

Banking is based on "savings first" and "savings linked" approach. The cluster once formed is an institution for the NGO to continuously monitor. At present the bank linkage program has become a showcase thing.

Financial intermediation along with non-financial activity is important for successful functioning of clusters. This point was well appreciated and the panel members also deliberated on this subsequently. Non-financial activities serve to reinforce the financial activities. This point was reinforced throughout the workshop. The mix is crucial for success. The proportion of mix is subjective and will depend on social factors persistent in a particular region. However the discussion could not reach a consensus on which activity should follow.

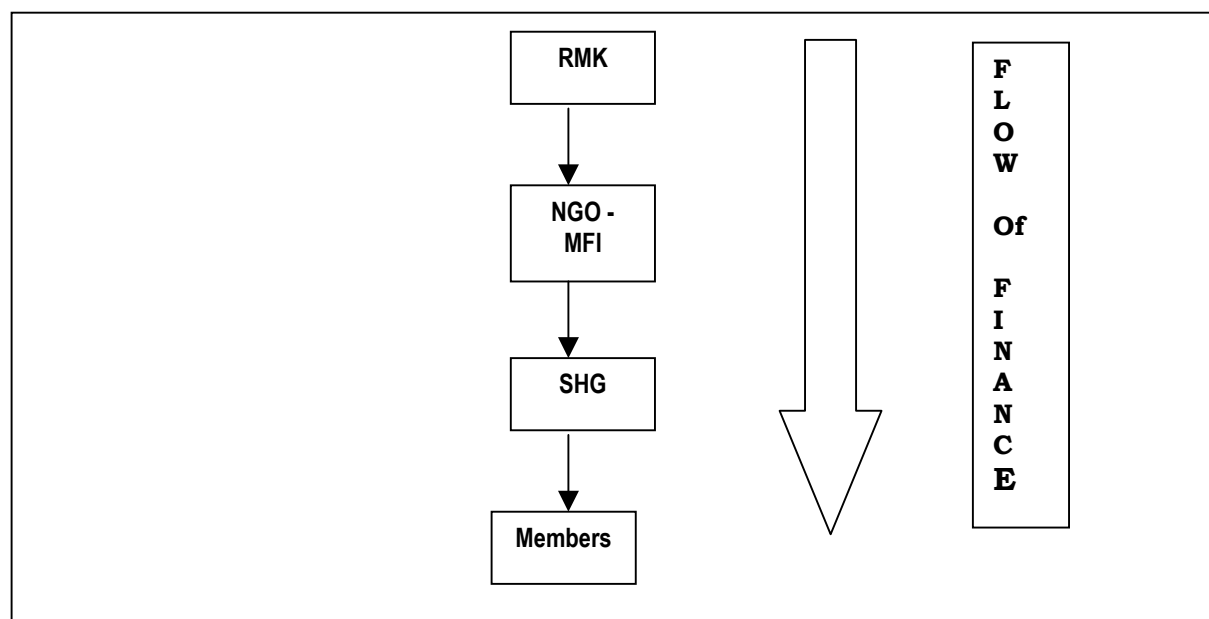
He emphasized that it would be important to keep track of the legal developments that are taking place in the sector. It has been seen that the legal form changes from state to state.

He shared his thoughts on the MACTS Act (Mutually Aided Credit and Thrift Societies), which is being used extensively in Andhra Pradesh for institutionalizing the saving and credit activities of SHGs. MACTS are primarily concerned with financial services, and a limited role in non-financial services. They are also

relatively free of government intervention. With the formation of MACTS, the role of SHGs diminishes and is reduced to a facilitative role.

Several models of emerging structures of financial intermediation were presented. They were all different channels of finance flows from apex and wholesale organizations to Self-Help Groups' members.

Mr Tankha said it was found that the following model was the cheapest, providing credit at around 8 percent.



3.15. "SHG Networking: Role transformation of Promoting Institutions - The case of Shramik Bharti"

Mr Rakesh Pandey shared the experience of Shramik Bharti in promoting federations. He has been working with the NGO for 14 years.

He started off by giving a brief overview of the organization. Based in Kanpur, it functions also in and around Kanpur city. Shramik Bharti is a partner NGO of the Swashakti project.

It worked on health and adult education. Its agenda is women's empowerment. It adopted the following roles to promote and nurture SHGs:

Confidence building

Group formation

Developing Rules & Regulation

Training in accounting

Training of SHG Leaders in group dynamics & fund management

Facilitating Bank Linkage

The presentation was interactive. A controversy arose regarding the role of NGOs and government officials. The consensus reached was that they need to work in cohesion. This would result in the mutual benefit of both the institutions. Mr Pandey said that the need of the hour was to develop grassroots expertise. They were looking at developing village health guides, para-vets and mechanics for diesel engines. It would also result in increasing employment opportunities.

He emphasized his institution's philosophy of "Do Yourself". It aims at increasing the bargaining power of the members. This can happen if they become independent enough to do their own work without relying on others. Human development is the main thrust of their intervention. It ultimately results in improving their access to credit.

Shramik Bharati has till date formed 334 SHGs out of which 303 have been linked to banks. (Data as of December 2002). The banks have disbursed loans to the tune of Rs. 95.58 lakhs.

