

CMF-NABARD

Sustainability of SHGs

Scope, Issues and Challenges

November 1st 2008

Bhagirathi Hall , Institute for Financial Management and Research

24 Kothari Road, Nungambakkam, Chennai - 600 034, India

Summary of Proceedings



Contents

| | |
|---------------------------------------------|----|
| Programme Description and Conference Papers | 2 |
| Conference Proceedings | 5 |
| List of Participants | 12 |
| Programme Schedule | 15 |

Conference Programme Description

The Self Help Group (SHG) movement has come of age nearly two decades after NABARD launched the 'SHG Bank Linkage Programme,' (SBLP) in the early nineties. The SHG model continues to be the predominant microfinance delivery mechanism in India and the NABARD approach has successfully enabled financial services accessible to millions of deprived and un-banked populations through partner agencies.

In recent years there has been unprecedented progress in the growth of SHGs. By March 2007, approximately 29.25 lakh SHGs were credit-linked with banks, representing nearly 409.5 lakh of poor households. At the same time, large portions of populations in many parts of India have still not been reached by the programme.

The movement's initial success has attracted considerable attention from a wide range of stakeholders and some SHGs have become vehicles for other development objectives including the financial inclusion agenda of the Central Government. The advantages of aggregation and social capital are key factors that attract such actors to SHGs.

However, there are quality and sustainability issues of the SBLP that still need to be addressed. One concern is that the target base approach and profit motives ignore the quality of the SHG entities themselves. Also, the approach lacks an enabling environment that can drive and expand the scope of livelihood options for SHGs.

Recognizing such key quality and sustainability concerns and questions at the heart of the SHG movement, the Centre for Micro Finance at the Institute for Financial Management and Research, Chennai and NABARD jointly organized a conference to facilitate discussions, share experiences and debate among various SHG stakeholders.

The conference was designed around four major themes -

'The trend and progress of SHGs,'

'SHGs as Sustainable Entities – Scope and Possibilities,'

'Up scaling and deepening the SHG movement- Issues and Challenges' and

'Issues and Challenges in Financing SHGs'.

The conference aimed to address these issues by bringing together practitioners, promoters, and regulators. Also, it aspired to discuss actionable solutions that could make a significant impact on the operation of SHG programmes on the ground.

Sustainability of SHGs: Scope, Issues, and Challenges

Rajesh Singhi, Executive Director, Ibtada, Alwar, Rajasthan

Trends and Progress of the SHG-Bank Linkage Programme

Guidelines for the SHG-bank linkage programme were first issued by NABARD and the Reserve Bank of India (RBI) in 1992, but the concept did not gain momentum until the end of the decade. Beginning in 2000, the country experienced tremendous growth in the formation of SHGs, particularly in Southern India. In the movement's nascent stages, SHG promotion was organised mainly by NGOs, but as the concept gained popularity, many governments took on a similar intermediary role. As SHG-bank linkages spread geographically, Andhra Pradesh became a role model for the country, hosting about half of all SHGs formed under the bank-linkage programme. Many other state governments tried to learn from the Andhra model and undertook initiatives accordingly. For example, in Rajasthan, where Ibtada operates, the Department of Women and Child Development began promoting SHGs through its cadre of *Anganbari* workers.

At first, only a few NGOs were involved in SHG promotion, though many soon jumped on the bandwagon. Some became involved because they found SHGs an effective tool for the community; some found it an inexpensive and effective vehicle for working with communities, while others saw it as a rapid results intervention; still others received support through various schemes promoted by NABARD and other agencies. The Government of India also initiated the Swarnajayanti Gram Swarajgar Yojana (SGSY) programme, which focused on forming SHGs that targeted individuals below the poverty line (BPL).

With the bank-linkage programme scaling up so frenetically, many issues related to quality have emerged. While recovery of bank loans was originally close to 100 percent, this has gradually declined. In addition, though banks have taken on SHG promotion, many branches have found that while they can only effectively deal with 20-30 groups each, they must oversee far more. These trends have sparked concerns over the SHG-bank linkage programme, and this paper will engage with several of them.

SHGs as Sustainable Entities: The Scope and Possibilities

If properly nurtured, SHGs have the potential to become effective community institutions. The groups are involved in savings and lending, and thus, if run well can earn income through their operations. The availability of income and funds within the groups plays a major role in their sustainability. However, often when external interventions, such as SHGs, are made in a poor community, the expectation of the community is 'to get' something. This may lead to a habit of external dependence, and therefore, the initial processes and messages by the organising external institution should reinforce 'self reliance' and not outside dependence.

