

Self-Help Groups: A Keystone of Microfinance in India
- Women empowerment & social security

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Executive Summary

Microfinance has evolved over the past quarter century across India into various operating forms and to a varying degree of success. One such form of microfinance has been the development of the self-help movement. Based on the concept of “self-help,” small groups of women have formed into groups of ten to twenty and operate a savings-first business model whereby the member’s savings are used to fund loans. The results from these self-help groups (SHGs) are promising and have become a focus of intense examination as it is proving to be an effective method of poverty reduction. This paper examines the SHG operating model, the state of SHGs today, their impact on civil society and how they need to be supported going forward.

The rise of SHGs and more formal SHG Federations coupled now with SHG Bank Linkage have made this a dominant form of microfinance in addition to microfinance institutions (MFI). The policy environment in India has been extremely supportive for the growth of the microfinance sector in India. Particularly during the International Year of Microcredit 2005, significant policy announcements from the Government of India (GoI) and the Reserve Bank of India (RBI) have served as a shot in the arm for rapid growth. SHGs have spread rapidly due to their ease of replication. SHG Bank Linkage has provided the capacity for SHGs to increase their capital base to fund more members and bigger projects. Today, it is estimated that there are at least over 2 million SHGs in India. In many Indian states, SHGs are networking themselves into federations to achieve institutional and financial sustainability. Cumulatively, 1.6 million SHGs have been bank-linked with cumulative loans of Rs. 69 billion. In 2004-05 alone, almost 800,000 SHGs were bank-linked.

However, the state of SHGs identifies key areas of weakness which undermine the sustainability of SHG movement. Namely, areas such as financial management, governance and human resources range from weak to average quality for a majority of SHGs. While the spread of the movement is impressive, these are key areas that need to be addressed if any external intervention is to be effective.

The formation of common-interest groups consisting primarily of women has had a substantial impact on their lives. The impact of SHGs on women’s empowerment and social security has been invariably an improvement from the status quo but there is a need for support in several areas which are analyzed in this report. The status of women has generally improved as they have developed stronger confidence which has changed gender dynamics and their role in the household. In south India, significant improvements in fertility rates, female literacy, participation in development programmes and economic independence are evident. Women are able to fight for their rights and entitlements and have emerged as a force to be reckoned with. Further, SHGs are becoming more than just financial intermediaries, instead they have emerged into a more political and social unit of society. More importantly, the penetration of microfinance to the poorest of the poor is still weak and needs a wider reach.

The areas of support to further the SHG impact are varied and the report describes areas for NGO technical and government policy support. The need for a coordinated and comprehensive support strategy is imperative as the financial management issues of SHGs need to be addressed otherwise the benefits of the civil society impacts will be lost as SHGs will become overburdened and un-sustainable.

About APMAS

APMAS (Mahila Abhivruddhi Society, Andhra Pradesh) was founded in 2001 as a state level technical support institution to provide capacity building, quality rating, research and advocacy services to SHGs and others in the sector. Our organization was founded after extensive consultations between the Government of Andhra Pradesh and experienced NGOs on how to support the development of strong SHGs that would be sustainable and effective.

APMAS provides four distinct services. We provide quality rating services of SHGs and SHG Federations which evaluates their financial and organizational quality on a multi-point scale that we have collaboratively developed with M-CRIL of Delhi. We also have quality enhancement service group that provides capacity building services to SHGs and other stakeholders. Our research and advocacy group publishes several in-depth research studies analyzing several SHG related issues and also organizes several technical workshops annually. We have also recently developed a livelihoods promotion line of service which provides technical support on livelihoods.

Our experience in SHGs is exhaustive as we have completed 300 quality assessments of SHG Federations to date. Further, we have trained more than 17,000 staff of SHGs and their Federations on various areas of management. We have published six large-scale studies on various issues of SHGs and facilitated several workshops at the district, state and national level on these issues. We have developed a unique insiders perspective of SHGs which has positioned us well in understanding the issues facing the SHG movement.

