

Self-help Groups as Financial Intermediaries in India: Cost of Promotion, Sustainability and Impact

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List of Acronyms

AIAMED	All India Association for Micro Enterprise Development
AIMS	Assessing the Impact of Microenterprise Services
APMAS	Andhra Pradesh Mahila Abhivruddhi Society
ASA	Activists for Social Alternatives
ASCA	Accumulating Savings and Credit Association
ASSEFA	Association of Sarva Seva Farms
CAPART	Council for Advancement and Promotion of Agriculture and Rural Technology
CASHE	Credit and Saving for Household Enterprise
CBO	Community-based Organisation
CBs	Commercial Banks
CCA	Convergent Community Action
CDF	Cooperative Development Foundation
CLA	Cluster-level Association
CREDIT	Credit Rotation for Empowerment and Development through Institution Building and Training
CYSD	Centre for Youth and Social Development
DPIP	District Poverty Initiatives Project
DRDA	District Rural Development Agency
DWCRA	Development of Women and Children in Rural Areas
FWWB	Friends of Women's World Banking
GTZ	Gesellschaft fur Technische Zusammenarbeit
GV	Gram Vidiyal
HCSSC	Holy Cross Social Service Centre
HDFC	Housing Development Finance Corporation
HUDCO	Housing and Urban Development Corporation Ltd.
ICCO	Interchurch organization for development cooperation
ICDS	Integrated Child Development Scheme
IFAD	International Fund for Agricultural Development
IGA	Income Generation Activities
JLG	Joint Liability Group
LEAD	League for Education and Development
MACS	Mutually Aided Cooperative Society
MACTS	Mutually Aided Cooperative Thrift Society
MBT	Mutual Benefit Trust
M-CRIL	Micro-Credit Ratings & Guarantees India Ltd.
MF	Microfinance
MFI	Microfinance Institution
MIS	Management Information System
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Finance Company
NBJK	Nav Bharat Jagriti Kendra
NGO	Non Government Organisation
NOF	Net Owned Fund
PLA	Participatory Learning and Action
PRA	Participatory Rural Appraisal
PRADAN	Professional Assistance for Development Action
RBI	Reserve Bank of India
RGVN	Rashtriya Grameen Vikas Nidhi

RMK	Rashtriya Mahila Kosh
ROC	Registrar of Cooperatives
ROSCA	Rotating Savings and Credit Association
RRBs	Regional Rural Banks
SAPAP	South Asia Poverty Alleviation Project
SEWA	Self Employed Women's Association
SGSY	Swarnajayanti Gram Swarozgar Yojana
SHARE	Society for Helping Awakening of Rural Poor through Education
SHG	Self Help Group
SHPI	Self-Help Promoting Institution
SIDBI	Small Industries Development Bank of India
SJSK	Sarva Jana Seva Kosh
SMBT	Sarvodaya Mutual Benefit Trust
SNF	Sarvodaya Nano Finance
TNWDC	Tamil Nadu Women's Development Corporation
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund

EXECUTIVE SUMMARY

1. Introduction

1.1 This study, which has been undertaken for Sa-Dhan, New Delhi on behalf of ICCO and Cordaid, supplements studies undertaken by I/C Consult on the self-help group (SHG) landscape in India (Bosch, 2001; & Bosch and Damen, 2000). It analyses the role and development of SHGs in financial intermediation in rural India.

1.2 The principal objective of the study is to contribute to a consistent and relevant funding policy for ICCO and Cordaid. It seeks to achieve an understanding of “best practice” in SHG development in India and to help direct donor funds for microfinance (MF).

1.3 The study addresses three main issues:

- Efficiency: What can be said about the average cost of SHG promotion both with and without emphasis on social and political empowerment? What difference does the credit plus approach make to average SHG promotion costs?
- Effectiveness: What is known through results of assessment studies of the effects and impact of SHG promotion? What is known about the results of monitoring indicators of impact?
- Sustainability: What kind of sustainability or phase out strategy is employed by NGOs?

1.4. The study is based on a review of literature on SHGs, the experiences of seven leading NGOs involved in the formation of SHGs and interviews with chief executives and staff of a dozen other major NGOs/ projects promoting SHGs.

2. SHG Development in India: An Overview

2.1 While the term ‘self-help group’ or SHG can be used to describe a wide range of financial and non-financial associations, in India it has come to refer to a form of Accumulating Saving and Credit Association (ASCA) promoted by government agencies, NGOs or banks. These groups manage and lend their accumulated savings and externally leveraged funds to their members.

2.2 SHGs have varied origins, mostly as part of integrated development programmes run by NGOs with donor support. The major programme involving *financial intermediation* by SHGs is the SHG-bank Linkage Programme. This Programme was launched in 1992 by National Bank for Agriculture and Rural Development (NABARD), the apex bank for rural development in India. By March 2002, the programme covered 7.8 million families with 90 per cent women members. On-time repayment of loans was over 95% for banks participating in the programme. It also involved 2,155 non-government organizations (NGOs) and other self-help promoting institutions. NABARD’s corporate mission is to make available microfinance services to 20 million poor households, or one-third of the poor in the country, by 2008. However, there is at present a high degree of concentration in the southern states, with just two states, Andhra Pradesh and Tamil Nadu accounting for more than 66% of the SHGs linked to banks.

2.3 The outreach of SHG-bank linkage may seem impressive, but in the context of the magnitude of poverty in India and the flow of funds for poverty alleviation, it represents a very small intervention. Only about one-third of the SHG members are able to access loans out of external funds in the initial years. Thus of 4.5 million families covered by March 2001, only 1.5 million would have received a loan of an average of Rs. 3,000 at present. Disbursements under the poverty-focused self-employment programme Swarna Jayanti Swarozgar Yojana (SGSY), meant for families below the poverty line, were Rs. 642.34 crores* during 2000-2001, as against Rs. 250.62 crores under bank linkage.

* 1 crore = 10 million; 1 lakh = 1,00,000; 100 lakhs = 1 crore

2.4 Apart from NABARD, about half a dozen other apex bodies or wholesalers provide loans to financial intermediaries for on-lending to SHGs. These include the Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC) and Friends of Women's World Banking (FWWB). Donors and banks, including Rabobank, also provide grants and loans to microfinance institutions (MFIs) for on-lending to SHGs and federations of SHGs.

2.5 The leading SHG-promoting NGOs constitute a mixed group that includes both pure SHG promoters as well as NGOs operating as MFIs. They have developed a variety of institutional arrangements, including cooperatives, to provide access to financial services to the poor, particularly women.

3. Paths of SHG Development: NGO Strategies and Structures for Financial Intermediation

3.1 Linking SHGs directly to banks is the basic model in which an SHG, promoted by an NGO or other institution, can access a multiple of its savings in the form of loan funds or a cash credit limit from the local rural bank. The SHG onlends the funds it accesses from banks to its members. The bank linkage model a savings-led model, with a minimum savings period of 6 months prior to the availability of bank credit. The quantum of credit available to SHGs starts from parity with savings and can increase to eight times the level of SHG savings.

3.2 The SHG-bank linkage model provides the cheapest and most direct source of funds. However, this has to be set against the low volume of funds that available through this channel in view of the linkage of credit with SHG savings. Further, the SHG is not necessarily the appropriate unit for organising a host of other community-based financial and non-financial services. Many leading NGOs have formed federations of SHGs for self-management by members and scaling up of development activities and to enable access to increased resources from funding institutions.

3.3 An examination of the SHG federation models adopted by the leading NGOs reveals a variety of innovations. These include linkage to the parent NGO-MFI, linkage with external MFIs, community ownership of a Non-Banking Finance Company (NBFC) and SHGs being reconstituted into mutually aided credit and thrift cooperatives. Federations of SHGs are now in a position to access funds even from wholesale MFIs. However, several of these innovations are one-off initiatives incapable of easy replication or, as in the case of the mutually-aided cooperatives, specific to the context of state in which they have been introduced.

3.4 The many possible combinations of formal and non-formal institutional channels that reach MF for the poor through SHGs are a feature of a system where a suitable regulatory environment of MF has not developed and MFIs struggle to find an appropriate path given the national and local constraints.

4. Costs of SHG Promotion

4.1 Estimates of costs of SHG promotion have been undertaken for 10 NGOs/projects along with a discussion of the factors involved. A distinction is made between four major types of SHG "models": (i) the "minimalist" approach of banks and NBFCs promoting microfinance SHGs; (ii) large project initiatives related to savings and credit, capacity building and women's empowerment; (iii) leading NGOs adopting a microfinance plus approach focusing on livelihoods development; and (iv) a mixed category of SHGs formed through local initiatives, including SHGs promoted by the district development agency.

4.2 Though inputs and contexts differ across the country, rough benchmarks for cost of promotion of SHGs have been proposed in the study. The available data suggests a convergence of cost of promotion per SHG at around Rs. 4,000 for the minimalist model of pure bank linkage and Rs. 10,000 to Rs. 12,000 within a more comprehensive

empowerment framework. The cost of promotion of SHGs appears generally to be in line with the scale of support provided by various government agencies. Necessary adjustments would, however, have to be made for particular regional, social and poverty contexts.

4.3 Some other benchmarks that can be suggested: (i) period of support – 3 to 5 years; (ii) clients per field worker – 400 or 20 to 25 groups; (iii) minimum scale of intervention to justify costs incurred – 150 to 200 groups, or 2,500 to 3,000 members, in a geographically compact area.

4.4 There are prospects for a reduction in these costs over time as SHG numbers increase in an area and where associations of existing SHGs help to form new SHGs.

5. Sustainability of SHGs and SHG-based Institutions

5.1 The sustainability of SHGs and SHG-based institutions is coming under close scrutiny. However, financial viability at the level of the SHGs is currently not an issue. SHG income, though small, is matched by an extremely low cost of operations.

5.2 The quality and institutional sustainability of the SHGs promoted is more open to question. Even best practice NGOs generally place only about 50% of groups in the highest category of performance, with 10-20% failing to take off. SHGs linked to banks do not appear thus far to be able to easily graduate to (larger) individual loans under the bank's normal lending programme. The leading NGOs covered in this study have phased out from some areas after linking SHGs to banks. There is, however, unease about the ability of SHGs to continue to access funds from the banks and to help their members move along a growth path out of poverty.

5.3 Nevertheless, SHGs linked to banks are emerging as a low cost option to mainstream delivery systems of financial services for the poor. At the same time the evidence suggests MFIs lending to SHGs realise a poor return on their portfolio.

5.4 Where SHGs have been formed into federations, the operational self-sufficiency of the intermediary institutions has yet to be demonstrated. The type of emerging institutions and their development is constrained by the existing regulatory framework for MF and the legal forms available in each state.

5.5 The phase-out of NGOs from areas where SHGs have been federated has proved to be difficult in practice. The leadership and management of most SHG federations and cooperatives continue to be in the hands of NGO staff. The development of the capacity of these institutions for self-management remains an important issue.

6. Impact of SHG-based MF programmes

6.1 Comprehensive impact studies on the effectiveness of SHGs are virtually non-existent even for the best practice NGOs. Programme Management Information Systems (MIS) of NGOs are also generally not geared to providing substantive impact data.

6.2 A major NABARD impact evaluation covering 560 members of 223 SHGs linked to banks in 11 states showed that SHG members realized major increases in assets, income and employment. Also, women members were found to have become more assertive in confronting social evils and problem situations. Nearly half the poor member households had crossed the poverty line.

6.3 Various other reviews and evaluations of SHG programmes suggest that SHGs have

- provided access to credit to their members;
- helped to promote savings and yielded moderate economic benefits;
- reduced the dependence on moneylenders; and
- resulted in empowerment benefits to women.

6.4 On the other hand field reports also suggest that

- contrary to the vision for SHG development, SHGs are generally not composed of mainly the poorest families;
- there is greater evidence of social empowerment rather than significant and consistent economic impact; and
- financial skills of group members have not developed as planned.

6.5 Preliminary findings from an in-depth impact evaluation of a non-SHG MF model (Share Microfin) show that half the families covered were found to be no longer poor. A significant discovery was that the clients used as many as 17 different "paths" out of poverty as represented by different combinations of

activities. It appears that “proving impact” using “state of the art” techniques has been found necessary for MFIs directly involved in lending operations in order to access funds for their MF operations. The same pressure is not felt by SHG facilitators.

6.6 It is clear that substantial capacity building is necessary at NGO and SHG level to undertake the study of program effectiveness. As additional layers of primary and secondary federation are created, roles and responsibilities of various agents, MIS requirements and training inputs have to be planned and provided for these organizations as well.

7. Recommendations

The following areas of intervention for ICCO-Cordaid support for the SHG and MF sector may be considered:

- Development of standards for SHGs
- Support for MF and promotion of SHGs in poverty belt states
- Development of loan products for MFIs working in undeveloped states
- Funding for state-level support institutions like APMAS and resource NGOs for SHG development
- Research on SHG/SHG federation sustainability
- Continued grant support for SHG promotion

1. INTRODUCTION

This paper seeks to examine the development of self-help groups (SHGs) and their role in financial services delivery in India. It is now a decade since the National Bank for Agriculture and Rural Development (NABARD) piloted the SHG-bank Linkage Programme to provide poor rural households access to banking services. The programme has grown in an exponential manner, particularly during the past five years or so. While NGOs have taken the lead in forming SHGs, a variety of financial service promoters and intermediaries, official and non-official, are currently associated with the programme. Further, several central government ministries and state governments have launched projects and schemes involving the organisation of savings and credit groups, usually of poor women, often as part of programmes supported by bilateral and multilateral agency funding. Indeed, SHGs are currently seen as an essential and integral part not only of financial services delivery, but also as a channel for the delivery of non-financial services within larger objectives of livelihoods promotion, community development and women's empowerment.

Barring a few exceptions, savings and credit has been used as a practical entry-point activity around which to organise (poor) women into SHGs. These SHGs are potential "micro-banks", either on their own, or through higher levels of association, capable of using their own resources, grants and borrowed funds for financial intermediation. Apart from accessing funds from the formal financial sector, SHGs can also become a forum for dissemination of development ideas and information, an association for community mobilisation or an organisational unit for linking up with other economic, social and political interventions.

Within this role for SHGs a range of models and approaches have emerged, representing different methods of ensuring effectiveness and sustainability of this community institution. These models envisage solely financial intermediation or include other non-financial elements as well. Given the diversity of approaches being practised it is desirable to examine costs and benefits and prospects of long-term functioning of SHGs and the emerging SHG federations, particularly those promoted by leading NGOs. This will contribute to an understanding of "best practice" in SHG development towards wider replication of the SHG model. It is also expected to help in directing funds from donors and other finance providers into the future development of effective institutions and activities in the microfinance sector.

This study supplements counterpart studies undertaken by I/C Consult, The Hague, The Netherlands on the self-help group landscape in India (Bosch, 2001; Bosch and Damen, 2000). The study has been undertaken by Sa-Dhan, an association of Indian community development finance institutions, on behalf of ICCO and Cordaid, two Dutch co-financing agencies that support a large variety of NGO programmes aimed at promoting sustainable self-help groups. An increasing number of Sa-Dhan members are also delivering financial services through SHGs.

1.1 Objectives of the study

The principal objective of this study is to contribute to a consistent and relevant funding policy for ICCO and Cordaid, which encompasses the promotion of SHGs as a vehicle for development and emancipation.

The study also attempts to provide a current perspective on the functioning of SHGs engaged in financial intermediation, and their support institutions, for Sa-Dhan members and the many and varied stakeholders in the SHG movement in India with the objective of directing future policy and funding for SHGs.

The study contains an inquiry into the cost of promotion of SHGs, the impact of SHG programmes and the sustainability of SHG-based institutions and frameworks for financial services delivery in India. The study also undertakes a critical analysis of the paths of SHG development emerging from current practices in different regional contexts.

1.2 Methodology of the study

The study addresses three main issues:

- **Efficiency:** What can be said about the average cost of SHG promotion both with and without emphasis on social and political empowerment? What difference does the credit plus approach make to average SHG promotion costs?
- **Effectiveness:** What is known through results of assessment studies of the effects and impact of SHG promotion? What is known about the results of monitoring indicators of impact?
- **Sustainability:** What kind of sustainability or phase out strategy is employed by NGOs? The strategies considered include: (i) bank linkage; (ii) transformation of NGOs promoting SHGs into MFIs; and (iii) creation of financially independent federations of SHGs.

The study sets out to understand SHG development through learning from the experiences of selected NGOs, projects and institutions generally accepted as forming a part of the vanguard of the SHG movement. At the same time it seeks to place the vision and practice of SHG promotion in the context of global issues and international best practice of microfinance. It makes a preliminary attempt to examine SHGs through the lens of cost-effectiveness, impact and sustainability and to detail the emerging paths for future SHG development.

The study has drawn extensively on recent literature on SHGs and microfinance in identifying experiences, issues and prospects of the SHG movement. It is not based on primary data. However, by participating in several SHG and federation meetings, the

author has brought a field perspective to the study. The study is based on data obtained from *seven* selected NGOs as well as data for the various apex organisations. This has been supplemented with interviews, findings of unpublished notes and reports, internal evaluations, project submissions, workshop presentations and proceedings and other similar “grey” material. Comprehensive interviews with chief executives and staff of a dozen other NGOs/ agencies have provided useful insights into the SHG phenomenon. A list of organizations visited and individuals met is given in Appendix 1.

Since the SHG movement is still comparatively new, documentation of SHG experience is limited and not much systematic research has taken place. As a result the study has been constrained by the variable quality of data available. This has prevented a more structured and rigorous analysis.

1.3 Organisation of the Report

Chapter 2 presents the domain and outreach of SHGs in the microfinance sector and in poverty alleviation. It introduces the principal actors that promote and fund SHGs and the NGOs covered by the study.

Chapter 3 sets out NGO strategies for SHG development, including bank linkage and a variety of forms of SHG federations linked to other MFIs. It maps the structures of intermediation through which funds flow to SHGs and SHG federations from apex lending institutions.

Chapter 4 discusses estimates of costs of promotion under different models - minimalist, empowerment and livelihoods development - and develops benchmarks for costs of SHG promotion.

Chapter 5 examines, from available evidence, the prospects of long-term sustainability of the strategies adopted by the different NGOs for SHGs and SHG federations promoted by them.

Chapter 6 discusses the findings of various impact assessments of SHGs engaged in MF and identifies the capacity building needs of SHG-based institutions for impact assessment.

Chapter 7 makes recommendations for donor policy towards the future development of SHGs.

2. DEVELOPMENT OF SELF-HELP GROUPS IN INDIA – AN OVERVIEW

2.1 Features of SHGs

A variety of group-based approaches that rely on social collateral and its many enabling and cost-reducing effects are a feature of modern microfinance (MF). It is possible to distinguish between: (a) groups that are primarily geared to deliver financial services provided by microfinance institutions (MFIs) to individual borrowers (such as the joint liability groups of Grameen and the NGO-banks of Bangladesh); and (b) groups that manage and lend their accumulated savings and externally leveraged funds to their members.

While the term ‘self-help group’ or SHG can be used to describe a wide range of financial and non-financial associations, in India it has come to refer to a form of Accumulating Saving and Credit Association (ASCA) (after Bouman, 1995) promoted by government agencies, NGOs or banks. Thus, SHGs fall within the latter category of groups described above.

A distinction can be made between different types of SHGs according to their origin and sources of funds (Appendix 2). Several SHGs have been carved out of larger groups, formed under pre-existing NGO programmes for thrift and credit or more broad-based activities. Some have been promoted by NGOs within the parameters of the bank linkage scheme but as part of an integrated development programme. Others have been promoted by banks and the district rural development agencies (DRDAs). Still others have been formed as a component of various physical and social infrastructure projects. Some of the characteristic features of SHGs currently engaged in MF are given below:

- An SHG is generally an economically homogeneous group formed through a process of self-selection based upon the affinity¹ of its members.
- Most SHGs are women’s groups with membership ranging between 10 and 20.
- SHGs have well-defined rules and by-laws, hold regular meetings and maintain records and savings and credit discipline.
- SHGs are self-managed institutions characterised by participatory and collective decision making.

NGO-promoted SHGs were often nested in *sanghas* or village development groups undertaking integrated development activities. As they have developed, SHGs or *sanghas* have been grouped into larger clusters and multi-village federations for financial and non-financial activities.

¹ The question of affinity is, however, a contentious one. Several practitioners ascribe the “poor” quality of new SHGs being formed (particularly by banks and state agencies as part of a target-driven approach) to the lack of affinity among their members. In fact, a leading NGO calls groups it promotes self-help affinity groups (SAGs) rather than SHGs. On the other hand, the concern with affinity can translate into formation of *caste-based* SHGs (rather than formation of groups based upon shared poverty conditions), with the potential negative ramifications of caste politics.