In the case of Ibtada, we encourage groups to hire book writers and pay for their services; this fee is in addition to what all groups must pay for bank linkage. Given the difficulty in convincing individual groups to pay for a book writer and other fees, Ibtada began forming clusters of SHGs. Dealing with clusters is more manageable for promoting agencies (PIs), and women SHG members are incorporated in the decision-making process. After the stabilisation of clusters, federations are formed with the combination of several clusters. This three-tier structure of SHGs, clusters, and federations has become a promising model for sustainable SHG promotion in many parts of the country.

If built upon good guidance and practices, SHGs can derive collective benefits from the federation structure. Federations pay for services received and support costs of maintenance. Often, clusters and federations aspire to operate for years to come, sparking dialogue that results in the formation of long-term strategies for obtaining future support. In addition to payments received from SHGs, federations sometimes take on additional activities to cover costs, such as on-lending.

Besides cost coverage, several other barriers remain to sustainability. In most cases, SHGs are run by illiterate women, limiting their management capacities in financial management and governance. Thus while there are certain areas that SHG women may manage themselves such as conducting meetings, forming new groups, and resolving internal conflicts, they may continue to rely on PIs for help in critical areas. I do not see this dependence as a major problem as long as the costs are born by the institutions themselves. At the same time, leaders should learn to take on greater roles and responsibilities.

Today, there are many examples of sustainable SHG federations that are providing valuable services to their members. Dhan Foundation, for one, has demonstrated the vast promise that federations hold in the area of SHG sustainability.

Once good SHG-based institutions are established, vast opportunities emerge for implementing 'credit plus' interventions. Ibtada, for example, collaborates with well-run SHG institutions to promote livelihood interventions in goat rearing, agriculture and horticulture. Federations also initiate their own community programmes. For example, Ibtada helps federations to set up Taleemshalas (education centres) for girls. Federations allow for the scaling up of product delivery, such as insurance, housing or sanitation loans. On this front, Ibtada collaborates with Birla Sunlife for member life insurance and is planning to design a health risk fund or tie up for health insurance. The possibilities are enormous, and the growth of such activities depends on the capacity of the PI and SHG-based institutions.

SHGs as Sustainable Entities: Issues and Challenges to their Financing and Growth

Despite the vast reach and penetration of the SHG bank-linkage programme, many challenges remain. One major barrier is limited vision on behalf of the PI. In many cases, PIs do not see beyond savings, credit and bank linkages and thus, focus their groups only on short-term results.

Another cross-cutting issue is the quality of SHGs formed under the programme. Unless PIs focus on quality, sustainability will be unthinkable. Many PIs, both government and non-government actors, do not know how to properly support the basics of SHG growth and capacity development. As a result, they promote mediocre SHGs, which negatively impact the overall SHG movement.

The limited availability of funds for SHG promotion is also a concern for the sector. One particular problem is the distribution of the already-limited NABARD funding to struggling NGOs that cannot deliver on quality. Besides NABARD, few donors support SHG promotion as a stand-alone objective but rather as a component of a larger programme. In these cases, where long-term vision is scrapped and SHG activities are strictly project-focused, the end results are mixed.

In addition, given the workload, work culture and staffing at rural branches, bankers are often not able to manage linkages. Of late, many banks are coming up with guidelines to finance NGOs, which in turn are tasked with on-lending. Since NGOs do not have the financial expertise to deal with on-lending, organizations such as SKS, Basix, Share, and Spandana have emerged to claim the niche.

The emergence of NBFs as MFIs has been a major development in the sector. Their presence speaks to the demand for rural credit and inability of mainstream institutions to properly serve it. These MFIs are able to reach a large number of rural clients and provide them with significant credit from the outset. For example, an individual can receive as much as Rs. 10,000 immediately after becoming a member compared to an SHG where it may take up to 5 years to receive the same amount of credit. Therefore, more and more rural communities are likely to turn to the services of MFIs, signaling a decline in the SHG movement.

As a result, understanding trends in SHG-bank linkages is increasingly critical. Ibtada observed that in Rajasthan, bank linkages decreased in 2007-08. The same is true for all of India, where SHG linkages declined to 739,875 groups in 2007-08 from 916,787 groups in 2006-07*. One reason for this could be supply side; bankers become wary following an increase in defaults. Another reason could be demand side, as clients turn from small-SHG credit to larger amounts from NBFs. This is the time to study the default trends of SHGs, the reasons behind such trends, and the corrective measures required.

