German Cooperative and Raiffeisen Confederation
DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

Regional Project for Promoting Cooperative Self-help Organizations in Asia
Regionalprojekt zur Förderung von genossenschaftlichen Selbsthilfeorganisationen in Asien

SHG Sector Own Control (SOC)
SWAYAM NIYANTRANA UDHYAMAM (SNU)
Development of Self-regulation and Self-supervision of the Self-help Group Federation System in Andhra Pradesh, India

Evaluation of a Pilot Project of Andhra Pradesh Mahila Abhivruddhi Society (APMAS) implemented in partnership with Society for Elimination of Rural Poverty (SERP), Andhra Pradesh

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Abbreviations, acronyms and glossary

Abbyahastam	Insurance scheme for SHGs in AP
Aajeevika	Livelihoods (*Hindi*)
AP	Andhra Pradesh
APMAS	Andhra Pradesh Mahila Abhivruddhi Society
APRACA	Asia-Pacific Rural and Agricultural Credit Association
ADB	Asian Development Bank
AP	Andhra Pradesh
BIRD	Bankers Institute of Rural Development
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)
CGAP	Consultative Group to Assist the Poor
CEO	Chief executive officer
CIF	Community Investment Fund
DFID	Department for International Development, UK
DGRV	Deutscher Genossenschafts- und Raiffeisen Verband / German Cooperative and Raiffeisen Confederation
DRD	Department of Rural Development
DRDA	District Rural Development Agency
FAO	Food and Agriculture Organization of the United Nations
FLC	Financial literacy center
GBM	General body meeting
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (formerly GTZ)
GO	Government organization
GoAP	Government of Andhra Pradesh
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (now GIZ)
HH	Households
IFAD	International Fund for Agricultural Development
IKP	Indira Kranthi Patham (www.rd.ap.gov.in/IKP.htm)
InWEnt	Internationale Weiterbildung und Entwicklung gGmbH
JBY	Indira Jeevitha Bima Pathaka, a statewide insurance scheme for landless poor
KfW	Kreditanstalt für Wiederaufbau
MACS Act	Mutually Aided Cooperative Societies Act
MCIC	MicroCredit Innovations Cell
MCID	MicroCredit Innovations Department
MDGs	Millennium Development Goals
MEPMA	Mission for the Elimination of Poverty in Municipal Areas
MFI	Microfinance institution
MIS	Management Information System
MOU	Memorandum of understanding
MS	Mandal Samakhya
MSME	Micro, small and medium enterprises
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-bank Financial Company
NGO	Non-governmental organization

NPA	Non-performing assets
NPL	Non-performing loans
NRLM	National Rural Livelihoods Mission, also Aajeevika Mission
ODA	Official Development Assistance
PACS	Primary Agricultural Cooperative Societies
Paryavekshaka	Supervision (*Telugu*)
PRADAN	Professional Assistance for Development Action
PV	Pavalavaddi, an interest subsidy scheme in AP
RBI	Reserve Bank of India
RBK	Resource bookkeeper
RC	Registrar of Cooperatives
RDP	Rural Development Department
ROA	Return on assets
RRB	Regional Rural Bank
Rs	Rupee (Indian Currency Unit)
Samakhya	Subdistrict in AP
SGSY	Swarnajayanti Gram Swarojgar Yojana
SERP	Society for Elimination of Rural Poverty
SEWA	Self-Employed Women's Association
SHG	Self-help group
SHPI	Self-help Promotion Institution
SLBC	State-level Bankers Committee
SLF	Slum level federation
SLSB	State-level supervisory body
SOC	Sector Own Control
TLF	Town level federation
ToT	Training of trainers
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VO	Village organization
Zilla	District in AP
ZS	Zilla Samakhya

SHG Sector Own Control
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1. Background and objectives of the evaluation

1.1 Promoting Cooperative Self-help Organizations in Asia: a regional project

The Federal Ministry for Economic Cooperation and Development (**BMZ**) finances a *Regional Project for Promoting Cooperative Self-help Organizations in Asia* as part of its support for social structure development (*Sozialstrukturförderung*) in developing countries. In this context the German Cooperative and Raiffeisen Confederation (DGRV) carries out several projects in Asia aiming at the development of social and economic structures through cooperative self-help organizations as an instrument of poverty alleviation. DGRV is the highest supervisory authority of the sector of cooperatives and cooperative banks in Germany, operating in the framework of a delegated system of supervision under Bundesbank and BaFin[1].

The *Regional Project for Promoting Cooperative Self-help Organizations* is expected to strengthen systems of cooperative self-help and to contribute to the following envisaged general results:

Result 1:	Cooperatives in the respective project areas are aware of their income-generating potential in a market economy.
Result 2:	Selected cooperative self-help organizations including federations are supply- and demand-driven and produce value added for their members.
Result 3:	Cooperatives or their secondary and tertiary structures in the respective areas and projects are integrated into an exchange of information and experience and participate in know-how and knowledge transfer.
Result 4:	Legal framework conditions to which the project has contributed are favorable to the development of entrepreneurial cooperatives.

The target group of the regional project may comprise MSMEs and actual or potential members of cooperatives and pre-cooperatives (such as SHGs) as well as staff and representatives of cooperatives, federations and cooperative authorities. Project partners may include cooperative federations, primary cooperatives and pre-cooperatives, private and governmental promotional institutions, central banks and supervisory authorities. Project activities may include capacity building and training, consulting, auditing and supervision of cooperatives, promotion of secondary and tertiary structures and technical assistance to improve the policy, regulatory and supervisory framework as well as credit funds to refinance credit cooperatives.

1.2 SHG Sector Own Control: a pilot project in Andhra Pradesh

DGRV has supported APMAS since 2008 to implement a pilot project *SHG Sector Own Control: Development of Self-regulation and Self-supervision of the Self-help Group Federation System in Andhra Pradesh,* 2008-2011. In line with the policy of the Government and its rural development organization SERP, this project focuses exclusively on women and involves the majority of poor and very poor rural women in the pilot project area as active participants. The design of the project is based on an assessment of APMAS and a proposal jointly prepared with APMAS during a follow-up mission, both supported by **InWEnt** in 2006 (Seibel 2006b, 2006c). InWEnt has also supported a pre-pilot during 2007-2008.

[1] Bundesanstalt für Finanzdienstleistungsaufsicht

APMAS is an NGO domiciled in Hyderabad, Andhra Pradesh, which is focused on quality assurance of SHGs and SHG federations and their promotion at different tiers (from villages to sub-districts and districts, and eventually state level). Established in 2001, APMAS has done pioneering work in developing various capacity building modules, rating tools and innovative approaches to strengthen the SHG movement in India. APMAS' vision is a "Sustainable Self-Help Movement in India". Its main field of operation has been Andhra Pradesh, a state in southern India. Emerging as a national level resource organization, APMAS has expanded in recent years its activities to a number of other states including Bihar, Uttar Pradesh, Orrisa and Madhya Pradesh, of the Union and participated in national level policy advocacy processes.

SERP, Society for Elimination of Rural Poverty, is APMAS' senior partner in promoting SHG federations and upscaling sector own control throughout the state. SERP is an autonomous society established by the Department of Rural Development of the Government of Andhra Pradesh and chaired by the Chief Minister of Andhra Pradesh. SERP implements Indira Kranthi Patham (**IKP**), a state-wide project funded by the World Bank promoting SHGs and SHG federations as the foundation for poverty reduction. It aims to cover all poor rural households in the state with a special focus on the poorest of the poor households. APMAS's main instrument of collaboration with SERP is capacity building of it staff and management and piloting innovative approaches such as sector own control, to promote self-reliance and sustainability of the SHG movement in Andhra Pradesh.

MEPMA, Mission for the Elimination of Poverty in Municipal Areas, promoted by government of AP. preceded by the AP Urban Services for the Poor Project (2001-06, supported by DFID), was established in 2007 to expand the Government strategy of urban poverty alleviation – and thereby also the NABARD strategy of SHG linkage banking – to poor urban areas (referred to as *slums*). APMAS has worked with MEPMA and its predecessor project since 2006 in three selected urban areas, promoting SHGs and SHG federations and building the capacity of MEPMA and in supporting upscaling of SOC.

In India SHGs are informal financial institutions operating under the umbrella of the National Bank for Agriculture and Rural Development (**NABARD**), authorized by the Reserve Bank of India (RBI); but neither the SHGs nor their federations at several tiers are supervised as financial institutions, be it at national, state or local levels. APMAS has realized that the lack of control and supervision poses great risks to the savings of SHG members (predominantly women of the lowest segment of rural society), to their federations and to the banks which refinance the SHGs and federations. Starting in Andhra Pradesh, APMAS has therefore taken the initiative of introducing a system of rating the federations, strengthening them as sustainable financial and non-financial support organizations, and enabling them to train and supervise SHGs as informal financial institutions. DGRV, backed by a history of emerging self-control and supervision of savings and credit cooperatives since the middle of the 19th century in Germany, is the ideal partner for APMAS in promoting *SHG Sector Own Control* in India.

The pilot project is located in **Andhra Pradesh (AP)** which has figured prominently in the development of SHGs, improved governance, greater self-reliance and SHG linkage banking. In particular Andhra Pradesh is the state where,

1) the foundations for the national SHG Bank Linkage (SHGBL) program of NABARD were laid in the 1980s,
2) SHG Banking developed its greatest strength and outreach since the start of the pilot project by NABARD in 1992
3) the first SHG federations originated in the 1990s in significant numbers,
4) the first *Mutually Aided Cooperative Societies (MACS) Act* was passed in 1995, as a new legal framework for cooperatives conducive for SHG federations and similar

organizations at several tiers, providing an alternative to poorly performing state-aided cooperative structures,

5) the first unified law covering both state-aided and mutually aided self-help and cooperative structures is has recently been enacted.

Federations as well as state laws similar to MACS have spread over another eight states in India, and so has the role of APMAS in promoting self-reliance and quality assurance of federations. This lends particular relevance to the pilot project *SHG Sector Own Control* with a focus on self-regulation and (delegated) self-supervision, the results of which are expected to be upscaled throughout Andhra Pradesh and other states in India.

1.3 Evaluation framework and objectives

The pilot project of DGRV with APMAS comprises technical assistance to establish a system of *SHG Sector Own Control* in a pilot area: Kamareddy Cluster in Nizamabad district, Andhra Pradesh. The results will be made available to other SHG federations and self-help systems. DGRV provides capacity building and technical assistance in the following areas:

(1) organizing a system of general assembly (*general body*) meetings (including elections) of SHGs and their federations on a regular basis;
(2) capacity building and training;
(3) start-up auditing of SHGs and their federations;
(4) preparation of training materials, manuals and publications;
(5) short-term expert services in response to special requests.

The assistance provided by DGRV indirectly also extends to capacity building by APMAS to two institutions established by the Government of Andhra Pradesh for the promotion of SHGs and SHG federations throughout the state of Andhra Pradesh: the *Society for Elimination of Rural Poverty (SERP)* with its World-Bank- supported project *Indira Kranthi Patham (IKP)* in rural areas; and *Mission for Elimination of Poverty in Municipal Areas (MEPMA) in* urban areas.

This evaluation will ascertain to which extent the project has contributed to social structure development and has enabled broad segments of the population to participate in social and economic development. The evaluation will include an assessment in terms of DAC criteria: relevance, effectiveness, efficiency, impact, sustainability, replicability & upscaling, and coherence, complementarity & coordination. The evaluation is based on an analysis of documentary evidence, a self-assessment jointly reviewed and revised with the evaluator, and field visits and stakeholder meetings in Andhra Pradesh during August 7-20, 2011. It has included presentations of preliminary results at NABARD in Mumbai (including GIZ), at SERP with stakeholders, and at APMAS with staff and board members. (Appendix 1)

2. SHG linkage banking framework: India and Andhra Pradesh

2.1 The evolution of SHG linkage banking in India

The pilot project is part of the national SHG linkage banking program of NABARD which is expected to make a sustainable contribution to solving the perennial problem of rural indebtedness and poverty in India. India has one of the most diversified networks of banks in the developing world, comprising commercial banks, regional rural banks and cooperative banks, which in turn are linked to some 100,000 credit cooperatives (PACS). Yet, according to the All-India Debt and Investment Survey of 1981, some 250 million of the rural poor still had no access to formal finance, despite years of massive branch expansion, priority credit programs for rural areas and numerous donor credit lines. The National Bank for Agriculture and Rural Development (NABARD), carved out of the central bank in 1982, analysed the reasons behind the failure of reaching the rural poor: a sole emphasis on production loans, prohibitive transaction costs for lenders and borrowers, failure to mobilize savings, and overly complicated procedures.

During the second half of the 1980s NABARD turned from the old world of supply-driven rural finance to a new world of demand-driven finance, stipulating that programs with the poor have to be savings-led and not credit-driven; and that the poor have to have a say in their design. Inspired by a new regional program of APRACA and GTZ/GIZ in Asia, *Linking Banks and Self-help Groups*,[2] NABARD initiated a study of self-help groups in 1987, led by MYRADA and based on a new paradigm: *savings first*. Three options were explored, all hinging on prior savings by the groups: matching grants, matching interest-free loans, or bank loans with interest (NABARD 1989: 53-58). In a parliamentary debate NABARD argued against the introduction of the Grameen Bank model of Bangladesh on a national scale, opting instead for a linkage banking approach: using the existing infrastructure of banks and social organizations; being savings-driven rather than credit-led; and using bank rather than donor resources in the provision of credit (Kropp & Suran 2002; Nanda 2005; Seibel 2005).

With approval from RBI[3] and an authorization for banks to open savings accounts for informal SHGs[4], NABARD started a pilot project, covering the period 1992-96. At mid-term, March 1994, 637 SHGs (80% women's groups) with 11,000 members had opened savings accounts and were credit-linked to 16 commercial and 12 regional rural bank branches. 34 NGOs were involved as facilitators. An evaluation reported very positive results.[5] Large numbers of officers of NABARD were sent to MYRADA and other NGOs for exposure training. By March 1996, 4,757 SHGs with 80,000 members had been mobilized by 127 NGOs and were credit-linked to 95 bank branches. (Nanda 2005; Seibel 2005, 2006a)

On the basis of these initial results NABARD initiated mainstreaming of SHG banking on a national scale, setting up a Credit and Financial Services Fund in 1996 for extensive capacity-building and a Micro Credit Innovations Department (MCID) for program implementation in 1998, with MCI cells in every state. The number of SHGs credit-linked to

[2] In 1986 linkage banking was taken up by APRACA, an association of agricultural and central banks in Asia and the Pacific, as a regional program and disseminated among its member institutions. With TA by GTZ, Indonesia was first starting a pilot, 1988-91, serving as an experimental field station visited by member countries. The Philippines and Thailand (both with TA by GTZ since 1990) and India (with TA by GTZ as of 1998) followed with own projects. (Seibel 1996: 62-71, 2005, 2006a)

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

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

[5] The program was found to be highly suitable for poor and very poor women particularly in marginal, resource-poor areas; membership has come mostly from the poorest section of the society; women frequently need credit, but at irregular intervals; they use the loans for productive and non-productive purposes, with a trend towards productive investments; incomes have gone up; even the poorest of the poor do save, and their savings increase with the income; transaction costs of banks and SHG members go down; the repayment rate is close to 100%, in contrast to the usual rate of 50-60% in agricultural credit. (NABARD-GTZ 1994: 5-6; Nanda 1995)

banks grew to 33,000 in 1999 and 115,000 in 2000 (*cumulative figures*). A study commissioned by Nabard in 2002 came to the conclusion that bank transaction costs were low, repayment rates high, and linkage banking by far the most profitable product of state-owned banks (Seibel and Dave 2002). This finding, together with competitive targets, further inspired banks. By March 2005 the number of credit-linked SHGs had surged to 1.6 million, surpassing the goal of one million originally set for 2008 by a wide margin. 3,024 self-help promoting institutions (SHPIs) were involved in SHG development, and 41,630 banking units (including credit cooperatives) in credit linkages.[6]

In 2007 Nabard changed its reporting system from cumulative figures to loans outstanding, adding at the same time data on bank deposits. As of March 2010 the number of SHGs with bank loans outstanding reached almost five million[7], amounting to Rs 280.4 billion. The number of SHGs with bank deposit accounts stood at 7.0 million, with an aggregate balance of Rs 62.0 billion. (Table 2.1) Nabard relies on bank reports as a source of information; this explains why it does not monitor internal funds (mandatory savings and retained earnings) of SHGs and their internal lending. National data on savings are thus limited to bank deposits, presumably a fraction of total internal funds (*see below*). Bank deposits stood at 28.4% of bank loans outstanding in 2007 and fell to 22.1% in 2010. From 2007 to 2010 bank deposits grew by 76.5%, bank loans outstanding by 126.7%.