2.2 SHG-Bank Linkage

2.2.1 Bank Linkage Scheme – The Model

The SHG-bank Linkage Programme has its origins in a GTZ-sponsored project in Indonesia. Launched in 1992 in India, early results achieved by SHGs promoted by NGOs such as MYRADA, prompted NABARD to offer refinance to banks for collateral-free loans to groups, progressively up to four times the level of the group's savings deposits. SHGs thus "linked" became micro-banks able to access funds from the formal banking system. The linkage permitted the reduction of transaction costs of banks through the externalisation of costs of servicing individual loans and also ensuring their repayment through the peer pressure mechanism.

The programme encompasses three broad models of linkage:

Model I: Bank - SHG - Members

In this model the bank itself promotes and nurtures the self-help groups until they reach maturity. It accounted for 16% of cumulative bank loan provided till the end of March 2002.

Model II: Bank - Facilitating Agency - SHG - Members

Here groups are formed and supported by NGOs or government agencies. The dominant model, it accounted for 75% of cumulative loans of banks by March 2002.

Model III: Bank - NGO-MFI - SHG - Members

In this model NGOs act as both facilitators and MF intermediaries, and often federate SHGs into apex organisations to facilitate inter-group lending and larger access to funds. Cumulative bank loans through this channel were 9% of total by March 2002.

Another model has been piloted recently by NABARD for facilitating the formation of SHGs for bank linkage in areas where there are no NGOs. This involves using the services of committed *individual volunteers* identified by bank branches.

2.2.2 Outreach of SHG-bank linkage

Details of outreach of the SHG-bank linkage programme are given in Table 2.1. While the SHG-bank linkage programme was slow to take off, in recent years it has expanded exponentially. By the end of March 2001, its coverage had more than doubled over the previous year to 4.5 million families in nearly 2.64 lakh² SHGs, with 90% women members. These SHGs had availed of Rs. 480.87 crores in cumulative bank loans. The average loan per SHG was Rs. 18,227³ and per family Rs. 1,072. On-time repayment by SHGs was reported to be over 95%.

² 1 lakh = 100,000; 10 lakhs = 1 million; 100 lakhs or 10 million = 1 crore

³ 48.50 Indian Rupees (Rs.) = 1 US \$

Outreach of SHG-Bank Linkage			
	<u>As on</u> <u>31.3.2000</u>	<u>As on</u> <u>31.3.2001</u>	<u>As on</u> <u>31.3.2002</u>
1. No. of groups	114,775	263,825	461,478
2. Coverage (no. of families) (million)	1.9	4.5	7.8
3. % of women's groups	85	90	90
4. Cumulative bank loans (Rs. crores)	192.98	480.87	1,026.30
5. No. of NGO partners	718	1030	2,155
6. Repayment rate: (from SHG to Bank/NGO) (%)	> 95	> 95	> 95
7. Average loan per SHG (Rs.)	16,814	18,227	22,240
8. Average loan per family (Rs.)	1,016	1,072	1,316

Source: NABARD & Microfinance, 2000-2001 and 2001-2002

According to the latest data, by the end of March 2002 the coverage of the SHG-bank linkage programme had increased to 7.8 million families in 461,478 SHGs, with 90% women members, which had availed of Rs. 1,026.30 crores in cumulative bank loans. On-time repayment continued to be over 95 %. This programme involved 2,155 NGOs and other self-help promoting institutions. It is claimed to be currently the largest MF programme worldwide.

NABARD's corporate mission is to make available MF services to 20 million poor households, or one-third of the total poor in the country, by 2008. However, there is, at present, a high degree of concentration in the southern states with just two states, Andhra Pradesh and Tamil Nadu accounting for more than 66 % of the SHGs receiving loans through bank linkage, with the coverage in Andhra Pradesh being nearly 53% of total SHGs. These states have a history of women's enterprise, higher levels of literacy and strong cooperative institutions. *SHG-bank linkage has not as yet made an impact in the poverty belt of the northern, central and eastern regions.*

The outreach of SHG-bank linkage may seem to be impressive, but *in the context of the magnitude of poverty in India and the flow of funds for poverty alleviation it represents a*

very small intervention. An estimated 60 million Indian rural households may be classified as poor. It is well known that only about one-third of SHG members are able to access loans in the initial years. Thus of the 4.5 million families covered by March 2001 and eligible for bank loans, only about 1.5 million would have received loans of an average of Rs. 3,000 each. The benefit of bank finance is thus realised by a much smaller number of families. Other members, however, may benefit through savings and petty loans from the SHGs' internal fund.

Rs. 53,504 crores was expected to be disbursed for agriculture and allied activities by the banking system during 2000-2001⁴. During the same period, disbursements under bank linkage were Rs.250.62 crores or less than half of one per cent of this figure. Similarly, disbursements of bank loans under the poverty-focused self-employment programme, Swarna Jayanti Swarozgar Yojana (SGSY)⁵, meant for families below the poverty line, were Rs. 642.34 crores or more than two and a half times the advances under SHG-bank linkage. Thus while the SHG programme has made notable progress in providing loans to largely poor families, it has not significantly increased the credit flow to rural areas.

2.3 Institutions Funding and Promoting SHGs

2.3.1 MF Wholesalers

There are half-a-dozen apex institutions providing funds and capacity-building support for MF through various MFIs. Under various schemes they provide bulk loans to retail NGO-MFIs and other emerging forms of microfinance institutions (MFIs) such as financial cooperatives, mutually aided cooperative thrift societies (MACTS), and federations of SHGs. Detailed particulars of their loan schemes and terms are given in Appendix 3. A similar approach to NABARD's bank linkage, using NGOs/MFIs as intermediaries (model III in section 2.2.1 above) has also been adopted by other bulk lending institutions such as the Small Industries Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Housing and Finance Development Corporation (HDFC), Housing and Urban Development Corporation (HUDCO), Rashtriya Grameen Vikas Nidhi (RGVN) and Friends of Women's World Banking (FWWB).

NABARD: Apart from giving the lead in piloting the SHG-bank linkage and the refinance of loans by banks to SHGs, NABARD is engaged in fulfilling a variety of promotion and support functions as the apex bank for agriculture and rural development. These include:

- developing a conducive policy framework
- training and sensitising bank officers
- capacity-building support to NGOs, SHGs and banks
- financial support to NGOs for SHG promotion
- provision of revolving fund assistance to MFIs
- evaluation studies and dissemination of SHG best practices

⁴ These data and those below are from NABARD Annual Report 2000-2001.

⁵ This, in turn, is currently being implemented on a smaller scale than its predecessor, the IRD programme, which closed in 1999 and under which annual bank loans were in excess of Rs. 1,500 crores.

A Microfinance Development Fund with a corpus of Rs. 100 crores has been established to scale up the bank linkage programme, build expertise in MF and support the evolution of regulatory and support mechanisms for MFIs. So far utilization has been low with 330 NGOs supported to the extent of Rs. 4 crores by October 2001. NABARD has also received the first tranche of a DM 3 million GTZ grant for capacity building of NABARD and its partner agencies.

SIDBI: SIDBI has set up the Foundation for Microcredit. By 31 March 2000 it had sanctioned aggregate assistance of Rs. 52.76 crores to 160 MFIs. It also provides capacity building support to eligible MFIs. It has since increased the funding available for extending loans and equity to MFIs to Rs. 500 crores.

RMK: A fund set up in 1993 by the Department of Women and Child Development, Government of India, RMK provides loans to NGOs for on-lending to women beneficiaries. It had disbursements of nearly 60 crores by March 2000. Its loans attract the lowest rates of interest at 8 % with concessions for timely repayment. Grants for SHG promotion are also provided.

HUDCO and *HDFC*: These corporations are mainly involved in housing finance, including finance to economically weaker sections. HDFC had Rs. 80 crores of loans outstanding but its portfolio is not directed only at the rural poor.

RGVN: RGVN is a non-profit society formed in April 1990. Operating in the neglected north-eastern region of the country, it is the only national donor agency working in this remote area. Sponsored by some of the biggest financial institutions like the Industries Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and SIDBI, it also recycles grant funds by extending “returnable grants” to NGOs. Its outstanding loans were Rs. 2.31 crores at the end of March 2001.

FWWB: FWWB is a non-profit organisation set up in 1982 as an affiliate of Women’s World Banking. It started a revolving loan fund in 1989. It had outstanding loans of Rs. 17.41 crores to various MFIs by March 2001. It has also availed of a Cordaid loan repayable in rupees at 9 % interest.

2.3.2 Donors and International Lenders

Over the years a large number of the well-known international donors have supported microfinance (MF) programmes run by NGOs. Several large projects are also promoting SHGs through multilateral funding. These donors provide administrative support and capacity-building grants as well as revolving loan funds to NGOs. In addition to the sources above, about Rs. 150 crores of funds are available through this route. With the liberalisation of guidelines for external commercial borrowing, MFIs are now borrowing from various international lenders such as Deutsche Bank, Rabobank Foundation and Oikocredit.

2.3.3 Government

The major government programme promoting SHGs and channeling large funds for poverty reduction is the SGSY programme. Other state and central government programmes too have promoted SHGs in large numbers, especially in Andhra Pradesh. Some of the issues related to these programmes are discussed in subsequent chapters.

2.3.4 NGOs

All over the country NGOs have been promoting SHGs for savings and credit and other social and economic programmes for at least the past 20-25 years. Over 2000 NGOs are currently involved in the bank-linkage programme. The leading SHG promoting NGOs are a mixed group that includes pure SHG promoters, NGOs functioning as MF intermediaries, and NGOs that have promoted non-profit and for-profit non-banking companies for on-lending grant and borrowed funds to SHGs and SHG-based federations. However, the majority of them act as promoters and facilitators of SHGs. Of the SHGs linked to banks by March 2002, 75% have been formed by NGO facilitators and only 9% by NGO intermediaries.

One of the major issues relating to the functioning of NGOs as MFIs is the absence of an appropriate legal form that the NGO can adopt to carry on MF activity. (A note on the legal form of MFIs in India is given at Appendix 4).

Seven NGOs promoting SHGs are covered in this study⁶. These are PRADAN, Nav Bharat Juvak Kendra (NBJK), Holy Cross Social Service Centre (HCSSC), MYRADA, OUTREACH, DHAN Foundation and Association of Sarva Seva Farms (ASSEFA). A detailed profile of their operations and outreach is given in Table 2.1. For the vision of the NGOs and the nature of the SHG model they are promoting see Chapter 3. Three of the NGOs are ICCO/Cordaid partners. Four of the NGOs operate in Tamil Nadu, Karnataka and partly in Andhra Pradesh. Three NGOs, viz., PRADAN, NBJK and HCSSC, operate in Jharkhand and Bihar. These NGOs are presently promoting thousands of SHGs with the support of a wide range of donor agencies. The succeeding chapters are largely based upon data and insights on SHG development provided by these NGOs. While these NGOs provide instances of largely sound practice, they are not representative of the thousands of other NGOs also promoting SHGs and their organizational structure and the nature and scale of their operations is not easily replicable.

⁶ With the exception of DHAN Foundation, the author visited all the other NGOs during the course of the study.

Table 2.1 Profile of Operations and Outreach of selected NGO Promoters of SHGs

S. No.	Particulars	NBJK Hazaribagh, Jharkhand	Holy Cross SSC Jharkhand	OUTREACH Bangalore, Karnataka	DHAN Foundation, Madurai, T.N.	ASSEFA (Sarvodaya Nanofinance) Chennai, T.N.	PRADAN New Delhi	MYRADA Bangalore, Karnataka
	Year of data	March 2001	Dec. 2001	July 2001	July 2001	March 2001	March 2001	Dec. 2000
1.	NGO legal form/ MF function	Society. NGO-MFI on-lends to SHGs	Society. Promotes SHG bank linkage	Society, NGO-MFI lends through SHG federations	Trust. Promoter of SHG/SHG federations	Society/trust. NBFC owned by SHG feds. (trusts)	Society. Promotes SHG bank linkage	Society. Bank linkage + promoter of MF Co.
2.	Area of coverage	5 districts	450 villages/ hamlets	3 states	1901 villages	10 projects (14 blocks)	18 districts	16 districts
3.	No. of SHGs formed	732	1,513	1,400	5,194	2,779	2,752	4,833
3a.	Men's groups	0	51	20	0	0	0	409
3b.	Women's groups	732	1,460	1,380	5,194	2,779	2,752	4,181
3c.	Mixed groups	0	2	0	0	0	0	243
4.	Total SHG membership	13,927	21,240		80,263	54,341	38,000	85,427
5.	% age of women members	100%	97%	97%	100%	100%	100%	85-90%
6.	No. of SHGs linked to banks	Nil	825	400	2,056	601	821	1,771 (Mar. 2001)
7.	Total amount lent by banks (direct to SHGs/Feds) (Rs.)	Nil	2,50,00,000	n.a.	7,14,00,000	n.a.	n.a.	7,09,59,595
8.	SHG loan from NGO associates (Rs.)	Nil	Nil	Nil	Nil	Nil	Nil	87,09,000 (Sanghamitra)
9.	No. of federations of SHGs promoted	Nil	40 (non-financial)	60 CLAs	15 (block level)	30, of which 19 regd. as MBTs	n.a.	117 (non-financial)
10.	No. of MF field staff	n.a.	40	7	n.a.	207 (10 SNF)	n.a.	n.a.

(contd.)

Table 2.1 (contd.)

S. No.	Particulars	NBJK Hazaribagh, Jharkhand	Holy Cross Jharkhand	OUTREACH Bangalore, Karnataka	DHAN Foundation, Madurai	ASSEFA (Sarvodaya Nanofinance)	PRADAN	MYRADA Bangalore, Karnataka
11.	Total savings of SHGs (to date) (Rs.)	85,99,549	80,00,000	2,75,00,000	10,67,00,000	5,15,61,000	n.a.	11,79,42,672
12.	Average Savings per SHG (to date) (Rs.)	11,748	5,288	19,643	20,543	18,554	n.a.	24,404
13.	Loans outstanding (Rs.)	1,25,58,351 (NBJK)	Nil	75,00,000 (OUTREACH loans only)	20,75,00,000 (externally sourced)	3,09,04,956 (SNF) (Jan. 2002)	Nil	Nil
14.	Average loan outstanding per SHG (Rs.)	17,156	n.a	n.a.	39,950 (externally sourced)	n.a.	n.a.	n.a.
15.	Current SHG repayment rate	85%	>90%	100%	98%	100%	n.a.	98%
16.	Rate of interest paid by SHGs	18% (to NGO)	12% (bank linkage)	20% (to CLAs)	n.a.	15%	12% (bank linkage)	12% (bank linkage)
17.	Range of groups internal lending rate	24%	24-36%	24%	n.a.	As per group decision	24%	24%
18.	Selected other activities	Rural industries programme, watershed development, marketing, tribal dev. awareness, capacity building.	Irrigation and land dev., income generation, human res. dev., health and medical services, human rights counseling.	Watershed programme, livelihood and PRA training, crop risk and cattle insurance, enterprise development, agro services.	Housing, insurance, business promotion, income generation and agricultural development programme.	Social security schemes, housing, dairying, water harvesting, marketing of agricultural goods, community and internal training.	Irrigated agriculture, watershed development, village enterprises, human resource development.	Natural resource management health and education programme, PRA, training.

Computed from: 1. Sa-Dhan data base. 2. Annual reports. 3. Data/information provided during the study

3. PATHS OF SHG DEVELOPMENT: NGO STRATEGIES AND STRUCTURES FOR FINANCIAL INTERMEDIATION

The objectives of SHG promotion in India by NGOs are expressed in a variety of ways with livelihoods and empowerment at the centre. Barring a few exceptions, these NGOs have been involved with microfinance (MF) along with health, education and natural resource management often as part of an integrated approach⁷. However, NGOs are under pressure to address the question of financial sustainability of their MF programmes, an issue that is increasingly being raised by international donors and domestic funding sources. It has become necessary for NGOs to demonstrate that their microfinance programmes can become operationally and financially self-sufficient. At the same time NGOs are constrained by the question of which legal form (most NGOs have been working as registered not-for-profit societies) to adopt for continued operations in this sector. This is further tempered by the NGO objective of creating community owned and managed financial institutions built upon the SHG concept. These pressures have brought about a period of transition as NGOs struggle to discover the appropriate institutional structure, both for themselves and the community institutions promoted by them, given the conditions attached to various sources of funds and local and national legal and regulatory provisions.

Table 3.1 gives the vision and organisational details of SHG models promoted by the seven leading NGOs covered by this study. For the flow of financial resources, the vision invariably involves a linkage between the informal SHGs and formal or mainstream structures of financial services delivery. With the exception of NBJK all the NGOs have been at the forefront of the SHG- bank linkage programme. However, there is a divergence between the long-term paths of SHG development envisaged by the different SHG promoters. The rationale for these is discussed below.

While SHGs promoted by these NGOs are part of a “microfinance plus” approach, two broad paths for long-term SHG involvement in financial intermediation can be identified:

- (i) SHGs linked directly to banks on a permanent basis;
- (ii) SHGs/federations of SHGs linked to various types of MFIs.

3.1 SHGs Linked Directly to Banks

This is the basic model in which an SHG, promoted by an NGO or other institution, can access a multiple of its savings in the form of loans or cash credit limits from the rural bank branch. The SHG then on-lends the funds to its members.

The SHG model is a *savings-led* and *savings-linked credit* model, with a minimum savings period of 6 months prior to the availability of bank credit⁸. The quantum of credit available to

⁷ Many of these established NGOs have in the past supported SHGs or other community organisations in a programme of “poverty lending” (Kilby, et al., 2000) which was characterised by objectives that give higher priority to social outreach than financial sustainability. Revolving loan fund grants, earmarked for target groups, were managed and held in trust by NGOs until community capacity for self-management was developed. An unclear vision and weak management of funds led to a failure to develop the necessary community capacity and “ownership” towards NGO phase-out. In many cases this also led to the erosion of community funds. The opportunity to access loan funds through sources like bank linkage and alternative examples of successful microfinance practice have led to donors generally doing away with the provision of revolving fund grants for community organisations.

⁸ It thus necessarily tends to exclude the extreme poor who are incapable of making regular cash savings.

the SHG from banks starts from parity with SHG savings and can increase to 8 times the level of SHG savings. There are two interlinked parts of the SHG financial operations: (i) the rotation of its own savings and (ii) on-lending of external funds.

The rationale and growing enthusiasm for SHGs among bankers is primarily due to the possibility of externalisation of the transaction costs of small loans and ensured recoveries through the operation of peer pressure among group members.

Loans to SHGs are available at 12 % per annum reducing balance from banks⁹. The SHG onlends these funds to its members at 18 to 36% with 24% as the most commonly reported rate. The savings of the group and the operational profits of financial intermediation are available for rotation among the members. The SHGs' own capital or savings fund is usually deployed for lending to members for short-term and emergency needs. The savings fund effectively also acts as the means for servicing the bank loan in the event of insufficient recoveries from group members.

Many NGOs and government programmes also provide a revolving fund grant of Rs. 10,000 to Rs. 25,000 to supplement the savings of the SHGs¹⁰. This is often recorded as an interest-free loan to the SHG. Though the objective is to provide supplementary resources to kick-start the group's internal lending the usual practice among most SHGs is to divide the grant among members, instead of using it for credit rotation¹¹. Opinion among practitioners now does not generally favour such grants as they are not a factor in ensuring sustainability of SHG operations and can instead raise expectations of further grants and handouts.

HCSSC and PRADAN are the two study NGOs committed to bank linkage, the mainstream model adopted by over 2000 NGOs. The other five NGOs have developed models involving SHG federations and MFIs and alternative sources of financial services to the SHGs¹². These are discussed in the following sub-sections. The case made out by HCCSC and PRADAN for continued bank linkage is that given the extensive outreach of the Indian banking system, it is more important and efficient to bring the poor into the fold of the existing mainstream banking than to promote high cost delivery of financial services through (often) unregulated intermediaries¹³.

3.2 SHGs/Federations of SHGs Linked to Various Types of MFIs

Despite the many attractions of the SHG bank linkage model, the considerable reductions in transaction costs both for bankers and borrowers and the further possibilities of "graduation" of individual borrowers into the banks' regular lending programmes, many NGOs and

⁹ While the interest rate cap on loans to SHGs has been removed since April 1999, banks continue to charge the same rates as under the earlier regulated regime. With a downward movement in the interest rate regime, no increase in lending rates of SHGs can be expected in the foreseeable future. Indeed, the NABARD refinance rate of 7.5% to banks is now comparable with rates paid by banks on long-term deposits. It remains to be seen if the unrestricted or "free" interest rates of banks and MFIs lending to SHGs with NABARD and SIDBI refinance are flexible downwards, as indeed the refinance rate.