Conclusion:

To conclude, the concept of 'self help' in SHGs has mainly been limited to savings and credit; members join groups with the primary incentive of availing loans. Although savings also has great potential, it has certainly not been given the same level of priority. Since focus on credit and loans overshadows general client's perspective and other potential products, other lending institutions, such as MFIs, seem primed to poach many SHG clients. To remain competitive, SHGs must focus on providing multiple services and benefits to their members to outperform other lending institutions.

*Excluding SGSY groups. Data as shown on NABARD website in annual report for 2007-08.

Conference Proceedings

Over several sessions, the conference discussed the Trends and Progress of SHGs, SHGs as Sustainable Entities, Up-scaling and Deepening the SHG Movement and the Issues and Challenges in Financing SHGs. Prior to the beginning of the conference, Mr. Raghavulu, Chief General Manager (CGM) of NABARD in Chennai briefly addressed the gathering and introduced the day's event. During his remarks, he raised a few key historical and contextual points, concerns and questions:

- Given that the SHG movement began in 1991/1992 where do these initial groups stand today?
- What is the time required for groups to transition from micro-credit to microfinance and micro-enterprise? Mr. Raghavulu raised the question of how to increase SHG member capacity to graduate from one stage to another.
- In an environment of increased and often unhealthy competition, people have observed the rolling over of loans – stoking fears that the recovery rate in the SHG movement is declining.
- He suggested that to strengthen the SHG movement, SHG federations should perform non-credit functions.

Following Mr. Raghavulu's remarks, the inaugural session began.

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| Inaugural Session - Trends and Progress | |
| Special Address: | Dr K.G. Karmakar, MD, NABARD |
| Special Address: | Mr. J. Chandrasekaran, CGM, SBI |

Dr. Karmakar began by framing, analyzing and evaluating the growth of the SHG Bank Linkage Programme to the forum. He discussed that though the growth rate of SHGs across the country is moderately impressive, there are criticisms that NABARD had over-saturated the southern states. He predicted that this over-saturation, when coupled with NABARD's prioritization of 13 Northern and Eastern states, would lead to slower southern growth rates and faster expansion in the Northern, Eastern and Central regions like Bihar, Rajasthan and UP.

On the quality issues and growth trajectory, he emphasized the need for transparency, good governance, proper record maintenance and well organized monitoring and supervision mechanisms of dormancy. He also wondered about the future of mature SHG members. Specifically, will members graduate into individual customers of banks or should SHGs be retained? Or, can SHGs manage larger loan sizes, and therefore risk, while piloting new micro-enterprises? NABARD encouraged SHG members to become individual bank clients, and they have also tested a micro-enterprise model for mature SHGs. Unfortunately, both models have failed, and there is a need to examine other models for mature groups.

In particular, Dr. Karmakar described NABARD's test to encourage mature SHGs to utilize their corpus funds to establish group micro-enterprises. NABARD tried to support these micro-enterprises by training SHPIs in developing marketing strategies for SHGs hoping that they, in turn, would train individual SHGs. Although the transfer of knowledge did not take place, Dr. Karmakar still believes that micro-ventures should be a key goal of SHG maturation.

Again returning to quality issues and regional disparities, Dr. Karmakar shared his serious concern about the quality of training imparted to SHGs. He believed that low training threatens the quality of SHGs; for example the quality of book-keeping is worrisome, though many women ask for increased training in this area. In this respect, he felt that there are not enough good NGOs in the Northeast and Central region to facilitate such needs. NABARD has tried with Individual Rural Volunteer (IRV) model to address the gap but that has not helped even in tribal areas. He challenged the forum to find a better strategy. Additional critical issues and questions that Dr. Karmakar raised included:

- The large gaps between the creation of SHGs and bank linkages, and the gaps between loan sanctions and loan disbursements. He tried to parse the reasons behind such gaps, raising the issues of trust, failure to upgrade and scale out facilitating technology. He suggested that new research needs to examine why gaps exist in bank loan disbursements.
- Along these lines, Dr. Karmakar lamented declining recovery levels of external loans. Although many practitioners, himself included, were once confident that external repayment levels of SHGs hovered at 98%, that percentage has since fallen. Detailed, state-wise analysis found that average repayment is only 88%, while some have only 50% recovery. One important reason is that bankers are not visiting SHGs, and relationships have become weaker.
- On a related topic, Dr. Karmakar asked whether lower interest rates and subsidies, such as those seen in Andhra Pradesh and with the SGSY model, are sustainable. He shared an interesting anecdote that early on, NABARD found that SHGs in Ganjam district charged rates as high as 35%, so he visited to understand. These members said that the money that they charged remained with them.