Shramik Bharati has promoted federations at the cluster level. It was pointed out that the typology of federations determines the time required for their formation. The functioning of people's institutions is also dependent on the role of promoting institutions. Their experience reveals that 2 federations out of 12 are functioning more efficiently. These two federations have taken women's health programs. This again reiterated the fact that social intermediation is vital for the formation and functioning of clusters.

In his concluding remarks, Mr Pandey said that social intervention is crucial but generally has a short life. It has been the experience that financial intermediation is crucial to provide continuity and sustainability to the intervention.

The day ended with an exercise. Participants from the different states were asked to present the status of their state in terms of SHGs formed, clusters developed, age of clusters, spread of clusters, their agenda and problems faced in forming clusters. The groups were told to complete their exercise for the next day.

Day 2: 25 March, 2003

Technical Session III

3.16. Recapitulation of Day 1

Mr. C. S. Reddy took the workshop through a recap of the first day's proceedings.

The recap was a mix of the issues raised by the participants as well as the critical issues highlighted by the experts such as:

☞ The emphasis laid was on social sustainability.

- ☞ Issues like solidarity and homogeneity were important for the federation.
- ☞ There were also quite a few questions on the advantages and disadvantages of the various models.
- ☞ Which model would work better and was worth adopting? This question was continuously raised by the participants.
- ☞ It would not be right just to concentrate on the financial aspects of cluster formation.
- ☞ Formation of clusters has to be need based, but it was also important to include the financial activities at the federation/cluster level.
- ☞ Roles of the different intermediaries at different levels will have to be well defined (such as DPM, BDO, NGO)
- ☞ Formation of clusters should not be made mandatory as part of the project. Forced formation of clusters will not be successful.
- ☞ The guidelines of the project need to be made flexible.

Observations made by the panel members:

Based on the recapitulation of the events that had taken place on the first day of the workshop, the following observations were made by the panel members. In certain cases the observations were initiated by the participants, which were then carried forward by the panel members.

- ☞ The panel was of the opinion that the objective of guidelines given under any project is to show the path and bring uniformity in structure to certain extent.
- ☞ Formation of clusters will have to be left entirely to the interests of the group. Since it is the cluster, which aims to solve the problems of the group members at a higher level. The group had to feel the need for the existence of such an institution. The facilitators could only help in the formation of clusters, but the need for it had to arise at the group level.
- ☞ Networking should be viewed as an evolutionary process. It should be allowed to evolve out of the system all by itself. This would also require a great deal of time and patience.
- ☞ The participants must have conceptual clarity regarding the terms, federation/cluster.
- ☞ It must also be kept in mind that different organizations have different strategies when it comes to dealing with clusters. Keeping this in mind one should not blindly follow any one model in forming clusters.
- ☞ It was also observed that because of the various policies, clusters became financial intermediaries by default. This had to be checked as the cluster was expected to perform those functions, which were not carried out at the group level.
- ☞ Formation of too many institutions would result in increasing complications ultimately resulting in more investment but the returns would remain questionable.
- ☞ Social intermediation included a whole gamut of activities happening at the village level such as dealing with the issue of alcoholism, gender etc.

3.17. "Financial Practices of Federations undertaking financial Intermediation: Experience from Andhra Pradesh (Study by APMAS)"

The presentation was made by Mr. L. B. Prakash, Sr. Vice President APMAS, and was based on the study conducted by APMAS of 24 federations in Andhra Pradesh on their financial practices and financial intermediation.

The presentation began with a brief introduction of the Self-Help Groups movement in AP over the last couple of decades. The various federation models were presented in detail. The need for forming federations was also looked at during the course of the presentation. While explaining the three-tier federation model a brief insight was provided regarding the "Vellugu" project. This is a poverty alleviation project undertaken by the AP government. The various roles that the different tiers of the federation are expected to perform was also spelt out.

As the state of AP is considered a pioneer in the field of micro-finance and particularly in the spread of the SHG movement, participants followed the presentation closely. The salient features were:

- ☞ Sharing the quality assessment of the 24 federations
- ☞ It was observed that the strategy of the various promoters of the groups was also different in different regions. This has shown that the promoters have had to change and reformulate their strategies based on the prevalent social environment. Even the federations were providing similar services within the same district with minor modifications.
- ☞ The study revealed that the attendance at the group meetings was an important determinant of the success factor of cluster/federation formation. The overall correlation between the board quality and overall performance was to the tune of 82 percent.
- ☞ Another point made was that there was an absence of a second line of leadership. Capacity building of all the members of the federation was required. This was important from the point of view of sustainability of the federation.
- ☞ The responsibility of the promoter should also be to ensure participation of all the members in the group. An increase in the degree of participation will result in the establishment of an efficient community-based organization-federation/cluster.
- ☞ Another observation was regarding the mix of financial-social intermediation. The study recommended the need for a correct sense of timing before making any kind of intermediation.
- ☞ It was seen on the ground that there was widespread ignorance of legal issues. They were not aware of the legal formalities that had to be fulfilled in order to get the federation registered. Legalities have to be kept in mind when federations become financial intermediaries.
- ☞ The study revealed a very high degree of correlation between the attendance at the meetings and the rate of recovery/idle funds. Attendance and recovery rate

are positively correlated. There exists a negative correlation between attendance and idle funds. The aspects mentioned above are quite self-explanatory in nature. Regular attendance will result in regular loan repayment, this in turn results in reduction in the amount of idle funds.