Table 2.1: SHG Banking in India, 2007-2011 (31 March), amounts in bn Rs

	2007	2008	2009	2010	2011
No of SHGs w. bank savings accounts	4,160,584	5,009,794	6,121,147	6,953,250	7,547,269
Amount of bank savings deposits	35.13	37.85	55.46	61.99	69.26
No of SHGs w. bank loans outstanding	2,894,505	3,625,941	4,224,338	4,851,356	4,813,670
Amount of loans outstanding	123.66	170.00	226.80	280.38	306.27
Bank deposits in % of bank loans outst’g	28.4	22.3	24.5	22.1	22.61
Bank loans disbursed during the year	65.70	88.49	122.54	144.53	147.73
NABARD refinance to banks during the year		16.16	26.20	31.74	Not available

Source: Nabard annual status reports 2009, 2010, NABARD Provisional Self Help Group data 2011

2.2 Regional inequalities in SHG outreach

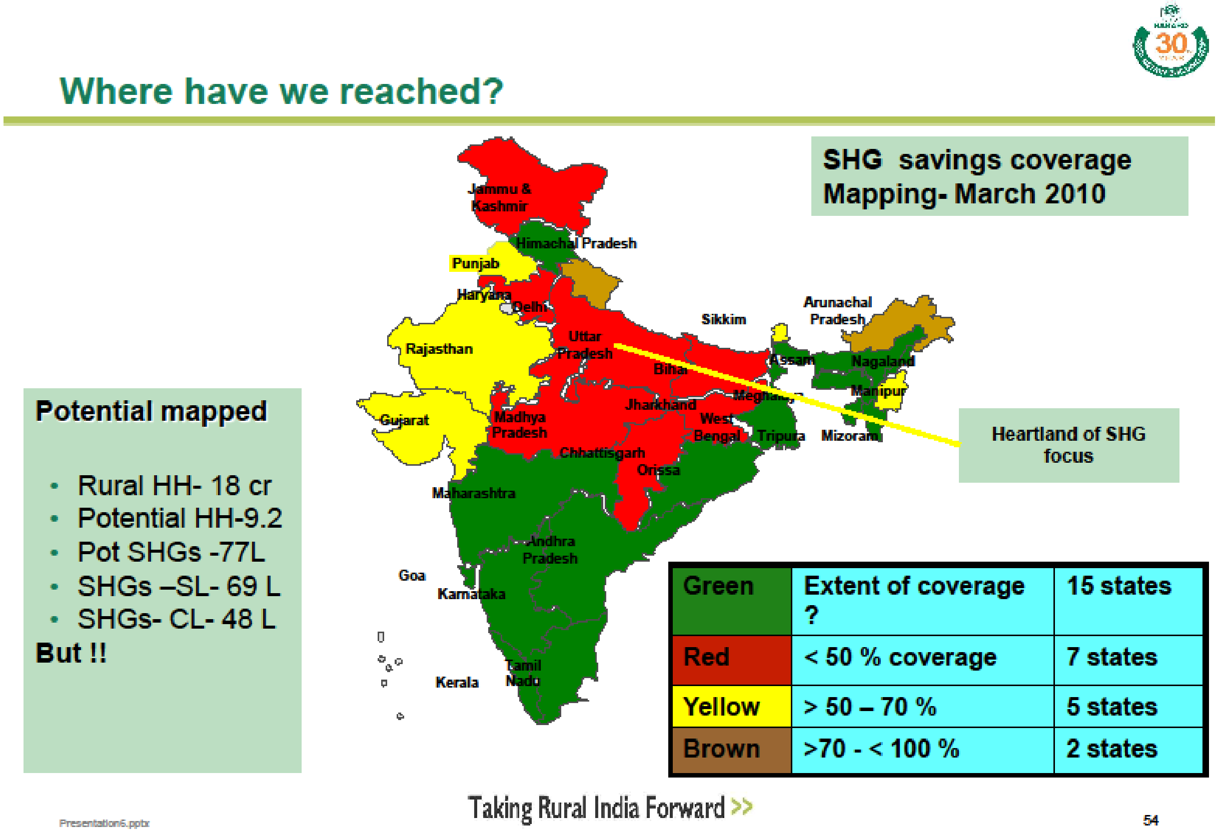
Total outreach of SHGs with bank deposit accounts in India is around 100 million members, covering a population of about 500 million. Yet, both savings and credit outreach are quite uneven across states, as indicated in Maps 1 and 2 below prepared by Nabard (2011). Andhra Pradesh and Karnataka in southern India are leading the SHG movement; outreach

[6] The rapid growth in outreach has been made possible by drawing on a wide array of institutional resources as India’s *social capital*: Nabard as the prime mover and refinancing agency; the formal financial sector providing deposit services and credit; NGOs and GOs with experience in group development as facilitators; RBI which adjusted the policy framework for banking relations with informal groups; and the political leadership at union and state levels. At the same time the program has drawn on India’s *human capital*: the competence and enthusiasm of the staff in participating agencies; and the willingness and of people from the lowest classes to form a group, meet regularly, pool their miniscule savings, lend to members, and establish a documented track record of financial intermediation. On that basis, the groups are then permitted as informal entities to open savings accounts and obtain bank loans, onlent to their members on terms autonomously decided by each group. In India small groups with financial activities attract predominantly women, even if no such bias is built into the program design; over 90% of the group members are women. Neither social nor human capital would suffice were it not for the *financial capital* created by the program: steadily increasing internal resources of the groups, generated through savings and profits from interest income; high profitability of SHG banking as a financial product of the banks (higher than other rural financial products); and bank refinancing by NABARD. (Seibel 2006a)

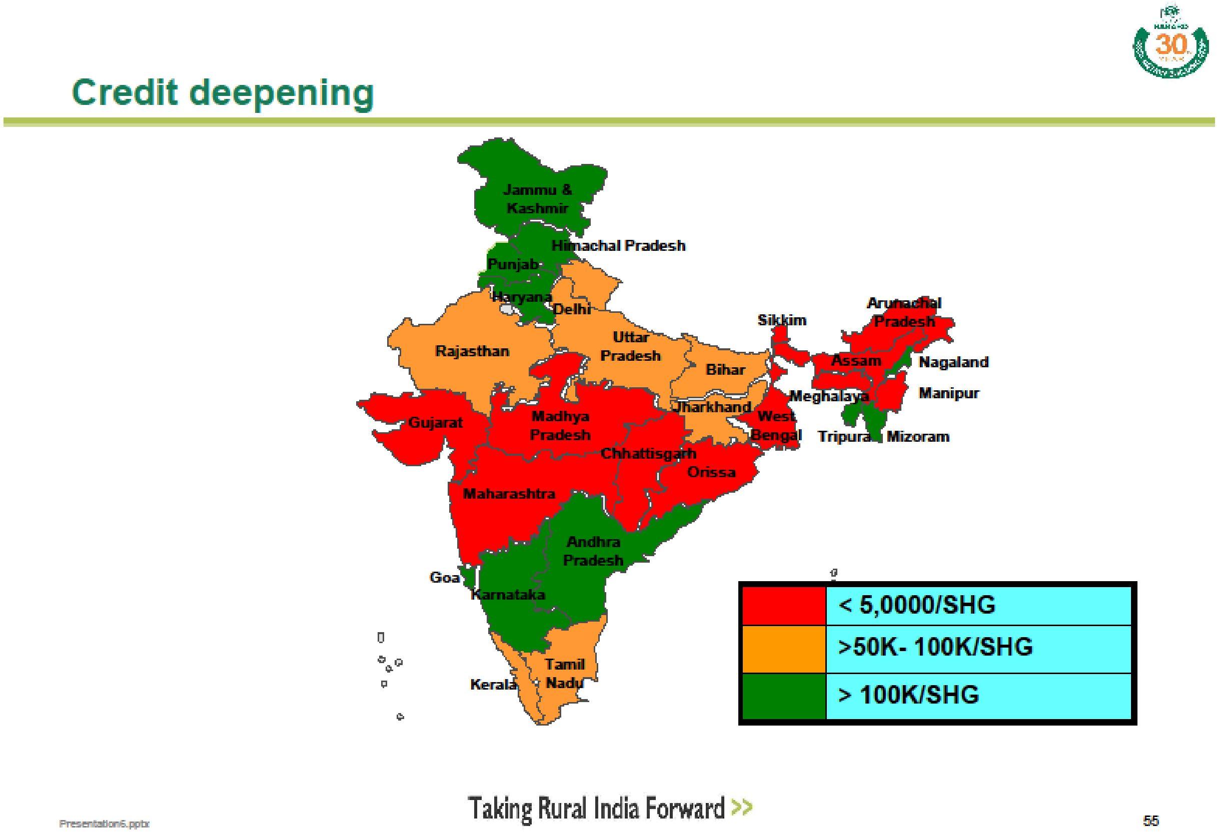
[7] The actual number is somewhat smaller as banks report loan accounts, not SHGs. Due to special programs (especially housing loans) channeled through SHGs, there is a small number of groups with two loans.

in some northern states has presented challenges which might require innovative solutions expanding, or differing from, the SHG approach.

Map 1: Bank deposit outreach of SHGs in India by state, 31 March 2010



Map 2: Bank credit outreach of SHGs in India by state, 31 March 2010



2.3 Andhra Pradesh: the leading state in SHG linkage banking

Both historically and actually, Andhra Pradesh is regarded as the leading state in the development of the self-help movement and the spread of outreach of SHGs and bank linkages. It accounts for a disproportionate share of outreach of SHG banking in India: 21% of SHGs with bank savings accounts and 20% of the aggregate amount of savings deposited at banks, 30% of SHGs with bank loans outstanding and 42% of the outstanding bank loan balance (Table 2.2). SERP, with its World Bank supported SHG project IKP, has greatly contributed to this achievement over the past ten years.

Table 2.2: SHG bank linkages in India and Andhra Pradesh, March 2011 (in bn Rs)

	India	Andhra Pradesh	Percent
SHGs with bank savings accounts*	7,547,269	1,351,330	17
Bank savings balance	69.26	10.89	15.72
SHGs w. bank loans outstanding*	4,813,670	1,683,993	34.98
Amount of bank loans outstanding	306.27	128.69	42.02

***** Rural and urban SHGs

From 2007 to 2010 bank deposits of SHGs grew by 113.5% in Andhra Pradesh, bank loans outstanding by an astronomical 1006%. Due to the extraordinary growth in bank loans the share of bank deposits in terms of bank loans outstanding fell from 55.4% in 2007 to 10.7% in 2010. As bank deposits surged from Rs 12.6 billion in 2010 to Rs 33.8 billion in 2011, the share of bank deposits in percent of bank loans outstanding went up to 25.7%. (Table 2.3)

Table 2.3 : SHG Banking in Andhra Pradesh, 2007-2011 (31 March), amounts in bn Rs

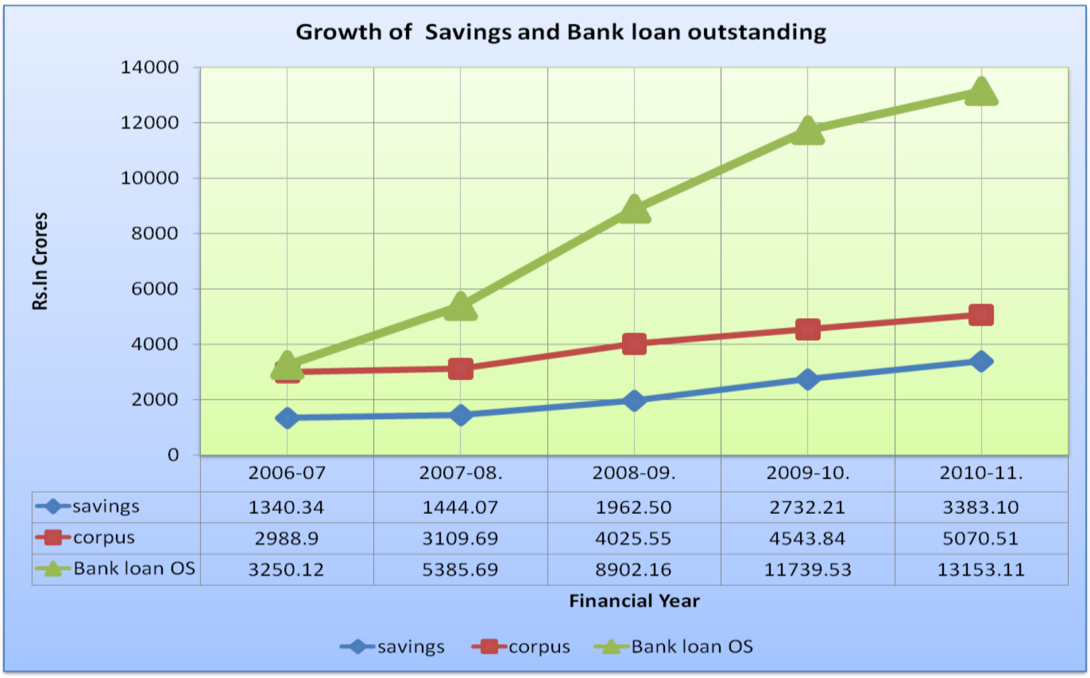
	2007	2008	2009	2010	2011
No of SHGs w. bank savings accounts	228,432	1,007,071	1,280,900	1,448,216	1,351,330
Amount of bank savings deposits	5.88	9.71	11.92	12.55	10.89
No of SHGs w. bank loans outstanding	207,743	808,203	1,219,311	1,471,284	1,683,993
Amount of loans outstandingg	10.61	53.86	89.02	117.40	128.69
Bank deposits in % of bank loans outst'g	55.4	18.0	13.4	10.7	8.46

Source: Nabard annual status reports

Bank savings deposits of SHGs are but a fraction of total SHG savings. A consolidated balance sheet of 3,107 audited SHGs in the Kamareddy Cluster compiled by APMAS may be indicative. As of March 2010 savings deposited in banks by each SHG amounted on average to Rs 7,743, compared to total internal resources (mandatory savings and retained earnings) of Rs 35,480, that is 4.6 times the amount reported by banks (*see chapter 4.4*). Internal resources on average amount to about Rs 3,000 or € 50 per SHG member.

Nabard does not report data on internal funds of SHGs. However, in Andhra Pradesh SERP/IKP has been monitoring not only bank credit but also internal resources. These comprise mandatory savings and retained earnings in a narrow sense and, with grants and subsidies, internal resources in a wider sense, together referred to as *corpus*. Figure 1 below shows how savings as well as the corpus have gradually grown since 2006-07, but bank loans outstanding have grown far more rapidly, resulting in a widening gap between internal resources and bank loans.

Figure 1: Internal funds and bank loans outstanding of SHGs in AP, 2006-07 to 2010-11



Source: SERP, cited in APMAS (2011a: 11)

2.4 The evolution of SHG federations in India

The expansion of SHGs has been the result of promotional efforts by NABARD, in cooperation with large numbers of self-help promoting institutions (SHPIs). Nabard has facilitated direct access of SHGs to banks. It was obvious to observers that over the long haul SHGs would not be sustainable as informal financial intermediaries, nor could NGOs or GOs be relied on as permanent back-up organizations. For lack of an alternative sustainable model, this made federations, owned and governed by SHGs, an almost natural solution. Until 2007 NABARD's MCID ignored the problem, refusing to include SHG federations among its mandated innovations. As Girija Srinivasan & Ajay Tankha (2010: 199) put it, "NABARD does not view the financial intermediation role of federations favourably and is willing to accept the same only as an unavoidable necessity where it could be done with profitability and sustainability." Of course financial intermediation by federations is not the only alternative; the other one being their role as a support organization; besides capacity building, supervision and other services, this may include the facilitation of access of SHGs to bank loans, leaving NABARD's model intact. To date NABARD still does not have a declared policy on federations, either as support organizations or as financial intermediaries. There is a potential role for SHG federations as bridging agencies to the SHGs to meet the loan fund gap in the period that they have an active loan from the bank.

NABARD has been swift in its response to SHG initiatives of NGOs in India during the early 1980s and to APRACA/GIZ regional initiatives of SHG banking during the mid-1980s; yet it has been slow in its response to various federation formation activities, which started in the early 1990s. Among the earliest initiatives was UNDP's *South Asia Poverty Alleviation Project* (SAPAP) in 1994 in Andhra Pradesh, upscaled during the 2000s by SERP of the Government of AP in its Velugu/IKP project. In Kerala state government has promoted federations statewide through the state government's Kudumbashree program. In Tamil Nadu the government has promoted primary federations throughout the state through its Mahalir Thittam (MT) project, similarly the Government of Maharashtra. PRADAN, MYRADA, DHAN and CARE are among NGOs pioneering SHG federations in several states.

As of 2010 APMAS identified some 164,000 SHG federations in India, 158,000 of them at primary level. Their spread is uneven, Andhra Pradesh, Kerala, Tamil Nadu and West Bengal accounting for about 80%. There is no harmonized system, neither in terms of legal forms nor of functions. They may function as general support organizations, facilitators of the flow of credit from banks and other sources, financial apexes or, depending on their placement in the tiered structure, any of these.