¹⁰ For example, DWCRA (now SGSY), SAPAP and CASHE projects and several MF programmes of NGOs supported by bilateral donors.

¹¹ See, for example, APMAS SHG study findings for Cuddapah district, December 2001 (www.apmas.org).

¹² HCSSC and PRADAN (as also MYRADA) have also promoted federations in village clusters but these are not engaged in financial intermediation.

¹³ These NGOs are working in Bihar and Jharkhand some of the poorest and remote areas of the country where the local economy is particularly undeveloped. The demand for credit of SHG members is low as compared to that of SHGs in other states.

wholesalers favour alternative paths for financial service provision for SHG members. The reasons for this are varied.

NGOs working in the southern states of Tamil Nadu, Karnataka and Andhra Pradesh are unhappy with the constraint posed by the saving requirement on the credit access of SHGs and individuals. They have organised financial federations of SHGs in village clusters to facilitate inter-group lending and larger and more reliable sources of funds than provided under SHG-bank linkage. MYRADA (whose federations are non-financial), on the other hand, has promoted a not-for-profit company to provide parallel and competitive financial services to the existing banking channels. Some NGOs have chosen to transform themselves into financial intermediaries or are in the process of setting up independent satellite MFIs under the NGO umbrella to act as intermediaries for SHGs or their federations. While the range of experimentation is high, the experience of these different models and evidence of their replicability is still very limited. We observe below features of and issues related to the following broad types:

- (i) SHGs/SHG clusters/secondary federations linked to NGO-MFIs
- (ii) SHGs/SHG federations accessing funds from not-for-profit companies and NBFCs
- (iii) SHG federations borrowing from microfinance wholesalers and banks
- (iv) Mutually-Aided Cooperative Societies (MACS)

We consider each in turn.

3.2.1 SHGs/SHG Clusters/Secondary Federations Linked to NGO-MFIs

(a) NGOs lending to SHGs/individuals

While most NGOs have been content to link the SHGs directly to banks, some have decided to involve themselves in borrowing and on-lending funds to SHGs. Two of the NGOs covered in this study, NBJK and OUTREACH, are in the process of transforming into MFIs or starting a satellite MFI. NBJK has an impressive range of microfinance and microenterprise projects and donor support. It has also promoted an organisation Lok Shakti for engagement in social action. With support from Cordaid it has used the services of ASA, Bangladesh to develop an MFI model. The model involves providing services to individual clients (with guarantors from a joint liability group) instead of loans to SHGs¹⁴.

All over India, many NGOs are creating entities designed to separate the microfinance operation from their social agenda in order that a more professional and business-like approach can be adopted¹⁵. A few features of the NGO as financial intermediary are as under:

- NGOs can lend to individuals with or without the involvement of SHGs.
- Where SHGs are retained, they can either continue to borrow and on-lend as a group or be limited to a pure facilitation role, of screening and recommending individual members.
- In either situation SHGs can continue to rotate their own savings in a limited financial intermediation role.

¹⁴ NBJK is, however, also on-lending to SHGs using funds provided under CARE-India's CREDIT project in Ranchi district.

¹⁵ This would also permit them to access funds from a range of microfinance wholesalers and donors supporting only professionally managed and sustainable NGO-MFIs. However, progress in this direction has been slow.

- Where loaning is to or through SHGs the NGO does *not* have access to the group's savings for its operations, since these are managed by the SHG itself.
- Due to ambiguities in the regulatory framework, it is still possible, though not recommended practice, for NGOs registered as non-profit societies, trusts or companies to provide savings services to their "members", along the lines of major Bangladesh NGO-MFIs. However, the leading Grameen replicators (SHARE and CFTS) in India are registered as for-profit NBFCs, which cannot mobilize savings.

(b) NGOs lending to SHG clusters/federations

Another variant of the SHG model is where the SHGs are constituted into financial federations and access supplementary funds from the promoting NGO. OUTREACH has adopted this model through the formation of primary or cluster-level associations (CLAs). The argument in favour of the CLAs is that the SHG is too small a unit to carry out a wide range of financial and non-financial intermediation.¹⁶ With 10-15 SHGs formed into a cluster, a variety of initiatives can be undertaken to organisationally and financially sustain this community-based organisation. OUTREACH CLAs undertake bulk purchase of inputs, store grain, manage group enterprises, run a crop insurance scheme through a risk fund, act as agents for insurance companies, directly market outputs of member SHGs, promote new SHGs and provide training, apart from borrowing funds from the NGO for providing credit to the SHGs. Appendix 5 illustrates the transactions of an OUTREACH CLA and the link between the SHGs, CLA and the parent NGO. The CLA also is effective as the unit to interface with the local bank. Thus, the link with the bank is shifted from the SHG to the CLA level. The bank's transaction costs too are much reduced. For example, it is able to make advances to 200-250 clients through one loan document¹⁷. CLAs are further federated into project and block level federations.

3.2.2 SHGs/SHG Clusters/Federations Linked to Not-for-Profit Companies and NBFCs

The limitation on the quantum of loans available through SHG bank linkage was a major concern of various practitioners regarding the model. This has been particularly so in the southern states where SHG demand for loans is generally higher. Further, the availability of funds from local banks is often determined by the degree of interest shown by the bank manager in the bank linkage programme. In the past there have been many instances of new managers failing to provide loans to SHGs supported earlier by their predecessors. This creates uncertainty about availability of the bank linkage facility over time¹⁸.

This perception of some of the leading NGOs has led them to link up SHGs to the few NBFCs, such as BASIX, operating in microfinance¹⁹. Though borrowing from such NBFCs

¹⁶ A point of difference between OUTREACH CLAs and those of PRADAN and MYRADA discussed above is that the latter do not have any financial powers. The former, however, shares many of the features of the DHAN Foundation cluster association discussed in section 3.2.3.

¹⁷ NABARD has piloted a project with OUTREACH in which linkage is undertaken by the bank branch with the CLA instead of the SHG.

¹⁸ The situation, however, is rapidly changing. Following the impressive results over the years and the support for it in the highest banking circles – the Reserve Bank of India has directed banks to make it their corporate strategy – SHG-bank linkage is now a showpiece programme. Bank managers generally are coming forward to facilitate linkage.

¹⁹ The leading Grameen replicators, SHARE Microfin, Hyderabad and CASHPOR Financial and Technical Services (CFTS), Mirzapur (Uttar Pradesh) are also NBFCs.

carries a higher interest rate (18% to SHG federations and 21% to groups), the advantages lie in timely disbursement of loans according to credit needs.

Entertaining similar doubts about the ability of bank linkage to meet the credit demand, MYRADA which was in the lead in promoting SHG bank linkage, decided also to have an in-house not-for-profit company, Sanghamitra, to provide financial services to its SHGs. According to MYRADA, the purpose was also to induce an element of competition in the field of rural financial services.

ASSEFA is a leading NGO that, among others, promotes SHGs linked directly to banks. However, the organisations of ASSEFA (Association of Sarva Seva Farms) group represent special instances of *community owned NBFCs*. The Sarva Jana Seva Kosh (SJSK) was set up in 1989 as a for-profit non-banking finance company to retain the flexibility for commercial operations not available for mutual benefit organizations under cooperative laws in Tamil Nadu. It manages the funds of Nidhi Foundations which have been set up as trusts at village level for onlending to individual members. Nidhi Foundations pay a 2% to SJSK for managing their funds. A federation of Nidhi Foundations provides technical and support services. The origins of SJSK funds are donor grants for revolving loan funds of communities. Since substantial funds were available from this source, SJSK has rarely borrowed except from the Rashtriya Mahila Kosh (RMK). SJSK is able to declare profits and pays tax but it is effectively acting as a *fund manager* rather than *financier* - a role it could have performed even as a not-for-profit society, the institutional form adopted by most NGOs (AIAMED, 2000). SJSK is seeking to adopt other legal forms in response to the changing legal environment and the need to transfer funds for management by the communities themselves²⁰.

Sarvodaya Nanofinance (SNF) is another ASSEFA initiative which is a unique institution of its type having been acquired from BASIX. The latter had set up SNF through an NBFC licence acquired before new regulations for NBFCs in 1997 increased the minimum net owned fund requirement from Rs. 25 lakhs to Rs. 2 crores. The authorised capital presently is Rs. 3.98 crores and is proposed to be increased to 10 crores in the next two years. SNF is owned by and lends to Sarvodaya mutual benefit trusts (SMBTs)²¹ formed by federating SHGs at the development block level. The MBTs are shareholders in SNF and receive loans up to six times their shareholding. ASSEFA works within a longer perspective of about 15 years for developing an area and at present leadership of the MBTs and SNF continues to be in the hands of ASSEFA. The MBTs undertake a range of other non-financial responsibilities including group promotion and management of health and crop insurance schemes²². Other ASSEFA companies take care of requirements of loans for dairying and housing.

3.2.3 SHG Federations Linked to MF Wholesalers

The federations of SHGs discussed thus far have either been linked to the promoting NGO that has taken up the role of the MFI or have accessed funds from other intermediaries,

²⁰ Strictly speaking SJSK, unlike SNF below, is not an SHG-based institution, being owned by the Nidhi Foundations associated with the *village-level* organisation set up under an earlier style of donor-supported intervention.

²¹ The federation is registered as a trust in view of the fact that registration as a society, under the present regulations in Tamil Nadu, would leave it open to greater government interference.

²² As a point of departure from other NGOs, ASSEFA-promoted institutions are *activity-based* rather than merely *affinity-based*. Thus different institutions have been promoted for different categories of community members according to their occupation or credit needs.

sometimes promoted by the NGO. As such they have retained a *dependency status vis-à-vis* the NGO. Mature secondary federations can, however, directly access funds from MF wholesalers. When registered as societies or trusts, they effectively are converted into MFIs using the same legal forms adopted by the NGO, but with lower overhead costs. The cost of operations of these block-level federations, of about 200-250 SHGs and 10-15 clusters, cover both financial and non-financial activities and are met through interest margins and management fees and contributions. They represent a culmination in the development of multi-tier SHG-based community institutions, designed to function independently of the NGO after its phase out.

DHAN Foundation²³ is an NGO that has developed independently functioning financial federations in Tamil Nadu. DHAN, like its parent PRADAN and MYRADA, has not itself acted as a financial intermediary for its federations. The multi-level structure of “nested” community institutions designed by DHAN as part of the *kalanjiam* community banking (KCBP) model allows them to respond to the credit needs of members at the appropriate level - SHG, cluster *nidhi* or secondary federation. KCBP groups, clusters and federations are promoted as independent organizations and are managed by members themselves at hamlet, village and block level. These are promoted as nested institutions with interdependency rather than a ‘three-tier’ type of organization. Apart from local bank linkage at SHG and cluster level, the federations promoted by DHAN Foundation have accessed loans from apex lending organisations such as SIDBI, RMK, HDFC and HUDCO having fulfilled their creditworthiness criteria. The specialised housing finance agencies fill an important gap in the loan portfolio not available to other SHG federations.

3.2.4 Mutually-Aided Cooperative Societies (MACS)

MACS as an organisational form have been described in Appendix 4. Andhra Pradesh enacted the Andhra Pradesh Mutually-Aided Cooperative Societies Act in 1995 to cover the new style cooperatives. This Act had two main features: (i) for the first time members could fully own and control their cooperatives; and (ii) new cooperatives could be formed in areas where existing primary agricultural societies had become defunct. Similar legislation has been since enacted in Bihar (also extended to Jharkhand)²⁴, Madhya Pradesh, Orissa and Jammu and Kashmir. However, it is only in Andhra Pradesh, where the Cooperative Development Forum (CDF) took the lead in registering its “thrift cooperatives” under this Act, that this form of cooperative has been used for microfinance. Thus at present this is a form of MFI that is unique to one state.

Andhra Pradesh has over 403,000 SHGs, developed by a range of stakeholders, but mainly as DW CRA groups formed under the government scheme. Associations of these SHGs have been formed into financial cooperatives and registered as MACS²⁵. Over 325 Mutually-Aided Cooperative Thrift Societies (MACTS)²⁶ with 136,000 members and share capital of Rs. 641.84 lakhs have been formed²⁷.

²³ Not covered by the study visits. Information sourced from Vasimalai, 2000 and AIAMED, 2000.

²⁴ The Bihar Self-supporting Cooperative Societies Act.

²⁵ Other SHGs have been formed into clusters or unregistered financial federations, known as *mahila* (women’s) banks.

²⁶ A form of MACS organized around thrift and credit activities. Other MACS forms include dairy cooperatives.

²⁷ Data from APMAS, October 2001.

The “Andhra model” of SHGs being formed in federations which are then registered as MACTS is popular with a variety of projects supporting SHG formation. Appendix 6 illustrates the evolutionary path for development of SHGs into federations and associations adopting the MACTS form as it is emerging from the current practices of NGOs, MFIs and government support programmes in Andhra Pradesh. In this way, over a period of three to four years after the formation of SHGs, they can be federated and organised into a financial cooperative within the formal financial sector.

A creative use of the MACTS form has been undertaken by SHARE. Clients of joint liability groups of this Grameen replicator have been constituted into MACTS. The savings of these MACTS are loaned to SHARE Microfin for its loan operations on mutually beneficial terms.

3.3 Emerging Structures of Financial Intermediation

An amazing variety of possible channels for intermediation are thrown up when we bring together the different institutional structures created out of SHGs with the different types of apex and wholesale organisations and intermediaries that provide funds for their operations. Interestingly this is the outcome of the progressive liberalisation by apex institutions of fund flows to the nonformal sector that permits it to access funds even from apex bodies. When the financial intermediation is undertaken by retail MFIs, some regulated and others not, numerous possible channels of finance delivery emerge with funds flowing, sometimes alternately, through various formal and non-formal channels²⁸. This is a reflection of the lack of an appropriate regulatory framework for microfinance.

Chart 3.1 below illustrates 18 possible paths for the flow of funds to SHGs from the financial system. If some of the institutional sources that have been clubbed together are segregated, it would create even further combinations. Each of these channels constitutes a “model” as it represents a regime of interest rates, loan amount durations and other conditions that would affect the products that can be offered²⁹. Where additional layers of intermediaries are involved it adds to the cost of borrowing at the SHG level.

The SHG-bank linkage model provides the cheapest and most direct source of funds from the banking system. However, this has to be set against the low volume of funds that can be made available through this channel in view of the linkage of credit with savings. Other more costly intermediation structures have their merits in terms of the advantages of institutional layering³⁰. In still other structures the mutually reinforcing nature and benefits of financial and social interventions justifies the place of clusters and federations. In many respects the major issues regarding the appropriate legal form for MF lie at the level of the NGO-MFIs and other NBFCs that operate in an unsatisfactory regulatory environment, rather than in the place and role of SHGs and SHG associations. Advocacy efforts for improving the regulatory framework for MF are clearly necessary.

²⁸ For example, funds from SIDBI, an apex bank, may flow through FWFB, an unregulated not-for-profit society, to a regulated MACTS.

²⁹ The financial flows indicated exclude donor grants and loans and other commercial borrowings of MFIs.

³⁰ The “nested” *kalanjams* of DHAN Foundation are case in point.

Chart 3.1

Channels of flow of finance from apex and wholesale organisations to SHG members

- A. NABARD → CB/RRB/Coop. Bank → (NGO) → SHG → Member
 [PRADAN/MYRADA/Holy Cross/ DHAN etc. – predominant bank linkage model]
 → NGO-MFI → SHG → Member
 [various bank linkage NGO intermediaries]
 → (NGO) → Federation → SHG → Member
 [Outreach CLAs]
 → MACTS → (SHG) → Member
 [various AP MACTS]
- B. NABARD/SIDBI → FWWB/RGVN → NGO-MFI → SHG → Member
 → Federation → SHG → Member
 → NGO-MFI → Fed. → SHG → Member
 → MACTS → (SHG) → Member
 [various FWWB/RGVN partners]
- C. NABARD/SIDBI → NBFC → NGO-MFI → SHG → Member
 [MFI clients of BASIX]
 → Federation → SHG → Member
 [BASIX, Sarvodaya Nanofinance SMBTs]
 → MACTS → (SHG) → Member
 → SHG → Member
 [BASIX]
- D. NABARD/SIDBI → NGO-MFI → SHG → Member
 [various NGO-MFI partners of SIDBI]
 → Federation → SHG → Member
 [OUTREACH]
 → MAC → (SHG) → Member
- E. RMK → NGO-MFI → SHG → Member
 [NBJK]
- F. HUDCO/HDFC → NGO-MFI → SHG → Individual
 [various NGO-MFIs]
- G. NB/SIDBI/HUDCO/HDFC → Federation → Cluster Fed. → SHG → Member
 [nested institutions of DHAN Foundation]

Notes: 1. Institution in brackets acts as *facilitator* and *not intermediary*, e.g. (NGO), (SHG).
 2. The above channels are illustrative and not exhaustive.

3.4 Conclusion

This section served to set out the rationale for the models adopted by the leading NGOs in an attempt to develop sustainable structures for the delivery of financial and non-financial services through SHGs. However, several of these innovations are one-off initiatives incapable of easy replication or, as in the case of the mutually-aided cooperatives, specific to the context of state in which they have been introduced. Set against the financial products and terms of apex microfinance agencies and wholesalers it also provided a picture of the delivery system for loans accessed by SHGs. The many possible combinations of formal and non-formal institutions that are involved in channelling funds for loans to poor families through SHGs are a feature of a system where a suitable regulatory environment of microfinance has not developed and NGOs and MFIs struggle to find appropriate “models” and paths given the many constraints. In Chapter 5 we assess, from the available data, the prospects for the sustainability of these models.

Table 3.1 SHG and Federation Models Promoted by Different NGOs

Name of NGO/State	Brief vision/ mission statement	SHG model type	Particulars of federation model	Sources of external loan funds for SHG on-lending	Terms of loans to SHGs and federations	Remarks
PRADAN, Jharkhand among others (a.o.)	Area saturation approach through community development, financial intermediation and livelihood generation	SHG Bank Linkage	Federation at cluster level, not engaged in financial intermediation	Direct linkage + limited SGSY programme, bridge fund, donor revolving fund grants	Cash credit limit for SHGs at 12% p.a. negotiated with banks by PRADAN	<ol style="list-style-type: none"> 1. Unregistered federations at panchayat-level (i.e. 3-4 villages) covering 10-12 SHGs. 2. Cluster federation not for inter-group loaning but for cross learning. 3. Cluster federations meet own costs through SHG contributions and petty income, e.g., fines. 4. Secondary federation formed only in Damodar district, Jharkhand. Still assessing role and utility of primary and secondary level non-financial federations.
HCSSC, Jharkhand a.o.	Cultivating the potential of women and downtrodden people	SHG Bank Linkage	As above	Direct bank linkage & other govt. schemes	As per terms of SHG bank linkage (12% p.a.)	<ol style="list-style-type: none"> 1. 8-10 SHGs form cluster level federation (at panchayat level) 2. One secondary federation of 40 clusters being formed. 3. Federation to provide platform for training, collective activity and vigil on development programmes.
NBJK, Jharkhand, a.o.	A just society in which no one remains hungry, unemployed, illiterate and exploited	MFI intermediary lending to SHGs	No federation formed under CARE CREDIT project	Donor/ project grants/loans through NGO	NBJK to SHGs @ 12% p.a. from CARE CREDIT project revolving fund, retaining 6% service charge	<ol style="list-style-type: none"> 1. No federations formed. 2. NGO is forming separate MFI with Cordaid support and to plans to delink microfinance from remaining activities. 3. In the programme supported by ActionAid, SHG federations are to be formed and registered under Bihar Self-Supporting Cooperatives Act (similar to MACS Act of A.P.) using revolving loan fund as members' share contribution.