BACKGROUND

A Brief History of Microfinance in India

The post-nationalization period in the banking sector, circa 1969, witnessed a substantial amount of resources being earmarked towards meeting the credit needs of the poor. There were several objectives for the bank nationalization strategy including expanding the outreach of financial services to neglected sectors (Singh, 2005). As a result of this strategy, the banking network underwent an expansion phase without comparables in the world. Credit came to be recognized as a remedy for many of the ills of the poverty. There spawned several pro-poor financial services, support by both the State and Central governments, which included credit packages and programs customized to the perceived needs of the poor.

While the objectives were laudable and substantial progress was achieved, credit flow to the poor, and especially to poor women, remained low. This led to initiatives that were institution driven that attempted to converge the existing strengths of rural banking infrastructure and leverage this to better serve the poor. The pioneering efforts at this were made by National Bank for Agriculture and Rural Development (NABARD), which was given the tasks of framing appropriate policy for rural credit, provision of technical assistance backed liquidity support to banks, supervision of rural credit institutions and other development initiatives.

In the early 1980s, the GoI launched the Integrated Rural Development Program (IRDP), a large poverty alleviation credit program, which provided government subsidized credit through banks to the poor. It was aimed that the poor would be able to use the inexpensive credit to finance themselves over the poverty line.

Also during this time, NABARD conducted a series of research studies independently and in association with MYRADA, a leading non-governmental organization (NGO) from Southern India, which showed that despite having a wide network of rural bank branches servicing the rural poor, a very large number of the poorest of the poor continued to remain outside the fold of the formal banking system. These studies also showed that the existing banking policies, systems and procedures, and deposit and loan products were perhaps not well suited to meet the most immediate needs of the poor. It also appeared that what the poor really needed was better access to these services and products, rather than cheap subsidized credit. Against this background, a need was felt for alternative policies, systems and procedures, savings and loan products, other complementary services, and new delivery mechanisms, which would fulfill the requirements of the poorest, especially of the women members of such households. The emphasis therefore was on improving the access of the poor to microfinance rather than just micro-credit.

To answer the need for microfinance from the poor, the past 25 years has seen a variety of microfinance programs promoted by the government and NGOs. Some of these programs have failed and the learning experience from them have been used to develop more effective ways of providing financial services. These programs vary from regional rural banks with a social mandate to MFIs. In 1999, the GoI merged various credit programs together, refined them and launched a new programme called Swarnajayanti Gram Swarozgar Yojana (SGSY). The mandate of SGSY is to continue to provide subsidized credit to the poor through the banking sector to generate self-employment through a self-help group approach and the program has grown to an enormous size.

MFIs have also become popular throughout India as one form of financial intermediary to the poor. MFIs exist in many forms including co-operatives, Grameen-like initiatives and private sector MFIs. Thrift co-operatives have formed organically and have also been promoted by regional state organizations like the Cooperative Development Foundation (CDF) in Andhra Pradesh. The Grameen-like initiatives following a business model like the Grameen Bank. Private sector MFIs include NGOs that act as financial services providers for the poor and include other support services but are not technically a bank as they do not take deposits.

Recently, microfinance has garnered significant worldwide attention as being a successful tool in poverty reduction. In 2005, the GoI introduced significant measures in the annual budget affecting MFIs. Specifically, it mentioned that MFIs would be eligible for external commercial borrowings which would allow MFIs and private banks to do business thereby increasing the capacity of MFIs. Also, the budget talked about plans to introduce a microfinance act that would provide some regulations on the sector.

It is clear from the previous that the objectives of the bank sector nationalization strategy have resulted into several offshoots, some of which have succeeded and some have failed. Today, Self-Help Groups and MFIs are the two dominant form of microfinance in India. This report focuses on the aspects of the SHG as an effective means to provide financial services to the poor.

Emergence of the SHG Movement

While no definitive date has been determined for the actual conception and propagation of SHGs, the practice of small groups of rural and urban people banding together to form a savings and credit organization is well established in India. In the early stages, NGOs played a pivotal role in innovating the SHG model and in implementing the model to develop the process fully. In the 1980s, policy makers took notice and worked with development organizations and bankers to discuss the possibility of promoting these savings and credit groups. Their efforts and the simplicity of SHGs helped to spread the movement across the country. State governments established revolving loan funds which were used to fund SHGs.

By the 1990s, SHGs were viewed by state governments and NGOs to be more than just a financial intermediation but as a common interest group, working on other concerns as well. The agenda of SHGs included social and political issues as well.