- ☞ Idle funds were found to be higher at the federation level (12.3%) than at the village organization (VO) level (5.3%). It was seen that VOs could perform better in providing financial services than the federation. The rationale behind this could be the better degree of homogeneity at the village level and thus better understanding of the need and capacity of the members.
- ☞ It was also observed that with the increase in fund mobilizing activities at the federation level, the focus has shifted from the groups.
- ☞ Groups form the basis of cluster federations; so neglecting them would be detrimental to the success of federations.
- ☞ The purpose of the loans should determine the terms of payment e.g. rural India requires financial products that can respond to the financial liquidity of a rainfed agrarian economy.
- ☞ Regular monitoring of recovery should be done. This is crucial to check the delinquency in time. If the group members of the federation belong to a large area then monitoring becomes tough.
- ☞ The general observation has been that the systems and operational processes are usually neglected.
- ☞ It was observed that support services to the groups were low. Capacity building of Self-Help Groups is the need of the hour.
- ☞ In terms of operational self-sufficiency, the VO ranks higher than the federation. It has also been observed that there is a sheer lack of accuracy regarding matters relating to accounting. It is also imperative that the federations/clusters have a proper MIS in place. The need for this was felt for tracking delinquent loans. It would also help in maintaining a regular monitoring system. This would be one way of tracking problems and solving them. Just having an MIS would also not be enough if proper analysis was not done. The analysis should also comprehend determinants so that the federation members understand them.
- ☞ The other aspect where the VO fared better than the federation was that of proximity with group members.

The presentation concluded that lower level organizations fare better than the higher level organizations.

3.18. Group Presentation by States

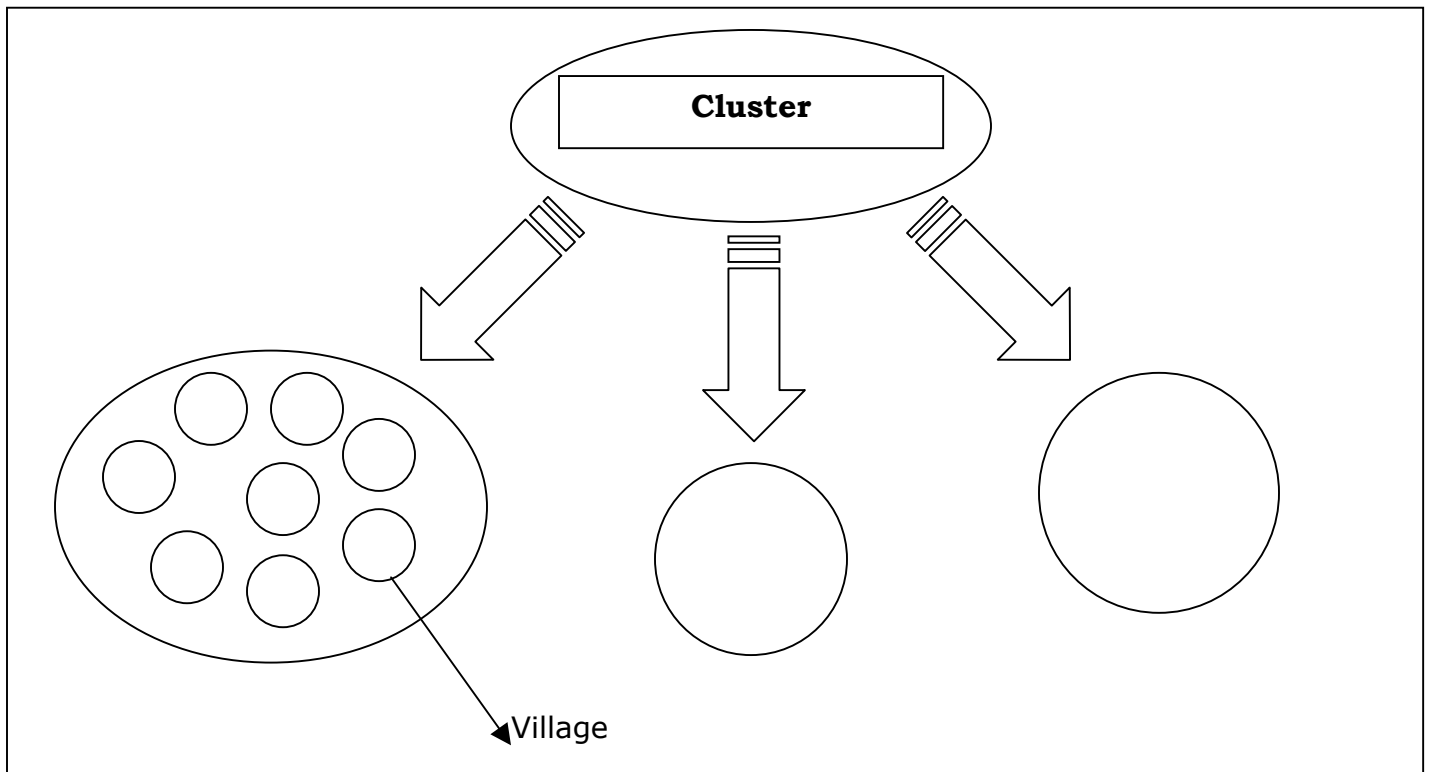
The presentations broadly covered the following:

- ☞ Number of groups
- ☞ Spread of clusters
- ☞ Age of clusters
- ☞ Agenda of clusters
- ☞ Problems encountered while forming clusters

State	Total groups	Total clusters	Age of cluster	Spread of cluster	Agenda	Problems faced
Bihar	449	40	1 year		Addressing issues of social intermediation Dealing with the issue of social evils	Registering the clusters Dealing with the issue of homogeneity of clusters
Haryana	150	20	3-12 months	8-12 groups	Check member groups' progress Regular meetings Removal of social evils Sharing of success stories Discussion on benefits of different government schemes	Regarding opening bank accounts Motivating members to generate funds
Gujarat	3500	60	Less than 1 year	Kuch taluka	Strengthening existing SHGs Issue-based actions Formation of new groups Identification of MED activities Identifying needs based on the availability of local resources	Conceptual clarity at NGO level Financial constraints Different level of maturity of the SHGs Natural disasters Optimum number of SHGs in one cluster
Jharkhand	1658	57	Less than 2 years	At the village/panchayat level within a	Mainly social issues are discussed	Account keeping poses a problem Geographic location How to evolve a good strategy for cluster formation?

				radius of 5 kms		
Madhya Pradesh	2657	129		Within an area of 3-12 kms	Social issues Marketing Strengthening of new SHGs Financial activities	The issue of fees
Uttar Pradesh	4200	160	3yrs-35 2yrs-40 1yr-85	15 districts within a radius of 3-6 kms	Social issues Promotional activities Marketing	The understanding of all the members within the cluster is not uniform Transportation problems How to gauge success and progress?
Central UP						How to transform our role to the clusters Training required

Structure of the cluster formed in UP:



Experiences from Madhya Pradesh:

Entrepreneurial examples:

The case of “VINDHYA VALLEY”, the brand name given to the sanitary napkins made by cluster members was cited. The idea was proposed by KVIC, and production started in Dewas district. The napkins are priced at very nominal rates. The sale of napkins is usually carried out by the SHGs.

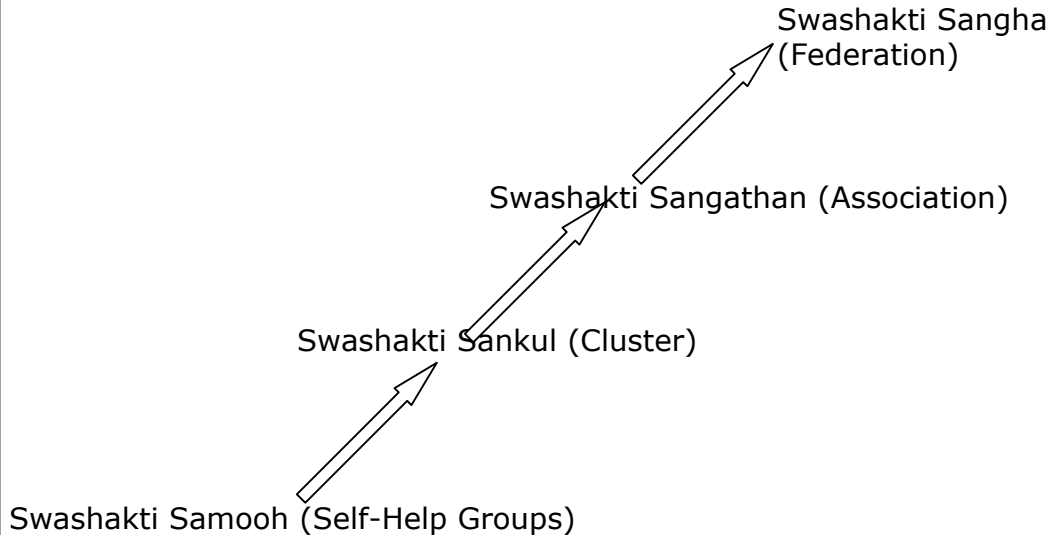
One of the cluster's also started a papad-making unit.

Social interventions:

Clusters in Tikamgarh district have constructed 2 check dams to solve the problem of water scarcity. This took place after some of the villagers had attended a government meeting on watershed management. They decided to implement the process in their own village. A 59-metre-long dam was made without any government support.

The case of the construction of a road was also mentioned. The villagers got down to repairing the road that led to a village in East Niwar. SHG members came together to undertake this activity when a members' son was seriously injured because of the bad road. This incident saw 12 Swashakti SHGs and non-Swashakti SHGs working together.

Networking model followed in Central UP:



3.19. Panel discussion

The panelists included Mr Mathew Titus, Mr Ramesh Arunachalam, Mr Ajay Tankha, Mr Vinod Jain, Mr L. B. Prakash and Mr C.S. Reddy. The discussion lasted for about an hour and was facilitated by Mr Titus. The session was very participatory in nature, with valuable inputs from the participants. The panelists took it in turns to speak.

Mr Mathew Titus

The website of Sa-Dhan is periodically updated to provide information on issues concerning the micro-finance sector, namely circulars from the RBI, Government of India and NABARD. Mr Titus recommended that the website should be visited for valuable information, specially those pertaining to the policy level matters in micro-finance.

Mr Ajay Tankha

He mentioned the limitations of time-bound development projects like Swashakti. However he stressed the point that it must not be forgotten that NGOs would always be there to take the work forward and keep providing support to communities for the upliftment.