MYRADA, Karnataka a.o.	Empowerment through experience in governance	Bank linkage/ NGO promoted MFI (not-for profit company, Sanghamitra)	Federation not engaged in financial intermediation	Direct bank linkage + SGSY, donor revolving fund grants	For SHGs: 1. Various RRBs, co-op. and commercial banks at around 12% p.a. 2. From MYRADA-promoted NBFC Sanghamitra (about 11% of total direct finance) at 14% p.a.	1. Principal of subsidiarity. Federations only take up activities not capable of being performed at SHG level, e.g. capacity building, information exchange, contributory health insurance, bulk purchase of seeds and fertilisers. 2. 20 SAGs (self-help affinity groups) to one federation, membership open to non-MYRADA SHGs. Federation is a union with SAG autonomy, not apex organisation. No secondary-level institution. Legal registration of federations not being promoted. 3. SAG Federations to meet own expenses through membership fees, fines, other contributions and donations.
OUTREACH, Karnataka a.o.	To promote viable, sustainable institutions to build capacities of rural communities for effective utilization of natural resources	Bank linkage/MFI intermediary channeling funds to SHGs through cluster-level associations (CLAs)	1. CLAs act as financial and non-financial intermediaries borrowing from NGO-MFI for cluster level investments/ working capital and on-lending to SHGs 2. Secondary (block/project, regional (non-financial) feds.	1. Bank linkage & other govt. schemes 2(a) Wholesaler (SIDBI)- NGO-CLA (b) Bilateral grant (Ford Foundation & others)	1. Bank linkage – 12% p.a. to CLA/SHG. 2. (i) SIDBI to Outreach – 11% p.a. (ii) Outreach to CLAs – 15% p.a. (iii) CLA to SHG - 20% p.a. (iv) SHG to members 24% p.a.	1. Shift from SHG to CLA as viable community managed MF institution, promoting bank linkage with CLAs. 2. CLAs formed out of 10-15 SHGs (200-250 members). 3. In addition to channeling loan funds CLAs manage crop insurance, trading in inputs and marketing of output, group enterprises and social action programmes and conduct promotion and financial audit of SHGs. 4. Objective of model is to build its own fund through interest spread at all levels. (18% margin for CLA and 6% for SHG in case of donor working capital grant). 5. Future direction is for financial intermediation role to shift to block/project federation level, while Outreach satellite MFI registers as appropriate legal entity.

Name of NGO/State	Brief vision/ mission statement	SHG model type	Particulars of federation model	Sources of external loan funds for SHG on-lending	Terms of loans to SHGs and federations	Remarks
ASSEFA group, Tamil Nadu	To establish self-reliant village communities	<p>1. Two community owned MFIs (NBFCs): (i) Sarvodaya Nanofinance (SNF) (ii) Sarva Jana Seva Kosh (SJSK).</p> <p>2. Other ASSEFA companies for housing and dairying lend to SHGs.</p> <p>3. Direct linkage of SHGs with banks.</p>	<p>1. SNF is an NBFC owned by mutual benefit trusts formed of SHGs</p> <p>2. SJSK acts as fund manager for accumulated revolving funds of village groups (<i>nidhi</i> foundations).</p>	Bank linkage + other financial institutions (both private and public), govt. agencies	<p>1. SNF borrows at 8-11.5% p.a. from different sources, lends to MBTs at 12%, MBTs to SHGs at 15%, SHG to members at 18%.</p> <p>2. <i>Nidhis</i> pay a service fee of 2% on their funds managed by the SJSK.</p>	<p>1(i) ASSEFA promoted women's SHGs under IFAD-TNWDC project have been constituted into registered block level mutual benefit trusts (MBTs) (200-250 SHGs each).</p> <p>(ii) SHGs contribute for MBT to subscribe to share K of SNF. MBT is entitled to borrow six times its share holding in SNF, which it on-lends to SHGs.</p> <p>(iii) Promotional activities including formation of new groups are carried out by MBT.</p> <p>(iv) SNF borrows from wholesalers including SIDBI, BASIX, HDFC, HUDCO, Rabobank</p> <p>2. (i) SJSK acts as fund manager for accumulated revolving fund of communities built up through donor grants. Limited borrowing by SJSK - only RMK funds, now discontinued.</p> <p>(ii) Village-level <i>nidhi</i> foundations (financial wing of the village community organization, constituted as a trust) are shareholders in SJSK which manages their funds. Federations of <i>nidhi</i> foundations provide technical and support services.</p> <p>3. SHGs also linked directly to banks.</p>

Name of NGO/State	Brief vision/mission statement	SHG model type	Particulars of federation model	Sources of external loan funds for SHG on-lending	Terms of loans to SHGs and federations	Remarks
DHAN Foundation, Tamil Nadu	Promotion of rural livelihoods and empowerment through institution building	Community owned and managed cluster <i>nidhis</i> (trusts) 2. Federation of <i>kalanjams</i> at block level	SHGs (<i>Kalanjams</i>) formed into federations at cluster and block level	Bank linkage, DRDA/SGSY, bulk finance routed through federation/cluster <i>nidhi</i>	As per prevailing rates for different bulk finance providers	<ol style="list-style-type: none"> 1. 15-20 SHGs formed into an unregistered cluster association with promotional and financial (<i>nidhi</i>) wings. 2. About 100-150 SHGs are primary members of block-level federation registered as a society (cluster <i>nidhis</i> are associate members). 3. Cluster <i>nidhis</i> supplement <i>kalanjiam</i> financial resources and provide management services with charge of 10% of SHG income. 4. Federations access funds for large and specialized needs, e.g., housing from bulk finance providers such as NABARD, SIBDI, HUDCO, HDFC, RMK. 5. Federations and cluster associations provide a range of other civic services.

4. COSTS OF SHG PROMOTION

The cost of promotion of SHGs has become a live issue for discussion in development circles in India. Rough estimates of promotion cost per SHG for different projects, NGOs and banks engaged in SHG promotion varies considerably³¹. The wide range of such estimates is not unsurprising. First, there remains a lack of uniformity about what costs to include, how staff time is imputed for development workers partially engaged in SHG promotion along with other functions, and whether and how overhead costs are allocated. Second, the period of support and the nature and purpose of SHGs promoted is also varied. Some SHGs are brought together in federations, which requires in turn the building of further capacity and incurring of costs in respect of these institutions. Third, distance and time taken to reach interior villages and to motivate communities bypassed by development is greater than for mainstream villages. Finally, the prices of inputs differ across the country such that the same set of physical inputs may cost more in some regions than in others. The cost of SHG promotion is a particular concern of the donor community that is keen to ensure the productive and effective use of grants provided for this purpose.

As part of this study data has been obtained from 10 NGOs/projects on costs of SHG promotion through interviews and written communications. This consisted of estimates varying from rough calculations to more detailed item-wise estimates prepared in model form or worked out on the basis of historical cost of the projects. These are discussed in section 4.4. However, before attempting an analysis of data obtained from leading NGO promoters of SHGs towards benchmarking of promotion costs, it would be instructive to examine the concept of cost-effectiveness, or efficiency, of SHG promotion.

4.1 Concepts of Cost Efficiency

In any development project activities are undertaken with a view to generate a level of benefits in excess of the costs of the project. Neo-classical decision rules can be employed for choosing between alternative investments using techniques based upon marginal analysis. These involve discounting future costs and benefits accruing to project participants to arrive at the *net present worth* of a project. In projects expected to yield tangible outputs, like an increase in agricultural production, the quantification of benefits is relatively easy. However, where intangible outputs result, e.g., in education and health projects, the method used is to “determine on a present worth basis the least cost combination of tangible costs that will realise the same intangible benefit.” (Gittinger, 1984). This is known as *least-cost analysis* or *cost effectiveness analysis*.

We can view SHG formation as an “intermediate project output” within a larger development project or service delivery programme. Cost-effectiveness analysis can also be applied to promotion of a unit SHG to make a selection from different approaches representing different technologies of promotion. Using the constant effects method, a comparison of the discounted present worth of costs incurred over the years in developing an SHG under different models can help determine the least-cost or efficient technology³².

³¹ Harper (2002) reports a range of between about Rs. 1,350 and Rs. 16,000 for the cost of initially developing and assessing an SHG.

³² This does not, however, constitute a measure of effectiveness, or impact, of a project since the analysis is done without reference to the participants or users of the project.

However, for a comparative analysis, it is necessary that (a) SHGs formed under different approaches are relatively homogeneous and expected to perform similar functions and result in similar outcomes; (b) where exercises are based upon past data historical costs need to be converted into present values; and (c) future costs are appropriately discounted.

In practice, no analysis employing the least-cost method or using discounted values is available in the case of SHG promotion. Usually, estimates made by NGOs and other development agencies cover the *direct costs* of promotion at the lowest implementing unit. At best, estimates of average *total cost* of SHG promotion have been made, through a mark up over and above direct costs to account for overhead costs at higher levels. Where such overheads form part of a programme with multiple objectives the cost allocation for SHG promotion becomes more complex. Further, these costs could be incurred over a period of five years or longer.

Much of the discussion pertaining to cost of promotion relates only to the promoting institution, without taking cognizance of the costs incurred at higher levels by support institutions in developing and maintaining the institutional structure of which SHGs form a part. At the other end of the spectrum, the ability to pass on the costs of SHG formation, e.g., costs related to account books and record keeping and other meeting expenses to the SHG members is seen as good practice³³, despite the fact that it does not reduce costs but only transfers them to the participants in the programme.

Hence promotion costs reported by various organisations need to be viewed with caution before passing judgment about the merits and comparative cost-effectiveness of different approaches.

4.2 Process of SHG Promotion

Promotion of SHGs is a process by which members (usually women) of targeted families are identified, motivated and mobilised to come together for their mutual benefit. *SHG promotion includes conduct of surveys, participatory wealth ranking with the larger community, formation of groups and initiating thrift activity. It also includes training in a range of subject areas, organising exposure visits, dissemination of materials and progressively monitoring and assessing the group's capacity to take on larger responsibilities.* This process, from available evidence, is generally planned for and takes 3 to 5 years until the objective of SHG formation – bank linkage, federation, or NGO withdrawal following the achievement of SHG sustainability is reached.

It is intuitively clear that as the duration and intensity of social facilitation by promoting agencies increases, the promotion cost increases as well. Microfinance plus and empowerment models normally are expected to contribute more to the development of capabilities among SHG members and add to the range or sustainability of their activities thereby justifying higher costs of group promotion. They also include a variety of related initiatives such as microenterprise training and social inputs. Similarly, the longer period of NGO facilitation towards forming federations of SHGs (especially financial federations involving the creation of an additional microfinance organisation) necessitates higher costs of promotion.

³³ It is argued that this helps to develop the value of autonomy and independence in the SHG.

4.3 Cost Components

At the NGO level, the following broad components of direct costs can be readily identified:

- (i) NGO staff time;
- (ii) staff conveyance expenses;
- (iii) training and expenses on capacity building of SHG members including materials and exposure visits; and
- (iv) stationery, cash box and group meeting incidentals.

Overhead costs at NGO/unit level include:

- (i) office rent;
- (ii) depreciation on vehicles, furniture, etc.; and
- (iii) cost of administration and support staff.

A similar set of costs is required to be imputed for expenses incurred centrally or by government or donor agencies or intermediaries towards the development programme. When added to direct costs, these would aggregate to total costs of SHG promotion. The data on, and analysis of, the costs of support services incurred centrally at higher project levels have not been covered in this study.

4.4 Review of Costs under different SHG Promotion Models

Estimates of costs of promotion per SHG that exists in the literature on SHGs do not offer more than an aggregate figure. NGOs that provide these data do not give the breakdown of promotion costs and its rationale. In this study an attempt has been made to address this question with the assistance of leading NGOs. Table 4.1 gives details of the costs of promotion of SHGs of 10 leading NGOs/ projects engaged in SHG promotion as constructed from interviews and internal data. Though these are not scientific estimates and the costs reported are sometimes ambiguous or inconsistent, it represents possibly the first time that such an exercise has been undertaken towards an understanding of the factors governing the level of costs incurred by different development agents. The estimates vary from Rs. 4,500 to Rs. 25,000 for different types of SHG initiatives and differing items of cost covered.

From the standpoint of costs we distinguish between four main SHG promotion “models”:

- (i) minimalist, which essentially focus on bank-linkage or SHG clients of MFIs;
- (ii) large project initiatives related to savings and credit and women’s empowerment;
- (iii) SHG promotion by leading NGOs engaged in livelihoods development;
- (iv) SHGs formed through local initiatives, including the district development agency.

This classification may be overlapping and could be contested. However, the rationale for it is to distinguish between (a) SHG promotion by agencies other than NGOs, e.g. banks and NBFCs, which view the SHG essentially as a financial intermediary; (b) the several large project initiatives, usually state-supported, concerned with women’s empowerment which provide in addition a range of inputs to build women’s capacity but which do not include wider *economic* interventions; (c) the model represented by the study NGOs where SHGs are seen as part of a livelihoods development intervention and which exploit the economic

linkages with credit and savings³⁴; and (d) a mixed category of SHGs formed by local volunteers, existing community institutions and the district rural development agency.

We discuss below the evidence on cost of SHG promotion under these different models.

4.4.1 SHGs formed for bank/MFI-linkage

(a) Through microfinance agents of NBFC

In attempting to establish a benchmark it is instructive to start with the estimates of BASIX, an NBFC working in Andhra Pradesh, Karnataka and Madhya Pradesh. With a view to increase outreach and benefit from social collateral through the medium of SHGs for its loan programme, it has engaged agents for a fee to facilitate SHG formation. The agent's fees are Rs. 1,800 plus one-eighth of interest collections. Adding overheads and the internal costs of training of agents, etc., it is estimated BASIX incurs a total cost of Rs. 4,500 in 15 to 18 months on SHG promotion until the first loan is availed. Despite incurring these costs it expects to recover its investment in 4-5 years. While the role of the SHG in this model is restricted to the onlending function similar to bank linkage, SHGs also have access to associate organisations of BASIX for other services. This stripped-down model avoids overheads and support costs for the maintenance of in-house staff by relying on the microfinance agent to facilitate credit linkage. BASIX had earlier relied upon SHGs promoted by NGOs for its clientele.

(b) Through banks

Various estimates are available of the cost of promotion of SHGs of selected bank branches of commercial and regional rural banks in different parts of the country. The estimates of group promotion by local bankers consider only the cost of time spent by bank staff in initial meetings, formation and monitoring groups. These are towards the bottom of the range reported earlier. A study of the Umbleybelu branch of Sahyadari Grameena Bank in Karnataka in 1996-97 (Srinivasan, n.d.), estimated a figure of Rs.3,718 as the average cost of 5 groups promoted by the branch manager in a village over 5 years. While other similar estimates are available, the main subject of studies on SHG-bank linkage has been the estimation of the reduction in the transaction costs of banks through group loans to SHGs (e.g., Srinivasan and Satish, 2000).

(c) Through volunteers and bank agents

In addition to rural bank branches promoting SHGs, a scheme was launched in 2001 for banks to appoint committed individuals for promoting SHGs for bank linkage. The bank makes a payment of Rs. 500 to 700 per SHG (reimbursed by NABARD) to the agent for an engagement of one and a half years. Costs of training and stationery are borne by the banks. This scheme is currently being piloted in areas not covered by NGOs.

³⁴ Indeed, a common feature of these best practice NGOs has been the facilitation of investment through grants and members' contributions on a range of initiatives related to natural resource management in which participatory stake has also been built. While they may access funds under large projects described at (b) above they adopt their own methodology, training modules, etc. A case in point is the participation of PRADAN in the CARE-India CREDIT project where it plays only the role of a facilitator as against that of a financial intermediary as envisaged in the project. These NGOs may diverge later in their approach as they adopt differing forms of federation for SHGs promoted by them.

Similarly, banks engage *anganwadi* workers of the Integrated Child Development Scheme (ICDS) and teachers of the National Literacy Mission (e.g., the Guruji Scheme in Madhya Pradesh) as SHG facilitators at an honorarium of Rs. 500-700. NABARD officials claim that they do not find a major difference in quality and performance between the groups promoted for bank linkage by these agents and those promoted by NGOs.

4.4.2 SHG promotion under large projects

Apart from a host of social development and sectoral projects, a number of large projects financed by multilateral or bilateral funding and implemented through state government departments or corporations have promoted groups that have thrift and credit, microenterprise development and women's empowerment as their focus³⁵. These include IFAD's Tamil Nadu Women Development Project, the IDA-IFAD assisted Swa-Shakti project, the World Bank District Poverty Initiatives Project (DPIP) and the UNICEF Convergent Community Action (CCA) project. Among projects supported by bilaterals is the DFID-funded CASHE project contracted to CARE-India for implementation.

In Andhra Pradesh, the recently completed UNDP South Asia Poverty Alleviation Project (SAPAP) is looked upon as a successful model of SHG promotion in the region. Implemented in three districts through partner NGOs, it has promoted active SHGs which have been linked to banks and other financing agencies. Further, primary federations at village level and secondary (financial) federations at block/*mandal* level have been formed. Some of these have been registered as cooperatives under the MACTS Act. Only rough estimates of average total costs of SHG promotion are available (see Table 4.1). At Rs. 15,000, they are in line with other estimates for SHG promotion.

Two projects of CARE-India merit attention. These projects, though they also have empowerment, gender and rights as their goal along with supplementary activities, are focused on financial services delivery. They simultaneously seek to build the financial intermediation capacity of NGOs promoting the SHGs. The CREDIT project, which is nearing completion, is the first project initiative of its kind in Jharkhand and Chhattisgarh. It operates through two NGO partners, Nav Bharat Jagriti Kendra (NBJK) and PRADAN in Jharkhand. While the former is following the project objective and restructuring itself for its new role as an MFI, PRADAN has continued to act only as a promoter and facilitator of SHGs. The estimate, at NGO level, of costs of promotion per SHG is Rs. 13,726 for NBJK and Rs. 15,356 for PRADAN.

The CASHE project was launched in 1999 in Andhra Pradesh, Orissa and Bengal. It already covers over 80,000 families in Andhra Pradesh where it is being implemented through 6 NGOs. Estimates of cost of promotion of the first year plus projected costs over the next two years indicate an average cost of promotion *at NGO level* of Rs. 4,884 over three years. This is considerably lower than other estimates in the region. One reason could be the comparatively high client caseload of 700-800 per field staff. Another reason could be that out of 5,153 SHGs covered under the project, only 949 had been newly formed while 4,214 were pre-existing groups. The latter had been formed following a state government campaign in 1997 without much further support.

³⁵ While it is often difficult to identify the contribution of different project components to women's empowerment, it is generally accepted that the "technology" and process of promotion of women's SHGs is empowering in itself for the project participants.

4.4.3 Promotion of SHGs by NGOs engaged in livelihoods development

The NGOs covered in this study are at the forefront of SHG promotion in India. They have the most comprehensive vision and methodology and professionalism in approach and are actively sought resource NGOs. They also have the most comprehensive training materials and systems. These organisations receive substantial project funding from a variety of donors. They may be seen as best practice institutions in this sector. However, in some respects *they represent a scale of operation that cannot be replicated by other smaller NGOs in the short run*. On the one hand they have already developed in-house expertise that can be drawn upon for new initiatives and can be expected to be cost-effective in extending their coverage. On the other, they carry many overheads and costs that may not be applicable to smaller NGOs undertaking SHG promotion in a similar context.

While all have encouraged SHGs to federate, HCSSC, PRADAN and MYRADA have not been in favour of promoting cluster- or higher-level financial federations. They have opted for linking SHGs to banks, though MYRADA has recently promoted Sanghamitra, an NBFC, for meeting the financial needs of SHGs promoted by it and others. DHAN Foundation, and more recently OUTREACH, in addition to bank linkage, have promoted cluster-level associations which have been registered as trusts and societies. They also have promoted secondary block and project level non-financial federations. Cost estimates of HCSSC, PRADAN and MYRADA pertain to the non-financial federation model. Indeed, PRADAN does not incur any additional costs towards federation since these costs are relatively minor and met by the groups. Average total costs of SHG promotion for these NGOs are Rs. 12,100 (PRADAN, Hazaribagh)³⁶, Rs. 20,575 for HCSSC³⁷ and Rs. 15,000 to 25,000 for MYRADA (Karnataka, Tamil Nadu). PRADAN's costs pertain to the activities of a development support team of 6-7 professionals adopting a "saturation approach" in 2-3 development blocks of a district. They have no community level workers other than the professionals who manage about 30 groups each. MYRADA estimates are based upon costs of a field worker managing 12-15 groups within a more conventional organisational structure.

It is not clear whether staff time devoted to SHG development is any greater in the case of the comparatively high cost NGO promoters with a broader canvas of livelihoods promotion than for other NGOs. For example, discussions at CARE-India (A.P.) suggested 35-40 visits per SHG as the norm for NGO field workers in the process of group development. The PRADAN "saturation" methodology involves a similar level of contact. There is also no evidence to suggest that less successful NGOs do not have the same level of inputs as the good practitioners. In the final analysis the difference could boil down to the "quality" of process inputs. It is the case of the leading NGOs that to promote good groups, better quality staff is required which in turn means higher costs.