Viability and sustainability of federations have been a widely discussed topic. Early studies, including APMAS (2003) mostly arrived at negative results. Ajay Nair (2005), a general manager at NABARD, while not reflecting its general view, concluded in a federation study that the main issue was no longer whether SHG federations can become financially sustainable, but rather how long it would take and how much it would cost. In its 2007 status report in eight states on federations with financial functions APMAS summarized the challenges federations are facing:

- Government grants tend to lower repayment rates;
- donor-funded loans lack a long-term vision;
- capacities of board members are inadequate and frequently combined with a promoter dependency syndrome;
- there are weaknesses in bookkeeping, fund management, internal controls and legal compliance;
- Inadequate self-reliance and self-governance.

Recent studies, including CGAP (2007), Salomo at al. (2010) and Srinivasan & Tankha (2010) arrive at mixed results, but with a generally positive outlook.

2.5 SHG federations in Andhra Pradesh and the role of a *Sector Own Control* pilot

Andhra Pradesh has been the leading state in the evolution of a comprehensive system of SHG federations. They cover the whole state and are registered as autonomous *mutually aided cooperative societies* under the MACS Act of 1995. There are 38,300 primary level, 1,099 subdistrict level and 22 district level federations. All but 8 % of the VOs are registered as MACS; the remaining 8% of SHGs are newly established and in the process of registration. (Table 2.4)

Table 2.4: Registration of SHG federations under MACS Act in rural AP, 2011

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

The registration of the federations under the MACS Act is a major achievement, as it removes them from direct domination and interference by the government, which had been legally stipulated practice under the (still valid) Andhra Pradesh Cooperative Societies Act 1964. Numerous cooperatives, among them the Andhra Pradesh dairy cooperatives, have changed their registration from the 1964 to the 1995 Act, taking advantage of the newly won freedom of operating without Government share capital and selecting their own staff, management and board members (rather than having the Government appoint its cronies). Of great significance has been a ruling of 2 September 2011 of the Supreme Court of Andhra Pradesh[8] which confirmed the right of every cooperative to register under the 1995 Act,

[8] "The cooperative, by its very nature, is a form of voluntary association where individuals unite for mutual benefit in the production and distribution of wealth upon the principles of equity, reason and common good. Therefore, the basic purpose of forming a cooperative remains to promote the economic interest of its members in

which defines the general assembly of members as the ultimate body of decision-making within the framework of bylaws determined by the members. The ruling also applies to SHG federations under the MACS Act and protects them against attempts by the government to interfere in their internal matters, eg, by appointing managers or board members.[9]

Being a government institution, the Registrar of Cooperatives initially declined responsibility for cooperatives (including federations) registered under the MACS Act, as they are mutually and not government- aided. However, in 2007 he determined that legal compliance of federations with the AP MACS Act does fall under his responsibility.[10] This led to the enforcement of compliance by the Registrar, who insisted on annual reporting of the following stipulations of the Act, threatening severe penalties against federations and office bearers in case of non-compliance:

- Board meetings: at least once in three months
- General body (assembly) meetings: at least once within a period of six months from the close of the financial year.
- Elections: In the manner specified in the bylaws of the federations
- Audit of accounts: by a chartered accountant, submitted to the general body meetings of federations for approval
- Filing of returns: annually before the statutory authorities within 30 days from the date of the annual general body meeting

The scrutiny of the Registrar reportedly does not go beyond ascertaining receipt of the required reports; there is no oversight of financial or non-financial performance. However, enforcement of compliance with the MACS Act had two major effects.

- First, it has compelled almost 40,000 SHG federations to have their books audited and hold the required general body meetings, where the results of the audits (including the discovery of fraud and other inconsistencies in the books) are presented.
- Second, it has motivated the federations, together with SERP as a promoting agency, to impose the same requirements via bylaws on the SHGs and to control compliance, even though such compliance cannot legally be enforced among informal organizations.

Enforcement of compliance has underlined the urgency of (i) regular and reliable bookkeeping and auditing among 1.5 million SHGs in Andhra Pradesh, requiring the training

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accordance with the well-recognised Principles of Cooperation." This is in contrast to an earlier stand of the Supreme Court in 1985 which confirmed the power of the state in cooperatives: "Cooperatives are created by statute and they are controlled by statute and so, there can be no objection to statutory interference on the ground of contravention of citizens' right of freedom of association."

[9] The importance of this ruling has to be seen in the context of the history of the cooperative movement in India, where government interference has undermined the health of what had emerged as the largest and fastest-growing credit cooperative sector after the Co-operative Credit Societies Act of 1904 (modelled after the Raiffeisen system). The sector, heavily subsidized and staffed by government appointees, is now involved in a painful process of restructuring and reform, which might leave little more than 50% of 107,000 PACS (mostly credit cooperatives) alive. The situation in the early 1920s, characterized by self-financing and self-governance, may serve as a model both for the reform of the overall credit cooperative sector in India and for the development of the SHG system: "The credit movement of British India is not working with official money: about 50% of its capital consists of small shares contributed by the members and the surplus accumulated from the interest on their borrowings; another 10% consists of deposits by the members themselves, the remainder is commercial credit. The societies are not managed by Government or by officials, they are in the hands of their members, subject to an audit prescribed by law and carried out by non-officials under a decreasing official supervision." (Strickland 1922: 51; Seibel 2009)

[10] From the time the MACS act came into being in 1995, the Registrar of Coops accepted the reports filed by the federations. He did not take action on those that did not file annual reports. In 2007, a general notice was served to all societies registered under MACS Act to file returns or face action.

and supervision of large numbers of bookkeepers and auditors; and (b) the importance of regular elections and meetings, requiring member education and financial literacy training to disseminate familiarity with rules and regulations, roles and responsibilities.

3. Sector Own Control: design and approach

3.1 Designing SOC

The basic outline of the design of the pilot project goes back to **opportunities and challenges** identified in 2006 during an assessment of APMAS, a follow-up mission on the scope of APMAS' future involvement in the promotion of the SHG system and the visit of an APMAS policy delegation at DGRV in November 2006. This laid the foundation for a pre-pilot in 2007-2008[11], based on the following findings:

- A rapidly expanding network of SHGs, supported and monitored by NABARD at national level and by SERP at state level in Andhra Pradesh, gradually replacing the functions of NGOs and other SHPIs, previously involved in the establishment and maintenance of SHGs, with the potential of coordination and harmonization
- Rapidly expanding numbers of federations in India, not recognized, monitored and promoted by NABARD at national level
- A rapidly expanding network of SHG federations in Andhra Pradesh, monitored and promoted by SERP/IKP and registered under the MACS Act of 1995
- Increasing tendency of channeling government programs through SHGs, including subsidized credit programs
- SHGs and federations turning into delivery channels for banks and government
- Though member-owned, federations tend to be promoter-managed
- SHGs and federations increasingly dependent on external human and financial resources
- Inadequate management capacity of SHGs and federations.
- Limited understandings of statutory provisions and legal compliance by board members
- Shift from internal resource mobilization (mandatory savings, profit) and lending to subsidized bank borrowing
- Level of savings in SHGs f requently stagnating, not corresponding to age of groups
- SHGs lacking standardized bookkeeping and qualified bookkeepers and auditors
- SHGs lacking internal and external controls
- SHGs lacking a cohesive and sustainable institutional infrastructure

On the basis of this analysis **piloting self-regulation and self-supervision** was agreed upon as the main objective. This included capacity building as a main instrument, focusing on self-determined self-help banking, backed by advocacy addressing policymakers in Andhra Pradesh. The pilot project area was to be jointly selected with NABARD and GoAP/SERP.

Overall, the challenges and opportunities of SHG Linkage Banking promoted by NABARD and SERP have provided the framework for APMAS with DGRV to design a pilot project in which solutions are tested and implemented in a cost-effective way, so that they can be upscaled on a state-wide, and eventually national, scale. **A three-pronged strategy** is being tried and tested in this pilot project:

- identification and training of eligible members of SHGs as internal service providers (bookkeepers, auditors, facilitators, trainers) and as office bearers in large numbers;

[11] The two missions, the delegation visit to Germany and the pre-pilot were supported by InWEnt (Seibel 2006 b, c).

- compensation of internal service providers by the SHGs from their own income as a basis of financial self-reliance and institutional sustainability;
- management and control of the system of training and compensation by a tiered structure of federations, which are in turn staffed and self-managed by elected representatives of the respective lower tier: village organizations by representatives of SHGs, subdistrict/Samakhya federations by representatives of village organizations, district/Zilla federations by representatives of subdistrict federations); along the same lines, the tiered structure is self-financed from below.

Self-financing and self-reliance, self-management and self-governance are thus the fundamentals tested in the SOC project – all hinging on the social capital of poor women organized in self-help groups.

Forming a core team, a coordination committee and an advisory group. At the start of the pilot APMAS formed a core team, including the CEO of APMAS. Consultations were held with SERP/IKP and the district administration of Nizamabad. This has resulted in the selection of the Kamareddy cluster and the formation of a coordination committee of office bearers from the six Mandal federations, making good use of the existing organizational structure in the cluster. The committee is supported by an advisory group from IKP and APMAS in all matters pertaining to the project. Furthermore, a think tank of executive committee members of the six Mandal federations meets every four months to review plans and draft publications prepared by the coordination committee before they are finalized. During the final year of the pilot, in February 2011, the coordination committee has been transformed into a supervisory federation at cluster level, Paryavekshka Samakhya (*see Figure 2*). Its tasks include monitoring, auditing, rating, institutional protection and technical advice.

The core team and the coordination committee have held consultations with SHGs, redefined the objectives of the project, and agreed on an implementation strategy. The committee has also been guiding the Mandal federations in establishing performance standards and internal control systems and planning project activities.

Identifying concerns of SHGs. Together with the IKP team of the district several initial workshops were held with representations of SHGs and their federations to identify concerns and issues to be addressed. Three areas of main concern emerged:

> *Internal funds:* Low levels of savings; no interest paid on (mandatory) member savings; reluctance to increase regular savings; tendency of distributing accumulated surplus among members; idle internal funds due to restrictions imposed by banks
>
> *External loans:* Shift of focus from internal lending to external loan channeling and repayment; inadequate access to loans of the size and at the time needed
>
> *Systems and processes:* Inadequate operational capacities of SHGs and federations; lack of information processing and feedback by federations; inadequate and uncontrolled recordkeeping, leading to mismanagement and fraud.

In 2008, prior to the start of the pilot project, the **overall objective of SOC** was rephrased:

- ➢ To ensure that SHG members set their agenda and manage and control the processes, so that the SHG system works effectively and sustainably for the benefit of SHG members

Specific objectives include:

- ➢ Economic and social development of SHG members, encompassing
  - member savings protection

- sustainable growth of thrift and credit services
- financial literacy

➢ Development of sustainable democratic and legal institutions
  - Growth of internal resources
  - Equality among the members
  - Profitable institutions
  - Institutional accountability

3.2 Implementation process

Pilot project area is the Kamareddy Cluster in Nizamabad District, Andhra Pradesh, comprising 128 villages. The cluster comprises six sub-districts or mandals, each with its own SHG federation (*Mandal Samakhya*); these are multi-service federations, each with a staff of six to nine, half of them paid by IKP and half from the federations's own income. The federations in the cluster are co-members and co-owners of the district level federation (*Zilla Samakhya*). Since February 2011 they are under a cluster supervisory federation, Paryavekshka Samakhya, the result of institutionalizing the pilot project coordination committee. The six mandal-level federations comprise 172 primary federations, or village organizations (VOs), on average 1.3 per village and 30 per Mandal. Each VO comprises on average 35 SHGs: a total of initially 4,408 and now 6,084 SHGs in the cluster, of an average age of 5.8 years (ranging from 1 to 17 years) as of March 2010. The total number of members is 75,000 members, ranging from 5 to 19 and averaging 12 per SHG. The members of the SHGs are all women, comprising poor and poorest of the poor (PoP) as defined by the government and recorded by SERP. Of the total number of 34,762 PoP households in the cluster, 99.5% are members of SHGs.

The implementation process proceeds along the following lines:

- Designing and testing capacity building modules & methodologies in Kamareddy cluster (starting with a pre-pilot in 2007 supported by InWEnt)
- Joint strategic planning and promotion of SOC with SERP/IKP, with technical support from DGRV
- Capacity building of IKP staff and, on a limited scale, of MEPMA staff through training of trainers (ToT) for implementation throughout Andhra Pradesh
- Dissemination of the pilot experience and SOC approach among diverse stakeholders, including NABARD, GoI & GIZ, at national level

The support activities under SOC are results-oriented and comprise two steps:

1. establishing the SOC system
2. capacity building.

Establishing a cooperative SOC system in the pilot project is of the utmost importance, as this has been lacking in the national SHG linkage banking program as promoted by NABARD. Major elements of this system have also been lacking in the national government-aided cooperative sector, particularly those pertaining to democratic self-determination.

(1) The SOC system comprises the following main elements, pertaining to all levels :

- Standardized bookkeeping, reporting, auditing, rating, annual planning and monitoring
- Systematic annual elections (by *secret ballot*)
- Legal compliance as per MACS Act at all federation levels and similarly in SHGs

- Delegation of responsibilities from the lowest (ie, SHG) level to all federation levels

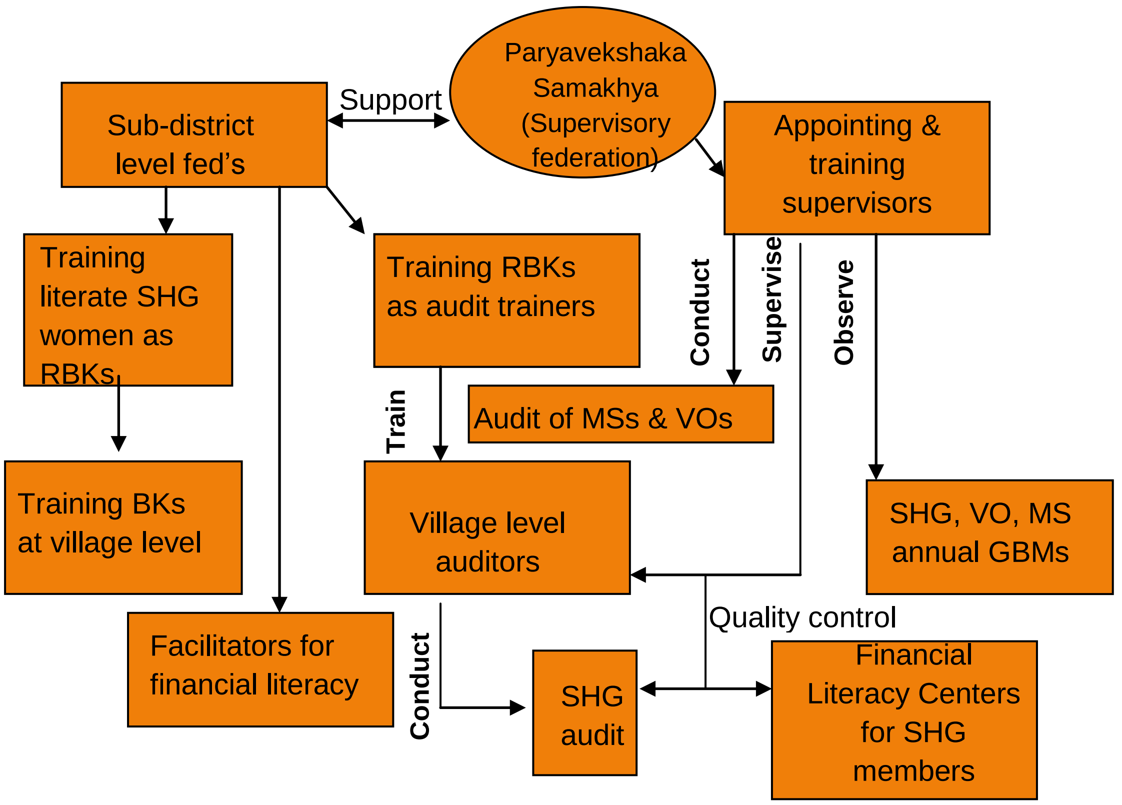
(2) Capacity building is the social capital formation process by which the SOC system is inculcated in the minds and practices of the SHG members and the SHG representatives and office bearers in the federations:

- Selecting all trainees (bookkeepers, resource bookkeepers, auditors) from within the SHGs
- Capacity building of BKs, RBKs, auditors, supervisors (*replacing external service providers*)
- Capacity-building of representatives and office bearers at all levels (*replacing functions of staff of promoting institutions*)
- Capacity building of facilitators at Financial Literacy Centres and (as *social activists*) in communities.

The process of capacity building is a long and comprehensive one, starting with the selection of women at SHG level. To be eligible they must have a minimum level of education (7th class) and some experience in book writing. They were trained as resource bookkeepers (RBKs), to train other women as bookkeepers. Eligibility criteria and training contents are largely the same for RBKs and bookkeepers, the difference lying in their willingness and ability to work for several days at a time in other villages as trainers. It is a major accomplishment of the project that increasing numbers of women are available as trainers working outside their home village. The whole process and experience of capacity building is described by APMAS (10011b) in its progress report of August 2011 (ch. 4.2 and 5). It also dwells on some of the obstacles encountered, such as large numbers of bookkeepers and RBKs leaving their original tasks and accepting salaried positions at IKP as community resource persons, community activists and community coordinators (APMAS 2011b: 10).