The spread of SHGs led also to the formation of SHG Federations which are a more sophisticated form of organization that involve several SHGs forming into Village Organizations (VO) / Cluster Federations and then ultimately into higher level federations (called as Mandal Samakhya (MS) in AP or SHG Federation generally). SHG Federations are formal institutions while the SHGs are informal. Many of these SHG federations are registered as societies, mutual benefit trusts and mutually aided cooperative societies. SHG Federations resulted in several key benefits including:

- Stronger political and advocacy capabilities
- Sharing of knowledge and experiences
- Economies of scale
- Access to greater capital

Some states have developed SHGs further than others. This report is based on the experience that APMAS has had in working with SHGs in Andhra Pradesh and limited experiences in other states.

The SHG Model

Structure of SHG

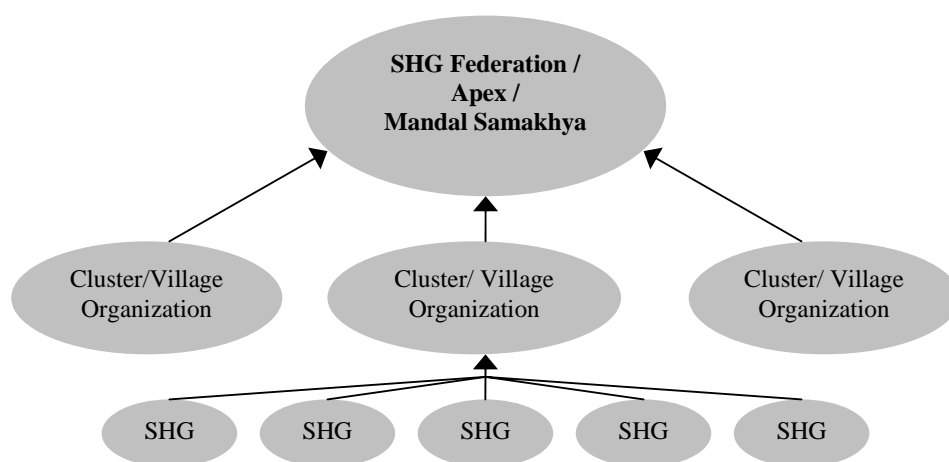
A SHG is a group of about 10 to 20 people, usually women, from a similar class and region, who come together to form savings and credit organization. They pooled financial resources to make small interest bearing loans to their members. This process creates an ethic that focuses on savings first. The setting of terms and conditions and accounting of the loan are done in the group by designated members.

SHG Federation

As mentioned previously, SHGs have also federated into larger organizations. In Figure 1, a graphic illustration is shown of a SHG Federation. Typically, about 15 to 50 SHGs make up a Cluster / VO with either one or two representatives from each SHG. Depending on geography, several clusters or VOs come together to form an apex body or an SHG Federation. In Andhra Pradesh, the Village Organizations, SHG Clusters and SHG Federations are registered under the Mutually Aided Co-operative Society (MACS) Act 1995.

At the cluster and federation level, there are inter-group borrowings, exchange of ideas, sharing of costs and discussion of common interests. There are typically various sub-committees that deal with a variety of issues including loan collections, accounting and social issues.

Figure 1 Illustrative SHG Federation



As already described, SHG Federations have presented some key benefits to SHGs as a result of their greater scale. Increasingly, SHG Federations are being seen as a key interface with the SHG movement because of their formal registration under the MACS and recognition from bankers. But, in addition to the benefits of SHG Federations, there are some drawbacks, or constraints, that should be noted.

An SHG Federation is a formal group of informal common-interest groups. As a result of its rather informal members, there are internal constraints that it faces. Namely, it has a poor capacity for self-governance, average to low quality managers and systems and process are poorly defined. Further, there is significant financial cost to organizing and registering a SHG Federation which has been estimated to be about Rs 7,000 per SHG member. To bridge these internal constraints requires savvy external assistance and there are few good quality NGOs to provide this assistance to a burgeoning number of SHG Federations.