DHAN Foundation's average total costs of SHG promotion for a minimum of 150 groups has been worked out as Rs 17,000 (Best Practices in Group Dynamics and Micro-credit, 2000) for the *kalanjiam* model of federating SHGs into a cluster level financial institution and Rs. 10,000-Rs. 12,000 for linking SHGs to banks as part of an integrated development programme and within a sustainable institutional framework. Other scattered estimates report a figure of Rs. 6,000 to Rs. 10,000 as cost of promotion per SHG. OUTREACH has reported

³⁶ This is not to be confused with the figure for PRADAN, Ranchi covered by the CARE-India CREDIT project.

³⁷ Rough estimates provided by the NGO that were subsequently advised to be overestimates. HCSSC works in particularly inaccessible areas of Jharkhand, which results in higher costs for its operations.

a figure of Rs. 4,500 to 6,000 – the broad range reflecting the differences in salaries of community organisers.

In the absence of more detailed and disaggregated data it is difficult to form an opinion on whether the higher cost of some of the NGO promoters is justified.

4.4.4 “Spiral” effect, copycat, self-promoted and DWCRA groups

Other estimates of cost of promotion where SHG formation is seen as an incremental activity of banks are even lower. Thus in Gujarat, SEWA Bank estimated the cost of forming and facilitating linkage of groups to the bank by their promotion team at approximately Rs. 2,000 in 1999³⁸. However, this was in an area where the bank was well known and SEWA was already involved in its trade union and other activities.

The phenomenon of women forming themselves into appropriate groups and volunteering to join the ongoing SHG programmes of established NGOs is widely prevalent. Thus in the case of the Association of Sarva Seva Farms (ASSEFA) in Tamil Nadu, new groups are invariably self-promoted and are facilitated by the NGO with training, stationery and other support. In fact, the Sarvodaya Mutual Benefit Trusts (SMBTs), formed as federations of about 50 SHGs, promote new groups as part of their functions. This has been described by ASSEFA as the “spiral effect”. Though no estimates are available, the cost of supporting such groups has been found to be very low.

Similarly, for OUTREACH in Karnataka and Tamil Nadu, cluster level associations (CLAs) formed out of 10-15 SHGs promote new groups in their respective villages. This brings the cost of group formation down to about Rs. 3,000 per SHG from Rs. 4,500 to Rs. 6,000 for groups promoted by the NGO. The phenomenon of *swayambhu* (or self-promoted) groups has also been reported in CARE-India CREDIT project areas and elsewhere.

However, reservations have been expressed by other NGOs such as PRADAN and MYRADA, about the possibility of a lowering of cost of development of copycat groups. The only saving in cost is in respect of the initial contact and motivation phase of about three months. For the rest these groups need to traverse the same ground as the other groups with the attendant costs.

Another category of SHGs is that formed under the Ministry of Rural Development’s DWCRA (Development of Women and Children in Rural Areas) programme. These groups have been formed as part of target-driven approach and have invariably suffered from poor facilitation. In Andhra Pradesh about 4,00,000 SHGs were formed in a short period of about two years during 1997-1999, about 75% of which have become moribund. Various initiatives including the CASHE project in Andhra Pradesh, NGOs, such as Ankuram-Sangham-Poram (ASP), and the state support agency Andhra Pradesh Mahila Abhivruddhi Society (APMAS) are engaged in the exercise of strengthening these groups. Since these SHGs have already experienced the rudiments of earlier facilitation, operate bank accounts and have also received revolving fund grants, costs of revival of such groups could be correspondingly lower³⁹.

³⁸ SEWA (personal communication)

³⁹ On the other hand some practitioners feel that it is more difficult and costly to do a turn-around than to promote a new group.

4.5 Economies of Scale in SHG Promotion

A glance at the data on NGOs participating in the NABARD's bank-linkage programme (*NABARD and Microfinance 2001-2002*) shows about 25-30% of NGOs as having linked less than 10 SHGs to banks. Similarly, many bank branches in rural areas have just a few SHGs as clients. Is there a minimum scale for SHG promotion that will be cost-effective, provide options of federating into associations, add value to financial and non-financial services for SHG members and provide the platform for collective action?

The experience and practices of the NGOs discussed above suggest that such a scale of operations exists. Dhan Foundation's estimates are based upon a minimum of 150 SHGs. PRADAN's development support team works in a group of 6-7 professionals with about 200 SHGs in a single development block as far as possible. Where federations of SHGs are formed as financial intermediaries with a view to access external funding, whether as MACTS, trusts or unregistered bodies accessing funds from MFIs/NBFCs, a similar scale of 200 SHGs or 3000 members in a compact geographical area appears to be the norm. (The cluster level associations of OUTREACH constitute an exception with a somewhat smaller membership.) This scale of operation also justifies computerisation of operations and management information systems towards greater efficiency and professional management. This size of operations is also consistent with the lowest unit of intermediation observed in other financial service delivery structures such as the Grameen style units in Bangladesh. It would appear that, apart from the limited scope of SHG bank linkage, SHG promotion is worthwhile only if NGOs are prepared to scale up coverage to this level of operations.

4.6 Benchmarking Costs and Sources of Variation

Costs of promotion can be seen as essentially varying on three dimensions. (a) the purpose of the SHG – minimalist or empowerment and livelihoods-oriented; (b) the area of operations – degree of inaccessibility or vulnerability; and (c) the programme participants, whether educated or not, whether in business, landless, etc. Limitations of time and scanty data on promotion cost have not permitted a rigorous analysis of the factors affecting costs along these lines.

However, an attempt is made to provide some norms based on the foregoing discussion. Though inputs and contexts differ across the country, the available data suggests a convergence of cost of promotion at around Rs.4,000 for the minimalist model of pure bank linkage, Rs. 10,000-Rs. 12,000 for bank linkage in a more comprehensive empowerment and sustainability framework or an integrated and participatory model based upon livelihoods development. Necessary adjustments would have to be made for particular regional, social and poverty contexts.

Some benchmarks that can be suggested on the basis of the practice of SHG promotion are:

- Period of support 3 to 5 years.
- Clients per field worker – 400 or 20 to 25 groups.
- Cost of promotion under minimalist financial services delivery model, Rs. 4,000.
- Cost of promotion under microfinance plus model – Rs. 10,000 to Rs. 12,000.
- Minimum scale of intervention – 150 to 200 groups or 2,500-3,000 members in a geographically compact area.

Table 4.2 gives the scales of support provided to NGOs by different agencies for promotion of self-help groups. These data too suggest a convergence around the figure of Rs. 10,000 as the average total cost of SHG promotion. It would appear that support, where available, would more or less cover the costs of SHG promotion. Similarly, RMK support of Rs. 4,000 to NGO-MFIs is in line with above estimates of costs of promoting SHGs towards financial services delivery.

The best practice NGOs appear to be incurring slightly higher costs than those proposed above. The variations from these figures can largely be explained by the following factors:

- (i) *Staff costs:* The evidence from the organisations discussed above suggests that 20-25 groups would be the norm for a field worker. In the case of MYRADA's more intensive development programme, one field worker promotes 12-15 groups. 98% of MYRADA's field staff are graduates who command a comparatively higher salary. In the case of PRADAN it is the professional who is the field worker. Professional salaries at PRADAN are about five times higher than what field worker salaries would have been. Though they manage 30-35 groups (more than the proposed norm), it could be a factor in making PRADAN's cost of promotion higher. On the other hand, in the case of the CASHE project reporting comparatively low average costs, apart from 80% of the groups being old groups being strengthened, each field worker is catering to about 40-45 SHGs accounting for the lower costs.
- (ii) *Transport costs:* NGOs, which provide motorcycles to field workers, incur lower costs than those relying largely on public transport. It is both a matter of method as well as efficiency of functioning. In remote areas where public transport is virtually non-existent it makes sense to use motorcycles though it means higher costs. Thus the HCSSC or PRADAN worker with his/her motorbike in Jharkhand is clearly more expensive, but this becomes a necessity in a relatively inaccessible area. The counterpart field worker in Tamil Nadu could well be using the excellent public transport system to access most villages.
- (iii) *Training costs:* MYRADA has probably the most comprehensive training and monitoring programme for SHGs promoted by it. This includes 23 modules of training over 14 days. OUTREACH has 10 modules of training over 10 days. Thus these organisations incur higher training costs. On the other hand, for smaller NGOs, access to funds and coverage under a major programme like Swa-Shakti brings with it promotion methodology and training materials and necessary support.
- (iv) *Sources of regional variation:* These include differences in average staff salaries due to differentials in local wage structure. An intuitive approach does not go far enough to understand the contrasting situation. Thus, one may expect salaries of frontline workers to be higher in Karnataka or Tamil Nadu than in Jharkhand on account of the higher state of development in the former states. However, in the latter suitable field workers are not available at the going pay scales. In the southern states frontline staff can be easily recruited at modest salaries because of the high level of educated unemployment. On the other hand in Jharkhand it is difficult to retain group accountants who are often able to find jobs in the towns on the strength of the training they receive for SHG record keeping.

Table 4.1 Estimates of average cost of SHG promotion - per SHG (10-20 members)

Organisation/ Project/Area of operation	Type of programme/ SHG Approach	Period	Costs of promotion (Rs. Per SHG)	Details of costs	Remarks
BASIX (μ FA initiative) Khammam district (A. P.)	NBFC/ Minimalist credit	15-18 months from SHG formati on to linkage	Rs. 4,500	1. Service charge for microfinance agent (Rs. 1,800). 2. SHG training at BASIX 3. Stationery, etc.	1. SHGs promoted through microfinance agents (μ FAs) paid on performance through stages of formation, graduation and linkage of SHG with BASIX. 2. Includes overhead costs at BASIX (approx. Rs. 1,500). 3. μ FA is also paid a commission – one-eighth of interest collections from SHGs after linkage. 4. Potentially sustainable model with income from SHG loans paying for the direct cost of promotion. Payback period 4-5 years.
UNDP - SAPAP Project Kurnool, Anantapur & Mehboobnagar districts (A.P.)	Project implemented through NGOs/ Microfinance plus empowerment	3 to 4 years	Rs. 15,000	Yr. 1 – Rs. 2,000 Yr. 2 – Rs. 6,000 Yr. 3 – Rs. 7,000	1. Interactive work on social issues plus specific inputs on building SHG capabilities on savings and credit. 2. Seed capital provided to village organisations (VOs) (primary federations of 10-15 SHGs) 3. Additional cost of promoting <i>mandal</i> federations (<i>mandal mahila samakhya</i>) is Rs. 20,000 per VO. (<i>mandal</i> = 40-50 villages)(25 VOs per <i>mandal</i>) 4. Covers additional training, staff time, exposure visits and expert fees. 5. Groups/federations linked to banks/BASIX. 6. Successor World Bank DPIP project in A.P. is more comprehensive covering social mobilisation, social security and additional saving products - SHG promotion cost estimated at Rs. 20,000.

<p>CARE-CASHE Project (A.P.)</p> <p>(implemented by 6 partner NGOs)</p>	<p>Micro-finance with household enterprise</p>	<p>3 years</p>	<p>Rs. 4,884</p>	<p>Actuals for two years plus projected for 3rd year Staff – Rs. 1,930 Training –Rs. 1,154 Conveyance – Rs. 723 Overheads (at NGO level) –Rs. 1077</p>	<ol style="list-style-type: none"> 1. Essentially sectoral MF intervention with objective of establishing sustainable SHGs and apex bodies for financial and other services started in Dec. 1999. 2. Average cost for 5 out of 6 partner NGO-MFIs/promoters. 3. Objective is also to strengthen partner NGOs towards scaling up. 4. Excludes costs at CARE-India, which cover a wide range of activities for the development of the MF sector. 5. Revolving fund grant provided to SHGs. 6. Less than 20% of groups are newly formed, rest are old groups formed under the DWCRA programme that are being strengthened. 7. Approximately 700 clients (or 40-50 SHGs) per field worker
<p>OUTREACH (Karnataka/ Tamil Nadu)</p>	<p>NGO Promoter now MFI/micro-finance plus livelihoods</p>	<p>3 years</p>	<p>Rs. 4,500-6,000</p>	<p>Range reflects cost variation between freshly appointed and experienced extension officer. Covers direct costs only – salaries, conveyance, training (training cost Rs. 3,000 per SHG)</p>	<ol style="list-style-type: none"> 1. SHGs part of a vision of cluster level community based development institutions. 2. Links with participatory watershed programme – ‘watershed plus’ and microenterprise development. 3. Four stages in SHG development of retrieval, development, consolidation and withdrawal over 3-5 years. 4. One extension officer covers 15 groups in the first 6 months and adds 5 more groups every 6 months. 5. 10 one-day programmes for SHGs covering 10 training modules at different points in time. 6. SHGs formed into cluster level associations (CLAs) which promote new groups in their area after formation.

MYRADA (Karnataka/ Tamil Nadu a.o)	NGO promoter, bank- linkage/ microfinance plus livelihoods	3 years	Rs. 15,000- 25,000	Covers staff, motorcycle, office rent (Rs. 500-600), cost of superior office, training, writer of group accounts	<ol style="list-style-type: none"> 1. SHGs are affinity groups strongly linked to livelihoods programmes. 2. Covers costs to federation stage. 3. SHGs, not always, come together into non-financial federations which also help to form new groups 4. Federation formation process starts within 6 months of birth of SHG. 5. SHGs put through 14 training sessions. 6. Based upon assumption of one community organiser supporting 12-15 SHGs of 20 members
PRADAN- Hazaribagh (Jharkhand) (UNICEF CCA Project)	do.	3 years	12,100	<p>Yr. 1 – Rs. 5,500 Yr. 2 – Rs. 4,400 Yr. 3 – Rs. 2,200</p> <ol style="list-style-type: none"> 1. Members' training- Rs. 1,400 2. Professionals' salaries and transport – Rs. 9,000 3. Accounts training- Rs. 200 4. Other – Rs. 400 plus 10% overheads (office, equipment, support staff, etc) 	<ol style="list-style-type: none"> 1. Programme under UNICEF Convergent Community Action (CCA) Project. NGO acts only as promoter of SHGs towards bank-linkage and cluster-level non-financial federations. 2. SHG moves through 5 stages, pre-formation (0-1 month), formation (2-4 months), stabilisation (5-8 months), growth (9-18 months) and expansion (18-36 months). 3. Strongly linked to livelihoods through parallel programs of lift irrigation, watershed development, and microenterprise. 4. Development support team of professionals promotes groups, no field staff. 5. SHGs trained to manage own affairs and to meet various costs right from outset. 6. Each professional promotes 25-30 groups per year.

Holy Cross Social Service Centre (HCSSC), Hazaribagh district, Jharkhand and Ranchi district, Bihar a.o.	NGO promoter for bank linkage with strong livelihoods development and empowerment programme	5 to 7 years	Rs. 16,000 direct costs plus Rs. 4,575 overhead costs	Direct costs: Yr.1 – Rs. 5,000 Yr. 2 – Rs. 3,000 Yr. 3 – Rs. 2,500 Yrs. 4 to 7 – Rs. 5500 Overheads: Yr. 1 – Rs. 1,200 Yr. 2 - Rs. 900 Yr. 3 - Rs. 750 Yrs. 4 to 7 – Rs. 1,725	<ol style="list-style-type: none"> 1. Active in SHG development the area since 1989. 2. Savings and credit entry point for development activities such as irrigation, agriculture, education and income generation activities with objective of women’s empowerment. 3. Five stages of group development: (i) pre-formation 1-3 months; (ii) formation 3-8 months; (iii) performing 8-18 months; (iv) growth 18-24 months; and (v) expansion 24 months onwards. 4. SHG federated into clusters of 10-15 SHGs for channelling inputs, training and for cluster level collective action. 5. SHGs pay for stationery and administration from the beginning and for local accountants after three months. 6. Most SHGs in undeveloped and inaccessible areas.
CARE-CREDIT project, Ranchi (Jharkhand) Implementing NGOs: 1.NBJK 2.PRADAN	Project implemented through NGOs, bank linkage/ savings and credit for empowerment	4 years	Rs. 13726 (NBJK) Rs. 15356 (PRADAN)	Includes only costs incurred at NGO level.	<ol style="list-style-type: none"> 1. Savings and credit project with differing approach adopted by the two partner NGOs. (Promotion only by PRADAN and financial intermediation by NBJK.) 2. SHGs formed into non-financial unregistered cluster-level bodies by PRADAN through group contribution. 3. PRADAN methodology similar to PRADAN, Hazaribagh

Source: 1. Rough estimates and notes provided during interviews at BASIX, OUTREACH, MYRADA, PRADAN (Hazaribagh), Holy Cross SSC and with former Chief Executive UNDP SAPAP Project.

2. Reworked from estimates of historical costs prepared from project data by CARE-India staff of CREDIT and CASHE project.

Table 4.2 Scales of Support Available to NGOs for SHG Promotion

Agency/Programme	Amount of support (Rs. per SHG promoted)	Details	Remarks
1. National Bank for Agriculture and Rural Development (NABARD)	2,000	25% at time of initiation of SHG 25% on savings linkage 50% on credit linkage	1. Covers only additional cost of facilitation and training in methodology of SHG-bank linkage 2. Covers staff costs, conveyance, stationery and training
2. Council for the Advancement and Promotion of Agricultural and Rural Technology (CAPART)	9,000	Rs. 3,000 per year for three years (includes honorarium for staff @ Rs. 600 per year)	Costs covered include costs of identification and survey of villages, training, exposure and co-learning processes, books of accounts, savings and credit linkage.
3. Swa-Shakti Programme (7 states)	10,000	(Additional sum of Rs. 2,000 available when training organised by NGOs)	World Bank funded project for women's empowerment. Excludes training, including on microenterprise, which is organised centrally.
4. Swarnajayanti Gram Swarozgar Yojana (SGSY) Programme	10,000	20% at beginning of formation of SHG 30% after group qualifies for SGSY revolving fund 40% after group takes up economic activity 10% after start of economic activity if group is doing well	This revamped version of DWCRA provides for support to NGOs promoting SHGs under the programme. No information of any study NGOs availing this facility.

Agency/Programme	Amount of support (Rs. per SHG promoted)	Details	Remarks
5. Rashtriya Mahila Kosh (RMK)	Rs. 4,000		<p>1. Available to NGO-MFIs acting as intermediaries in lending to SHGs promoted by them.</p> <p>2. Interest free loan of Rs. 1,00,000 for every 25 SHGs promoted, converted into a grant on successful completion of loaning.</p>
6. UNICEF/UNDP Community Convergent Action (CCA) Programme	Rs. 8,000	Over 3 to 4 years (implemented through 4 NGOs, including PRADAN (see table 4.1) in Bihar and Jharkhand)	<p>A strategy for women's empowerment through SHGs with savings and credit as an entry point. Implemented through state governments to encourage bottom-up planning and greater responsiveness from its line departments. (Balance -Rs. 4,000 - of PRADAN's total promotion costs of approx. Rs. 12,000 met through 50% grant from ICCO.)</p>

5. SUSTAINABILITY OF SHGS AND SHG-BASED INSTITUTIONS

5.1 Concepts and Issues

In the study of rural development we can locate three frameworks of analysis. These are the neo-classical, Marxian and systems approaches. While the latter two are *holistic* approaches, the neo-classical framework provides the underpinning of modern microfinance, with its focus on the decision making of *individual* economic agents towards (short-term) profit or utility maximisation. Neo-classical discussion and policy prescriptions in microfinance are directed towards creating the conditions for the operation of free rural financial markets. Institutional economists have further used the imperfect information paradigm to focus on transaction costs of credit delivery that serve to explain and justify high interest rates charged by village moneylenders. The problems of rural credit markets have been seen in terms of the costs to lenders related to *screening* borrowers, *incentives* for repayment and *enforcement* of loan recovery (Hoff and Stiglitz, 1993). Much of the appeal of modern microfinance lies in its ability to address these problems through innovations such as the group approach, targeting women, small loan sizes and progressive loaning.

The concept of sustainability on the other hand *has its origins in natural resources management as part of systems analysis linked to the technical concept of “carrying capacity” of an ecosystem* (McNamara and Morse, 1998). The disjunction between the concepts of sustainability and microfinance is further confounded by the narrow application of the sustainability concept to financial intermediary institutions as assessed through sustainability-linked performance criteria. This is clearly flawed since within a holistic framework, financial resources are but one of a set of livelihood resources which are combined in the pursuit of livelihood strategies such as intensification, diversification and migration (Scoones, 1998).

Within microfinance, sustainability can be viewed at several levels - institutional, group and individual - and can relate to organisational, managerial and financial aspects. However, it is the financial sustainability of microfinance institutions that has become the critical point of focus of mainstream analysis at the expense of the sustainability of the client/borrower. Hulme and Mosley (1996) distinguish between the “intended beneficiary” school and the “intermediary” school wherein the former is more concerned with the impact of microfinance on the intended beneficiary individuals or households and the latter with the institutional outreach and institutional sustainability⁴⁰. The duality represented by these schools is also evident from the tension between financial sustainability and poverty alleviation, i.e., whether financial sustainability of the MFIs can be reconciled with the objective of reaching the poorest households.