- Can the sector utilize SHGs for improving financial literacy? Can SHGs function as business facilitators and banking correspondent model? Dr. Karmakar pointed out that resources to NGOs are inadequate for proper hand-holding and training of SHGs. He emphasized the need to experiment with more models on micro-insurance for SHGs. Dhan Foundation has set an example by promoting "People's Mutuals" for its SHG members. One solution would be to emphasize group targets so that premiums would come down. On the regulatory issues, he advocated self-regulation for smaller institutions but regulation is required for the 'deposit taking' and large institutions.

In his concluding remarks, Dr. Karmakar asked the forum whether models could emerge to meet the requirements for the expanding rural services sector, such as rural eco-tourism, sanitation, drinking water, cheap rural housing, and so on.

Mr. Chandrasekaran, State Bank of India, began his speech by discussing SBI's involvement in the SHG programme. With a national market share of SHG-Bank Linkages of over 40%, SBI has been engaged since the era of agricultural finance ("green revolution"). In their view it is a socially responsible initiative, and SBI has been working with NGOs and MFIs to assist them in scaling up operations. However, Mr. Chandrasekaran wondered whether NABARD and practitioners had focused too heavily on the SHG model, as it may not be appropriate for a task as difficult as enterprise creation. He suggested that the sector may need to adopt a new model for individual lending. In addition, he pointed out that we still need a successful way to scale-down commercial banking for rural areas.

On the issue of sustainability, he defined it as an organization's ability to cover its costs and emphasized that sustainability needs to go hand in hand with effectiveness, and the task at hand is immense. In such a context, it is important to look at the mission/vision of MFIs. Further, we need to try other models before we can say that SHGs have been successful, and he warned against believing that SHGs had solved all the problems of financial inclusion. He also urged for more regulation for MFIs and NGOs, and said that many are operating with questionable standards. They need to demonstrate clear ownership, responsible governance and transparency, or the proliferation will remain questionable.

Despite reservations, however, Mr. Chandrasekhar admitted that SHGs have a number of inherent advantages – local knowledge, appropriate design and delivery, and a profitable model.

Mr. Chandrasekhar ended by pointing out that there remains a need for more market research into products that will benefit the poor other than savings and credit, for example, micro-insurance and a range of "financial instruments."

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| Session I: SHGs as Sustainable Entities – Scope and Possibilities | |
| Lead Speaker | Mr. Aloysius. P. Fernandez, ED, MYRADA |
| Panelist | Mr. K. V. Raghavulu, CGM, NABARD, Chennai |
| Panelist | Mr. Justin Oliver, ED, CMF-IFMR |

Mr. Aloysius. P. Fernandez, MYRADA, began by posing the question of whether SHGs are inclusive or sustainable. For him, sustainability of SHGs would be signified by participation beyond one or two loans for their livelihoods enterprise. Rather, what they want is to develop a livelihood strategy for survival and he urged that SHGs should allow time for them to do so. As he has learned in the course of his engagement in SHG promotion work, it takes eight to ten years for an SHG to formulate a livelihood strategy for which loan amounts must be at least 1.5-2 lakhs (in total).

Three crucial decisions were taken in 1989-90 and remain unrecognized. These were (a) allowing banks to lend to un-registered groups, (b) lending without asking purpose (he said we are backtracking) and (c) lending without collateral.

Mr. Fernandez gave further opinions on the meaning of sustainability, including:

- Function effectively – all must participate and members must have confidence.
- Investment towards capacity building (something that has been forgotten).
- SHGs should be able to help each member in the process of developing his or her livelihood strategy.
- SHGs should be able to develop new and more complex functions in response to emerging needs.
- SHGs must have the ability to re-engineer themselves in a business without disturbing membership. MYRADA dealt with 35 groups who had re-engineered themselves. Six SHGs did not want any disbandment; three SHGs decided to disband and share common fund; and a further twenty groups decided to share interest and income – and not savings; and six groups disbanded and re-formed as Shree Shakti groups (Govt. sponsored programme).