He pointed out that while discussing clusters, there is a tendency to forget the groups. These groups are the foundation pillars of the building called "clusters". He emphasized the importance of good quality groups. This is crucial for their own sustainability as well as for their federating structures. It was found to be important that these group members ultimately become representatives at the cluster level. The quality of the group will be reflected in the quality of the cluster/federation formed.

Mr Vinod Jain

Mr. Vinod Jain dealt with the issue of sustainability, role of the clusters and their possible functions in the future. He also pointed out that geographical proximity should be kept in mind while forming clusters. This would help in ensuring regular meetings with proper attendance. All efforts should be made to form a majority of the groups in the village itself. This would result in forming clusters within the range of a couple of villages. This would not only solve the distance factor but would also make groups homogeneous.

Motivational factors are required for the formation of federating structures. Organizing regular "Mahila Sammelans", training workshops and identification of social issues, could achieve this. Arranging common facility services could be another area for clusters and federations to build on. For example hiring the services of book-keepers might not be economical for individual groups but clusters and federations could organize such services. Similarly federations could take up the publishing of pass books, or other stationary items and get the advantage of scale.

Clusters should also introduce fee-based linkages. This would act as an income for the cluster. The groups should give a certain percentage of their income from interest to the groups.

Mr Ramesh Arunachalam

Mr. Ramesh Arunachalam began by citing the case of TNWDC (Tamil Nadu Women Development Corporation). He said that after the IFAD funded project ended, the decision to carry forward the project was left to NGOs. In his opinion in such cases, the community and promoting agency should decide on the issue of continuity.

He gave the example of Dharmapuri, more infamous for being Veerappan's village. It was here that eight to ten groups came out of the cluster and formed a private limited company. The need has to come from the community, a point that was emphasised throughout the workshop.

There cannot be a straightjacket methodology to select the number of tiers required for the formation of the federation. The promoting agency analyzes the social, economic and political factors of the local economy to draw the future plan of forming the federation. The organizational structure and objectives of the federated structure would be dependant on the situational analysis. Mr Ramesh regarded competition among the different service providers as beneficial. This would improve the services to SHG members. There was, however, considerable difference of opinion on the point of competition. Some panel members were of the opinion that competition might lead to confusion and indiscipline among the groups.

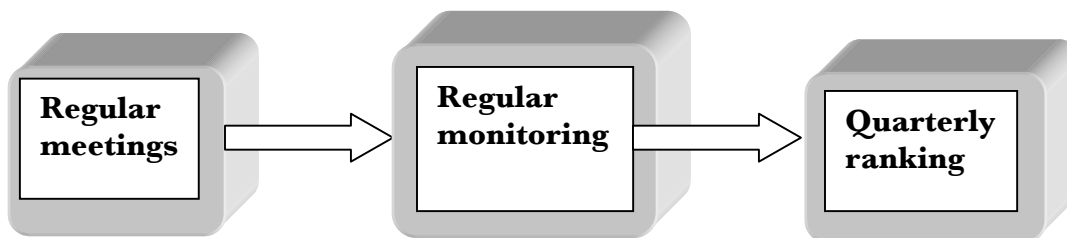
He also opined that withdrawal is a relative concept. He also went on to say that the older groups in Dharmapuri have a corpus fund of around 3.5-4 lakh

over the last 14 years. He even pointed out that the clusters are generally not homogeneous. But then this heterogeneity factor could pose a major problem resulting in the falling off of groups.

Mr L.B. Prakash

Speaking from his field experience, he said participants' proximity and coverage of Self-Help Group's were important for forming good clusters (VO). The attendance factor was important in determining a fixed agenda for meetings. Regular meetings had to be accompanied by orderly and timely monitoring. Ranking of groups should follow the monitoring activity. The ranking should also be carried out once every three months.

Diagrammatic overview:



It was essential to develop a vision for the cluster for generation of ownership among the members of the group. A vision will act as a goal for the clusters, and motivate members to work towards achieving it. Having an MIS system in place was important for tracking the working of the different constituents. Another important point that was brought up was regarding membership. The panel was of the opinion that there should not be too many representatives of the groups to the cluster.

Mr C.S. Reddy

Mr. C S Reddy emphasized the need to inculcate the habit of keeping a paid bookkeeper for clusters. He made the point that recruiting a suitable candidate should be left to the cluster. There should be no interference from the promoting agency. This would be beneficial for the groups as the employee would report to the cluster and not to the promoting agency. This will help in generating interest among the members of the clusters.

Time and attention should be given to the formation of groups to ensure quality. The rationale behind this point was that the groups are the foundation stones of the clusters. Forming good quality groups will result in formation of good quality clusters. He suggested that groups promoted by different agencies should be brought together to form clusters. This will also solve the issue of dual membership. However, other panel members were apprehensive of promoting this idea without bridging the qualitative gaps in the formative stages of group promotion by different agencies.

In response to the issue of membership fee, he mentioned that services should always be for a fee. Instead of taking interest spread, a service charge of 2% can be charged. Even in the training of Self-Help Groups'

members some payment should be made by them to the cluster/federation. He emphasized that developing the habit of “Nothing comes for free” is very important from the sustainability point of view.

The discussions came to an end with the session closing for lunch. The post-lunch session was to start with a technical discussion.