The main lines of the implementation process are presented in Figure 2 below.

Figure 2: Field implementation process



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

4. Results

4.1 Capacity building modules and materials

APMAS has produced and tested a complete set of capacity building materials covering all basic aspects of SOC. The main training materials are the modules 1-16 in the table below listed in the order in which the materials were produced. The materials are generally in English and Telugu, the state official language of Andhra Pradesh. The materials have been published and are made available to replicators at cost. Additional materials are being prepared as the SOC experience progresses.

Table 4.1: Published capacity building materials

No.	Topic	Availability of publication in languages					
		English	Telugu	Gujarati	Bengali	Hindi	Kannada
Training modules							
1	The Significance of Savings	Yes	Yes	Yes	Yes		
2	The Significance of Loans	Yes	Yes	Yes	Yes		
3	SHG Bookkeeping	Yes	Yes	Yes		Yes	Yes
4	Reconstruction of Accounts	Yes	Yes	Yes			
5	SHG External Audit	Yes	Yes	Yes	Yes	Yes	Yes
7	Federation Bookkeeping	Yes	Yes	Yes			
8	Annual Planning – Federations	Yes	Yes	Yes			
8	Federation Internal Audit	Yes	Yes	Yes		Yes	

9	Federation External Audit	Yes	Yes	Yes			
10	Election Process in SHGs and Federations	Yes	Yes	Yes			
11	Annual Planning for SHG	Yes	Yes	Yes	Yes	Yes	
12	Awards	Yes	Yes				
13	Understanding Financial Statements	Yes	Yes				
14	Surplus Management	Yes	Yes				
15	Interest Rate Calculation	Yes	Yes				
16	Management Information System (*soft copy only*) *)	Yes					
17	Model Annual Report for SHGs and Federations *)		Yes				
18	Dividing Large VOs (*under preparation*)		Yes				
Other capacity building and information materials							
19	Film on SOC **)	Yes	Yes			Yes	
20	Posters (hard copy)		Yes				
21	Posters (soft copy)	Yes	Yes			Yes	
22	Flexi Posters	Yes	Yes			Yes	
23	SOC concept paper	Yes					
24	SOC brochure	Yes					

*) In final editing stage **) Marati and Bengali versions under consideration

The training materials have been used by APMAS (1) in Kamareddy Cluster as its own field experimental station, (2) in capacity building for SERP and MEPMA which in turn use the materials in the process of upscaling throughout Andhra Pradesh, (3) in other states where APMAS has been involved in replicating SOC (and hence has translated some of the materials into Gurarati, Bengali, Hindi and Kannada), and (4) by other organizations involved in the promotion of SHGs and SHG federations.

4.2 Outcomes in Kamareddy Cluster

The outcome of a pilot project like SOC is not only a function of resources and inputs provided by promoters, but first of all a question of the ability and willingness of the women in SHGs (the majority, but not all, illiterate) and their communities to develop their capacities and take responsibility for their organizations, turning them into genuine self-help organizations. The seed of self-help had been planted by NABARD together with large numbers of SHPIs by starting with self-financing through savings mobilization (savings first!) and lending of internal funds at an interest rate margin permitting rapid growth of internal resources, before gaining access to bank refinance. However, as bank loans and other external resources became more widely available, the relative share of internal funds began declining in many SHGs. It was thus an open question for APMAS whether a project focusing on self-regulation and self-governance would be widely welcomed. Here is what APMAS found (and what this evaluator experienced anecdotally in numerous meetings):

> "When APMAS first began its work in the Kamareddy cluster, it expected only a mild response from the community. But it proved to be otherwise, and was quite surprised by the enthusiasm and innate capabilities of the women in SHGs. Their thirst for knowledge, their joy in dealing with complex issues of election management, reconstruction of accounts, auditing and so on, has been truly inspiring." (APMAS, Progress Report August 2011, p. 23)

While qualitative responses are difficult to measure, figures of outreach and effective participation speak a language of their own. The figures are presented in three steps. The first table reports the results of establishing a system of general body meetings (GBMs), elections, auditing and reporting at federation levels, comprising village organizations (VOs) and subdistrict federations (Mandal Samakhya, MS). Coverage is comprehensive; all MS and all VOs hold annual meetings and elections and submit printed annual reports as required by their bylaws, and all MSs and all VOs but one are regularly audited by chartered accountants (required by the MACS Act).

Table 4.2: Results at federation level in Kamareddy cluster, December 2011

GBMs of VOs and MSs completed as per bylaws	All 172 VOs and 6 MSs
Elections conducted regularly as per bylaws	All 172 VOs and 6 MSs
Annual reports printed and submitted to GBMs	All 172 VOs and 6 MSs
SHGs internally audited by community auditors	4738 out of 6,084 SHGs
Percent SHGs found in loss (as on March 2010)	31%
Second audit conducted	1190 SHGs
VOs regularly audited by chartered accountants	172 out of 178 (6 unregistered)
VOs audited internally	172 out of 178
MSs regularly audited by chartered accountants	All 6
Cooperation of external auditors with supervisors	Initiated

Within the framework of SOC it is the task of the federations to organize and supervise the process of general body meetings and elections of SHGs as well as bookkeeping and auditing. In Kamareddy cluster this process has been initiated by APMAS and gradually transferred to the federations. This also requires the presence of adequate social capital, which is developed through capacity building (see Table 4.4). All this takes time; it is not to be expected that coverage of the total number of SHGs is attained during the pilot project period. The following table gives the results of establishing the foundations of a SOC system at SHG level: the number of SHGs covered and the percentage out of a total of 6,084 SHGsin the cluster. At 98% the coverage of bookkeeping is most impressive. Note should be taken that these percentages (calculated on the basis of all 6,084 SHGs in the cluster) differ from those in terms of targets (*see chapter 4.3*), as the project did not plan to reach all SHGs within the pilot project period.

Table 4.3: Results at SHG level in Kamareddy Cluster (in % of 6,084 SHGs), Dec 2011

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

The third table reports the direct results of capacity building in terms of persons trained for the various functions required in an effectively self-reliant SOC, particularly bookkeeping, auditing and financial literacy (Table 4.4).

Table 4.4: Capacity building: persons trained (social capital formed)

Function	*Number*
SHG resource bookkeepers	195 *
SHG bookkeepers (*target:* one for every three SHGs)	1564
Community auditors for SHG audits	201
Audit trainers	17

Audit supervisors at Paryavekshaka Samakhya level	6
Audit subcommittee members at VO and MS level	62
Community resource persons	125
Village Organization bookkeepers	192
Financial literacy facilitators	240

* 195 trained, currently using services of 60 RBKs (135 employed by IKP or available in the pilot).

4.3 Targets and results, 2008-2011

Setting targets is a difficult, and somewhat arbitrary, process in a pilot project, which focuses on systems development and quality rather than mere quantitative achievements. There are numerous factors beyond the control of the project: a changing, and sometimes quite disruptive, policy environment, like government assuming control over end-user interest rates at a zero margin to the SHGs; bureaucratic impediments of the collaboration with SERP/IKP as a large parastatal bureaucracy; the microfinance crisis in Andhra Pradesh; and other impediments dealt with in chapter 5. The targets may thus not adequately reflect the underlying substantive challenges, some of which emerged only during implementation (see chapter 3). SHG linkage banking has been driven by targets imposed by Government on banks; this has led to rapid quantitative expansion, without a similar concern for quality, which APMAS is now trying to implement in the pilot project areas and, through SERP, throughout Andhra Pradesh.

The monitoring of results (*progress*) in terms of targets by APMAS is divided into ten sections; two key result areas have been added (*Publications* and *Policies*) for which targets had not been set at inception (*see chapter 4.3, Annex 1*):

1. Training in bookkeeping
2. Member education and financial literacy training
3. Performance reviews
4. Best performance awards
5. Internal and external audits
6. Annual planning and general body meetings (GBMs)
7. Elections
8. Number of institutions in profit
9. Payment of interest on mandatory savings
10. Supervision of compliance with MACS Act
11. Publications
12. Policies

Each section is subdivided into progress, or *achievements*, at the level of federations (VOs and MSs), for which APMAS is directly responsible, and at the level of SHGs, for which APMAS shares responsibility with the federations (together with SERP/IKP). A striking result is that APMAS has fully achieved virtually all targets related to federations, with two exceptions (actually reduced to one): One is the rate of internal audits of VOs (56%) and MSs (0%), which is due to the fact that all VOs and MSs (100%) are externally audited by chartered accountants as required by the MACS Act; and as all VOs and MSs are in profit, there seems to be little motivation to undergo another internal review process at an additional charge. The other exception is the rate of performance reviews of VOs based on indicators at MS level (56%), evidently identical with the rate of internal audits which produces the performance reviews.

Rates of goal achievement at the level of SHGs vary widely, reflecting the difficulty of setting realistic targets. Few targets have been fully achieved or overachieved, notably the training of resource bookkeepers and of VO board members in federation bookkeeping. Other indicators have a relatively high achievement rate, such as training of bookkeepers (77%) and internal audits (74%), which may reach close to 100% by the end of the pilot. 78% out of 3,000 SHGs targeted were found to be in profit, identical with the percentage of SHGs paying interest on mandatory savings (an innovation introduced by APMAS). The latter may be interpreted as a full attainment of an indicator to be slightly modified: 100% of SHGs in profit pay interest on member savings! Bringing the remaining 31% of SHGs into profit might be a more challenging task, possibly related to inadequate margins imposed by government policy of subsidizing bank loans and delays in the payment of the subsidies.

Finally, there is a number of indicators with low attainment rates, such as financial literacy campaigns (51%) which started only in 2009[12], holding elections (35%)[13] and annual planning at general body meetings (32%), which may be interrelated. Is attainment of these indicators just a question of time and inputs; or does this reflect a deeper problem of resistance against regular general body meetings and annual elections (and the revelations that might come with regular bookkeeping and auditing)? This is an issue requiring further attention.

APMAS also reports on the achievement of bank credit in Kamareddy Cluster during the fiscal year ending March 2011. In terms of quantitative targets set by SERP SHGs exceeded the targeted amount of bank credit (Rs 338.9 million) by 11 %; the on-time repayment rate has been 95%. (Annex 3 T3) This is not part of the targets set by the pilot project; moreover, comparative data are lacking.

This is different with regard to federations where APMAS has a direct influence on performance. Recovery of CIF funds[14] at MS level on-lent to SHGs has improved dramatically in Kamareddy Cluster: from 77% as of March 2007 to 99.5% (actually 100.0% in five out of six MSs) in July 2011. (Annex 3 T2)

Another example is the differential impact of the project is the increase in savings, measured for the one-year period up to March 2010: 3.2% among almost 6,000 SHGs (below the inflation rate), 52% among 172 VOs and 64%among 6 MSs (Annex 3 T1). However, the low increase in SHG savings also reflects that fact that, according to a study in 2008-09, about 30% of SHGs have introduced distributing savings among members, a practice which APMAS subsequently tried to discourage.

4.4 Auditing results: comparing profit-making and loss-making SHGs

APMAS has trained bookkeepers, master bookkeepers as trainers and auditors – all women recruited from SHGs and paid by the SHGs for their services. This has enabled federations at village and subdistrict level to organize bookkeeping and auditing across the board, detecting errors as well as fraud and presenting a realistic picture of the SHGs.

By June 2011 trained SHG auditors has audited 4436 SHGs (73% out of a total of 6084) in Kamareddy Cluster and recorded detailed financial and non-financial data: a major

[12] Financial literacy centers and campaigns were introduced as a new strategy in 2009 to cope with high levels of illiteracy and changes in leadership after the introduction of annual elections.

[13] The percentage of SHGs holding elections is actually higher. It turned out that banks do not permit SHGs to change the name of leaders before a bank loan is fully repaid. 35% reflects only those SHGs which either re-elected the same leaders or were able to change the names of leaders in their bank accounts.

[14] Provided to subdistrict federations (MS) as a grant and onlent through village organizations to SHGs.

achievement in a sector which was not previously covered by standardized bookkeeping, reporting and auditing procedures. These data provide the basis for interventions by VOs and MSs to improve the operations of individual SHGs, including fraud detection and prevention. This data set is not yet consolidated, and not yet ready for analysis.

A study of 3107 SHGs in Kamareddy Cluster. The data set available for analysis in the framework of a special study (APMAS 2010c) pertains to audited balance sheets and income statements of 3107 SHGs in Kamareddy Cluster as of March 2010. APMAS has prepared consolidated financial reports for the total number as well as aggregated data for 2157 profit-making and 950 loss-making SHGs. The data presented below are mean balance sheets and income statements, dividing the aggregated data by the respective number of SHGs (ie, the total number of 3107 and the number of profit- and loss-making SHGs, respectively 2157 and 950). Some adjustments have been made to international reporting standards[15]. It is suggested to further refine and finalize these reporting standards[16] in cooperation with SERP at state level and NABARD at national level.

Balance sheet. Total assets of all 3107 SHGs average Rs 132,209 (€2200) per SHG; 88.2% of this amount are loans outstanding to members, 5.9% are bank deposits. On the liabilities side compulsory savings of members and extra payments by members for bank fixed deposits together account for 20.8%. Bank borrowings account for 67.0%; grant funds (from DRDA) for relending to members account for 3.1%. External funds thus stand at 70.1% of total liabilities, compared to internal funds of 26.9% (comprising member deposits of 20.8% and profits of 6.1%). The balance sheet also includes agency services on behalf of government, namely the handling of a pension fund combined with life and disability insurance for female SHG members in Andhra Pradesh (Abbyahastam, *Abhaya Hastham*) and of a health insurance program (JBY). (Table 4.5)

Table 4.5: Mean balance sheet based on 3107 SHGs in Kamareddy Cluster, March 2010

Assets *)	Amount	%	Liabilities **)	Amount	%
Cash on hand	254	0.2	Member savings	23,747	18.0
Demand deposits in bank	4,033	3.1	Member payments f bank fixed deposits	3,647	2.8
Fixed deposits in bank	3,711	2.8	Bank borrowings	88,604	67.0
Savings deposits in VOs	787	0.6	Revolving fund grant (DRDA)	4,085	3.1
Share capital in VOs	996	0.8	Other payables	3,668	2.8
Loans outstanding	116,666	88.2	Pension fund receipts ***)	362	0.3
Other receivables	3,189	2.4	JBY Insurance receipts ****)	9	0.0
Pension fund payments ***)	2,545	1.9	Profit/(Loss)	8,086	6.1
JBY Insurance payments ****)	29	0.0			
Total assets	132,209	100.0	Total liabilities	132,209	100.0

*) Notes: *Demand deposits in bank:* Withdrawable funds left temporarily on bank account, at a low interest rate.
Fixed deposits: Mostly informally required by the bank as collateral (there is no fixed ratio of deposits to credit), remunerated at a higher interest rate.
Other receivables: Insurance premiums advanced on behalf of members; bulk purchases of goods through VO provided to members on credit; miscellaneous
**) Notes: *Other payables:* Insurance premiums received from members and not yet transmitted to insurance company; payments for bulk purchases received from members and not yet transmitted to VO; miscellaneous
***) The insurance scheme (*Abbyahastam*) covers a pension scheme, life and disability insurance and a scholarship program, for SHG members only. Members of 1237 (40%) of SHGs participate.

[15] Adjustments include a reversal of the Assets (on the left) and Liabilities (on the right) sides, some reordering and rewording of balance sheet items, the sequencing of income (first) and expenditure (second) items, and the use of the decimal numbering system (rather than lakhs and crores).
[16] These would have to revert to Indian practices, eg, placing Liabilities to the left and Assets to the right.

****) JBY (*Indira Jeevitha Bima Pathaka*) is similar to *Abbyahastam,* but applies state-wide to heads or earning members of rural landless households who are not SHG members.18 (0.6%) SHGs participate on behalf of husbands of their members.

Balance sheets of SHGs in profit and in loss. Perhaps the most striking quantitative result of the analysis is the large number of SHGs which are in the red: 30.6% of the total, compared to 69.4% in profit. Such information has not been available in the annual national reporting of NABARD; nor has there been solid evidence from studies, due to the lack of reliable comprehensive bookkeeping data. An example is the sample study of SHGs in India by Sinha (2009: 150): half the groups were found operating at a profit (with a ROA of 6.5%), 20% were running at a loss; but for lack of data there was no information on the remaining 30%.