In concluding his speech he said, just as India is diverse, so are the needs of SHGs. We must listen to them to understand what they need rather than devise formulas.

Mr. Justin Oliver of the Centre for Micro Finance, raised some of the fundamental questions that need to be addressed by the SHG movement in order to adequately and effectively plan for the future. The questions he raised included:

- What do we want the movement to look like in next 20 years?
- What is the ideal form of financial services for the rural poor? Are SHGs preferable to formal banking services? As RBI has moved down to facilitate market to serve the rural poor he asked whether that model was preferable? If we say yes, are they reaching the poor and marginal population? Are the financial services they provide useful? Have the options they replace crowded out other types of financial services? Would there have been formal banking services with a wider variety products?
- Will SHGs graduate or dissolve?
- Is sustainability of SHGs desirable? Is graduation preferable?
- Access to finance survey – how do SHGs fit within with other banking options? For example, how do informal and formal banking services compete (if at all) with each other? Mr. Oliver emphasized the importance of understanding how the distribution of SHGs and other formal and informal services effect the poor.

Mr. Oliver cited the research results of Dr. Rohini Somanathan, an economics professor at the University of Delhi, as an impetus to answer his questions. Dr. Somanathan found that 10% of surveyed SHGs did not survive, and 22% of women within SHGs left the groups they had joined. She found that heterogeneous groups' resulted in greater attrition of individual members than homogenous groups though these groups are more likely to survive over time.

| Session II: Up-scaling and Deepening the SHG Movement- Issues and Challenges | |
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| Chair | Mr. Y.C. Nanda, (Ex-Chairman, NABARD) |
| Lead Presenter | Mr. C.S. Reddy, CEO, APMAS |
| Panelist | Mr. Ved Arya, Managing Trustee, SRIJAN |
| Panelist | Mr Sampathkumar, IAS, CEO, Rajiv Gandhi Mahila Vikas Pariyojana, Lucknow |
| Panelist | Dr. Tara Nair, Head of Research Unit, FWWB |
| Panelist | Mr. K. Jeyabal, Chairman, Pallavan GramaBank |

Panel Chair, Mr. Y.C. Nanda, Ex-Chairman NABARD, began his speech by addressing quality issues for SHGs. During his experience at NABARD, the initial success of the SHG-Bank Linkage Programme made it fashionable for officers to promote the programme across the country in an aggressive manner. The aggression caused NABARD to lose sight of the quality aspects of SBLP. Additionally, RBI and NABARD do not have the required workforce to properly monitor, provide services, and rate SHGs. As a result, quality is deteriorating and recovery levels have decreased to 85%. Unfortunate trends, like manipulation of books or hoarding of funds by secretaries, have arisen, and neither NABARD nor RBI have been able to adequately address them. Mr. Nanda requested panelists to come up with solutions or to suggest improvements in quality, products, and capacity building.

Mr. C.S. Reddy of APMAS agreed with much of what Mr. Fernandez had stated in the previous session. He agreed that it takes time and adequate funding for families to earn enough resources to climb out of poverty. He asserted that the Indian SHG movement had evolved in six phases.

Phase I - NGOs promote women SHGs as an alternative to mainstream financial institutions to reach un-banked segments of the society.

Phase II - NABARD takes the lead in partnering with NGOs, particularly MYRADA, to pilot the well-known SHG-bank linkage model.

Phase III - State Governments, particularly in the South, take a proactive role in the promotion of SHGs in a big way, by way of revolving loan funds and other support.

Phase IV - SHG-Bank linkage reaches the scale of over a million bank-linked SHGs.

Phase V - SHG federations emerge to sustain the SHG movement and to provide value-added services.

Phase VI - SHGs and SHG federations gained widespread recognition to be partners of various mainstream agencies such as financial institutions, corporate sector, and government.

He believes that the Indian SHG movement is primarily a tool for poverty reduction & women's empowerment. Though there are serious issues of quality and capacities, more than 50 lakh SHGs operate in India; 35 lakh have loans outstanding with banks, at a sum of approximately Rs. 15000/- crore. Savings of SHGs in banks approximately Rs.4,000 crore. In addition, he estimated that around 100000 SHG-Federations exist, though most of them are in a very nascent stage.

He predicted it would take approximately Rs. 10,000 crore of promotional funds to achieve universalization of SHGs and urged the Government of India, State governments and NABARD to play a crucial role on this regard. MFDEF & Financial Inclusion fund could be used to strengthen the SHG movement as SHGs seen as a strategy for financial inclusion. The capacity of SHPIs is a key issue and we need to deal with it. A supportive policy & regulatory environment is also highly required.