⁴⁰ This also reveals the interlinked nature of issues related to impact and sustainability. Thus, tracing household-level impact, which is discussed in the next chapter, is a major concern of the intended beneficiary school. The intermediary school sets greater store by repayment rates and financial self-sufficiency with repayment rates being considered a proxy for impact on the presumption that timely repayment of loans by “rational” borrowers is evidence of adequate returns to the investments undertaken by them.

Gender empowerment represents another domain of influence of microfinance interventions. Mayoux (1998) provides three contrasting, but overlapping, paradigms of financial self-sustainability, poverty alleviation and feminist empowerment. Thus sustainability in the financial self-sustainability paradigm is seen in terms of *financial self-sufficiency of the microfinance intermediary*⁴¹. Under the poverty alleviation paradigm sustainability is viewed in terms of *long-term community self-reliance and self-determination of the poor*, while the feminist empowerment paradigm aims at the development of *self-sustaining women's organisations for long-term change in gender relations*.

The above discussion shows that the sustainability question has multiple dimensions that need to be reconciled in order to judge the appropriateness of different approaches. A further issue relates to the sustainability of the larger financial system as against the narrow focus on the microfinance retailer⁴². With the multiple layers of financial intermediaries - formal and quasi-formal - in the banking chain, sustainability must be ensured at intermediate levels as well. Ensuring an adequate interest spread to cover costs of intermediaries could significantly increase the cost of borrowing for institutions like SHGs and SHG individual members and even the off-take of loan funds. *The supply-led character of modern microfinance displays low sensitivity to the structure of credit demand, its cost to borrowers and the returns to investments financed through credit, especially in rural areas with poor infrastructure.*

The development of sustainability indicators such as the Subsidy Dependence Index (Yaron, 1992) have served to highlight the detrimental effect of subsidised credit. Such tools of analysis, however, are capable of being misused to support high interest rate regimes. Thus, the notion of a subsidy-free *break-even rate* for MFIs provides the argument for upward revisions in interest rates to poor borrowers. It is another matter that it might disguise inefficiency in the operations of the MFI.⁴³

The sustainability question in respect of SHGs needs to be reviewed given the character, context and objectives of their promotion. *The attractiveness of the SHG as a micro-bank serving its members arises from the low-cost retailing option it provides through externalisation of the transaction costs of financial intermediaries* (in part through transfer of costs to the SHG and its members). However, as is increasingly becoming evident, only about one-third to one-half of SHG members are able to avail of loans out of external funds. Further, loan requirements and growth in demand for loans are constrained in many areas and even in the relatively better-off states where the bulk of the SHGs have been formed.

⁴¹ A financially self-sufficient credit operation must cover operating costs (including loan loss reserves), the cost of funds and inflation through interest charges and fees.

⁴² In the case of SHG models using NGO/MFI intermediaries, it is however, not the operational self-sufficiency of the SHG (at which level operating costs are minimal) but that of the NGO intermediary that is often at issue.

⁴³ "The index assumes that the lending rate is the only change made to compensate for loss of subsidy. However, it does not mean that adjusting the interest rate is required or is feasible" (Yaron, 1992 as quoted in McNamara and Morse, 1998).

It is instructive to note that the merits of the SHG as an on-lending group has its roots in the “flexibility” of the Rotating Savings and Credit Association (ROSCA) and the Accumulating Savings and Credit Association (ASCA). ROSCAs respond to changes in the tempo of trade and business activity and may die out and are resurrected, say, after a period of drought, war and other economic upheavals. Sustainability is not a necessary attribute of the ROSCA. Rutherford (2000a), for example, makes the point that informal money management groups are *short-lived and changing* in their membership for good reasons - to maximise returns and safety. The desire of donors and MFIs to work with *stable* groups necessitates much investment in management style and leadership towards the development of sustainable structures based upon SHGs.

In this context it is also relevant that the SHG bank-linkage programme was conceived as a *supplementary programme to reach the poorest families* not served by the banking system. In practice SHGs have not generally included the poorest families. Harper (2002) too is of the view that SHGs are less likely to include poorer people than the Grameen groups. Thus even if the sustainability of SHGs was to be established, it would be of cold comfort to the “intended beneficiaries”.

Finally, SHGs are being used in many states as building blocks for primary and secondary federations, financial and non-financial, to access loan funds and for the delivery of non-financial services. Where this has been done, the financial and organisational sustainability of the SHG federations comes into question as well.

5.2 Sustainability of Emerging Models of SHG Development

Funds from microfinance wholesalers and other sources flow to SHG institutions through a variety of financial intermediaries. The pressure of sustainability and the limited options available in different contexts has led to various “models” or strategies of SHG development that have been adopted by NGO promoters. These have been described earlier. The prospects for the sustainability of these strategies or paths, along with the available evidence, are more fully discussed in the following sections.

The two broad paths for long-term SHG development in India identified in Chapter 3 were:

- (i) SHGs directly linked to banks on a permanent basis; and
- (ii) SHGs/federations of SHGs linked to various types of MFIs.

5.2.1 SHGs Linked Directly to Banks

Let us examine the growth path of an SHG formed under bank linkage. An SHG of 15 members, with a saving contribution of Rs. 30 per member per month can after one year save only Rs. 5,400 and be able to raise an initial bank loan of a like amount. However, with the accumulation of savings and the progressively increased leveraging of bank funds, this amount can increase rapidly. Even at this modest rate of saving and through internal rotation of funds, the SHG’s savings fund can build up to about Rs. 30,000 after five years and it could be eligible for a loan of eight times this amount, or Rs. 2,40,000.

In practice only very few SHGs, apart from a few promoted by the best practice NGOs, have been able both to maintain their savings and to absorb loans on anywhere near this scale. The average loan per group under the bank linkage scheme (cumulative as at March 2001) was Rs. 18,227 and average loan per family Rs. 1,072⁴⁴. Discussions with NGOs such as MYRADA, PRADAN, HCSSC, OUTREACH and ASSEFA, which have had the longest history of promoting SHGs, suggest that even in their programmes not more than one-third of their SHGs have been linked to banks and that only one-third to one-half of the members have borrowed from the SHG⁴⁵.

On the other hand, there is evidence that, apart from other benefits to members such as the rotation of savings for small-scale and emergency borrowings, SHG bank linkage reduces the transaction cost of both banks and borrowers for loans from the formal sector.

There is no disputing the benefits of SHG-bank linkage in enabling access to loan funds of group members who were not being served by the banking system⁴⁶. However, the limits imposed the group's savings on SHG borrowings means that, for comparatively new SHGs only some of the SHG members can expect to receive a modest loan in the range of Rs. 3000 to 5000. Thus the *majority of group members are either net savers or pure savers*⁴⁷. Despite the critical importance of savings in the SHG model, it is the savings service that is least developed. There are invariably no savings products other than the compulsory weekly/bi-weekly/monthly contribution and open access to savings is not available. Profits of SHG operations are only shared in some organisations⁴⁸. Exit rules are unclear but usually result in loss of claims over share of separating members in accumulated profits of the SHG.

Financial and organisational sustainability: Given their good repayment performance, the viability or sustainability of SHGs in financial terms is currently not an issue. SHG income through interest charges and fines, particularly for absence and late attendance of meetings, though small is matched by an extremely low-cost of operations limited to maintenance of books of accounts and payment of an honorarium to the local accountant. Typically, borrowings are a 12% per annum under the bank linkage scheme and on lending to members at 2% per month flat rate.⁴⁹ Indeed, well-functioning SHGs are able to use part of their profits for buying services of accountants, teachers, paravets, etc. from their own funds for other social and economic services. PRADAN (but not HCSSC),

⁴⁴ Since the number of SHGs more than doubled over the previous year, the majority of SHGs in this estimate are obviously first time recipients of bank loans. For SHGs older than one year the average bank loan could be about Rs. 25,000-Rs. 30,000.

⁴⁵ Over the comparatively long period of SHG savings promoted by these NGOs, average SHG savings range between Rs. 5,288 for HCSSC to Rs. 24,404 for MYRADA.

⁴⁶ This needs to be qualified since the much-maligned IRD programme of the 1980s and 1990s, despite its many shortcomings including improper targeting, did in fact reach substantial sections of the poor. Several members of most SHGs are former IRD beneficiaries. That a fair proportion of SHG members may be non-poor is another matter.

⁴⁷ Though given their saving performance, the access of members of SHGs of the study NGOs is higher, this phenomenon can be said to be true of them as well.

⁴⁸ Though PRADAN and HCSSC SHGs distribute 100% and 50% respectively of profits out of loan fund and savings fund operations to members on the basis of their savings lodged with the SHG.

⁴⁹ SHGs usually charge a higher rate (3-5% flat per month) on the mainly consumption and emergency loans provided by them from their own funds.

encourage SHGs to bear all costs of operations right from the outset. Separate contributions are also raised for other one-off activities.

The organisational sustainability of SHGs is more open to question. Little research has been done on the internal dynamics of SHGs, the access of relatively poor members to loans and the relative stake of, and costs borne and benefits realised by, different categories of members, e.g., the net borrowers, net savers and pure savers identified earlier. Experience suggests that even after a period of 3 to 5 years (the time usually taken for SHGs to achieve the experience and maturity required to function as an independent financial entity), SHGs are not equipped to engage directly with banks and other agencies⁵⁰.

Even where SHGs are not constituted into higher-level financial organisations, promoting NGOs have felt the need to form cluster level associations, for cross learning and for NGO monitoring during later stages of SHG development. HCSSC, PRADAN and MYRADA have encouraged SHGs to form into cluster bodies of 10-20 groups belonging to contiguous villages. In the case of other agencies which have helped to form member or community based organisations for financial services at the development block level, intermediate non-financial organizations at village or cluster level have been promoted with similar objectives. A related learning is that *scattered SHG development is likely to be counterproductive* and short-lived since each SHG needs to receive sustenance from wider associates even when not brought together into a higher order financial intermediary. This is especially so when the close contact and support of the promoting NGO is to be withdrawn.

Quality of groups: The sustainability of SHGs is clearly related to the “quality” of groups promoted. A common characteristic of leading SHG promoters is the intensive training and capacity building undertaken at group level at various stages, which in turn contributes to higher costs of promotion. By now NGOs and banks have generally devised assessment criteria for appraisal and periodic evaluations of group performance and sustainability⁵¹. Assessment indicators include frequency and attendance of meetings, volume of savings, rotation of own savings, development of financial and skills, quality of leadership, etc. It is common to find, though only at field office level, data on ratings of groups into good, average and poor or similar categories. Broadly speaking, even best practice NGOs generally have only about 50% of groups placed in the highest category, with 30-40% of SHGs needing additional support and 10-20% failing to take off. This accounts for the varying duration of external inputs necessary in SHG promotion and development and makes the case for continued long-term NGO

⁵⁰ A senior manager of PRADAN reports a vulnerable stage of “group fatigue”, two years or so after the formation of an SHG, when the initial enthusiasm of group functioning wears off and a period of renewed motivation is necessary. The building of the group cooperation and solidarity in non-financial activities, in apposition to the routine banking activity, can be seen as a must to reinforce the group cohesion. Thus while savings and credit may be used as an entry point activity, it may not be sufficient to ensure sustainable long-term functioning of the SHG.

⁵¹ NABARD has developed rating criteria for appraisal of groups for bank linkage, as have various banks. A particularly elaborate questionnaire on a 700 point score to assess the quality and creditworthiness of a group has been developed by BASIX. MYRADA uses very detailed criteria for evaluation of group performance, guidelines for financing self-help groups and guidelines for an evaluation to decide if NGO involvement can be phased out.

presence in the area. The quality of SHGs promoted has become a serious issue in the case of SHGs promoted under the DWCRA, and other state initiatives, especially in Andhra Pradesh where limited and improper facilitation has led to a large proportion of SHGs becoming defunct. The revival of these SHGs is part of the activities of the CASHE project, APMAS and the ASP.

Long-term prospects: The longer-term prospect for SHGs linked to banks is unclear. The leading NGOs covered in the study have phased out from some areas after having linked the SHGs formed to banks.⁵² There is, however, unease about their ability to continue to access to funds from the banking system and to move along a growth path out of poverty. With NGO withdrawal the monitoring of the SHGs also ceases and there is little information on their activities. However, since the NGO generally continues to work in the area it is in a position to undertake troubleshooting on their behalf.

The logical path for members of SHGs linked to banks should be to graduate to (larger) individual loans under the bank's normal lending programme. This does not appear to be emerging, both on account of the absence of a vision at NGO and bank level as well as infrastructural and other constraints operative on the absorption of credit by poorer households⁵³.

Bank linkage and SGSY programme: The SHG-bank linkage programme may continue, as initially envisaged, in the form of a *supplementary* credit programme in rural areas. However, the situation is further complicated by the introduction, on a nation-wide basis, of the SGSY programme that provides comparatively larger loans for identified activities to families officially classified as poor, along with training and infrastructural support. This revamped form of the IRDP is implemented through SHGs and contains a back-ended subsidy element. Despite a shaky start, it is already providing loans several times greater than funds flowing through bank linkage. In fact *the SGSY is effectively another SHG-bank linkage programme that is directed towards asset promotion and microenterprise*. The subsidy element goes against the principles of SHG development that are being promoted by NGOs and the banks and best practice NGOs are generally not keen to get involved in the programme. There is however, scope for convergence between bank linkage and the SGSY. The larger loan facility of the latter, not linked to savings, can be provided for well-functioning SHGs after an initial period of savings-linked loans.

5.2.2 SHGs/Federations of SHGs Linked to Various Types of MFIs

We consider the sustainability of the SHG-based federations that have emerged for the four forms of links with financing institutions identified in Chapter 3.

(a) SHGs/SHG clusters/secondary federations linked to NGO-MFI

⁵² This is not a widespread phenomenon. NGOs promoting SHGs and village *sanghas* under long-term donor partnerships for running integrated programmes have often resisted phasing out of their area of operations even after 10 to 15 years.

⁵³ This must be qualified by the fact that most SHGs have been linked to banks only in the latter half of the nineties and it is probably too early to expect SHG members to "graduate" on a large scale.

NGO lending to SHGs/individuals: Among the study NGOs, NBJK (along with OUTREACH) is one that has opted to form an MFI with the legal entity yet to be established. A credit rating for borrowing SIDBI funds at 11% p.a. is to be carried out. Cordaid funding is also expected. NBJK's operations of the CREDIT project over three years – the promotion and stabilization phase for the SHGs - have not been financially sustainable. In fact its operational self-sufficiency was only 20% in 1999 (Sampark, 2000). In its Strategic Business Plan, however, by making individual loans at the equivalent of 18% rate of interest, and assuming a charge on CREDIT programme funds at 6% and other borrowed funds (including loans from the RMK)⁵⁴ at an average of 11%, it expects to be operationally self-sufficient with a portfolio of Rs. 1.5 crores in 2003 (Sampark, 2001)⁵⁵. In such a model with NGO staff effectively managing the loan portfolio, the role of the SHG, if it exists, is reduced to a facilitator, like the Grameen center composed of five or six joint liability groups⁵⁶.

The advantage of this model is to largely de-link credit from savings as far as the SHG/individual are concerned and make possible larger loans to SHGs⁵⁷. On the other hand, NGO capacity for microfinance has to be built up and the NGO has to operate on a very small margin, of about 5-6% unless grant or subsidised funds are available. This necessitates large outreach. Though many small NGOs with less than 100 SHGs are keen to adopt this model, apart from other capacity building requirements, a minimum of 3,000 to 4,000 clients may be necessary for viable operations.

The M-CRIL Report 2000 (M-CRIL, 2000) consolidates the findings of creditworthiness ratings of 56 MFIs in India Bangladesh and Nepal, including 31 using the SHG methodology. Compared to the Grameen-style MFIs, the MFIs lending to SHGs are generally smaller, have lower membership and number of borrowers, and provide smaller loan sizes. Further staff productivity as measured by active borrowers per staff member is only 51 as against 261 for the individual banking model. The operational self-sufficiency of SHG model MFIs is only 44.4% with only 7 out of 31 approaching self-sufficiency and only one able to cover its costs. Thus from the standpoint of financial performance, this model has several limitations. This is attributed in the report to the *social* rather than *business* orientation of the SHG-based MFIs⁵⁸.

⁵⁴ The RMK constitutes another source of funds for the NGO operating as a financial intermediary for SHGs, as also NABARD under its revolving fund assistance programme. In the case of the RMK this is the only channel of funds for SHGs, which are available at as low as 8% with an 18% cap on the rate chargeable to the final borrower. Capacity building support and other remissions can reduce the effective rate of RMK funds to also low as 4.5%.

⁵⁵ In a savings and credit programme implemented with ActionAid support where community funds have been built up over time, cooperatives are to be registered under the Bihar Self-Supporting Cooperatives Act (an act with similar provisions to the MACS Act of Andhra Pradesh). Where substantial funds are already available with the SHGs, the cooperative form has greater attraction.

⁵⁶ NBJK suggest that the model is suited to the agricultural labour class, which see less merit in coming together into SHGs, the preferred form of business and self-cultivating households.

⁵⁷ One of the main criticisms of the SHG bank linkage model was that the loan size was constrained by the SHG's savings levels.

⁵⁸ Other writers, e.g. Dichter (1999) and Fernandez (1999) have expressed reservations about the ability of NGOs to function as microfinance intermediaries for similar reasons. However, the rating criteria of such MF capacity assessment agencies while applying standard (micro)finance and management performance criteria may not adequately take into account the special characteristics of lending to SHGs. M-CRIL has also not yet developed rating instruments for SHGs.

NGOs lending to SHG clusters/federations: OUTREACH is the other study NGO that has opted to become an MFI as an intermediary for the CLAs that have been formed out of the SHGs. The results of CLA operations thus far suggest that sustainable functioning has been partially achieved. Two concerns about this model remain. First, with the additional layer of the CLA, the cost of external funds to the SHGs increases. Under the interest-sharing regime, OUTREACH accesses funds from SIDBI at 11% per annum, which are passed on to clusters at 15%, to SHGs at 20% and to individual borrowers at 24%⁵⁹. As against this SHGs could borrow under bank linkage at 12%. Second, the shift from the SHG to cluster as the unit of interface with bank/NGO means that *any organizational and financial weaknesses of the base SHGs are further magnified*. For cluster associations to work successfully as independent MFIs they have to be based on viable SHGs with sound systems and financial skills developed through strong facilitation and capacity building by the NGO. Also, given the low outreach of CLAs, they are not in a position to realize economies of scale.

The longer term vision for the OUTREACH model involves the project level federation taking over the role of the NGO after it phases out of the area in five or six years' time. The secondary level federation would then access funds from wholesalers. This is similar to the Dhan Foundation *kalanjiam* model below. The other common and critical feature is the broad-based role for the federations that encompasses a range of largely economic functions centered on the development of livelihoods. Any assessment of the cluster as intermediary must take into account the additional activities and products introduced at cluster level that would not be possible while working with individual SHGs. This has been one of the features of both the OUTREACH and DHAN Foundation federations.

(b) SHGs/SHG clusters/federations linked to not-for-profit companies and NBFCs

MYRADA provides the sole case in our study of an NGO promoting a non-profit company, Sanghamitra. By lending at 14%, with 8% as the cost of funds, Sanghamitra, expects to break even in the third year and to meet the cost of funds by the fifth year. Over 40% of the funds will come from the SHG savings mobilised (AIAMED, 2000). However, it is not viable for a company or NBFC engaged in microfinance to invest in developing a customer base - which has to be undertaken by an NGO - to enable poor clients to absorb credit. Thus this form of MFI is dependent on having a ready clientele of SHGs/individuals through prior investments and facilitation by an NGO⁶⁰. Interestingly, long-term expansion is not one of Sanghamitra objectives since it would prefer to remain small and retain the close borrower-lender relationship. Replication in the form of similar entities elsewhere is not ruled out. Thus the structural form is seen to be as equally important as the legal form (AIAMED, 2000).

⁵⁹ With this kind of interest spread OUTREACH feels that all the institutions at all levels can generate surplus and build up their funds. A further defence of this comparatively high rate of interest for individual borrowers is that it is consistent with the rates charged by SHGs on loans out of their own funds.

⁶⁰ Thus clients of the large NBFC BASIX include participants of integrated programmes after NGO phase out or whose credit needs exceeded levels facilitated by NGO operations and of members of SHGs promoted under time-bound projects like UNDP-SAPAP.