SHG Bank Linkage

A most notable milestone in the SHG movement was when NABARD launched the pilot phase of the SHG Bank Linkage programme in February 1992. This was the first instance of mature SHGs that were directly financed by a commercial bank. The informal thrift and credit groups of poor were recognised as bankable clients. Soon after, the RBI advised commercial banks to consider lending to SHGs as part of their rural credit operations thus creating SHG Bank Linkage.

The linking of SHGs with the financial sector was good for both sides. The banks were able to tap into a large market, namely the low-income households, transactions costs were low and repayment rates were high. The SHGs were able to scale up their operations with more financing and they had access to more credit products.

During 2003, APMAS conducted a study on SHG – bank linkage in Andhra Pradesh covering a sample of 400 bank linked SHGs. The study clearly indicated that the repayment rates were high and that the bank linkage made difference in the lives of the SHG members. However, the study also pointed out certain issues that require attention. These include adequacy of loan size, timeliness of credit and also the need for branch manager or the promoter undertaking a rating before the SHG is bank linked. The following were the major findings of the study:

- Average Savings per SHG – Rs. 23,000, average loan size Rs. 31,000.
- 50% of SHGs practice equal distribution of bank loan.
- Only 50% SHGs felt that the loan size was adequate and 54% studied SHGs were first time linked.
- 69% of SHGs got RLF, some got from multiple sources.
- It takes more than four months for an SHG to get a bank loan.
- No post linkage follow up by banker and others.
- 66% of bank linked SHGs are A grade as per CRI
- Only 22% of bank linked groups are appraised by banker, etc.
- Idle fund of bank linked SHGs average – Rs. 5,300
- Leaders dominate and have 30% loan on them.
- 12% SHG default to banks – repayment problem.
- 10% SHGs reported that they were forced to take loan.
- High percentage of SHGs participate in Government Programs.
- Bankers attitude is still an issue.

The State of SHGs in India

Before evaluating their impact and determine support solutions, it is important to examine the current state of SHGs in India today. And, it is certainly a mixed picture.

Overall Financial Snapshot

The table below indicates the number of SHGs and amount of financing they received through SHG Bank Linkage during the 12 month period ended March 31, 2005 (NABARD, 2005).

	(in millions of Rs)					
	No. of new SHGs provided with bank loan during 2004-05	No. of existing SHGs provided with repeat bank loan during 2004-05	Cumulative No. of SHGs provided with bank loan upto Mar 31, 2005	New Customer Bank loans during 2004-2005	Repeat Customer Bank loan during 2004-05	Cumulative Bank Loan upto Mar 31, 2005
Northern Region	33,622	3,381	86,018	Rs 927	Rs 145	Rs 2,395
North-Eastern Region	21,960	125	34,238	815	3	1,020
Eastern Region	107,391	24,557	265,628	2,101	477	5,183
Central Region	70,356	5,431	197,365	1,883	368	5,015
Western Region	41,451	5,837	96,266	1,319	223	2,951
Southern Region	264,585	218,761	938,941	10,221	11,461	52,421
Grand Total	539,365	258,092	1,618,456	Rs 17,266	Rs 12,676	Rs 68,985

While figures do not indicate the total number of SHGs and the loans outstanding as at March 31, 2005, the table does reveal some interesting statistics. Specifically, SHGs are showing explosive growth as the number of new SHGs provided with financing under SHG Bank Linkage in the year 2004-05 represent about a third of total cumulative SHGs since the mid-1990s. This also demonstrates the ease of duplication of the SHG model.

In addition to the growth of the SHG movement, the table provides some scope of the financial size of the loans. Interestingly, the size of repeat loans is more than two-thirds of the new customer loans while the number of repeat SHGs is less than half the number of new SHGs. This indicates the accessibility of greater financing to SHGs who have shown strong repayment capability.

Financial Management

The financial management of SHGs has been found to be ranging from weak to average. Specifically, internal controls at SHGs and SHG Federations are lacking. Internal controls represents the systems and processes that manage the day to day transaction flow and ensure that roles and responsibilities are defined and executed to safeguard assets. Field studies have indicated that these systems and processes have been ill-defined and poorly executed by members.

In addition to internal controls, how SHGs are managing their cash flows is especially important. Since SHGs are accessing external borrowings through SHG Bank Linkage and then lends these funds to its members, there has been cases of poor cash flow management to repay debts not just externally but also internally. The risk of overleveraging SHGs is high.