Mr. Reddy praised the recent National Council of Economic Researcher Council (NCAER) study for shedding light on how SHGs impact women's empowerment and improve poverty reduction. He shared some of the other findings of the report including statistics that SCs/STs and OBCs account for 22.3% of total SHG members and more than 60% of SHGs consist of members belonging to BPL families. Changes in net household income between pre-SHG and post-SHG registered a significant growth per year at 6.1 per cent. The average level of savings (financial and physical savings) per households registered a 14.2 per cent annual growth between base level and 2006. On an average, households borrowed an average of Rs. 14,640 after joining a SHG compared to Rs. 5,384 prior to joining the SHG. The average loan amount per household grew at an annual rate of 20.5 per cent between the pre-SHG and the post-SHG periods. On the issue of loan repayments, the findings show 96.4 per cent of households reported regularity in repayments of loans. The share of households living below the poverty line reduced from 58.3 per cent in the pre-SHG period to 33 per cent in the post-SHG situation. About 92 per cent of households reported that the social empowerment of women had increased after attaining membership in SHGs over a period of time. More than 60 per cent of the households indicated that there is an increase in the ownership of productive assets in post-SHG situation as compared pre-SHGs situation.

In the wake of such optimistic data, Mr. Reddy highlighted some of the major issues facing the SHG movement and urged the forum to develop a holistic strategy. He expressed concern that:

- In most states SHG-Bank linkage is not happening
- Quality of SHGs will not improve unless they promptly get a bank loan after they have functioned for 6-12 months
- There is an acute need for promotional funds to promote quality SHGs
- Capacity of the governments and NGOs promoting SHGs must be improved
- SGSY implementation not synchronized with SHG model
- Livelihood promotion support for matured SHGs is critical
- Implementation of women's empowerment measures are forgotten in credit management
- Many NGOs which traditionally promoted SHGs are transforming into MicroFinance Organizations (MFOs)

Concluding his speech Mr. Reddy stated his wish that the sector move on from other services and products besides savings and credit. He emphasized the need to focus on support of NGOs in effectively promoting quality SHGs. The key ingredient he emphasized was support. Even the best groups have bad books and it is not fair to expect SHGs to perform perfectly without providing adequate levels of support and hand holding.

Mr. Ved Arya of SRIJAN strongly advocated for the linkage of livelihood projects to SHGs and shared SRIJAN's experience implementing a dairy-based livelihood program in MP and Rajasthan. The project addressed the so called four corners of the livelihood diamond in its programme design.

The four corners of the livelihood diamond are

(a) Production – SRIJAN provides daily support for pooling, grading, and marketing of dairy products. Ninety percent (90%) of project profit share with clients and ten percent (10%) covers admin costs.

(b) Finance – provide subsidy only after a business had demonstrated that it was functioning well

(c) Organization – we cannot expect SHGs to sustain livelihood enterprises entirely on their own. NGOs and other promoting agencies must provide appropriate support and facilities to them in the process

(d) Microfinance – NABARD should begin to use SHGs as a way to promote livelihoods

Mr. Sampathkumar, of Rajiv Gandhi Mahila Vikas Pariyojana (RMVP), believes that SHGs are institutions for the poor. RMVP works in 44 blocks of Uttar Pradesh and has reached out to 50000 SHGs. NABARD is providing financial support for institutional capacity building and SERP provides community-based resource support. As RMVP believes, SHGs are independent institutions, and thus formation should take place through social mobilization processes. He observed many SHPIs do not have clarity about SHG movement and thus have very limited scope of SHGs and are confined within the lending activities.

RMVP organized exposure trips for bankers to sensitize them and as a result, were able to facilitate Rs. 5,000 crores linkages in one year. Also, using community resource people makes the champion of SHG movement in UP. One hundred and fifty women have been involved in community mobilization for at least 8-15 years to UP. These women live in villages, identify poor, and share best practices. It helps in building the capacity of SHGs and maintained quality. Women are no longer restricted to borrowing only two times their savings; now, they can borrow up to ten times this amount. He urged that one-time subsidies are not a solution. Rather, multiple doses are required for SHGs. Additionally, health and education should be incorporated to ensure deepening of the program.