SNF, promoted by ASSEFA, is owned by the SMBTs which are its shareholders on behalf of the SHGs. It has begun to access funds at between 8 to 11.5% from a range of wholesalers⁶¹ and international sources in addition to mobilizing capital grants. These are lent to the SMBTs at 15%. Since it is at an early stage of operations sustainability analysis is premature. However, given the large corpus and clientele and the multiple sources of funding (including grants), supported by a well-established organization, prospects for its self-sufficiency are good. It has undergone the M-CRIL rating for creditworthiness recently that will enable it to access further funding from SIDBI and other wholesalers. It is also planning to increase its capital base. Under this model, however, SHG profits are not distributed to the members. While the SHG fund can be used to contribute to share capital of the company for increased availability of financial services, it is at the expense of returns on the contributions of individual members. It is argued, however, that this arrangement leads to lower rates on loans to individual borrowers since in the absence of distribution of profits SHGs do not attempt to increase their income through setting unreasonably high rates on loans to members.

(c) *SHG federations linked to wholesalers*

DHAN Foundation is the leading promoter of multi-tier financial federations that access loans from wholesalers. Financial performance data of the multi-tier federation is not available. However, the more important question relates to the establishing and ensuring institutional sustainability of such federations capable of borrowing from apex bodies. Clearly, capacity building requirements are substantial and the achievements of DHAN Foundation not likely to be easily replicable without substantial investment in other areas less favourably placed in terms of resources, capabilities and economic opportunities. Though the NGO is not directly involved, DHAN Foundation staff continues to participate in the management of the federations. Thus while it may be possible for the community MF institutions to be built they need to rely on external, paid or unpaid professional services.

One of the main supporters of federations is FWFB, which has taken the initiative to fund this category of institution as well the MACS (see below) and to document their experiences (FWFB, 1998). Adopting its own rating criteria and deploying financial resources raised in India and abroad (from NABARD, SIDBI and Cordaid among others), it provides funding and capacity building support for SHG federations. The position of FWFB is somewhat ambiguous in that it acts as an intermediary for sources such as the above which can now be directly accessed by MFIs, even federations of SHGs. At 13.5% per annum, the cost of funds borrowed by MFIs from FWFB is several percentage points higher than if obtained from NABARD or SIDBI. FWFB, however, makes the fair point that it is able to process applications and provide loans within weeks as against the long delays experienced in dealing with official financing agencies. This makes it the preferred source for MFIs such as SHG federations.

(d) *MACS*

⁶¹ These include SIDBI, HDFC, HUDCO, RMK, UTI Bank and Rabobank.

The SHG model has been described as a village-banking model. Similar initiatives internationally, such as FINCA, see the SHG as a pre-credit union institution. Yet the SHG is not critical to formation of cooperative member-based organisations. While there has been a rush to register SHG associations as MACTS and NGOs and MF wholesalers are prepared to provide funds to MACTS for on lending to their members, doubts persist whether this is the appropriate model to build upon the SHG.

First, given the member-owned structure of the MACTS, SHGs cannot strictly speaking be its constituents⁶². However, through amendment of the by-laws of the MACTS individual members can have a share in the MACTS while the representative general body is composed of SHG leaders. In this institution the role of the SHG as a micro-bank is supplanted by the MACTS. The SHG becomes a *facilitating institution* rather than a *fund manager* – much like the Grameen *centre* – leading to its irrelevance or “disempowerment”⁶³. Second, the MACTS does not overcome the SHG weakness of low degree of capitalisation towards mobilisation of funds. Third, MACTS generally continue to be managed and controlled by the NGOs supporting them. The chief functionary is almost invariably an NGO staff member. Finally, like all cooperative structures, the possibility of the exercise of political influence towards control of the MACTS cannot be ruled out. Indeed, a disquieting feature of the Andhra MACTS is the manner in which this organisational form and the unregistered *mahila* (women’s) bank are also being used by unscrupulous persons to hijack poor people’s savings, with reports of several failures of these emerging institutions.

NGO support for MACTS follows a similar pattern to that of other federation types, with a planned tapering off of NGO grants and management inputs towards eventual self-sufficiency. However, there are no major instances of NGOs having phased out.

Reports of the financial performance of MACTS present a mixed picture. In some accounts the savings constraint is highlighted – the absence of a strong savings mobilization effort through the SHG as a basis to source external borrowings⁶⁴. This has to be set against reports of an excessive accumulation of savings and poor off-take of loans in the absence of the available infrastructure support for SHG/MACTS members to undertake larger investments⁶⁵.

A study by FWFB (FWFB, 2001) of the financial sustainability of three of the more successful MACTS in Andhra Pradesh that received loans from FWFB and BASIX reveals operational self-sufficiency in the region of 85 to 90% and portfolio at risk in the range of 11 to 35% during 2000-2001. These MACTS offer a range of savings products and also run a Death Relief Assurance Scheme. Loans to individuals are provided at 21

⁶² Though the corresponding Act in Bihar has similar provisions to that in A.P., NGO practitioners in Jharkhand advise that the member-owned character of the MAC form has prevented them from promoting a cooperative institution based on the SHG.

⁶³ The recent APMAS study in Cuddapah and Visakhapatnam districts (APMAS, 2001) discovered that many SHGs formed into MACTS had become virtually defunct - meetings were not being held and savings were generally being collected on a door-to-door basis.

⁶⁴ BASIX, APMAS (personal communication).

⁶⁵ CARE-India (personal communication). See also Seibel (2001) for an illustration of the excessive liquidity position of Sneha Mahila MACS.

to 24% per annum. However, the study report finds several deficiencies in book keeping, financial planning and maintenance of the MIS.

Nevertheless, the MACTS, whether formed at a small (cluster) level or as an apex of several clusters federations of SHGs at the *mandal*⁶⁶ level, is being supported by agencies such as UNDP, CARE-India and the state government. NGOs are optimistic about the possibility of MACTS attaining sustainability after about three years or so of their support. At the same time the large-scale promotion of SHGs by state agencies have resulted in a situation where only about 20% of SHGs are functioning properly. The strengthening of SHGs, their federations and the formation of MACTS is a major exercise that is under way through the agency of the government-supported APMAS and with the support of DFID, CARE-India, BASIX and other major SHG promoters. One of the critical gaps that remain to be filled is that of a supportive infrastructure, particularly in the form of business development services and marketing linkages to enable the utilisation of the savings and the loan funds of SHGs and MACTS into productive investment.

5.3 Concluding Observations

The wide spectrum of emerging models of SHG-based institutions reflects the efforts of NGOs and other stakeholders in addressing the challenge of sustainability. The multiple constraints and opportunities that determine the types of institutions promoted include: (i) the legal and regulatory provisions in the states of operation; (ii) the origins of the programmes and the broader vision for the community; (iii) the capacity of the NGO to support microfinance; (iv) poverty contexts and social conditions in different areas; (v) the availability of the physical and financial infrastructure and external support. With the possible exception of some of the MACTS and *mahila* banks of A.P., in all other institutional forms based on the SHG, microfinance is a major, but not the only, component within an agenda that encompasses livelihoods along with social and political mobilization. This has contributed to building of the SHG as an institution, and is, to a large extent, contributory to the success of the SHGs and their federations.

As with virtually all other institutional forms, the financial viability of SHG federations has not been conclusively demonstrated. However, as community based organisations with lower overheads and decentralised functioning they have the potential to provide cost-effective financial services once necessary investments are made to strengthen their management.

⁶⁶ A development block consisting of about 40 villages.

6. IMPACT OF SHG-BASED MICROFINANCE PROGRAMMES: ISSUES AND EVIDENCE

The key to the success of a development programme is its effectiveness in bringing about the desired change in the lives and livelihoods of the participants or the target groups it is intended to benefit. A fairly large body of literature has built up over the past few years on the methodology of impact assessment for microfinance programmes. This is reflective of an increasing donor concern with the outcomes of the interventions sponsored by them. Impact assessment studies are thus becoming an integral part of NGO activities designed both to satisfy donor requirements as well influence policy-makers to ensure the flow of funding for development activities. Current thinking on impact assessment attempts to balance out old-style *evaluation* of projects with an understanding of the process of the intervention and the perspective of the participants and other stakeholders.

6.1 Issues in Microfinance Impact Assessment

The objectives of microfinance impact assessment are ranged across a continuum represented by the two poles of “proving impact” and “improving practice” (Hulme, 2000). The former represents objectivity, accuracy and analytical rigour and is the major concern of donors, academics and policy makers. The latter is more subjective and process-related and directed at internal learning of practitioners and donor field staff. Correspondingly, in terms of the methodologies in impact assessment there is a tension between survey-based quantitative studies on the one hand and qualitative approaches, such as case studies, and a range of participatory techniques.

A wide range of reviews and evaluations pass off as impact assessments of development interventions. The critical evidence of impact, however, pertains to *sustained net benefits* to families or participants covered by the programmes being assessed. Other agents can be benefited positively or negatively as well. These benefits may be *intended* or *unintended* as the effect of programme activities is mediated by other local or wider forces.

A common definition that has emerged is that *impact assessment is a systematic analysis of the lasting changes – positive or negative, intended or not – in people’s lives brought about by an action or a series of actions* (Roche, 1999).

A key component of an impact exercise is the identification of the “impact chain” or “impact pathway” which, through the changes in behaviour and practices brought about by an intervention, results in modified outcomes for the agent being studied. The chain can be expressed thus:

Inputs → (activities) → outputs → effects or outcomes → impact

The distinction between outcomes and impact is somewhat blurred, but the important issue here is that we need to look beyond project activities and outputs in order to assess impact.

A major problem, however, relates to the *attribution* of impact. The influence of external changes in the infrastructure or environment in the project area may affect the factors intermediating impact. Thus a comparison has to be made between benefits realized by the group of intended beneficiaries and another similarly placed group not covered by the project. Where an integrated intervention is in operation, the attribution of benefits to a component of the programme is particularly problematic. This is the case with most microfinance programmes implemented through SHGs, where other economic and social development interventions run simultaneously.

The products and methodology of microfinance are expected to result in economic and social benefits. An attempt at comparison of different approaches needs to consider both economic and social outcomes with at least an implicit trade-off between economic and social aspects of change. Further, non-tangible and social benefits in the form of, say, empowerment of women, may need to be studied through a qualitative approach with a careful specification of relevant proxy indicators.

Finally, in the spirit of the question, “whose reality counts?” it can be argued that the perceptions of and relative weightage given to different types of benefits need to be determined by the target group rather than implementing agencies or external observers. This has resulted in the growing importance of participatory methods of impact assessment through focus group discussions and other exercises towards participatory learning and action methods (PLA). This is also the basis for a proposed shift in emphasis to continuous monitoring of impact instead of major one-off evaluations towards the conclusion of projects. However, the subjectivity of its conceptualisation and the data used for assessing impact constitute problem areas with this approach, besides the fact that variables covered vary from case to case preventing wider comparison (Hulme, 2000).

Impact can be studied at the individual, enterprise, household, community and institutional levels. International practice in microfinance is moving in the direction of the development of a set of cost-effective tools of impact assessment using surveys, qualitative and participatory methods with a view to triangulate impact findings through these multiple approaches (see AIMS, 2000). A number of MFIs are using a combination of AIMS tools to assess impact in the different arenas described above. These include: (i) impact survey; (ii) client exit survey; (iii) loan use strategies; (iv) client satisfaction; and (v) client empowerment. However, further research continues, among others, to devise tools for assessing impact on the poorest clients and gender relations. It also needs to be examined whether these tools are appropriate for assessing the effectiveness of community finance organisations based on SHGs instead of client-based microfinance programmes.

6.2 Evidence of Impact of SHG-based MF programmes

Though it is a recognized component of the practice of microfinance, discussion on impact assessment has not taken off thus far in India. SHGs, usually nested in the larger village development groups, have been engaging in thrift and credit activities and even accessing donor-financed revolving loan funds for at least 20-25 years. Periodic reviews

and assessments of these programmes have been carried out using some of the methods mentioned above but they have been more concerned with monitoring outputs rather than observing impact in a scientific or systematic manner. It is only during the last five years or so that the SHG model has emerged as a potentially viable microfinance unit linked to the banking system. As such credible impact studies are virtually non-existent even among the best practice NGOs.⁶⁷ Programme MIS is generally not geared to providing impact data and the evidence of impact is usually pieced together on the basis of unstructured enquiries as part of mid-term reviews and evaluations using case studies or focus group discussions. Negative impacts are generally not reported. These reviews generally suffer from grave methodological limitations and as such their findings cannot be considered to be conclusive or even convincing.

A major question which reporting of impact has not addressed is the separation of effects of different elements of the integrated package. Thus, in livelihoods interventions, reported impact usually pertains to the combined effect of both the investments financed by grants as well as the credit programme associated with it. Further, in “before-after project” analysis by not using any control or comparison group, the operation and effect of a number of parallel government development programmes is ignored⁶⁸.

Nevertheless, these reviews and evaluation of SHG-based microfinance programmes suggest that SHGs have

- provided access to credit to their members from mainstream financing agencies,
- helped to promote savings and yielded moderate economic benefits,
- contributed to reduce the dependence on moneylenders and made available timely credit at much lower rates to the individual members, and
- resulted in empowerment benefits to women, who through their changed economic situation and experience of collective self-management of the SHG have acquired visibility and voice in the household and in the community.

On the other hand, anecdotal evidence, field impressions and communications and reports from organisations visited also suggest that

- contrary to the vision for SHG development, SHG membership is quite broad-based and members do not generally constitute the poorest;
- there is greater evidence of social empowerment rather than significant and consistent economic impact, except in the case of families active in business; and
- financial skills of group members have not developed as planned.

Given below are the findings of a few major studies⁶⁹ undertaken thus far to assess the impact of SHG programmes.

⁶⁷ In the view of a senior manager of NABARD, since these are still the early stages of SHG-bank linkage, the question of effectiveness of SHGs should be taken up only after another five years.

⁶⁸ Many SHG members have usually simultaneously benefited from subsidised government programmes for the poor, such as housing, irrigation, health and sanitation, etc.

⁶⁹ A detailed critique has, however, not been attempted.

6.3 Summary of Findings of Impact Evaluation Studies

The NABARD impact evaluation of SHGs covered by the bank-linkage programme (Puhazhendi and Satyasai, 2000)⁷⁰ is virtually the only one of its kind. The study covers the changes in socio-economic conditions of 560 members of 223 SHGs in 11 states before and after (spanning a three-year period) their association with the SHG.

It is possible to query the methodology of such quantitative surveys that use before-after comparisons. Also, the attribution of impact to a particular intervention has been seen to be a difficult proposition. Nevertheless, some of the results are staggering. In terms of economic impact:

- Average value of assets per household (including livestock and consumer durables) rose by 72.3% to Rs. 11,793 during the three-year period.
- Average net income per household from income generating activities where loan amounts were deployed, increased from Rs. 20,177 prior to group formation to Rs. 26,889.
- Employment increased by 17% and average saving per member was about Rs. 1,000 in 1998-99.
- Borrowing for income generation activities increased from 50% to 70%.
- It was estimated that 112 households or 47.8% of the poor had crossed the poverty line.

If these results were to hold true for the programme as a whole, it would be a spectacular achievement. The only unexpected feature is that 326 households out of the sample of 560 covered by the study (58.2%) were already above the poverty line in the pre-SHG situation! This raises the serious question as to whether SHGs really cover mainly poor families.

Another significant finding was that a standard of living index of sample households comprising of socio-economic parameters rose for both economic and social parameters. However, the impact was more pronounced on social aspects rather than economic aspects. Further, social impact was found to be stronger in the case of groups promoted by NGOs than in groups promoted by banks.

Other positive impacts experienced by SHG members related to increase in self-worth, communication skills, desire to protest social evils, improved response to problem situations and a decrease in family violence. A consistent increased access to various amenities such as water, health and sanitation, schools and markets is also indicated, though it is hardly clear how this can be ascribed to loans accessed by some members of SHGs.

A more limited study of 70 SHGs promoted in Tamil Nadu through four leading NGOs, ASSEFA, MYRADA, DHAN Foundation and LEAD, Trichy was undertaken by NABARD during 1996-97 (Puhazhendi, 2000). The performance of groups was assessed using a scoring system covering indicators such as

⁷⁰ The findings of this study are more fully discussed in Meyer (2001) and in Tankha (2001).

homogeneity of groups, regularity in holding meetings attendance at meetings, increase in rate of savings, share of production loan to total loan, training, NGO involvement and effective leadership. 61% of groups were found to be performing well, 29% average and 10% poorly. (9% of groups had disintegrated, but dropouts do not appear to have been covered by the study nor reasons for the break up of groups reported).

In the Tamil Nadu study, economic impact was assessed through net increase in family income, which was found to have more than doubled for the sample groups during the period of participation in the SHG. The study report is short on detail and analysis and the methodology is far from robust. Social impacts identified related to literacy levels, housing facilities and food security. Empowerment of women was observed in the form of participation of financial decisions in the family, checking liquor addiction of male family members and sending children to school. The groups were also found to be influential in the community with some women becoming members of *panchayats*⁷¹.

Another major study of 72 SHGs undertaken earlier (Harper et al., 1998) - covering over 1,000 SHG members in Orissa, Uttar Pradesh, Maharashtra and Karnataka - too registered improvement in members' diet, assets and education. This addressed the question of the benefits to the poorest members of the SHGs. The evidence suggested that nearly all members benefited to some extent although the benefits to poorer members were less or delayed compared to the better off. Thus, only 31% of the families of poorer members increased their assets, 44% improved their food consumption and 15% improved their education.

On the question of the access to benefits and power of poorer members of groups, the findings from data collected from six MYRADA groups (Fernandez, 2000), however, suggest that the poorest were *not* marginalised in terms of access to loans, though their loans were mainly for consumption purposes.

Among the other organisations visited, ASSEFA had attempted to study impact on SHG members of its women's development programme (ASSEFA, n.d.). The study results are mixed or modest and to that extent more credible. The study covered 2,754 households (total membership of ASSEFA SHGs in March 2000 was 70,611 spread over 3,268 SHGs in 8 districts of Tamil Nadu) using an interview schedule and survey methods. Villages covered were based on structured sampling and households were randomly selected. 47% of the members were found to be from families with annual income less than Rs. 14,000, 31% from families with income between Rs. 14,000 and Rs. 20,000 and the remaining 22% from families. While there is no discussion on these figures, it is presumed that Rs. 20,000 is a cut-off level for poor households and Rs. 14,000 for the extreme poor. It is suggested in the report, though not evidenced from the single point mid-term project data, that the programme failed to adequately target the poorest - which is the basic philosophy of ASSEFA.

Other data from the ASSEFA study is also revealing:

⁷¹ Local self-government bodies

- Only 55% of SHGs (1,558 out of 2,834) had repayment rates of over 80% and overdues from SHG members were Rs. 624.44 lakhs.
- 28,053 members, constituting 40% of the total, did not have access to financial assistance from ASSEFA projects.⁷²
- 95% of members covered by the study reported increases in annual income and 52% have reported an increase in net worth over Rs. 10,000.
- 75-85% of the respondents reported a range of social impact such as attitude of family members, control over additional income, self-confidence etc.

None of the other organisations visited had conducted an impact assessment programme though most said that they intended to. PRADAN is undertaking a major impact assessment this year as part of the Imp-Act, a three-year action research programme to assess the impact of microfinance programmes and institutions in the lives of the poor people. It is being conducted in different parts of the world simultaneously with financial support from the Ford Foundation and a collaborative implementation effort of about 20 organisations all over the world. Other partners from India are SHARE and Centre for Youth and Social Development (CYSD), Bhubaneshwar, Orissa. EDA Rural Systems is also undertaking a long-term impact assessment project supported by DFID and SIDBI.

6.4 Impact Evaluations of Non-SHG Models

Two microfinance organisations that do not follow the SHG bank-linkage model have conducted impact assessment studies recently. The Activists for Social Alternatives (ASA), Tiruchirapalli (Tamil Nadu) which provides a range of integrated financial and non-financial services through its Gram Vidiyal (GV) programme, has reported the findings of the first phase of its practitioner-led impact assessment using two *qualitative* AIMS tools, client empowerment and client satisfaction (Hishigsuren, 2000). The Gram Vidiyal consists of a federated structure built upon Grameen-style small groups through which financial and non-financial services are provided by ASA, the NGO/MFI. The sample of 252 members was drawn from six ASA service branches. Empowerment benefits (based upon 40 interviews) reported by around 80% of these women members included improved confidence, increased participation in decision making, including ability to handle money and making voting decisions. Particularly striking were the findings that all the respondents, except one, increased their income.

