Self regulation of SHGs and SHG federations

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SHG and their federations have become a movement in India. To sustain the benefits emerging from this movement, it is important that they become independent in all aspects and take full ownership. This means that the facilitating agencies should minimise their role, withdrawing gradually. Self regulation of SHGs and their federations, designed, implemented and managed by the women themselves will ensure this process.

The slow pace of rural development in India has been attributed to lack of production assets and credit. To address this issue, the Government of India took major policy measures like the nationalization of private banks in 1969, the expansion of rural branch network, priority sector lending and the introduction of Regional Rural Banks in 1975. Also large amounts of donor funding substantially increased outreach to better-off farmers. Yet, all this failed to reach the vast numbers of landless people, agricultural labourers, illiterate women and micro entrepreneurs.

In the 1980s, policy makers took notice and worked with development organizations and bankers to discuss the possibility of promoting SHGs. Banks which had found it difficult to lend to meet their priority sector lending obligations, suddenly found, in the SHGs, an amenable opportunity to meet those obligations, and profitably. On the basis of an assessment, NABARD initiated mainstreaming of SHG banking. With a small beginning as a Pilot Programme launched by NABARD by linking 255 SHGs with banks in 1992, the programme has reached 69.5 lakh saving-linked SHGs and 48.5 lakh credit-linked SHGs covering about 9.7 crore households under the programme. 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, political and livelihood issues as well.

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. SHGs provided credit from their own fund to members who were engaged in farming activities. Some SHGs introduced the strategy of converting the grants provided to the watershed development institutions for watershed activities into loans for treatment on members' lands. The SHGs also lobbied with Watershed Management Institutions to give the landless the right to harvest fodder from the protected areas (private lands lying fallow, common lands). This strategy also helped to convert neglected lands into regenerated parks which increased biomass and played a more effective role in managing soil erosion but also helped to provide a livelihood base to landless by accessing fodder and the landless were able to purchase cattle with loans from SHGs. These types of interventions improved the quality of land and there was significant diversification of crops.

SHG Federations and promotion of livelihoods

Networking of SHGs was inspired by the felt need of the SHGs unable to deal with issues beyond their reach. The small size of SHGs leads to a low generation of internal funds, which hinders their ability to meet the financial needs of the members from their own savings or to leverage funds from banks. Their ability to negotiate with higher level institutions and to gain bargaining power is limited. This is one of the reasons for informal SHG networking being initiated. SHG federations have been promoted by NGOs and the Government since the mid 1990s to address the issues of ensuring quality while up-scaling, ensuring that promotion costs are low, and creating sustainable institutions. These federations offer different types of services - social, financial and livelihood services. In many cases, the SHG federations in India offer a range of services and can be termed as multi-purpose federations.

The need for livelihood support is critical to SHGs development as livelihoods are typically financed by the loans that members receive from the SHG. In order to make SHGs and their federations more sustainable, promoting agencies have invested a lot in capacity building, and in making corpus and bank funds available to them, to increase their business. In addition, recurring grants, too, are provided to the movement. Many State government programs have executed livelihood interventions to increase 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 federations as well as external intervention.

Impact of SHGs and SHG federations

Various studies on SHGs and SHG bank linkage program has revealed that, there is a significant impact on members habit of savings, their income, their access to credit, and on health, food and education status in their families. An evaluation of SAGs promoted by Myrada by APMAS, on August 2009 revealed that though the SHG members were poor and started with small amount of savings per week/month, over a period, they have mobilized a large amount of savings. Groups utilized members' savings optimally to earn income for the group and to provide quality credit services to members. The dependency on money lenders also reduced and noticeable changes came in the lending practices of money lenders such as reducing interest rates, not insisting on collateral and soft recovery methods. Though members still depend on money lenders, there is no continuous debt bondage.

A recurrent study conducted by APMAS on Self Help Group Bank Linkage Programme in AP shows around a third of the members of SHGs had an increase in employment opportunities. The signs of increased income were seen in increased expenses on food, and on improved education and health status. The indebtedness of the members has come down with most members.

Need for self regulation

A few studies conducted on federations indicate that federations create economies of scale, reduce promotional and transaction costs, enable provision of value added services and increase empowerment of the poor. However, promotion of livelihoods requires long-term thinking and continuous capacity building or skill upgradation plans. In this back ground, APMAS study (SHG federations in India 2007) also reveals that the SHG federation model could travel to a degree of extending credit services to promotion of sustainable livelihood initiatives with the help of donors, formal financial institutions and also by making use of their own funds. Considering the level of sophistication required, federations could facilitate linkages with livelihood promotion organisations or promote new subsidiary organisations.