The first detectable difference between profit- and loss-making SHGs is balance sheet size: Total assets of SHGs in profit are Rs148,948 (€2480) and of SHGs in loss Rs 94,202 (€1570), ie, less than two-thirds (63.2%) of the former. Structurally the balance sheets are very similar, eg, loans outstanding account for 88.8% of the SHGs in profit and 86.2% of the SHGs in loss; unfortunately this item is not broken down by source of funds (loans from internal vs. bank funds). The only notable difference lies in the percentage of bank borrowings (in terms of total liabilities); it is somewhat lower (64.9%) among SHGs in profit, compared to 74.6% among SHGs in loss. We may thus assume that use of internal funds is relatively more prevalent among profit-making SHGs. (Table 4.6)

Table 4.6: Mean balance sheet of 2157 SHGs in profit and 950 in loss (in Rs), March 2010

Assets	SHGs in profit	SHGs in loss	Liabilities	SHGs in profit	SHGs in loss
Cash on hand	212	349	Member savings	26,796	16,825
Demand deposits in bank	4,315	3,392	Member payments f bank deposits	3,983	2,885
Fixed deposits in bank	4,065	2,907	Bank borrowings	96,687	70,251
Savings deposits in VOs	854	634	Revolving fund grant (from DRDA)	4,829	2,395
Sharecapital in VOs	1,027	925	Other payables	3,555	3,925
Loans outstanding	132,285	81,204	Pension fund receipts	358	372
Other receivables	3,471	2,549	JBY Insurance receipts	13	
Pension fund payments	2,678	2,243	Profit/(Loss)	12,726	(2,450)
JBY Insurance payments	42	-			
Total assets	148,948	94,202	Total liabilities	148,948	94,202

Income statement of SHGs in profit and in loss. The income statement is more revealing than the balance sheet. Interest income (including penalties) of profit-making SHGs (at Rs 30,167) is almost three times that of loss-making SHGs (at Rs 11,964), while interest expenditure of profit-making SHGs is just about 50% higher than that of loss-making SHGs. Profit-making SHGs spend only 50.3% of their interest income on interest expenditure, compared to 85.7% of loss-making SHGs; or in other words: interest income of profitable SHGs exceeds their interest expenditure by 98.8%, compared to 16.6% among loss-making SHGs. Moreover, loss-making SHGs spend comparatively more on bookkeeping and auditing fees, stationery and travel. The crucial factor which makes SHGs profitable or unprofitable is self-reliance in terms of origin of loanable funds: Among profit-making SHGs a much higher share of financial income, namely 48.1%, comes from interest on loans from internal funds, compared to 14.7% among loss-making SHGs. (Table 4.7)

Table 4.7: Mean income statement of 3107 SHGs, 2157 in profit and 950 in loss (in Rs)

	All 3107 SHGs	2157 SHGs in profit	950 SHGs in loss
Income:			
Interest on loans from internal fund	10,606	14,500	1,764
Interest on VO loan fund	911	1,000	710
Interest on bank loans	12,694	14,214	9,242
Interest on bank deposits	347	399	228
Penalties	43	53	20
Visiting fees	5	7	0
PV subsidy received	2,522	2,961	1,526
Total income	**27,128**	**33,134**	**13,490**
Expenditure:			
Interest on VO loan	790	865	621
Interest on bank loan	12,861	14,291	9,613
Penalties	20	18	23
Stationery	473	442	543
Bookkeeping fees	1,948	1,870	2,124
Auditing fees	11	2	31
Meetings	20	21	18
Travel	536	509	596
VO membership fee	144	144	143
PV subsidy paid to members	2,240	2,245	2,228
Total expenditure	**19,042**	**20,408**	**15,941**
Profit/(Loss)	**8,086**	**12,726**	**(2,450)**

Return on year-end total assets is 5.4% among the total number of SHGs in the sample, 8.5% among profit-making and -2.6% among loss-making SHGs. This result requires further analysis, particularly in terms of the SHGs' management of margins on loans from internal and external sources. As a consequence of government programs subsidizing, and thereby depressing, end-user interest rates, there has been a tendency of lowering interest rates on loans from internal funds and relending bank funds without a margin; we may assume that this tendency is more pronounced among loss-making SHGs.

5. Challenges and the way forward

5.1 Grants and subsidies undermine SHG performance and access to credit

SHGs occupy a prominent place in India as a vehicle of poverty alleviation and women's empowerment, with outreach to the poorest of the poor. During the initial phase, the 1990s and into the 2000s, this was to be achieved predominantly through the accumulation of regular savings, access of SHGs to bank loans, relending the bank loans to group members at terms and conditions including interest rates to be determined by the groups themselves, the generation of profits from the interest rate margin, and continual relending of internal funds (savings and retained earnings). While SHGs were free to lend to their members at any interest rate, there was a tendency (promoted by NGOs and GOs) to lend at 2% per month on the declining balance, ie, 24% effective p.a. Given very low expenses, this left the groups with a margin of 24% on loans from internal funds. At bank interest rates around 14%, this left the groups with a gross margin of around 10% on bank loans. As NABARD refinanced the banks and there was no fixed ratio between internal funds and bank loans, the latter exceeded internal funds by a wide margin. As a result internal resources of groups grew rapidly. In a sample study in Karnataka State in 2004, most of the groups maintained a single loan account with identical terms and conditions for loans from internal and bank funds; and most loans were need-based, ie, unequal in terms of size and duration; more than half of the amount of loans outstanding (53%) were derived from internal funds, the balance from bank loans; margins were substantial.[17]

For both policy and political reasons, SHGs have increasingly become a vehicle of government programs. As Sinha (2009: 153) noted, "SHG growth seems to be attracting too much politics in the form of targets for SHG bank linkage, resulting in the supply-driven approach of pushing external loans on SHGs." Fernandez (2006: 17) notes that affinity among SHG members is being destroyed "by some government programmes that provide subsidies at different rates to scheduled castes and scheduled tribes, even though they may be in one SHG – and by some microfinance institutions (MFIs) that break up good SHGs into joint liability groups or extend loans to individual members in an SHG without a consultative process with the groups."

In Andhra Pradesh government programs include a program of grants (*Community Investment Funds, CIF*) to subdistrict federations (Mandala Samakhya), to be onlent to VOs, SHGs and members[18]; an interest subsidy scheme (Pavalavaddi, PV) for bank loans to SHGs introduced in 2004[19] [20]; the handling of transactions of a pension fund scheme cum life and disability insurance for SHGs only (*Abbyahastam*) as well as of a similar scheme (JBY) for heads and earning members of landless rural households who are not SHG members[21]. In a sample of 3107 audited SHGs in Kamareddy Cluster 41.5% of SHGs had access to CIF funds, 50% borrowed from VOs, 90% had a bank loan outstanding and were eligible for PV

[17] In a study of 78 SHGs in Karnataka State, 67% of the groups kept a single loan account. Loan sizes were unequal in 95% of groups with loans from internal or single accounts, and in 70% of groups with loans from separate bank resource accounts. 53% derived from internal funds and 47% from bank loans. Internal repayment problems were minimal. SHG repayment rates to banks were mostly 98-100%, compared to overall bank repayment rates of 35-83%, confirming the paradox that the poor repay their bank loans, while many of the non-poor don't. Interest rates from internal funds averaged 27%, and 23% from bank loans (obtained at 12%). (Karduck & Seibel 2007)

[18] Cumulative CIF expenditure in Andhra Pradesh up to July 2011 was Rs 10.2 billion, covering 2.9 million beneficiaries. (SERP/IKP 2011)

[19] Under the Pavalavaddi scheme Rs 5.4 billion were reimbursed to 1.1 million groups (rural and urban) during fiscal year 2010-11. (SERP/IKP 2011)

[20] The PV has been preceded by the national Swarnajayanthi Grameen Swarozgar Yojana (SGSY) programme, which provided SHGs with loans-cum-subsidies as well as a capacity building grant.

[21] The transactions of the two insurance schemes appear on both sides of the balance sheet in Table 4.6.

subsidies, 40% handled transactions of the Abbyahastam scheme and 0.6% handled transactions of the supplementary JBY scheme (March 2010 data, APMAS 2011c).

The margin matters! The program which interferes most seriously with SHG performance is the PV subsidy scheme, stipulating a subsidy covering the balance between bank interest rates (currently around 12%) and 3%, provided SHGs pay all installments on time. On the positive side this has led to very high on-time repayment rates of SHGs to banks. This could also have been a major source of capital formation for the SHGs; but IKP has insisted that the 3% are to be an effective enduser interest rate, leaving the SHGs with a gross margin of 9% (instead of 12% previously, assuming that SHGs lent at 24%) to cover administrative expenses, loan losses and profit to the SHGs. The Pavalavaddi scheme has affected the liquidity situation of SHGs in two ways: first, in order not to forego the subsidy, SHGs meet their monthly repayment from internal funds if members do not pay on time; second, payment of the subsidy by the government through the banks may take one or two years, and part of it may reportedly be lost due to fraud. In addition, there are serious indirect effects on the overall interest rate margin of SHGs due to imitation effects. Taking the gross bank interest rate as a standard, there is a new tendency among SHGs of lending their internal funds at 12% and other funds, like CIF (received at 12 or 15%), at no margin or a minimal margin of 3%. Not surprisingly, APMAS (2011b: 13, Table 1) reports that average savings of 5,661 SHGs have increased by only 3.2% from March 2009 to March 2010; at an inflation rate around 9% in recent years this is equivalent to a negative growth rate of - 6%.

There are a number of equally serious side effects. Loans to members are distributed equally in terms of size and duration rather than need-based; this may lead to loan losses, as everyone takes the loan she is entitled to. SHGs rely increasingly on external funds as members lose interest in the internal resources of the SHGs (savings and retained earnings), distributing rather than accumulating funds. As the process of growth of internal resources is reversed, SHGs lack resources for smaller-size short-term loans during the long interim period during a bank loan (which stretches over 2-3 years). In cases of emergency they have to turn to moneylenders, who seemed to have almost died out ten years ago due to the competition of the SHGs. Ultimately, the subsidy scheme has damaged the health and financial performance of SHGs, hampered the mobilization of internal resources, and jeopardized access to credit for the poor and poorest of the poor.

The result is paradoxical: at a time when capacity building has very successfully created the social capital for managing SHGs as financial intermediaries, the Pavalavaddi subsidy scheme is turning the SHGs into credit channeling groups which NABARD had turned away from with its SHG Banking program.

The way forward must focus on the following tenets:

- Putting growth of internal funds of SHGs in the center, with the objective of enabling SHGs to provide loans to members at any time as needed
- As an intricate part of SOC, SHGs and their federations must take control over on-lending terms
- No lending without an adequate margin for SHGs (and federations as applicable)
- Spreading the message of adequate interest rate margins as a source of self-reliant growth squarely into capacity building at all levels including Financial Literacy Centers
- Limiting the number of onlending tiers to reduce TC
- Advocacy campaign of APMAS with SERP/IKP directed at policymakers to respect and promote the autonomy of SHGs as financial intermediaries, with full authority over the terms and conditions of their loans
- Organizing a publicity campaign with SERP/IKP on the deleterious effects of interest rate interference on poverty alleviation, women’s empowerment and access to credit for the poor and poorest.

The concern of APMAS and the pilot project for SHG sector own control and autonomy is shared by the administration in Andhra Pradesh:

- “Pro-active involvement of the government has to give way to self-organization and transformation to sector own control.” (Principal Secretary Rural Development, Andhra Pradesh, 8 August 2011)

- “Promote institutions of the poor, not conduits for subsidies.” (CEO, SERP, 8 August 2011).

5.2 Banks turning into unsupportive partners

Banks, most of them state-owned, are the main source of credit to SHGs and also the main source of loanable funds of SHGs. Reportedly lending to SHGs continues to be profitable, particularly for the regional rural banks; it also continues to count towards the fulfillment of mandatory priority sector lending quotas. Yet, it appears from our interviews with SHGs, federations and other stakeholders that many banks may be losing their earlier enthusiasm for linkage banking, though it is not clear to how many banks this might apply. Before the microfinance crisis hit during the second half of 2010 and the government of Andhra Pradesh practically stopped the repayment of loans from MFIs, banks found bulk loans to MFIs far more attractive; particularly under conditions of staff shortage, it was more convenient to lend to a single large MFI than to a thousand small SHGs. With increasing own liquidity, banks also depend less on NABARD refinance and its pressure to lend to SHGs, compared to the first decade of SHG banking. Moreover, NABARD has been refinancing not only SHG banking but in recent years also bank lending to MFIs, albeit on a smaller scale, thus sending a mixed message to banks.

During the first decade of SHG banking banks respected SHGs as autonomous financial intermediaries, without interfering in their relending terms. This has been changing. A major reason might have been the introduction of the Pavalavaddi interest rate subsidy scheme by the government of Andhra Pradesh in 2004, forcing the banks to abide by the instruction of SERP/IKP to enforce an enduser interest rate of 3% p.a. This has opened the door for interference with lending terms of SHGs. According to anecdotal evidence banks have been propagating an adjustment of SHG terms to bank terms: equal distribution of loans among SHG members, maturities identical to those of the bank, and an enduser interest rate of 12% across the board. Where banks have not exerted any pressure, SHGs have taken it upon themselves to adjust their terms.

Subjected by NABARD to targets of savings mobilization, banks reportedly have deducted part of SHG loans as fixed deposits, blocked the withdrawal of their savings and adjusted SHG savings to their loan accounts, even though there is no mandatory ratio between SHG loans and deposits.

It appears that the quality of customer service to SHGs has declined. There are delays in the disbursement of loans to SHGs, sometimes delivered beyond planting time, reductions in loan amounts irrespective of eligibility, delays in entering transactions in SHG passbooks, and delays in providing financial reports to SHGs which are need on time when SHGs are audited. Under conditions of staff shortage there are also complaints by SHGs that banks have been slow in opening new SHG accounts. At the same time there are reports that under target-driven pressure some banks try to sell high-cost insurance to SHG members and to persuade them to open bank accounts, while in other cases members find it difficult to open savings accounts.

One of the major problems in SHG banking is not new: the banks' single loan policy. Banks provide a relatively large two- or three-year loan to SHGs, which have no access to another loan in-between, perhaps smaller and short-term. In the absence of a strong recommendation from NABARD, there has been no innovation in SHG banking in this respect.

Overall, bank agendas have increasingly replaced group autonomy; growth of SHG own resources has been slow or negative; various malpractices are emerging.

The way forward may include some of the following steps:

- SERP/IKP, federations and banks together with APMAS jointly seeking solutions in district coordination meetings, joint mandal level bankers committees (JMLBCs), and community recovery committees
- Expanding the *bank mitra* scheme, placing an SHG member as a contact person at a bank branch
- Including bankers in the capacity building activities of APMAS and SERP/IKP
- Addressing the problem of staff shortage of banks
- Providing smaller short-term bank interim loans to mature SHGs based on recommendations by federations
- Providing bulk loans to federations for onlending to SHGs (while paying attention to minimizing the number of tiers and ascertaining adequate margins to SHGs)

5.3 Mandatory savings becoming ineffective

The promotion of thrift, together with a concern for savings protection, has been confined to mandatory savings in SHG banking. There is a conflict of interest between mandatory regular and voluntary withdrawable savings. Mandatory savings, to the extent that they are not deposited in banks, are in the immediate interest of SHGs as a source of loanable funds; voluntary withdrawable savings are in the interest of members for income smoothing and emergencies. In the SHG linkage banking program only mandatory savings have been promoted, refundable only when a member leaves an SHG. Mandatory savings are fixed at the lowest affordable level of the members of a given group; the potential of members with a higher savings potential goes unutilized.

Promotion of savings has been halfhearted from inception. The SHG banking model designed by NABARD and promoted by SHPIs required regular savings prior to access to bank loans; but the size of bank loans was unrelated to either internal savings or bank deposits. Internal savings together with the granting and recovery of loans from internal resources have not been monitored outside of SOC. Only since 2007 has NABARD monitored savings deposited in banks, which are but a fraction of total savings. Similarly, the growth of retained earnings has neither been promoted nor monitored.

An emphasis on bank credit by NABARD, together with interest rate subsidies and the provision of additional external resources by the Government of Andhra Pradesh in recent years, have offset the balance between the growth of external and internal resources. Furthermore, there are a number of unattractive aspects of mandatory savings which have negatively affected the motivation to save: savings are not withdrawable; and outside of SOC they do not earn interest.

The overall result has been a lack of motivation to increase mandatory savings, a tendency of distributing accumulated surplus among members, repayment of bank loans from internal funds, idle internal funds (partly deposited in banks), slow or negative growth of internal resources of SHGs (even in older groups), and a lack of member ownership and participation. APMAS reports a tendency of SHGs to abandon the concept of self-reliance and to turn into credit management groups.

The way forward may focus on:

- Promoting and monitoring savings and retained earnings
- Financial literacy stressing the growth of savings and retained earnings
- Developing savings products at VOs and MSs (under preparation in SOC)
- Developing a wider concept of internal resource mobilization, comprising three products: (1) shares which are not interest-earning; (2) mandatory savings which earn dividends allocated to the members' accounts, part of which may be distributed among members at intervals; and (3) voluntary withdrawable savings

5.4 Lack of voluntary withdrawable savings

So far the promotion of voluntary withdrawable savings has not been part of the agenda of NABARD, SERP and APMAS. Neither SHGs nor VOs – the two local organizations in the immediate proximity of members – offer individual savings accounts. Banks generally do not welcome small savers. Ongoing attempts by RBI to introduce mandatory inclusive finance by commanding banks to open units for every 5,000 habitations (later to be decreased to 1,000) will have to struggle with their likely reluctance.

Absence of opportunities to deposit withdrawable savings invariably leads to indebtedness: at every emergency and occasion requiring a certain accumulated amount of resources. It also undermines the self-financing capacity of the poor and greatly reduces their capacity to establish or expand microenterprises and other income-generating activities.