An impact assessment study of clients of SHARE MICROFIN Ltd, Hyderabad (Andhra Pradesh) using the five AIMS tools was conducted in 2001 covering 125 mature clients, 104 new clients and 109 exit clients. The final report is awaited. Preliminary study results show that

- 76.8% of the mature clients experienced significant reduction in poverty over the past four years and half of these were no longer poor (SHARE, n.d.).
- Of the 64% of these mature clients who were very poor and 36% who were moderately poor, 36% had come out of poverty and the majority (56.8%) was now moderately poor and only 7.2% remained very poor.

⁷² A similar figure is reported for other NGO programmes.

A significant discovery has been that the clients had used as many as 17 different “paths”, as represented by different combinations of activities. As discussed earlier, the identification and analysis of the impact pathway is critical for attributing impact to any given programme.

It would appear that impact assessments using “state of the art” techniques above have been found necessary for the MFI intermediaries directly involved in lending in order to access funds for their operations. The same pressure is not felt by NGO facilitators or banks unless directed to do so by donors or head offices/NABARD/RBI respectively with necessary funds being provided for the exercise.

In addition to the above consideration, client-based microfinance programmes like those of Grameen replicators are better placed to conduct impact studies and register the desired impacts. First, since they employ “hard” criteria such as (near) landlessness, housing indices, and value of assets to identify potential clients, they can directly target the poor(est) rather than adopt an inclusive approach based on affinities, activities, neighbourhoods or hamlets or targeting based on perceptions of the local community such as wealth ranking. Second, as part of the loan appraisal of clients, necessary baseline data on the client household is developed which is essential to track and demonstrate changes in the living conditions of the group members. This is rarely done in the integrated development programmes involving SHGs. Finally, with the SHG acting as a financial intermediary, transactions between the SHG and its members are not recorded at higher levels. As a result loan tracking as also tracking the stream of benefits accruing at the individual or family level is not possible.

6.5 Future of Impact Assessment of SHGs

It is fairly clear that the state of impact assessment in microfinance, and more especially of community organisations in microfinance, such as SHGs and federated structures based on them, is still undeveloped. Impact assessment has essentially been a donor requirement, which NGOs and field workers have found irksome and alienating, not the least because of an anxiety about their own performance being put to question. It is unlikely that they would pursue it in the absence of donor pressure.

It has also become clear that one-off high cost and time-consuming surveys do not adequately help us to understand processes and pathways of change and to make mid-term corrections. Qualitative and participatory methods partly fill this gap but have their limitations in respect of the reliability of the responses generated. Increasingly, a role is being seen for *participatory impact monitoring* by which (through the active involvement of participants) feedback can be provided for management decision making as well as provide the necessary data for making broad judgements about the effectiveness of projects. This is empowering for participants since through a *participatory learning and action approach* they are in a better position to assess their own conditions of existence and make informed choices about their lives. Donors are becoming sensitive to these needs and are supporting initiatives that involve such participation. In this approach impact monitoring is located in a participatory framework which could include

participatory poverty assessment, participatory baseline-setting, participatory planning, etc.

Some of the best practice NGOs such as MYRADA, PRADAN and OUTREACH are already substantially engaged in the use of participatory methodology at various levels. A set of MYRADA publications cover the use of participatory methodology in assessment of community based institutions.

The costs of implementing participatory methodologies can be substantial and the clear benefits not easy to see, especially if SHGs are to relinquish some of their functions to cluster and higher-level institutions. In any case, whether opting for traditional approaches, approaches involving a mix of methodologies, or to taking a fully participatory route, it is clear that substantial capacity building is necessary at NGO and SHG level to assess programme effectiveness. As additional layers of primary and secondary federation are created, the roles and responsibilities, MIS requirements and training have to be planned at different levels.

Banks and funding agencies are already using organisational, managerial and financial criteria for the appraisal of SHGs and SHG federations. Similar exercises are also being conducted by facilitating NGOs to help strengthen weak groups. Efforts need to be made to generate impact information at the appropriate level both for “proving impact” as well as “improving practice” of microfinance through SHGs.

7. RECOMMENDATIONS

It is not clear what is the scale of investment Cordaid and ICCO wish to make in the microfinance sector in future. It is also not known what is the present level of involvement of Cordaid and ICCO in development activity in various states in India. This has implications for the type of support the two co-financing agencies can provide and the identification of potential partners in development. Given below is a set of more general recommendations for donor support towards SHG development. These are based upon the findings of the study and the views of leading MF practitioners in India.

1. *Development of standards for SHG development*

The study drew attention to the rising concern in microfinance circles in India about the quality of SHGs being promoted, especially as the SHG bank linkage programme has become increasingly target-driven. The experience of Andhra Pradesh where a massive state promotion drive has resulted in thousands of defunct SHGs, which are now being rehabilitated, provides a warning signal for SHG promotion in future. At the heart of SHG promotion is a need for skilled and dedicated staff capable of institutionalising internal systems and processes in the SHG along with providing support for maintenance of group accounts, periodic auditing and systems for flow of information to the facilitating institution. Banks and NGOs now use some kind of rating tool to assess SHGs, but there is need first for a consensus on the parameters and criteria for standard setting and to relate the standards to nature and type of professional and technical support to be provided. The objective of standards has to be towards an improvement of MF programmes rather than provide cut-off values to be used as a basis for denial of funds and support. There is also a need to develop the capacity both of SHGs and the chain of SHG-promoting institutions to assess their own performance. The Sa-Dhan sub-group on standards has set up a dialogue and is working a consensus among member NGO-MFIs for appropriate standards. ICCO and Cordaid could support the ongoing process of standard setting for SHG development.

2. *Support for NGOs promoting SHGs in the poverty belt*

The data on outreach and impact of the SHG movement clearly shows that the major achievements in SHG promotion thus far have been in the southern states. There is also concern that many of the members of SHGs are not from the poorest families. The poverty belt of northern, central and eastern India comprising the states of Bihar, Jharkhand, Uttar Pradesh, Uttaranchal, Rajasthan, Orissa, Madhya Pradesh and Chhattisgarh continue to be deprived of opportunities for fighting their way out of poverty. Given the size of their poverty population, U.P. and Bihar are particularly underserved by development programmes. Part of the problem lies in the fact that there is a shortage of competent NGO partners working in these States. However, this is a challenge that must be met. ICCO and Cordaid should re-examine their policies and move towards working in a more focused manner in poorer regions. Capacities of existing partners should be built up and new partners sought as part of this thrust. The experienced NGOs of the south are of the opinion that strategies for SHG development employed by them in the southern states are replicable in these states as well. The wider

replication of the successful models of SHG promotion needs to be undertaken urgently. This could be the niche area for ICCO-Cordaid in the coming years.

3. Loans for MF operations

It is claimed that refinance facility available from many wholesalers for lending to the poor exceeds the requirements and the capacities of the MFIs. However, the flow of resources to undeveloped regions is still not taking place. Linked with the above, Cordaid's loan facility could be made available for financing in these regions as well. It could involve refining of the product given the likely poor off-take of loans and the high costs of financial services provision in these regions.

4. Support for state-level support institutions/resource NGOs

The enormous capacity building needs in a range of related support activities for SHGs is widely accepted. To streamline and coordinate necessary inputs, APMAS has been formed in Andhra Pradesh as an apex technical support institution for agencies promoting SHGs and MACS. Similar apex institutions as well as satellite resource NGOs would be required as the demand for capacity building in a range of functions builds up. It is clear that there is a gap in this area and the feasibility of promoting such institutions is worth examining.

5. Research on SHG/SHG federation sustainability

The study has illustrated the many experiments with federations of SHGs by the NGOs. There is no clear-cut evidence of the suitability and sustainability of federations in the Indian context. Nevertheless, the majority of ICCO-Cordaid partners are understood to have formed federations of SHGs. This will necessitate a major investment in building SHG capacity and that of various federation staff to make these institutions effective and sustainable and to experiment with the introduction of new forms of institutions. For example, in states like Bihar, where cooperative laws along the lines of the MACS Act of Andhra Pradesh exist, hardly any registrations have been made. Cordaid and ICCO NGO partners could be supported to pioneer cooperatives in this state and other states where MACS legislation exists. This would include action research and advocacy for bringing about desired changes in relevant legislation.

6. Grant support for SHG promotion

The study has identified the many sources of funds available to NGOs to meet the cost of SHG promotion. The scale of funding available also is in line with the requirements. NGOs should be encouraged to access local sources instead of relying wholly or mainly on donor support. However, in view of the uncertainty and inadequacy of availability of grants from these sources at present, ICCO and Cordaid should continue to make available funds to partners for SHG promotion.

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Holy Cross SSC: Sister Rosily, Mr. Bhawani Shankar Gupta
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NBJK: Mr. Girija Satish, Mr. Rajesh Kumar Das
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PRADAN, Ranchi/Hazaribagh: Mr. Soumen Biswas, Mr. Pavan Kumar Ojha, Mr. Anirban Ghosh, Mr. Samir Bhattacharji, Mr. Sukanto Sircar
SNF: Mr. R. Sowmithri, Mr. Selvinathan
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UNNATI: Mr. Binoy Acharya

Types of SHGs

Types of self-help groups engaged in financial intermediation in India distinguished by their origin and source of funds:

(i) *Pre-existing groups:*

- ROSCAs, such as *nidhis*, rotating their own savings with no external resources
- Pre-existing ROSCAs that have been identified by banks and are accessing bank loans

(ii) *Promoted by NGOs:*

- Thrift groups receiving no external funds (including those formed under component programmes of sector development projects)
- Receiving only revolving fund grant from NGO/donor
- Started with donor/government grants and subsequently linked to banks/MFIs
- Receiving loans from NGO-MFI

(iii) *Promoted by banks/NBFCs:*

- Promoted by bank staff and agents – receive loan from bank
- Promoted by agents – receive loan from bank/NBFC

(iv) *Promoted by DRDA/government/local government agency:*

- Only receive revolving fund grant from government agency
- Access loans from banks/MFIs

(v) *Promoted by SHG federations*

- Directly linked to banks
- Receive loans through SHG federations

Source: Adapted and enlarged from CENDRET (1997)

APEX AND WHOLESALE MICROFINANCE INSTITUTIONS IN INDIA

Appendix 3

Organisation	SIDBI Lucknow	NABARD Bombay	RMK New Delhi	HUDCO New Delhi	HDFC Bombay	FWWB Ahmedabad	RGVN Guwahati
1. Program	Micro Credit Scheme	Revolving Fund Assistance	NGO Loan	Composite Credit	Low cost housing for economically weaker sections	Revolving loan fund programme	NGO Support Programme
2. Borrowers	1. NGOs 2. SHG Federations 3. Cooperatives 4. Companies (for- or not-for- profit)	1. NGOs 2. Federation of SHGs 3. Cooperative Societies	1. NGOs 2. Federation of SHGs 3. Women Dev. Corpns.	1. NGOs 2. Federation of SHGs 3. Cooperatives	1. NGOs 2. Cooperatives 3. Companies (for or not for profit)	1. NGOs 2. Federation of SHGs 3. NBFCs 4. Cooperatives 5. SHGs	1. NGOs 2. Federations 3. Association of Entrepreneurs
3. Eligibility	1. Organization in existence for 3 years 2. Proven track record as per own criteria 3. Credit rating	1. Registered Societies/ Trusts involved in micro-finance 2. Proven track record as per own criteria	Organization working with women and in existence for 3 years with proven track record as per own criteria	Organization in existence for 3 years and have proven track record in micro-finance as per own criteria	Proven track record as per own criteria	1. Should be working with women & with minimum one-year experience in micro-finance 2. Membership of at least 800 women with at least 2 lakhs of member savings	1. Registered Societies/ Trusts involved in microfinance 2. Proved track record as per own criteria
4. Purpose	Primarily for IGA purposes limited to small/ tiny industrial activities	Flexible as decided by groups	Only for productive and income generation purposes	For housing improvement and construction	For micro-enterprise and housing	1. IGA, including agr. & animal husbandry 2. Housing & Sanitation 3. Education	Flexible as decided by groups

(contd.)

Appendix 3 (contd.)

Organisation	SIDBI Lucknow	NABARD Bombay	RMK New Delhi	HUDCO New Delhi	HDFC Bombay	FWWB Ahmedabad	RGVN Guwahati
5. Interest rate (per annum) to recipient	11-12.5%	(i) 7.5% for 1st tier institutions (ii) 9% for 2 nd tier institutions	8%	9%	(i) 9% for housing (ii) 12% for micro-enterprise	(i)12% to SHGs (ii) 13.5% to NGOs and other forms of MFIs (iii) 14% to NBFCs	9%
6. Maximum interest rates for on lending to members	No ceiling	No ceiling	Not greater than 18%	12%	1. 15% (housing) 2. 24% (micro-enterprise)	As decided by groups	As decided by groups
7. Loan amount per member	Flexible as decided by groups	Flexible as decided by groups	Flexible as decided by groups	Improvement: Rs.10,000 Construction: Rs.25,000 to 40,000	Decided by groups. Not to exceed Rs. 45,000 (housing loans) and Rs. 15,000 (micro-enterprise loans)	Flexible as decided by groups (at present average loan per individual is Rs. 3,500)	Flexible as decided by groups
8. Repayment Period	3-5 years with or without moratorium	3 to 5 years with one year moratorium	Short term: 6-15 months Long term: 2-5 years with moratorium if needed	15 years	1. 15 Years for housing loans 2. 3 years for micro-enterprise loans	Varies between one and five years with moratorium of 6 months on principal repayment only.	Negotiable
9. Collateral	Mortgage of assets	Not required	10% of the loan as margin from NGO/SHGs	10% of the loan as deposit with HUDCO	Land title document (for housing)	Not required	Not required
10. Loan outstanding (Rs.)	Aggregate assistance Rs. 52.76 crores (March 2000)	Cumulative disbursements Rs. 7.08 crores (March 2001)	Cumulative disbursements Rs.59.79 crores (March 2000)	n.a	(i) Rs. 80 crores (housing); (ii) Rs. 1.1 crores micro-enterprise (2002)	17.41 crores (as on 31 March 2001)	2.32 crores (as on 31 March 2001)

Appendix 4

FORMS OF MICROFINANCE INSTITUTIONS (MFIs) IN INDIA

Source: Microfinance Regulation in India, Sa-Dhan, New Delhi, 2001.

I. Legal Forms of MFIs

These new forms of MFIs can be broadly divided into three categories on the basis of the legal form adopted by them:

1. Not for Profit MFIs such as societies registered under the Societies Registration Act, 1860 or similar State Acts; Public Trusts registered under the Public Trusts Act 1882, and Section 25 companies of the Companies Act, 1956;
2. Mutual Benefit MFIs include cooperative societies registered under the Cooperative Societies Act of the respective state or the central Multi-State Cooperative Act, 1984; Mutual Benefit Trusts or Nidhis under Section 620 of the companies Act, 1956; and
3. For Profit MFIs that includes NBFCs registered under the Company Act, 1956 (Mahajan et al. 2000).

Among these forms of organizations, only NBFCs and cooperative banks are regulated by RBI as financial intermediaries while the rest are *de facto* financial intermediaries requiring minimal regulatory compliance.

II. Operating Models of Retail MFIs

Irrespective of their legal form the retail MFIs in India have adopted a wide spectrum of operating models of which the most prominent are (adapted from Arunachalam 1999):

1. The Self Help Group (SHG) Model: SHGs tend to be homogeneous in nature (either caste, occupational or regional). The SHG lends money to its members' both from members' savings as well as money mobilized from external sources. NGOs mobilize clients into SHGs and provide savings and credit services. Linkages with the local banks are also arranged for credit purposes.
2. The Federated SHG Model: SHGs are federated into an institution in any of the following ways:
 - (a) SHGs are registered as cooperatives in States where an enabling cooperative environment exists.
 - (b) Some small SHGs operate as solidarity groups by adapting the Grameen model and in turn are federated into large cooperatives.

(c) Within this broad structure there can be many operating variations depending on the strategy of the promoting NGOs and the juncture at which they open and manage bank accounts.

3. Urban Cooperative Bank Model: Direct lending to clients in urban areas through an Urban Cooperative Bank. Two prominent examples are the SEWA Bank in Ahmedabad and the Cuttack Urban Cooperative Bank in Orissa.

4. Trade based Group model: The establishment of a structure which manages "typically industrial" activity.

5. The eclectic NBFC model, e.g. BASIX.

III. State Regulated Microfinance Intermediaries

There are few regulated microfinance intermediaries in the country. Institutions in this category are NBFCs and cooperative banks that have to comply with and fulfill the stipulated regulatory requirements.

NBFCs

NBFCs are registered under the Companies Act, 1956 and regulated by RBI. NBFCs require a minimum Net Owned Fund (NOF) of Rs. 25 lakhs and for a new NBFC Rs. 2 crores. To protect the interest of depositors the RBI has introduced strict regulations for NBFCs such as the maintenance of a minimum standard of NBFC, rating by approved rating agencies, capital adequacy, and liquid assets as prescribed by RBI. The prominent NBFCs who also work among the poor are BASIX, Hyderabad; Sarva Jana Seva Kosh, Chennai; Sanghamitra, Bangalore; SHARE Microfin Ltd., Hyderabad; CFTS, Mirzapur; Indian Association of Savings and Credit (ISAC), Marthandam, TN.

Cooperative Banks

In the cooperative banking segment engaged in MF among the poor, in addition to the SEWA Bank, Ahmedabad, the latest entrant is the Cuttack Urban Cooperative Bank. Although as a bank, a cooperative bank has many advantages over NBFCs, the dual control of Registrar of Cooperatives (ROC) and the RBI, has in many ways restricted these institutions in achieving their full potential.

IV. Unregulated MF Intermediaries

NGO-MFIs

1. *Specialized Service Providers* - These institutions exclusively work as MFIs with a minimal provision of other services such as health or education. Within this category there exist two sub-categories:

- (a) those that provide retail MF services like savings, lending money to the poor, especially members and raise funds from members and other financial institutions.
- (b) those that function as MF Wholesalers or Apex Bodies giving financial support to the smaller institutions (retailers) providing MF services.

2. *Multi-Service Providers* - In the Indian scenario a large number of NGOs registered either as societies or trusts have taken up MF services as an extension of their community development programmes like providing health services, education income generation, environment etc. In this case MF is either bundled with existing social intervention or occupies a position equal to or less than the dominance of other programmes.

(i) Retail NGO-MFIs

During the last decade retail NGO-MFIs have come to dominate the retail service landscape with the most widely practised service model being the SHG. Most of the retail NGO-MFIs choose to either get credit linkages established through local branches of banks or get credit directly to later on-lend the funds to SHGs.

(ii) SHG Federations

The several forms of SHG federations make it difficult to classify their operating features around one simple model. There are important variants even with those models. In some SHG federations the next level from the SHGs is the *cluster* which gathers SHGs from a geographic unit together and in turn federates them into a larger unit called *federations*.

In some instances the retail services are undertaken by SHGs in others by the cluster and in still others by the federations. The point of service in this structure finally determines the point of interface with the local bank. During the past few years community-based organizations (CBOs) are emerging which are directly borrowing from either government or non-government on-lenders and are well on their way to becoming full-fledged MFIs. These variations result from the strategic choices the promoting NGOs make in mobilizing the SHGs.

V. MACS

Andhra Pradesh (A. P.) enacted the Mutually-Aided Cooperative Societies (MACS) Act in 1995. Cooperatives formed under this Act are largely immune from government interventions in their affairs such as fund raising, governance, etc. and a number of cooperatives have been formed under this act. Over 2,000 MACS were reportedly registered in A. P. recently. According to the Cooperative Development Forum (CDF), Hyderabad, 234 thrift cooperative societies (with 59,000 rural men and women members) promoted by CDF were registered in Warangal district of A.P. alone under the MACS Act till December 1999. These MACS provide savings, borrowing and loan insurance services to their members.

Following Andhra Pradesh, three states – Bihar, Madhya Pradesh and Jammu and Kashmir have enacted similar MACS Acts. However they are considered by many to be weaker forms of the AP MACS Act.

In Bihar out of 667 societies formed under the Bihar Self-Supporting Cooperative Societies Act, 1996, which has similar provisions, only 14 were credit cooperatives.

In Tamil Nadu, a neighbouring state of A. P., the cooperative act allows for a great deal of government intervention. The cooperative cannot even enact its own by-laws and must adopt by-laws given by the state of Tamil Nadu which were formulated in pre-independent India when the cooperative was an extension of the government. In addition, Tamil Nadu has its own conservative Societies Act which gives the government the power, under certain circumstances, to take control of an organization registered under the Act.