Technical Session IV

3.20. “Building Financially Sustainable SHG Networks: Basic features and suggested practices”

Mr. Ramesh Arunachalam shared his field experience, making a number of suggestions that were highly appreciated by the participants and government functionaries. His main focus was financial sustainability of federations. He spoke about the various factors that contribute to make the federations financially sustainable; the measures of sustainability and means that can be adopted by federations to become financially sustainable.

Financial sustainability of federations:

He described financial sustainability as the stage when the income of the federations is such that it covers all costs (operational + loan loss provision + financial) plus adjustments for subsidies on borrowings, unreported and hidden subsidies, in-kind grants, grants for operational deficits, loan loss provision as per portfolio quality, opportunity cost of equity capital etc.

The challenge is to meet the costs in case the subsidies are withdrawn. He claimed that *subsidies are not bad but dependency on subsidies is bad*.

Federations should identify the factors that result in sustainability and also try to overcome those that hinder sustainability. The goal of micro-finance institutions should be to achieve financial sustainability.

According to him, tracking portfolio quality was perhaps the most important requirement of federations even when overdues were recorded. The federations should keep the loan loss provision in accordance with the portfolio quality.

He compared delinquency to a hidden beast. The key learning that emerged from the discussion was that the growth of portfolio without an increase in administrative capacity to manage that growth would lead to delinquency. Delinquency can be managed better by instituting proper methodology and effective information systems. A process of effective social intermediation can reduce delinquency. The biggest asset held by any micro-finance

organization or a federation body is its outstanding loans. The federation can keep checking delinquency (target to keep the PAR<5%) by diversifying the loan portfolio. Federations should maintain a Delinquency Early Warning System (DEWS), which necessitates strong internal monitoring systems.

General trend in the micro-finance sector:

If the loan portfolio increases by 30% then the percentage of delinquent loans also increases. If the loan portfolio is maintained at the managerial capacity of the federation then there is no problem, but as it goes higher the risk of non-repayment increases proportionately as the federation might be incapable of recovering the disbursed money.

Disburse loans only if there is genuine demand

Supply-based disbursement of funds can be disastrous. Loans disbursed without assessing the loan absorption capacity, would lead to delinquency and this results in delinquency. Federations should promote demand-led loan disbursement. The scaling up of micro-finance activity should not always lead to financial sustainability.

Rather, scaling up should be commensurate with the organization's capacity to manage that growth. It should not lay its foundation on artificial demand for service.

It was also evident that the federation lost money when it borrowed and kept the money as idle funds or as investment with PO, or invested in physical infrastructure. As a result their earning was marginal. He suggested that federations should make investments in ventures that can generate income.

He discussed the various measures of financial sustainability. The money in rotation is a good measure. Lending federations should find out *the cause of the overdue* and tackle them periodically. The period of overdue is another important area that demands attention. The grading of groups can be used to motivate borrowers to repay outstanding dues on time.

He concluded by citing some important points from the findings of Sa-Dhan's federation study:

Federations should maintain appropriate records and MIS to overcome the limitations with respect to quality, timeliness and accuracy. The MIS used in the organization should be informative and efficient to analyze and know the bad and good borrowers

There is a general assumption that SHGs and their federated structure use peer pressure as an important tool to ensure a good repayment rate. However, it was found that peer pressure did not work for larger loans. The clusters and federations are sustainable as long as the groups are strong and viable.

The need to develop a *low cost methodology* was further emphasized. The methodology developed should suit the requirements of the clients and make them accountable at the same time. The methodology can gain acceptance among the clients by making it responsive to their needs, keeping it at low cost and by employing local people as field workers. The methodology should ensure performance incentives to the staff. It should also ensure internal monitoring and generation of key information that help in assessing the performance of the federation.

3.21. "Formalization of Federations: A comparative analysis of different legal framework"

Mr. Ramesh Arunachalam made a comparative analysis of different legal frameworks available across the country and their advantages and constraints. He made an effort to make the audience understand the various constraints faced by MFIs under different legal forms. The presentation made by him included different legal aspects faced by NGOs and other organizations working in micro-finance. The focus of discussion was essentially the legal form for the registration of federations, the constraints and legal sanctions that are mandatory for each form.

According to Mr Arunachalam, there can be 3 categories of MFIs:

1. Non-Profit Organizations - Society, Trusts and Section 25 Companies
2. For-Profit Organizations - NBFCs and LABs.
3. Mutual-benefit institutions - _State Co-operatives, National Multi- State Co-operatives (Act), Urban Co-operatives and Mutually-aided Co-operatives.

Not for profit MFIs			
Legal Entity	Relevant Acts/Permissions/ Registration	Regulation by	Whom?
Societies	Registered under Societies Registration Act 1860 or equivalent State Act	No Effective Regulatory Body	No Effective Supervisory
Body	Trusts	Registered under Public Trust Act, 1920 or Indian Trust Act, 1882	No Effective Regulatory Body
No Effective Regulatory Body	Section 25 companies	Registered under the Companies Act, 1956 and with permission of the central Govt.	No Effective Regulatory Body

For Profit MFIs			
Non-Banking Finance Companies	under the Companies Act, 1956 and with RBI	RBI	RBI
Local Area Banks	under Companies Act, 1956 and with RBI	RBI	RBI

Mutually Benefit Organisations			
<u>National Co-operatives</u>	under the Multi-State Cooperative (Central) Act	Registrar of Co-operatives in GOI	Registrar of Co-operatives in GOI
<u>Mutually Aided Cooperative Societies</u>	under the MACS Act (AP and other states)	Registrar of Co-operatives in the State	Registrar of Co-operatives in the State
<u>Urban Cooperative Banks</u>	under State Act, and with RBI	Registrar of Co-operatives in the State and RBI	Registrar of Co-operatives in the State and RBI

The different legal forms of non-Profit, MFIs and related legal aspects.