Governance

Since SHGs are an informal organization and a SHG Federation is a composition of informal groups, there is poor governance and the capacity of the members to enact good governance is weak. The members of SHGs do not have much experience with establishing formalized monitoring and review functions or complying with legal regulations. With the growing size of the loans being made to SHGs, a strong governance system is needed to ensure that there is accountability.

Human Resources

While the achievements of the women members to form common interest groups to help themselves is remarkable, there is a long way to go to build the capacities of the staff of SHGs. The role of NGOs to provide support is essential to many SHGs success stories. The support needed ranges from bookkeeping and accounting, organizational structure, governance and other areas.

Impact of SHGs

With the structure and model of SHGs and SHG Bank Linkage firmly established, the nature of the impacts of SHGs can be more closely examined and evaluated. The latest published estimates from NABARD state that, to date of March 31, 2005, 1.6 million SHGs have benefited from approximately Rs 69 billion in financing (NABARD, 2005). There is no doubt that there has been greater outreach of financial services to the poor through SHGs. Of course the outreach has been good in South India. However, there outreach has been limited in the rest of the country.

In addition to the financial analysis of SHGs, the non-financial areas such as social security and gender dynamics are also effected by the SHG Movement. Indeed, poverty reduction is much less an issue of numbers but rather ideas and concepts. The following is an analysis of the non-financial impact of SHGs.

Political

Political engagement includes active involvement by SHGs in government including local assemblies, Lok Sabha or Panchayati Rai Institutions (PRIs) (APMAS, 2005). One of the key benefits of SHGs is women's empowerment and this can be seen with the number of women involved in public affairs. While the number of women actually involved in politics is still very low, research has indicated that of those women that stand for election, over 70% had won their seat (APMAS, 2005). And, the female contribution to civil issues ranges from issue of ration cards, laying of pucca roads, building of school, ensuring appointments in vacant positions in schools and health centres, recovery of river bank lands from encroachers and laying of drinking water pipes (APMAS, 2005).

As mentioned, the number of women involved in politics is low. But, the trend is definitely moving up. A mere 5 years ago, the likelihood of women contesting panchayat election was extremely low. Their presence today is affecting the perception of women and their role in the political arena. They are being recognized as an important group with serious concerns.

The role of SHGs is both as an inspiration and as a financier. Impoverished women develop greater language and financial skills through the SHG which provides the building blocks for higher levels of confidence to engage the world. Also, the SHG sometimes finances the campaign of its members that stand for election.

SHGs not only empower its members but also wield a powerful political role as a group as well. At local village meetings, the leaders of SHGs are often invited to attend and speak (APMAS, 2005).

Social Harmony

Broadly defined, social harmony encompasses the equality and integrity of relationships between different social groups. To frame the following analysis, SHGs typically consists of the following social groups:

- Schedule Caste (SC)
- Scheduled Tribe (ST)
- Minorities (MN)
- Backward Caste (BC)
- Other Caste (OC)

The composition of SHGs are sometimes exclusively one particular social group or a mix. The impact of SHGs on social harmony has also been mixed. While it has been observed that in groups with mixed membership had group leaders that came from a variety of the social groups. In the vast majority of instances, groups leaders were almost exclusively from the dominant social groups' category. This demonstrates a lack of equality and unity across caste divisions. Given the relatively young history of SHGs, it is to be expected that their impact on bridging centuries old divisions would be slow.

Social Justice

Social justice is the presence of moral and ethical conduct in areas that are historically typified with backward and abusive customs. There have been several occurrences of SHGs resolving disputes between members and the community at large. These instances include initiating legal action, arbitration, divorce and others. While there has long been dispute resolution mechanisms in villages, in the past it was controlled by men. Now, there are instances of women, SHG members, being involved in resolving disputes. Whether or not the women are working for their own interests or in the case for justice varies, regardless SHGs' impact on the political arena is certainly being seen also in social justice, albeit in a slow and evolutionary process.

Community

Being a group based organization of members of similar caste and geography, the community resources that are shared by are affected by the SHG. Recent analysis has shown that the impact that SHGs have on the community at large have been minor. There have been few instances of significant contributions from SHGs to education, family planning, eradication of child labour and hygiene.