Promotion of livelihoods relies on institutionalisation process with appropriate internal systems, standards, controlling mechanisms, legal entity to do business activities, internal governance and transparency. To promote these aspects, federations require strong self-regulation and supervision system. Providing reliable information about the performance of the SHGs and SHG federations, facilitating proper management and reducing risk are main pillars of self regulation. Moreover, it increases trust on the part of other stakeholders like banks and other financial institutions, and thus facilitates access to additional funds.

In 2007, APMAS, in collaboration with Society for Elimination of Rural Poverty (SERP), DGRV - Germany, initiated a pilot project among SHGs and their federations in Kamareddy area covering 6 Mandals (sub-districts) in Nizamabad district, Andhra Pradesh state to promote Sector Own Control (SOC) or Swayam Niyantrana Udyamam (SNU). Though the intervention on self regulation by APMAS is still in its early stages, it has provided several lessons, both for the facilitators and for the women themselves.

Elements of self regulation:

The overall objective of self regulation for SHGs and SHG federations is to ensure that SHG members set their own agenda and manage and control the processes, so that the SHG system successfully and sustainably works for the benefit of SHG members. The specific objectives of self regulation are: economic and social development of the members and building sustainable democratic and legal institutions. The focus of the self regulation is on building capacities of SHG members and their representatives at various levels in the following key aspects to achieve the self regulation objectives. Those are:

- Adequate norms and standards (external and internal)
- Approved common bookkeeping and accounting
- Effective internal control of management and risks
- Sector-wide reporting, monitoring and rating (off-site sector control)
- Compulsory cooperative audit
- Follow-up activities
- Institutional protection, deposit insurance
- Linkage to the financial regulator for regulatory and supervisory duties.

Organisation and Management

It is necessary that the SHG members and SHG federations agree upon the need for self regulation, declare their willingness to accept ownership, and be willing to implement self regulation effectively (Member-Control and Self Reliance for sustainability of the SHG movement by APMAS). Hence following approach is suggested to initiate the process. A Coordination Committee may be formed with office bearers of the federation to carryout self regulation process. The committee mainly focuses on developing strategies and propagating the self-regulation process. The committee guides the executive committee in developing and establishing internal control systems, finalize key performance standards and to plan the activities. To provide support to Coordination Committee, an Advisory Group may be formed with representation from promoter and technical organisations. The Advisory Group supports the committee in material/module development, organizing capacity and knowledge building trainings and exposures, propagating self-audit and assessment procedures and provides advisory services like mobilization of internal resources, legal compliances etc. based on the need. The Advisory group may also need to prepare working papers on various elements of self regulation and places them before Coordination Committee for discussion, debate, decision, and where approved, for finalization.

Capacity building

In each federation, Executive Committee identifies few SHG members as the facilitators based on the need and requirements for base level trainings. These facilitators in turn train bookkeepers, representatives of the SHGs and federations on various aspects like annual planning, bookkeeping, election process etc. When facilitators are conducting trainings in the field, advisory group and federation representatives may make few field visits to provide on the job support.

During the process, Executive Committees of sub-district level federation at various levels are also trained on different aspects such as understanding financial statements, monitoring reports, internal and external audit, election process etc. Staffs of these federations are also trained on specific aspects like bookkeeping, interest calculations, reporting systems etc.

In each federation, few members are identified as the facilitators to run financial literacy centers at village level for member education. These facilitators are trained on various aspects to run the financial literacy centers. They in turn run literacy centers for each SHG for 2-3 days to increase the members understanding on various aspects, facilitate family level livelihoods plans and facilitate process of elections and SHG level planning.

Mobilising funds

Usually, SHGs and their federations should finance their self regulation through annual contributions and service fees. That should be the ultimate focus for the self regulation in order to ensure independence and avoid external interference. However, up front external financial support is required from the promoting institutions, particularly, for capacity building and the establishment of proper systems.

Conclusion

Though the intervention on self regulation by APMAS is still in its early stages, it has provided several lessons, both for the facilitators and for the women themselves. What is emerging clearly is that the future of SHGs and their federations lies in members taking full responsibility for the entire structure – the SHG and their federation. What has also emerged is that the women are more than willing to take full responsibility and can do so ably. For this to become a reality sooner, rather than later, it appears necessary that the facilitating organisations minimise their direct roles even further, and enable representatives of the movement to take full ownership, especially for the agenda of promoting increased member-control and ownership. Hence promoting institution needs to focus on bottom up approach and ensure that the self regulation of SHGs and their federations, should be designed, implemented and managed by the women themselves.

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