Issues of Discussion:

- According to Mr Arunachalam, when organizations seek financial intermediation, there are various constraints or legal obligations they face as different legal bodies. There is some controversy over the legality of a Society and Trust seeking financial intermediation. A Section 25 Company can seek financial intermediation, as there is a legal sanction for the case of Section 25 Company's but despite that the Company has to be careful in terms of the interest charged, and names given to different payments.
- He added that there are serious violations with regard to the mobilization of savings by non-profit MFIs (like Societies and Trusts) as per the RBI Act, 1934. According to the amended Section 45S of the Act,
 "No person being an individual, or a firm or an unincorporated association of individuals shall accept any deposit if: his or its business wholly or partly includes any of the activities specified in clause (c) of

Section 45-I (i.e., the business of a financial institution such as financing activities of other institutions, acquisition of shares, bonds, debentures etc., letting or delivering of any goods under hire purchase agreements, insurance business, managing chits and kuris and collecting money by issue of units), or his or its principal business is that of receiving of deposits under any scheme or arrangement or in any other manner or lending in any manner".

- Collection of Savings is another important area of concern for MFIs. The legal forms of Society, Trusts and Section 25 Company cannot go for mobilizing of savings. NBFCs can go for savings operations after complying with RBI regulations.

In the case of mutual benefit institutions seeking financial intermediation, the preferable form of registration suggested by Mr Arunachalam was the Multi State Cooperative (Act). The other resource persons supported this.

- According to him, all legal forms of co-operatives can go for lending and savings operations but for insurance services the organization has to seek permission under the Insurance Regulatory Development Authority Act (IRDA Act).
- Mr Arunachalam made it clear that the Multi State Cooperative Act is considered to be the best option for registration of co-operatives as there is a legal sanction for financial intermediation. In addition, there is lesser Government interference in the case of Multi State Co-operatives than in the case of State Co-operatives.
- He further discussed the case of For-profit Organizations like NBFCs and the local area banks that can go for financial intermediation. However, this would require them to register themselves under the RBI Act. If NBFCs intend to go for collection of savings, they have to comply with certain legal obligations, which is not in the case of the LABs. Besides this, both types of for-profit organizations can go for insurance services, both in-house and through external linkage, but after fulfilling the legal obligations under the prevalent law.

Legal aspects for organizations working in micro-finance sector:

- In order to be entitled for exemption under section 11 of the Income Tax (IT) Act, 1961, an organization should obtain registration under section 12A read with section 12AA of the above Act. This is applicable only for legal identities like a Society, Trust or Section 25 Company. In case of Mutual Benefit MFIs, like various types of co-operatives, they can seek income tax exemption as per Section 80 P of the Income Tax

Act. For-profit MFIs require no tax exemption due to their very legal status and goals.

- The non-profit organizations in addition to the other registrations, have to be registered under the Foreign Contribution (Regulation) (FCRA) Act, 1976 in order to receive foreign contributions from international funding organizations or other foreign sources or any other foreign contribution as defined in the above Act. He added that if the foreign grant funds are to be used then prior FCRA permission or the Permanent Account Number with the Union Home Ministry is needed. In addition there should be a separate bank account for the revolving loan fund (RLF) money obtained from foreign grant sources – FCRA requires foreign contributed (grant) RLF to be traceable.
- Terms used for “loans” and “interest” charged should be done cautiously, else the organization may end up violating the Income Tax Act, or Usurious Loan act / State level Money Lending Act.
- The major issue discussed was Section 2(15) of the Income Tax Act that says that for any activity to be regarded as a (non-profit) charitable activity it must have an element of relief for the poor and/or object of public utility. Since micro-finance has not been incorporated in this definition, the authorities may be reluctant to treat it as a non-profit activity. Thus this makes it clear that non-profit federations involved in financial intermediation like lending, insurance services and collecting savings, may not always be protected under Section 2(15) IT Act.
- He further added that, as per the high court and Supreme Court, non-profit organizations can go for business activities and also get tax exemptions under Section 2 (15) of IT Act, until such time they apply their income from the business activity to the objects of the Trust or Society (which is charitable in nature).
- Non-profit federations face diverse organizational, legal and other procedural constraints that arise mainly due to its legal status, and other difficulties in combining social and financial intermediation. In the present scenario, for federations registered as societies and trusts, the available mode of institutional arrangement could be either a co-operative society or an NBFC, besides a bank (Local Area Bank)

The different constraints faced by the non-profit federations under different legal forms:

- High capital requirement for setting up of for-profit NBFCs, LABs and UCBs (Urban Co-operative Banks), which many federations may not be able to afford.

- Excessive regulation requirements associated with for-profit NBFCs, LABs and UCBs.
- The multi-state territorial dispersion required for becoming a co-operative under the Multi-State Co-operative Act.
- The RBI Act, 1934, does not explicitly recognize the financial activities of the non-profit federations. The Banking Regulation Act, 1949 does not mention micro-finance and MFIs/CDFIs.