The way forward is not unequivocal, requiring further study for APMAS in close collaboration with the federations and with SERP/IKP. The following institutional options and opportunities may be examined:

- VOs as deposit-taking institutions
- VOs and MSs as business correspondents of banks
- SHGs or VOs as deposit-taking agents (or business correspondents) of a federation or microfinance bank or non-bank financial company (NBFC) at district or state level.

5.5 The microfinance crisis in Andhra Pradesh and the risk of overindebtedness

At pre-design of SOC in 2006 the risk of overindebtedness was discussed, resulting from increasing competition among MFIs and a practice of multiple lending to individual members of SHGs outside their purview. Inspired by the widespread use of joint liability groups (JLGs) as a collateral substitute throughout the world of microfinance, some MFIs divided SHGs into JLGs of five women each, who guaranteed each other's loans. In 2005 APMAS had become aware of the looming danger of overindebtedness in Andhra Pradesh, and carried out a study, warning against the risk this posed for individual members as well as for the health and cohesiveness of SHGs. In early 2006, at the time when APMAS was assessed and the pre-design of the pilot project discussed, press reports appeared in Andhra Pradesh on suicides of overindebted borrowers harassed by MFIs. The pilot project design team at APMAS realized that it would be difficult to enforce discipline and customer protection among MFIs, who had little control over field staff and field agents working on their own account (the latter frequently with fraudulent practices). The team agreed that the only feasible solution was self-control by SHGs over external borrowings of their members, and that financial literacy training and oversight by village organizations would have to play a crucial role.

While such self-control and oversight was among the objectives of SOC, the likely extent of the problem was not clear at the time (at least not to APMAS' partner SERP/IKP), and no focused action was taken. When *The MFI crisis in Andhra Pradesh* finally broke out during the second half of 2010, subsequently affecting MFIs all over of India and making headlines in the international press and on MFI communication platforms, the SOC team was prepared and tried to help SHGs in the pilot area to cope with the two resulting problems: harassment of overindebted members by MFIs on the one hand and the drying up of credit from MFIs on 26the other.[22] Matters were discussed throughout the SHG system; much of the immediate problem was solved by fiat, as the government stopped MFIs from collecting debts; and in the remaining cases SHGs reportedly assisted members with loans from internal resources.

At the time of the evaluation members of SHGs throughout the villages visited were still scared of a return of MFI agents with their rigid collection method. In one village some 200 members were reportedly affected. But it was impossible to get any information in other villages, beyond the statement that SHG members had been affected; and not a single member was forthcoming as an MFI client.

The way forward has been indicated by the conclusion reached during the first MFI crisis in 2006:

- SHGs must take control over multiple borrowings, requiring members to report loan offers and applications to their respective SHGs
- VOs must oversee SHG decisions over multiple borrowings of members
- FLCs must reinforce awareness of the risks of overindebtedness
- Solutions have to be found for access to credit at times of individual need when bank or federation loans are not available
- The backup capacity of federations needs to be strengthened
- FLCs must inculcate the message that growth of internal resources from savings and retained earnings is a prerequisite for the ability of SHGs to respond to the credit demand of their members; and that such growth must be a continual long-term process

It must be clear that these are strategies requiring further deliberations and studies and coordinated action of APMAS with SERP/IKP, NABARD and other stakeholders.

5.6 Lack of external supervision of SHG federations

SHG federations provide financial and non-financial services to their members, which SHGs or lower-tier federations. With growing internal funds and onlending operations of external funds they might gradually evolve into financial institutions, with a tendency of separating their financial business, but they are not part of the formal financial sector. As cooperative federations under the MACS Act they are subject to legal compliance. Annual reporting to the Registrar of Cooperatives (RC) is enforced; but the federations are not scrutinized by the RC in terms of financial performance. There is thus no independent supervisory body for SHG federations reporting to a financial authority; there is neither direct nor delegated supervision. Accordingly, there are no prudential norms established and supervised by a regulator.

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[22] The promulgation of an Ordinance by the Andhra Pradesh Government in October 2010 stopped repayment of loans from MFIs and practically brought the microfinance sector to a standstill. This has affected the microfinance industry all over India, which had been growing at compounded annual rates of 70% over the five years up to 2010. As of mid-2011 the sector is estimated to contract by some 20-40% during 2011. (http://www.thehindubusinessline.com/industry-and-economy/banking/article2450070.ece, 22 Sep 2011)

APMAS has taken a first step in February 2011 and established a Paryavekshaka Samakhya, a supervisory federation at the level of Kamareddy Cluster. The Paryavekshaka Samakhya (Figure 2), which has resulted from the institutionalization of the SOC coordination committee, is the apex of the sector own control system in the cluster. It comprises six audit supervisors; but it is not part of formal financial supervision under the Reserve Bank of India (RBI) or under NABARD as a supervisor of cooperative banks[23].

The SOC pilot aims at establishing an effective system of internal control, which is a prerequisite for external supervision. It would thus have been premature to introduce financial sector regulation and supervision during the pilot before internal control is effective. However, a policy dialog will have to be part of the next phase of theproject, at least as a preemptive act before serious problems erupt (as in the recent MFI crisis). The main reasons for preemptive action include: a systemic risk for the SHG federation system resulting from the possible failure of unsupervised financial institutions; predictable penal intervention by authorities if anything goes wrong; and risks for the poor of losing their savings.

The way forward may include the following steps:

- A feasibility study of establishing a supervisory body of federations at state level (presumably preceded by the establishment of an SHG federation at state level)
- Legal clarification of the implications of the MACS Act for federations as formal, nonformal or specialized financial institutions
- Separation of financial and nonfinancial business of federations throughout the state
- Establishment of nonprudential and prudential norms
- Identification of a delegating financial authority
- Delegation of supervision by a financial authority to a supervisory body.

[23] Supervision of cooperative banks by NABARD has not been very effective, as it conflicts with overriding powers of the Cooperative Registrars as part of state governments. NABARD is also under consideration as a supervisor of MFIs.

6. Assessment in terms of DAC criteria

6.1 Relevance

Promoting savings-based self-help groups of poor and very poor women and linking them to bank credit is a major instrument of inclusive finance, poverty alleviation and empowerment of women promoted by Government throughout rural India; expansion into urban areas has started recently. As of March 2010, seven million SHGs have gained access to bank savings accounts; almost five million SHGs have a bank loan outstanding. Total outreach of SHGs linked to banks is around 100 million members, mostly women, covering a population of about 500 million. Yet, despite its massive expansion the SHG sector has remained largely unorganized; NABARD has promoted direct access of single SHGs to banks and ignored federations which have emerged in a number of states. Unlike bank linkages, the internal financial operations and performance of SHGs have not been monitored. Given their mass outreach, SHGs have become a political factor. Governments have vied for their favor with special support programs and subsidies, many of which have undermined their health and autonomy.

Andhra Pradesh is the leading state in SHG banking and has served as a model to the nation. It accounts for 30% of SHGs with a bank loan in India and comprises the largest number of SHG federations at village, subdistrict and district level, all registered as *mutually* assisted cooperatives under the MACS Act of 1995. Andhra Pradesh is also a leading state in government support as well as government interference in their financial operations. It is feared that SHGs are losing sight of their own agenda and are becoming agents of government programs.

The objective of self-regulation and self-supervision of the SHG sector of poor rural women, working effectively and sustainably for the economic wellbeing and empowerment of their members, is highly relevant and continues to be valid. This pertains equally to *its two main implementation instruments:*

(1) ***establishing a Sector Own Control (SOC) system*** *based on* principles of *self-management and self-governance, self-reliance and self-financing and comprising the following main elements:* standardized bookkeeping, reporting, auditing, rating, annual planning and monitoring; legal compliance as per MACS Act; annual assemblies and elections by secret ballot; and delegation of responsibilities from the lowest (ie, SHG) level to all federation levels

(2) ***social capital formation*** *through capacity building of poor women who are taking full responsibility for SHGs and SHG federations, thereby* inculcating the SOC system in the minds and practices of the SHG members and their representatives and office bearers in the federations, comprising the following elements: selecting all trainees from within the SHGs; capacity building of bookkeepers, resource bookkeepers, auditors and supervisors (*replacing external service providers*); capacity building of representatives and office bearers at all levels (*replacing functions of staff of promoting institutions*); capacity building of facilitators at Financial Literacy Centres in communities with outreach to all SHGs.

Last but not least, APMAS stands for a **concern with quality** in SHG Banking, and so does the objective of SOC: highly relevant for SHGs and bank linkages. Sinha (2009: 155), with Malcolm Harper, found the lack of concern with quality in SHG banking appalling: "The SHG movement has been driven largely by the drive for numbers. Bankers, NGO staff and politicians vie with each other for growth in the numbers of SHGs linked to banks, by which they mean in debt to banks. Our study shows very clearly how this emphasis on quantity has been associated with the neglect of quality. The numbers are impressive…But being a member of a weak SHG is worse than not being a member of one at all, particularly for the poorest people." The SOC pilot has quality of SHGs in financial and non-financial terms (*social capital*) on its agenda and at the center of its implementing strategy, including the improvement of the quality of the SHG members (*human capital*) through capacity building.

6.2 Effectiveness

In partnership with SERP and IKP, a government society and a program of poverty alleviation and SHG promotion throughout Andhra Pradesh, APMAS has effectively developed the required SOC system (*see chapter 3*), produced and published a complete set of capacity building modules and materials (*see chapter 4.1*), shared the system and the modules with SERP/IKP, started training their staff, and implemented the capacity building process in Kamareddy Cluster on a pilot base (see chapter 4.2 - 4.3).

The first focus on the pilot project has been *on* the federations and *the establishment of* a system, which comprises general body meetings (GBMs), elections, auditing and reporting according to their bylaws at the respective levels. Coverage is comprehensive; all 6 subdistrict federations (MS) and all 172 village organizations (VOs) hold annual meetings and elections and submit printed annual reports as required by their bylaws, and all MSs and all VOs but one are regularly audited by chartered accountants as required by the Andhra Pradesh MACS Act.

Within the framework of SOC it is the task of the federations to organize and supervise the process of general body meetings and elections among the total number of 6084 SHGs in Kamareddy Cluster as well as bookkeeping and auditing. This process has been initiated by APMAS and is being gradually transferred to the federations. This requires the presence of adequate social capital, which has been developed through capacity building. The coverage of bookkeeping is most impressive: 98% as of March 2010 and virtually 100% as of July 2011. 73% of SHGs have been audited. These percentages differ from those in terms of targets (*below*) as the project did not plan to reach all SHGs within the pilot project period.

In terms of targets set for the pilot project APMAS has achieved virtually all targets related to federations, for which APMAS is directly responsible. An exception is internal auditing, which is due to the legal requirement of external auditing by chartered accountants, a target fully attained, which has shifted attention from internal to external auditing. An example of effectiveness which has not been part of defined targets is the recovery of CIF funds by subdistrict federations (MS) from SHGs. These funds are received as a grant at MS level and onlent through VOs to SHGs. The recovery rate at MS level has improved dramatically in Kamareddy Cluster during the pilot project period: from 77% as of March 2007 to 99.5% in July 2011.

For goal achievement at the level of SHGs APMAS shares responsibility with the federations and, to some extent, with SERP/IKP. Several targets have been fully achieved or overachieved: the training of resource bookkeepers and of VO board members in federation bookkeeping; and the payment of interest on member savings by SHGs in profit. Other indicators have relatively high achievement rates, such as training of bookkeepers (77%) and the conduct of internal audits (74%), which is expected to further increase towards the end of the pilot, December 2011.

Finally, there are a number of indicators with low attainment rates in terms of targets, such as financial literacy campaigns (51%), holding elections (35%) and annual planning at general body meetings (32%), which may be interrelated. To some extent this may reflect a certain resistance against regular general body meetings and the revelations that might come with regular bookkeeping and auditing. To a larger extent this is probably due to a number of external constraints such as grants and subsidies undermining SHG performance and access to credit (*see chapter 5.1*), a tendency of banks turning into unsupportive partners (*see chapter 5.2*), and the recent crisis of microfinance institutions and related overindebtedness problems in Andhra Pradesh (*see chapter 5.5*). All three constraining factors have negatively impacted mandatory savings, the main source of internal funds, and the smooth functioning of SHGs (*see chapter 5.3*). Internal constraints have to be added, such as the lack of voluntary withdrawable savings for income smoothing and emergencies (*see chapter 5.4*). The lack of external supervision of SHG federations under a financial authority may have been of little if any significance in this context (*see chapter 5.6*). The way forward, to be addressed in the next phase of the project, has also been discussed in chapters 5 and 8.

The effectiveness of bookkeeping, auditing and internal supervision over this process in the framework of SOC has been documented in a special study of 3107 audited SHGs conducted by APMAS in Kamareddy Cluster (*March 2010 data*). The analysis of consolidated balance sheets and income statements has yielded a striking result: 31% of the SHGs were found to be loss-making, 69% profit-making. There is evidence that loss-making is due to the interference discussed above and the resulting loss of autonomy and self-reliance. Compared to profit-making SHGs, loss-making SHGs were found to rely to a larger extent on bank loans (rather than loans from internal resources), and to have a substantially lower interest income, due to inadequate margins imposed by the government policy of subsidizing bank loans and related delays in the payment of the subsidies. This has been aggravated, though to a lesser extent, by relatively higher administrative costs. (See *chapter 4.4*). Further analysis of consolidated financial data and their relationship to nonfinancial data (also collected by APMAS) is necessary and needs to be standardized so that it can be used by SERP/IKP on a state-wide scale. The results of such analysis will provide a basis for reform and remedial action, including policy advocacy.

6.3 Efficiency

The pilot project appears to have been highly efficient. It has achieved the results reported above, including those related to upscaling (*see below*), with a contribution of EUR164,722 to the operational budget of APMAS. The budget appears quite modest given the scope and attainments of the project. It is not surprising that there were polite hints of “budget constraints”. The budget covers mainly activities pertaining to interventions at the level of Kamareddy Cluster and of Mandal federations (MS); activities at VO level and some at MS level are charged to SERP and Mandal federations. 69% of the budget has been spent as of June 2011.

A summary of the budget and of expenditure up to June 2011 is given below (Table 6.1). Two-thirds of the expenditure (67.1%) has been spent on training including training materials, translations and meetings. The second-largest item comprises scaling up expenditures, including workshops and exposure visits. The budget below does not include DGRV’s budget for short-term consultancies, inspection and evaluation.

Two factors deserve special mentioning which have contributed to efficiency. One factor is the historically close cooperation of APMAS with major stakeholders, among them SERP/IKP and NABARD, and the leverage APMAS has gained from advocacy with policymakers.

The other factor pertains to the organizational culture of APMAS. Its management and staff have been found highly motivated, diligent and efficient and have interacted with the leadership of the federations in a spirit of mutually reinforcing enthusiasm; this in fact was the prevailing situation in 2006 and has created the setting in which the pilot project was designed. The enthusiasm has also been reflected in meetings with SERP/IKP and other stakeholders who have visited, or are working with, SHGs and federations in the pilot project area. All this has contributed to efficiency.

Table 6.1: Expenditure of APMAS for the pilot project in Euro, July 2008 – June 2011 (*DGRV budget only*)

	Amount	Percent
Training and meetings	47,683	41.9
Training materials, publications	28,691	25.2
Studies	3,790	3.3
Support for initial audit	806	0.7
Staff and consultants	5,327	4.7
Scaling up, exposure, workshops	27,612	24.2
Total expenditure	**113,909**	100.0
Budget until Dec 2011	**164,722**	
Balance	50,812	
Percent of budget spent, June 2011	69.2	

6.4 Impact

There are several spheres of impact of the pilot intervention: (1) institutional impact on federations; (2) institutional impact on SHGs; and (3) impact on SHG members as owners, managers and users. In addition there are benefits of SHG membership which have been widely reported elsewhere: (4) tangible economic benefits of access to credit from internal and external sources; and (5) intangible social benefits.