Dr. Tara Nair, of Friends of Women's World Banking (FWWB) underscored how different the situation is from what it was in the early 1990s. She acknowledged the large-scale competition from commercial and for-profit entities that very aggressively promote micro-lending programmes. Dr. Nair believed that promotional agencies have not been given enough attention, although they have clear cut philosophies and vision. Wherever SHPIs have a deep-seated vision of development in their own terms, strong, socially sustainable SHGs have developed. Tara Nair questioned whether professionalization has taken the charm out of the natural process of SHG formation and wondered whether there is too much emphasis on commercial aspects. The significant facts can not be less emphasized. She wondered whether over professionalization has standardized the models and whether every SHG member is a responsible borrower, investor and saver?

Dr. Nair closed with a request for more innovative solutions from the government to help groups build corpus funds. She even suggested a regional development strategy, though the idea of a national federation is too premature due to regional diversity.

| Session III: Issues and Challenges in Financing SHGs | |
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| Chair | Mr. Brij Mohan, Chairman Access Development Foundation and (Ex- ED, SIDBI) |
| Lead Presenter | Dr. S. Elangovan, GM, Indian Overseas Bank |
| Panelist | R. Varadarajan, Executive Director, REPCO Bank |
| Panelist | Dr. Kalpana Sankar, CEO, Hand in Hand |
| Panelist | Mr. Thirugnanasambantham, GM, Pandyan Grama Bank, |
| Panelist | Ms. Rama Kandarpa, Vice President, Institutional Development Services, KBS Local Area Bank |

Session Chair, Mr. Brijmohan, Ex-Executive Director, SIDBI raised the issue of funding requirements for SHGs which are looking to expand their livelihood strategies. He also discussed the perspective of bankers who approach SHG financing, namely the areas of regularity, record maintenance, auditing, rating etc. Though the recovery rate in financing SHGs is impressive, profitability for banks is tantamount. Mr. Brijmohan closed by requesting panelists to come up with suggestions and answers with perspective of strengthening the SHG movement.

REPCO Bank Executive Director R. Varadarajan started his speech by sharing REPCO Foundation's work on SHGs. The Foundation started its SHG-Linkage work by giving loans on an average of Rs. 25,000/- per SHG with mature groups getting an average of 1.25 lakh each. The SHG members are encouraged to take individual loans once the group reaches has saved two to three lakh. However, REPCO Foundation found that merely giving credit and bank linkages is not a sufficient portfolio; he suggested additional products like insurance, pensions and housing finance. Realizing the need for innovative training programs, REPCO Foundation provides standardized programmes at government schools. Director Varadarajan urged a coordinated effort to market the products of SHGs through initiatives such as bank tie-ups etc.

Dr. Kalpana Sankar of Hand in Hand spoke on the need for credit bureau infrastructure to supply credit histories and deal with multiple borrowing. She also suggested a simple and standardized credit rating policy as a tool to fill the gap of SHG membership documentation; for this she listed simplified sheets or computerized statements.

On the topic of graduating SHGs from micro-credit to micro-enterprise loans, Dr. Sankar advocated product diversification for SHG members who have completed 3-4 loan cycles. If they have met this requirement, banks could give these groups larger loans, and she advocated for a complementary enterprise rating mechanism for banks to use.

Dr. Sankar suggested that banks provide 3-4% service fee to NGOs and recommended more dialogue at the local level between MFIs and banks to avoid competition. She mentioned tension regarding the cap on interest rates is a big concern; although the prime lending rate is 15%, MFIs are only allowed to charge 15%. She also questioned the practice of banks requiring loans to be channeled through the NGO or MFI and then providing the second loan directly without first consulting the NGO. With this process, any problems in repaying the second loan come back to the NGO. Dr. Shankar also stressed that the ultra-poor needs subsidies but that they must be properly screened.

Final areas of discussion included the need for new solutions in software (computerized MIS), including rating mechanisms; capacity building in MFI and SHG governance; and more investment in technology.

In his speech Mr. Thirugnanasambantham, Pandyan Grama Grameya Bank said that Pandyan Grama Bank has supported 20,500 SHGs with Rs 136 crores outstanding. The average outstanding Pandyan loan is Rs 70,000 per SHG, and the average overdue is 3.6%. Mr. Thirugnasambantham expressed his concern over defaults and over whether groups actually improve the lives of their members. He stated that from his own experience as a banker, bankers need full information about borrowers, and this transparency has been lost in the bank-linkage programme.