To interpret these findings further it should be noted that such community problems are often large financial commitments which SHGs simply do not have the capacity to afford. Also, of the few instances where there have been significant contributions from the SHGs to the community, the SHG demonstrated a clear leadership role and rallied the support of the entire village. This demonstrates that given the opportunity, SHGs, assuming they have the capacity, can act as a director of community development. The perception of taking of a women's based organization taking a leading role for the betterment of the greater good has

monumental impacts on the local community. Gender dynamics begin to balance in instances such as these.

Livelihoods

Livelihoods, meaning a persons' economic activity, is an area that is vitally important to SHGs. The loans that SHG members receive are intended to improve their livelihoods so that they can receive greater and more steadier cash flows. In rural areas, livelihoods range from agriculture farming, animal husbandry, dairy and various other goods and services activities. Experience has shown that SHGs have had improved livelihoods to the extent of providing the leveraging needed to start an enterprise. However, the interventions to introduce new livelihoods or refine existing ones that could yield better economic results were done by external agencies.

Supporting the SHG Movement

The impact of the SHG movement on various aspects of civil society have been varied. As mentioned, the development of SHGs has varied from state to state but, regardless of the phase of evolution, SHGs require external help to continue to grow and have greater outreach and impact to civil society. It is clear from research that some of the obstacles to evolution are beyond the control of the SHGs. The following is a pointed analysis of where government, NGOs, Banks and others, including the private sector, can work together to help answer the needs to SHGs in a measured and effective manner in hopes of not overloading them leading to failure.

Political: Training on Governance

The impact of SHGs on women in the politics is clear; they have helped women enter the political area as they are being elected to various public offices and SHGs themselves are engaged in discussion with governing bodies. SHPIs need to be at least a few steps ahead of the SHGs, in order to be useful to them in their role in politics (APMAS, 2005). Specifically, there is a need to train women on good governance because the history of poor governance has been long established. If there is to be lasting change, women need to occupy the offices of where strategic planning is done.

Social Harmony: Creating a Mixed Caste Model SHG

SHGs do not appear to be managing social tensions well. The reason for this lack of unity is difficult to identify but it could very well be the deep rooted beliefs of the caste system which tends to exclude social disadvantaged groups. These are problems have are ingrained in the ethos of the villages and it will take a very long time to change.

For SHGs to better manage social tensions, there needs to be a perception among members of equity, or ownership, in a enterprise that exists for mutual benefit. Fostering this cohesiveness is very difficult in a given the environment. SHPIs can encourage the formation of mixed groups of SHGs and make these “model” organizations for others to follow.

Social Justice: Awareness of Legal Rights and Entitlements

SHGs have played an important role in the lives of distressed members. Given the years of suppression of women in India, it is to be expected that SHGs take up the cause of their members. However, they are also responding from a desire to see justice done. Therefore, if helped to process the pros and cons of various situations and arriving at just and sustainable situations, women could be chosen by local communities as arbitrators. Arbitration in most villages is currently a male domain, but the experiences of women in negotiating for women’s rights could be taken to the next logical step of involvement of women in local justice issues, whether or not a member is involved, and whether or not a member is “right” (APMAS, 2005). Similar to the political arena, SHPIs need to be able to provide the technical support to help SHGs equip themselves as arbitrators.

Communities: Provide Strategic Support

SHGs have helped their members and their communities. By taking a leadership role in community development, SHGs are perceived to be a guiding force for the village. Though the instances of SHGs engaging in community development is low, given the capacity, there has been proven results.

SHPIs could help facilitate processes whereby women made long-term plans for their villages as a whole, and worked steadily towards the transformation of their villages into modern and equitable hubs of creative and sustainable actions (APMAS, 2005). They might choose to focus on some core issues in each set of plans that they make, and work towards the fulfillment of these. Having persons trained to work on a larger canvas can contribute to a new cadre of political activists. Women may choose to engage directly in party politics, or to play a watchdog role from the environs of civil society – either way, they will usher in a new era of more responsible politics and public life.