Institutional impact on federations. The direct impact of the pilot project is institutional: establishing an operational system of self-regulation and self-supervision and building the capacity of SHGs and their federations to manage and control the underlying processes so that the system works effectively and sustainably for the benefit of the members. On the one hand all office bearers and representatives at the various levels are exclusively recruited from SHGs. On the other hand all members of the SHGs are covered by the capacity building process: all members are trained in SHG (self-) management and governance pertaining to general body meetings, annual elections (by secret ballot) and the process of selecting representatives throughout the federation system; literate members are selectively trained in bookkeeping, auditing, reporting and record-keeping at meetings, as bookkeepers (one for every three SHGs), resource bookkeepers (training bookkeepers), auditors, audit trainers and supervisors; nonliterate members are specially trained in financial literacy and SHG affairs. (*See chapter 4.2*)

Institutional impact on SHGs. On the basis of a special study APMAS (2011c: 14-15) reports the following institutional impact of its intervention in Kamareddy Cluster:

- The quality of groups has improved. According to data provided by SERP, 30-40% of SHGs in Kamareddy Cluster are graded A, compared to 15-20% of SHGs in Andhra Pradesh overall (March 2010)
- The quality of bookkeeping has improved; the percentage of SHGs with good bookkeeping has increased from 54% in 2005 (APMAS 2005) to 80% in 2010[24]
- The amount of idle internal funds in Kamareddy Cluster is less than half (46%) of the state average
- The practice of distributing group funds and thereby diminishing the amount of internal loanable funds has decreased from 44% in 2009 to 28% in 2010
- An increasing percentage of SHGs in profit is paying interest on mandatory savings after auditing
- Members of SHGs appreciate the importance of auditing and have started to take action with regard to: 1) increasing monthly mandatory savings; 2) increasing interest rates on loans from internal funds; 3) recovering overdue loans including interest payments due; 4) misuse of group funds; 5) changing group leaders who misused funds. (*See chapter 4.4*)

Quantitative indicators of impact on institutional performance have not been defined for the pilot. However, a striking example of such impact, at subdistrict (*Mandal*) federation level, is the recovery rate of CIF funds from SHGs (which onlend these funds to their members): from 77% as of March 2007 to 99.5% in July 2011. Another example of institutional impact in terms of financial performance is the increase in savings of federations deposited by SHGs on which APMAS has a direct influence, measured for the one-year period up to March 2010: 64% among the 6 MSs and 52% among the 172 VOs. There is no such impact at SHG level, on which APMAS has less influence: the net increase among 6,000 SHGs in Kamareddy has been a paltry 3.2%, which is below the inflation rate. However, note should be taken that this is largely due to the habit of repaying bank loans and insurance premiums of members from group funds in case of need (de facto a kind of emergency loan to members) as well as paying dividends, which APMAS is now discouraging. (*Cf chapter 4.3*) Similarly, the pilot project has not, or not yet, visibly impacted the performance of SHGs in terms of profitability (though comparative data are lacking). In a study of 3,107 audited SHGs APMAS found 31% of SHGs in loss, presumably due to the interest rate subsidy policy of the government of Andhra Pradesh which has seriously affected the health of the SHGs, and some other factors (*see chapter 5*). However, transparency being a major, albeit indirect objective of the project, it is a major achievement that APMAS has brought this fact to the open, as basis for future action with SERP/IKP. (*See chapter 4.4*)

Impact on SHG members as owners, managers and users. In Kamareddy Cluster, as in practically all parts of Andhra Pradesh, outreach of SHGs to poor women has reached a **saturation** point; very few are left who are not members. The system of capacity building and selection installed in the pilot project reaches all members of the SHGs: as savers, borrowers, investors, managers of SHG affairs and actual or potential representatives at federation levels. Thereby institutional impact translates directly into **individual impact**, affecting all members as owners and managers of their SHGs and the SOC system. From SHGs up to the highest federation level, all office bearers and representatives are members of SHGs where they received their initial training; both literate and nonliterate members may be elected. The SOC system of self-management and self-governance rests upon a basis of

[24] Compare this to a sample study of SHGs in India by Sinha (2009: 148-149, 151): 40% had week records not updated for several months or incomplete; 15% had good quality records, and 39% had records of moderate quality. She also found that "Record-keeping at the group level has emerged as a very weak aspect of SHG functioning".

mostly illiterate and semiliterate and a small number of literate poor women, among them the poorest of the poor.

Reaching the poorest. Direct impact in Kamareddy Cluster pertains to 75,000 women participating as SHG members in the pilot project. 35,000 of them are poorest of the poor (*scheduled castes and tribes*) as defined by the government and recorded by SERP, covering 99.5% of the poorest in the cluster. Capacity building has enabled them to participate in taking the management and governance of the SHGs and federations into their own hands.

Tangible economic benefits of access to credit. Little systematic information was available on impact on the economic situation of members, as this is not part of a pilot project with its focus on self-regulation and self-supervision. However, some concern was voiced by our discussants in government as to the extent to which members would spend their loans on income-generating activities (IGA). In response, we took the opportunity of interviewing[25] members of four SHGS, one rural and four urban. In the rural SHG all ten members were interviewed. Main sources of income were agriculture and *beedi* cigarettes making; two members depended on a son and a brother, respectively, to whom they also passed on their loans (*fronting*). The members had loans from five different sources, three of them under the SHG. The total number of current loans was 32, on average 3.2 per member, indicative of a strong demand for credit. All members had bank loans of identical size and loan period from their SHGs: Rs 20,000 for 36 months. All members also had a loan from internal resources, but these were variable: Rs 10,000-20,000 for 5-25 months. Half the members had CIF loans from the VO, ranging from Rs 5,000 to 50,000 for loan periods from 5 to 50 months. Outside the SHG four members had loans of Rs 11,000 to 50,000 from the cooperative society (PACS); two had borrowed from moneylenders, one of Rs 20,000 and one of 200,000 (both for house construction); and one had a bank loan of Rs 10,000. All but two members spent at least some of their loans on IGA. There was little if any difference between loan uses by source of funds. 21 loans (66%) were spent on IGA: 19 on agriculture and livestock and two on sewing machines. Six loans were spent on house construction, three on education and one on health.

We also interviewed 19 members of three urban SHGs (in *slum* areas), promoted under MEPMA to which APMAS contributes through staff capacity building.[26] 16 (84%) were microentrepreneurs . The members had loans from six different sources, two of thse sources under the SHG. The total number of current loans was 40, on average 2.1 per member. All but one had a bank loan from their SHG, all but one of identical size and loan period: Rs 16,000 for 20 months in one SHG, Rs 4,300 and Rs 800 (*two concurrent loans*) for 16 months in an other, and Rs 8,000 for 20 months in a third SHG. All but three had a loan from internal SHG funds. One of the SHGs was an older group; all ten members were present. In this group all loans from the internal fund were recorded since inception. Over the lifetime of the SHG the ten members had received a total of 53 loans from the internal fund, ie, 5.3 loans per member. The total amount of loans disbursed was Rs 686,200, that is Rs 68,600 per member or Rs 12,900 per loan. In one SHG three members (of four present) had received loans from Rs 8,000 to 12,000 from MFIs. Three members had received a loan from

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[26] MEPMA has standardized the size of groups at ten members, a practice which needs further discussion, as it does not reflect the freedom of action of a self-help group within the limits of the law, which permits informal groups with a size up to 20.

a contractor, a moneylender and a Muslim organization, respectively. All but three members spent at least some of their loans on IGA. 30 out of 40 loans (75%) were fully or partially spent on working capital, nine on education, two on health and one each on gold and husband's agriculture.

Despite multiple borrowings, no overdue loans were reported, which is reasonable evidence that the loans have been put to good use. This together with the predominance of IGA as a loan purpose is also evidence that the loans have contributed to the economic wellbeing of the borrowers. Examining to what extent this has enabled the poor and poorest to outgrow their poverty would require in-depth studies beyond the scope of this project.

Intangible social benefits are now accessible to virtually all poor women in Kamareddy Cluster as in the rest of Andhra Pradesh, similar to those found in an earlier study for NABARD: self-confidence and self-discipline among women, resulting in a more active life; empowerment of women in community development programs, civil affairs and local politics; improvements in women's literacy and numeracy; drastic increase in school enrolment; vaccination of children and better health; improved sanitation and access to drinking water; changing male attitudes and behavior, reduction in drinking and smoking; voicing of objections against child marriage, child labor and dowry. (Seibel and Dave 2002)

Most impressive has been the number and vigor of women trained under the pilot project who work as trainers and facilitators in other villages, staying there overnight for extended periods of time and being paid for their services by the respective SHGs – after having overcome the conventional resistance of their husband and mother-in-law. Similarly, in an assessment of the impact of APMAS' support to IKP clusters, which also applies to Kamareddy, Joshi et al. (2010: 1) found that,

> Several of the women we met had acquired productive assets, e.g. livestock, land, bore wells, petty shops, many claimed to have 'come out of poverty' and most said they could send their children to school. A few spoke of issues like preventing child marriage and child labour, and participating in statutory Panchayats. A large number of women have been enabled to transcend traditional identities to become community leaders and deal with banks and government departments. More women now know about government schemes and many have acquired useful technical and social skills.

6.5 Upscaling

In Kamareddy Cluster APMAS has successfully tested the SOC approach. At the same time it has developed a replication strategy and taken concrete steps for upscaling. Main instruments have been (1) a package of published modules for dissemination which comprises the full SOC approach (Table 4.1); (2) exposure visits and training in Kamareddy Cluster for potential replicators, which have comprised a total of 779 participants in 36 teams between April 2009 and June 2011 (Annex 2); (3) national, regional and state level workshops and training; (4) capacity building of staff and management of other organizations in the SOC methodology; (5) direct involvement in replications in other states; (6) participation in policy committees at state and national level, most recently the working group of the NRLM planning commission.

NABARD has supported a national workshop on self-regulation of SHGs and SHG federations in November 2009, which has prepared the ground for dissemination of the SOC strategy on a national scale. This has recently been followed by presentations in Mumbai in June and August 2011 in which GIZ has participated. A joint strategy is under consideration.

The most important replicator of SOC in Andhra Pradesh has been SERP/IKP, APMAS' partner. IKP covers all 22 districts of Andhra Pradesh, comprising 994,595 rural SHGs with 11.1 million members (all women), 38,550 village organizations, 1098 subdistrict federations and 22 district federations. With approval by the Government SERP has decided to adopt SOC state-wide. Agreement has been reached to start a pilot replication process in 12 subdistricts of four districts. Implementation began with a six day orientation and exposure training of 30 community resource persons (CRPs). By June 2011 implementation has reached 386 village organizations (VOs). 52 CRPs and 20 audit committee members have been trained and placed. 3203 SHGs have been audited; and 3,350 have paid the audit fee, Rs 128 on average.

In a similar way APMAS has worked with MEPMA, established in 2007 to expand the SERP/IKP strategy of poverty alleviation together with the NABARD strategy of SHG linkage banking to poor urban areas.[27] Since inception APMAS has helped building the capacity of MEPMA, promoting SHGs and SHG federations and the SOC approach in three selected urban areas. In its 2010-11 action plan MEPMA has incorporated auditing and legal compliance with MACS stipulations in all towns where it is active. APMAS has trained a pool of auditors who are now auditing all slum area SHGs and facilitated the legal compliance process of SHG slum level federations (SLFs) and town level federations (TLFs).

The greatest potential for upscaling on a national scale, combined with an emphasis on livelihood, lies in the *National Rural Livelihoods Mission* (*NRLM*) or *Aajeevika Mission*, a new $5.1 billion flagship program of rural poverty alleviation of the Ministry of Rural Development launched in June 2011. C S Reddy, the CEO of APMAS, chaired the Working Group of the NRLM (*Aajeevika)* Planning Commission and contributed to focusing the program on SHGs and SHG federations as the poor's own institutions, benefiting from the experience of IKP and SOC.[28] Approximately Rs 85,000 per SHG will be invested in institutional and skill development. A revolving fund of Rs 10,000 to 15,000 per SHG and seed capital of Rs 15,000 to 20,000 per member will be provided. Special support will be given to the development of federations. Balancing government support with institutional autonomy and self-reliance of SHGs and SHG federations will be a major challenge. APMAS may continue to be a partner for the Government as well as for DGRV and GIZ in addressing this challenge. (NRLM 2011a, b)

6.6 Sustainability

[27] This is an important move in at least one of two respects, as the *inclusive finance* approach of SHG banking has so far excluded urban areas as well as men.

[28] "The Institutions of the poor provide them the platforms for collective action based on self-help and mutual cooperation… Institutions of the Poor (IoPs) are autonomous organizations... which include, SHGs, their federations, livelihood collectives... Thus, the program for the poor becomes the program of the poor." (NRLM 2011b: 7

Institutional sustainability is a latent core objective of the SOC approach: autonomous self-reliant and self-regulating SHG federations, licensed under, and legally compliant with, the MACS Act and confirmed by the Supreme Court of Andhra Pradesh in June 2011, are the very foundation of sustainability. The self-reliance of the federation system is based on shareholding by SHGs and lower-level federations and on self-financing from the on-lending interest rate margin and compensation for services rendered to the SHGs. With the adoption of the SOC approach by SERP for state-wide implementation sustainability appears guaranteed. Similarly, adoption of the SHG federation strategy, with strong SOC elements, by the National Rural Livelihoods Mission launched in June 2011 (*see chapter 6.5*), contributes to the sustainability of the approach at national level.

However, sustainability of an autonomous self-regulating SHG federation system does not come without risks. Paradoxically, the main factor threatening the sustainability of a self-reliant and self-regulating federation system is ample support provided by government at national and state level, with government agendas overshadowing self-help initiatives and agendas. The federation system risks the same fate as the cooperative system of India which is now in a deep crisis: initially self-reliant and rapidly expanding after the passing of the Raiffeisen-inspired Co-operative Credit Societies Act of 1904, its management and financing was eventually usurped by state governments, and its functioning was further impeded in recent years by subsidies and waivers. As a result, more than 50% of 106,000 agricultural credit cooperative societies incurred losses as of 2006, posing a huge challenge to ongoing reform efforts. (NABARD Annual Report 2007: 87; Seibel 2009) The leadership of SERP, IKP and the Department of Rural Development of Andhra Pradesh as well as of NABARD at national level is well aware of the need to address the dilemma of autonomy-cum-self-reliance and government support-cum-interference (*see chapter 5.1*).

6.7 Coherence, complementarity and coordination

SHG banking and SHG system development has been supported by BMZ and GTZ/GIZ since the mid-1980s, at a regional level in cooperation with APRACA in Asia and subsequently with AFRACA in Africa, and at national level through bilateral projects in Indonesia, the Philippines and Thailand. India, through NABARD and RBI, participated in the regional activities of APRACA and GIZ since 1986. The linkage banking program of NABARD was prepared in close contact with GIZ and supported through a bilateral project with NABARD since 2000[29]. GIZ has played a lead role in SHG linkage banking in the region including India. Key experiences of SHG linkage banking have been integrated by GIZ in its support of cooperative reform by NABARD in which DGRV is also involved . The concept of the pilot project was developed in close communication of APMAS and InWEnt (as development partner of the pre-pilot) followed by DGRV with GIZ. Throughout the implementation of the pilot project APMAS has held close contact with GIZ, which also participated in the wrap-up session of this Mission at NABARD in August 2011. Results are being shared; and the scope of future collaboration between APMAS, DGRV and GIZ is under discussion.

[29] Preparatory bilateral support started in 1998, based on a participatory planning workshop of NABARD with GIZ in 1994.

7. Conclusions and next steps

7.1 Conclusions

Achievements. With financial and technical assistance from DGRV, preceded by a pre-pilot supported bvy InWEnt in 2007/08, the *SHG Sector Own Control* pilot project in Andhra Pradesh designed and implemented by APMAS has been successful in the following respects:

- developing and testing systems and processes of *SHG Sector Own Control* in Kamareddy Cluster as a pilot area in Nizamabad District, in the framework of the national SHG Banking program of NABARD
- based on prior work by APMAS in quality control and improvement of federations, gaining from inception the approval and partnership of SERP/IKP, a parastatal agency with a mandate of poverty alleviation and women's empowerment and state-wide outreach to the SHG federation system in Andhra Pradesh
- developing the required modular training materials in English and Telugu and translating core materials into four other Indian languages
- building the capacity of women selected from SHGs as bookkeepers and auditors to implement the bookkeeping and financial reporting of SHGs and federations
- building the capacity of women to manage, govern and control their SHGs
- promoting the capacity of women selected from SHGs as representatives and office bearers to manage, govern and control the federation system
- improving financial literacy among SHG members
- installing systems of annual assembly meetings of SHGS and federations, including elections by secret ballot and annual planning
- ensuring legal compliance as per MACS Act
- improving transparency and accountability at all levels
- installing systems of self-financing through savings, retained earnings from interest rate margins and payment for services at all levels as well as shareholding ownership of federations by SHGs
- aiming at promoting growth of funds and profitability of SHGs and federations, addressing at the same time the risks and contradictory challenges of smart support and non-smart subsidy policies of governments
- documenting systems and processes adopted in the pilot for dissemination
- providing exposure visits and training programs to potential adopters of the SOC approach
- building the capacity of SERP/IKP to implement the SOC system throughout Andhra Pradesh
- collaborating with ENABLE network members and other governmental and non-governmental agencies in adopting the SHG SOC approach in other Indian states
- communicating with NABARD and GIZ about the potential of disseminating SOC strategies throughout the SHG Banking program
- integrating elements of the SHG SOC approach in the Government's new national poverty alleviation program *National Rural Livelihoods Mission (NRLM)* or *Aajeevika Mission,* launched in June 2011 with a proposed budget of $5.1 billion.

Risks. The SHG SOC approach is emerging as a strategic component in government programs of poverty alleviation and women's empowerment at state and national level. Given the incipient success of the pilot project and the support rendered to SHGs and SHG federations from many sides, APMAS together with its stakeholders cannot ignore a fundamental question: Whose agenda will SHGs and SHG federations carry forward, its own agenda or that of the state? Just like the century-old (*state*-aided) credit cooperative system in India, the new (*mutually* aided) SHG federation system with its concern for *sector own control* is facing the risks embedded in the contradiction between principles of institutional autonomy and self-help and government support and subsidies. Much can be learned from the German system of cooperative self-help gained over a period of more than 150 years and similar experiences of other countries.