The main problems associated with the SHG movement as observed by Mr. Thirugnanasambantham are 1) disintegration of groups 2) misuse of loans by animators 3) political interference 4) mentality fostered by debt-waiver scheme, wherein people think that loans will be written off. In addition, there must be better regulation for SHPIs, even for small NGOs and perhaps the government should create a regulatory body. He believes that over time, the movement must transition from SHGs to JLGs.

Addressing the forum Ms. Rama, BASIX challenged the group on their knowledge of SHG members. Do we really understand what SHG aspirations and needs are? She urged the sector to understand customers' needs and adjust micro-finance products accordingly; she also advocated looking at SHGs as businesses for long term sustainability. Finally, while suggesting new products/services, Ms. Rama suggested that researchers should analyze banks with sizeable SHG-bank linkage portfolios and examine how the programme has influenced bank growth.

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| Valedictory Session | |
| Lead Speaker | Mr. Justin Oliver, ED, Centre for Micro Finance |

In his valedictory remarks, Justin Oliver summarized some of the key insights and recurrent themes of the day's discussions. He mentioned the recurrent theme of training and capacity-building inputs for NGOs and SHPIs. An additional topic raised frequently was the need for client-focused products and "space," or clients to develop livelihoods strategies. Finally, many speakers emphasized that banks need to project SHG financing as a commercial activity. He closed with a call for research to distinguish between what works and what does not work, and how the SHG movement should move forward.

Photographs of Conference



List of Participants

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|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| S. Sarkar, Manager Financial Service, WB SHG Promotional Forum 09432342637; 033-26610866 | U. Nagaraju, Program Director, RASS RASS, Annamaiah Road, Air by-pass Road, Tirupathi, AP 0877-2242404, 9849983765 |
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| Tara Nair, Research Head, FWWB | Aloysius. P. Fernandez, ED, MYRADA |

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Sustainability of SHGs: Scope, Issues and Challenges

November 1st 2008

| PROGRAMME SCHEDULE | |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Conference Registration : 9:30-10:00 hrs | |
| Inaugural Session: SHGs - Trends and Progress | |
| 10-10:45 hrs | |
| Special Address | Mr. K. V. Raghavulu, CGM, NABARD, Chennai |
| Special Address | Dr Karmakar, MD, NABARD |
| Special Address | Mr. Chandrasekaran, CGM, SBI |
| Tea Break: 10:45-11:00 hrs | |
| Session I: SHGs as Sustainable Entities – Scope and Possibilities | |
| 11-11:45 hrs | |
| Panelist | Mr. Aloysius. P. Fernandez, ED, MYRADA |
| Panelist | Mr. K. V. Raghavulu, CGM, NABARD, Chennai |
| Panelist | Mr. Justin Oliver, ED, CMF-IFMR |
| Open House Discussion: 11:45-12:00 hrs | |
| Session II: Up-scaling and Deepening the SHG Movement- Issues and Challenges | |
| 12:00-13:15 hrs | |
| Chair | Mr. YC Nanda, (Ex-Chairman, NABARD) |
| Lead Presenter | Mr. C.S. Reddy, CEO, APMAS |
| Panelist | Mr. Ved Arya, Managing Trustee, SRIJAN |
| Panelist | Mr Sampathkumar, IAS, CEO, Rajiv Gandhi Mahila Vi- kas Pariyojana, Lucknow |
| Panelist | Dr. Tara Nair, Head of Research Unit, FWWB |
| Panelist | Mr. K. Jeyabal, Chairman, Pallavan GramaBank |
| Open House Discussion: 13:15-13:45 hrs | |
| Lunch 13:45-14:45 hrs | |
| Session III: Issues and Challenges in Financing SHGs | |
| 14:45-16:00 hrs | |
| Chair | Mr. Brij Mohan, Chairman Access Development Foundation and (Ex- ED, SIDBI) |
| Lead Presenter | Dr. S. Elangovan, GM, Indian Overseas Bank |
| Panelist | Mr. M Balasubramanian, MD, REPCO Bank |
| Panelist | Dr. Kalpana Sankar, CEO, Hand in Hand |
| Panelist | Mr. Thirugnanasambantham, GM, Pandyan Grama Bank, |
| Panelist | Ms. Rama Kandarpa, Vice President, Institutional De- velopment Services, KBS Local Area Bank |
| Open House Discussion: 16:00-16:30 hrs | |
| Valedictory Remarks | Mr. Justin Oliver, ED, Centre for Micro Finance |
| 16:30-16:45hrs | |

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