Livelihoods: Technical Livelihood Support

The support of livelihoods is increasingly being seen as an important area related to microfinance. Indeed, the term of livelihood finance has been coined and is en vogue at leading NGOs. The need for livelihood support is critical to SHGs development as livelihoods are typically financed by the loans that members receive from the SHG. The needs of SHGs varies from the introduction of new livelihoods to providing support such as market linkages or procurement techniques to refine existing livelihoods. State government programs such as Indira Kranthi Patham (IKP) in Andhra Pradesh have successfully executed livelihood interventions on various non-timber forest products that have brought about increased cash flows to SHG members as they have been able to bypass middlemen and sell their goods at market and cut costs. Experience has indicated that these benefits would not have been possible without external intervention. Thus, SHPIs can provide the technical livelihood support as needed to help develop SHGs.

Policy Considerations

In addition to actual technical support, government policy can help support the SHG movement in the previously mentioned areas. Poverty is invariably characterized by lack of public investment in infrastructure or dysfunctional public systems including education and health care and underdeveloped markets. Large scale investment is required to build infrastructure like roads and bridges so that there can be access to markets. These sorts of investment will have to be completed by the state government. The payoff such costs though is infinite. An improved infrastructure will help to increase investment and mobility of staff. Further, livelihoods can be enriched through greater access to markets.

In some areas, there is a reasonable amount of infrastructure that state-owned rural banks operate. As some SHGs have grown and matured to a sizeable scale, they need access to more financial services. Governments can address this need through their state-owned banks by introducing flexible and easily accessible products. Specifically, products such as innovative savings products, micro-insurance, larger loans and enterprise financing can be introduced. Banks lending to SHG federations could also facilitate access to livelihood finance by the women SHG members. Not only will programs such as these address the

service gap but it will also change perceptions among bankers. If the state-owned banks take the lead, other bankers will likely follow and make an investment to work with the poor and expand their services to them.

The Other Side of the Coin

This paper has outlined several areas of working with SHGs to further their impact on civil society. It should be noted though that the sustainability of SHGs to effect such change is directly linked to their financial sustainability. While this latter issue was not the intended focus on the report, any external intervention to SHGs should bear this issue in mind. Research has shown that SHGs financial management is average or weak (APMAS, 2005). Thus, it is vitally important that both government and NGOs work to bear all the costs in mind of interventions to make them sustainable otherwise the SHGs will be overburdened and destined to failure.

Government regulations could help manage this risk and increase the emphasis on sustainability of SHGs. There are key areas of SHG financial management that need to be improved such as internal controls, accounting, management stewardship, organizational efficiency and others. If the government were to enact policy that would regulate the quality of SHGs and tied this to their eligibility for SHG Bank Linkage, then this would help bring about a more measured and responsible growth to the movement.

Both for SHGs and SHG federations there is a need to aspire to attain standards following the best practices. As the SHG federations are emerging as community owned microfinance institutions, there is a need for significant investment in providing institution building support. These SHG federations being bodies like corporations as they are registered under an appropriate legal form, must comply with the prudential and legal norms. There is a need for a well developed third party rating system for SHG federations before they are linked with financial institutions to act as an intermediary as they handle large volume of funds from the bank linkage and also undertake savings from their members.

There is a need for establishing a computerized MIS for SHGs and SHG federations to monitor their performance on a regular basis. SHG Federations must be able to publish their annual reports and share those with all their members.

Governance of SHG federations is a major challenge. For the SHG members to manage their own institutions with professional staff and large volumes of transactions will be difficult. SHPIs must provide the needed support for the SHG federations to develop into sustainable institutions of the poor. Considerable investments would be needed to facilitate and sustain SHG federations across the nation.

Glossary

BC	Backward Caste
CDF	Cooperative Development Foundation
GoI	Government of India
IGA	Income generating activity
IKP	Indira Kranthi Patham
IRDP	Integrated Rural Development Program
KCC	Kisan Credit Card
MFI	Micro-Finance Institution
MACS	Mutually Aided Co-operative Society
MS	Mandal Samakhya
MN	Minorities
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Governmental Organization
OC	Other Caste
PRI	Panchayati Rai Institutions
RBI	Reserve Bank of India
SC	Scheduled Caste
SGSY	Swaranjayanti Gram Swarazagar Yojana
SHG	Self-Help Group
SHPI	Self-Help Promotion Institution
ST	Scheduled Tribe
VO	Village Organization

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