He concluded by specifying that at present there is no legal enactment, which can take care of the requirements for registration, regulation and supervision of non-profit federations that are involved in micro-finance.

Panelists suggested that the best way of registration if a federation is new would be to work as an informal body for the first 6 months. The priority should be to register the federation under the MACS Act (like in AP) in the states where the Act has been implemented.

Group Work

3.22. Group Work Exercise

Participants from different states were divided into 4 groups. They were assigned topics for discussion and for presentations. These related to the sustainability of federations.

The topics were:

- Indicators of sustainability
- Role of clusters
- Plan for cluster-level associations and sustainability in the time span of 1 year.
- The sustainable source of finance.

All the participants showed great enthusiasm and actively participated in the exercise. They came up with excellent presentations that further led to discussions on practical issues and problems faced by practitioners in the field.

3.23. Presentation by Groups & Discussion

The panellists were Mr. Ramesh Arunachalam and Mr. Ajay Tankha. Each presentation was followed by a discussion and comments from

the panelists, supported by views from the participants and the government officials attending the workshop.

Group 1: *Indicators for sustainability of clusters:*

They identified 3 categories-

Operational Indicators:

- Meetings
- Record-keeping
- Pattern of interaction
- Leadership pattern- democratic or outsiders.

Social Indicators:

- Acceptability of governments schemes
- Identification action of social activity

Miscellaneous Indicators:

- Legal status
- Networking

Meetings as an indicator of sustainability are important in the initial stages of group formation, but once the financial stake of clients is involved then financial sustainability is more important than the other issues. The panelists put forward an optimistic view, saying that very soon clusters would be the key bottom line unit in the micro-finance sector.

Group 2: *The Role of clusters:*

They made several points, which were substantiated by the panelists. These were promotion of groups and training and monitoring of SHGs etc. In addition, audit of SHGs was commended to be a critical function of the clusters.

Group 3: *Plan for cluster-level associations and sustainability in the time span of 1 Year."*

The group proposed ideas for initiating a vision-building approach, by organizing various sorts of training for field workers and informal leaders. Besides this, they also suggested that informal meetings should be held and exposure visits should be organized. Based on their field experiences, the panelists said the meetings and visits that are organized should act as a platform for members to rectify loopholes in functioning and to discuss the problems faced by different groups in their day-to-day management of group activities. An important finding suggested by the panelists was that grading of groups on the basis of repayment rates acts as an effective motivating factor for SHG members.

The federation serving in different areas should have tie-ups with government functionaries who would join their issue-based committees for the purpose of running different government programs in the area. The main idea was that the clusters should be given some recognition and responsibility like SHGs in Gujarat whose members were involved in the watershed project.

Mentoring of Clusters for the purpose of capacity building regarding the operation of cluster-level associations should be an important activity of the federation.

Group 4: "*The sustainable source of finance*".

The group's presentation included major sources like members' savings and the membership fee, credit from financing institutions, donations and grants etc.

They spoke about strategic issues like consultancy, project implementation, dealership and trading. The discussion was supported by examples of groups that have set up marketing outlets for locally produced crafts and goods like SEWA and Tamil Nadu Development Corporation.

In addition to this, other issues were utilization of funds for strengthening the cluster; imparting need-based training and providing orientation of groups as well-structured at the level of the federation. The panelists suggested that participants should go for schemes where NABARD is supporting the formation and orientation of clusters and federations.

The experts' comments about the allocation of funds for the corpus of the federation raised questions about matching funds, with due consideration to the fact that SHGs are savings-led and not credit-led. Hence the federations should not go for external funding when there is natural flow of money. A federation is strong not because of a big corpus fund but because it constitutes vibrant, live SHGs with good sums of rotating funds. At the end of the discussion that followed the fourth presentation, participants concluded unanimously that strategic issues should be distinct from the operational issues. This was followed by a concluding speech by the resource persons, members of the Swashakti Project, the NIPCCD team, Sa-Dhan and participants from all over India.

Vote of Thanks: Mr Ajay Tankha praised the enthusiasm shown by the participants and the role played by the organizers to bring together representatives of different states to share and solve their problems.

Ms Sulochana Vasudevan thanked the field practitioners and the resource persons for sharing their experiences and helping the Swashakti Project staff solve their problems and design strategies for the next one-year. She said that she plans to incorporate the newly formulated strategy in her action

plan for the coming year. It will include exposure-visits, and training on livelihood promotion initiatives. She urged project staff to visit DHAN foundation and other such successful models and design a model that suits their needs and work pattern.

On behalf of the organizing team from Sa-Dhan and the resource persons, Ms Achla Savyasaachi said that the workshop was a learning experience for everyone, as it helped in understanding the intricacies of work in a government system. The problems and experiences shared by the participants helped the workshop to understand the gaps in the time-bound program. She hoped that the workshop would help the participants in seeking answers for promoting community-based organizations.

The district project manager from Madhya Pradesh thanked the faculty, Sa-Dhan and the NIPCCD team for giving them an opportunity to share their success stories and failures with others and simultaneously learn from the successful models presented by others.

In the end Mr Ramesh Arunachalam said social intermediation and financial intermediation are equally important for federations but the main target is to attain institutional, operational and financial sustainability at all levels. The basic factor for attaining the sustainability is to have *high quality and vibrant SHGs*.