7.2 Next steps

Participants of wrap-up sessions at APMAS and with stakeholders in Mumbai and Hyderabad discussed the following next steps:

- developing a SOC scaling-up strategy and a plan of action in collaboration with SERP/IKP, NABARD, DGRV and GIZ
- mainstreaming the SOC approach into the National Rural Livelihood (*Aajeevika)* Mission
- preparing a joint SOC-II strategy of decision making and planning with SERP/IKP
- etablishing an independent financial supervisory body of federations at state level, to be initiated by SERP/IKP
- establishing a state federation, to be initiated by SERP/IKP
- upscaling SOC throughout AP, initiated in 2011 by SERP/IKP in 12 mandals of four districts
- providing consultancy and capacity building services to other agencies for upscaling SOC in other states
- acting on all challenges (*as discussed in chapter* 5) in cooperation with SERP/IKP
- promoting transparency and accountability through good bookkeeping, auditing and internal control at all levels of the SHG federation system
- strengthening member ownership by stimulating implementation responsibility and promoting their financial stake and self-financing
- continuing to build capacities of women representatives in managing and governing the SHG federation system
- Examining the feasibility of establishing an APMAS unit in SERP/IKP to facilitate capacity building, participatory decision making and conflict resolution in a quality-controlled process of upscaling SOC throughout Andhra Pradesh.

8. The Way forward: SOC II
Mainstreaming SHG Sector Own Control in Andhra Pradesh

The objective of SOC II is:

- establishing a fully self-controlled sustainable SHG federation system in Andhra Pradesh, with its financial component institutions under (*delegated*) supervision recognized by RBI.

There are four main **components:**

(1) upscaling of the SHG Sector Own Control approach throughout Andhra Pradesh, with continual enhancement of autonomy and effective self-control at all levels,
(2) completion of the sector own control structure by establishing an SHG federation at state level in Hyderabad,
(3) establishment of a cooperative apex bank of the SHG federation system in Andhra Pradesh
(4) establishment of a system of regulation and (*delegated*) supervision for the SHG federation system in Andhra Pradesh recognized by RBI as the national financial sector regulator.

Partners in the process of mainstreaming SOC in Andhra Pradesh are:

(1) SERP/IKP for rural areas,
(2) MEPMA for urban areas,
(3) NABARD for bank participants and as a representative of RBI as the national financial sector regulator and supervisor,
(4) the Registrar of Cooperatives for regulation and supervision of MACS compliance at state level.

The SHG federation system of Andhra Pradesh to be brought under SOC and financial supervision comprises the following elements as of July 2011; all villages are covered, but outreach to slums is still increasing:

Table 8.1: SHG federation system in AP to be covered by SOC (Dec 2011 data)

Level	**Rural**	**Urban**
State level	Sthreenidhi Credit Cooperative Federation Ltd	
District level (22 districts)	22 ZS	
Mandal level (1,100 mandals, 133 towns)	1,100 MS	109 TLFs
Primary level (22,000 villages*, __ slums)	38,646 VOs	7,745 SLFs
SHGs	1,027,930	264,055

*) 22,000 panchayat comprising 73,000 habitations

Upscaling SOC throughout Andhra Pradesh is to proceed along the following lines:

- APMAS facilitating a consultative meeting with SERP/IKP, MEPMA, NABARD, the State-level Bankers Committee (SLBC) and the Registrar of Cooperatives, preparing a strategy and work plan at state-level

- APMAS signing an MOU with SERP and MEPMA
- Initiating implementation steps comprising:
    - Adoption of SOC training modules and revision as seen fit
    - Training of trainers
    - Phased selection of districts, sub-districts and towns
    - Facilitating implementation strategy at local levels

Completion of the sector own control structure will comprise the following activities by SERP and MEPMA, respectively, in collaboration with APMAS:

- Establishment of slum-level (SLF)and town-level federations (TLF) as SHGs expand into additional urban areas
- Establishment of district level federations for urban SLFs and TLFs
- Establishment of a state-level federation, presumably as an apex for both rural and urban federations

The establishment of a state-level cooperative SHG financial institution for women has made progress during the time of the evaluation:

- The cabinet of Andhra Pradesh has given approval for a *state-level cooperative SHG financial institution for women* on 16 August 2011, tentatively named Sthree Nidhi.
- Name, status as bank or non-bank (NBFC) and operational details are yet to be determined.
- It is assumed that it will be a single-unit institution in Hyderabad, without branches, serving as an apex for the SHG federations.
- Financial and technical assistance is being invited. The question has been raised whether such assistance might be provided by KfW, DGRV and GIZ.

Establishing a system of regulation and (*delegated*) supervision may comprising the following steps:

Regulation:

- Adapting the SOC regulatory system to the requirements of state-wide regulation and supervision, to be approved by the financial authority

- Implementation steps to be prepared by stakeholders through a consultative process

Supervision:

- Determining the regulator (presumably RBI or NABARD on behalf of RBI)
- Delegating supervisory authority to a state-level supervisory body (SLSB)
- Selecting a model of supervision by the state-level supervisory body (SLSB):

    Model I:

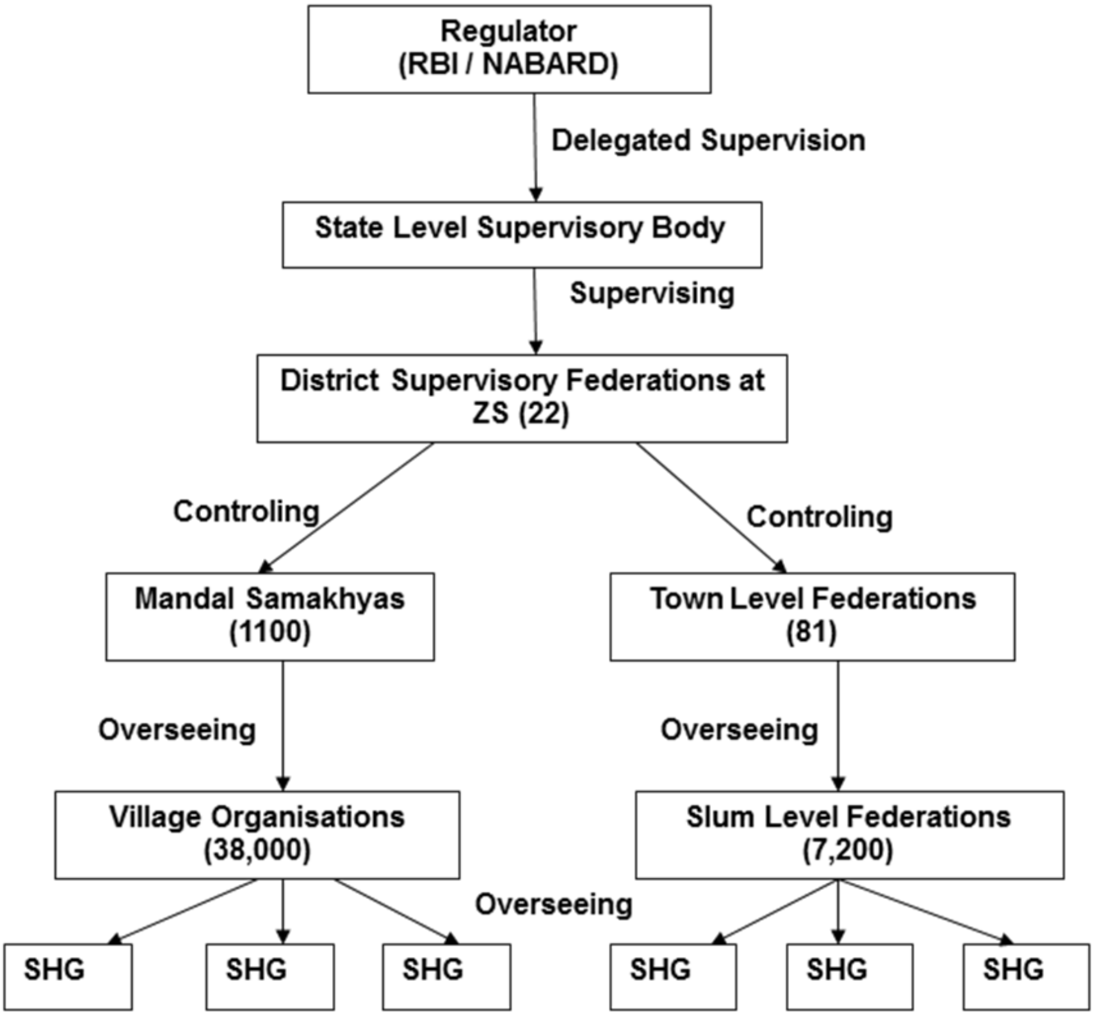
    - SLSB supervising 22 district-level supervisory federations at ZS level,
    - which in turn control 1100 MSs and 81+ TLFs,
    - which in turn oversee 38,300 VOs and 7,200 SLFs (or more)

Model II:

- SLSB supervising 22 district-level federations, 1100 MSs and 81 TLFs,
- *Which in turn oversee* 38,300 VOs and 7,200 SLFs (or more).

The system of regulation and supervision of the SHG federations in Andhra Pradesh is summarized in the Figure below (Model I).

Figure 3:
Regulation and supervision of the SHG federations in Andhra Pradesh (Model I)



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Annex 1: SOC targets and progress, July 2008 to July 2011, Kamareddy Cluster, Andhra Pradesh

S.No.	Activity	Status in 2007	July 2008-July 2011		
			Target	Progress	%
1	**Accounting and bookkeeping**				
1.1	**SHG level**				
a	Developing resource bookkeepers	0	60	60	100%
b	Training SHG level bookkeepers (SHG members, paid by SHGs)	483	2000	1533	77%
1.2	**VO & MS level**				
a	Placement of VO level community activists / bookkeepers	161	172	147	85%
b	Training MS & IKP staff on federation bookkeeping	6	36	12	33%
c	Training VO board members on federation bookkeeping	0	516	587	***114%***
d	Training MS officer bearers on federation bookkeeping	0	30	30 (3 times)	100%
2	**Member education & Financial Literacy Centers (FLCs)**				
a	Developing FLC facilitators	0	400	225	56%
b	FLC campaigns for SHGs	0	6000	3032	51%
c	Training VO board members on roles & responsibilities, facilitation of meetings	80	172	172	100%
d	Training MS board members on roles & responsibilities, financial statements, facilitation of meetings	6	6	6	100%
3	**Performance standards**				
a	Reviewing performance of SHGs based on indicators at VO level	0	3000	1940	65%
b	Reviewing performance of VOs based on indicators at MS level	0	172	97	56%
c	Reviewing performance of MSs based on indicators at ZS level	0	6	6	100%
4	**Best performance awards**				
a	Awards for best SHGs	0	160	75	47%
b	Awards for best VOs	0	6	18	300%
c	Awards for best MS	0	1	1	100%
5	**Audits**				
5.1	**Internal audits**				
a	SHG level (1st + repeat audits)	0	6000	4436+304	74%
b	VO level	0	172	97	56%
c	MS level	0	6	Not yet initiated	0%
5.2	**External audits**				
a	Selection of charted accountants at cluster level		CA identification	Initiated & stopped	
b	VO level (Regular)	166	172	171	99%

c	MS level (Regular)	6	6	6	100%
6	**Annual planning & general body meetings (GBMs)**				
a	SHG level (Annual GBM)		4000	4436	111%
b	SHG level (Ann. Planning)	0	4000	1291	32%
c	VO level (Annual Planning + GBM)	166	172	165	96%
d	MS level	6	6	6	100%
7	**Elections**				
a	SHG level	0	6000	2076	35%
b	VO level	informal	172	172	100%
c	MS level	informal	6	6	100%
8	**Institutions in profit**				
a	SHGs	Data not available	3000	2327	78%
b	VOs		172	172	100%
c	MSs	No data	6	6	100%
9	**Interest paid on mandatory savings**				
a	SHGs	0	3000	2327	78%
b	VOs	0	172	0	0%
c	MSs	0	6	0	0%
10	**Supervision of compliance with MACS Act**				
a	VOs	0	172	172	100%
b	MSs	0	6	6	100%
11	**Publications**				
a			Not planned	17	
12	**Policies**				
			Not planned	***Implemented:***	
12.1	**SHG level**				
a			Internal bookkeepers adopted		
b			Introduction of service fees		
c			Regularity of mandatory savings		
d			Interest paid on savings		
e			Increasing internal lending		
12.2	**VO and MS level**				
			Not planned	***Implemented:***	
			CIF repayment norms		
			Legal compliance with MACS		
			Bulk finance procedures		

Notes: 1.1 a: 195 trained, majority withdrew or working for IKP

1.1. b: 55 withdrew

1.2 b: Training given only to MS staff

1.2. c: Remainder planned during next quarter

1.2 d: Training given only to literate board members instead of office bearers

2 a-b: Due to quality concerns phased and thus delayed training

4. a: Initiated in 2010; awards systems starts after financial literacy and auditing

5.2 a: Following the request of IKP of using chartered accounts selected by IKP

Annex 2: Exposure visits to Kamareddy, 2009-2011

Dates	Teams and state	No of persons
Apr-09	Internal team- Shashi Rajagopalan, AVP	2
May-09	Internal Team- Sussane	2
May-09	Team from Gadwal	4
Jul-09	Internal team- Shashi Rajagopalan, AVP and RM	3
Jul-09	Team from Mahaboobnagar, RR and Anaantapur	6
Aug-09	Ratlam Team from MP and team from West Bengal	26
Nov-09	National workshop teams from 15 States and IKP staff	310
Oct-09	Team from PANI organization-UP	21
Nov-09	Secretary ,Rural Development(AP)	1
Nov-09	Adl.CEO, SERP and SPM IB	2
Nov-09	District Collector & PD DRDA, Nizamabad	2
Oct-09	Team from Assam-	25
Dec-09	Shashi Rajagopalan , RM and AVP	3
Dec-09	World Bank Consultants	4
Feb-10	Deep Joshi and team	3
Feb-10	Team from UP, Kolkata, Uttaranchal	12
Mar-10	Team from Bihar	20
Apr-10	Bihar state, WDC org	21
Jun-10	Uttarakhand state, LH project	16
Jan-00	Bihar staff ,APMAS	10
Sep-10	Team from Bihar-22nd to 24th	15
Sep-10	Team from UP-NGO leaders(27th to 29th	18
Oct-10	National level training participants from Bihar	25
Oct-10	Staff members from Anantapur	30
Nov-10	FES staff for preliminary visit to Machareddy	2
Nov-10	SNU film shooting visit to Kamareddy	8
Dec-10	CGM NABARD AP and GM Grameena bank visit to Domakonda	2
Dec-10	Audit CRPs visit to Kamareddy for SNU implementation	30
Dec-10	Bihar WDC participants	24
Dec-10	Bihar Team	25
Jan-11	CGM NABARD –MUMBAI visit to SS Nagar	2
Jan-11	International participants from 12 countries	13
Feb-11	Bihar Bankers Kamareddy, S.S. Nagar, Machareddy	22
Apr-11	Urban Team from Guntakal, Gudivada, LB Nagar	32
May-11	SPMs -MEMPA state team and Nizambad Urban team	24
Jun-11	International delegates of INAFI Workshop	14
	Total	779

Source: APMAS 2011b: 21

Annex 3: Selected institutional performance data

Table 1: Mandatory savings at SHG, VO and MS level, 2009 and 2010

	(March) 2008-09			(March) 2009-10			Change
Savings	No	Amount	Mean	No	Amount	Mean	in %
SHGs	5,661	163,236,220	28,835	5,958	177,315,135	29,761	3.2
VOs	167	4,205,129	25,180	172	6,600,199	38,373	52.4
MSs	6	349,297	58,216	6	573,761	95,627	64.3

Source: APMAS 2011b

Table 2: Recovery of CIF loans, March 2007 and July 2011

	Mandal	Recovery as on March 2007	Recovery as on July 2011
1	Biknoor	78%	100%
2	Domakonda	79%	100%
3	Machareddy	41%	97%
4	SSNagar	97%	100%
5	Kamareddy	100%	100%
6	Tadwai	65%	100%

Source: APMAS 2011b

Table 3 - Bank loan performance at SHG level, April 2010–March 2011 *)

	Mandal	Target in Rs million		Achievement in Rs million		Repayment rate to banks**)
		SHGs	Amount	SHGs	Amount	%
1	Kamareddy	350	55.0	343	65.0	96%
2	Domakonda	394	63.5	379	64.9	96%
3	Biknur	385	60.3	351	74.0	96%
4	SSnagar	353	64.4	356	65.0	95%
5	Machareddy	319	56.7	332	64.4	92%
6	Tadwai	196	39.0	210	42.1	95%
	TOTAL	**1997**	**338.9**	**1971**	**375.4**	**95%**

*) Targets set by SERP/IKP

**) Amount Paid/Amount Due on due-date

Source: APMAS 2011b