microfinanceIndia SUMMIT

The Self Help Group Programme Beyond Two Decades ROUND TABLE

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The Roundtable on Next Phase of SHG Programme

The SHG-Bank Linkage programme will soon be completing two decades. It is an appropriate time to take stock as well as critically reflect on achievements as well as shortcomings in the programme and to identify new strategies and areas for investment to give the programme a renewed thrust. The need and significance of giving the SHG programme its next push, particularly is critical owing to the fact that under the NRLM roll out, large resources will be assigned to promote strong community based institutions on the ground, and through these, possibilities of promoting sustainable livelihoods of the poor is sought to be enabled. Given the current impasse of delivering financial services through the alternate route of MFIs, SHG based delivery of financial access assumes even greater significance.

The SHG channel of delivery of microfinance that started as a pilot program to link 500 SHGs to the banking system, has become the largest microfinance program in the world with an outreach 4.58 million SHGs in 2010. A wide range of SHG-based community institutions have also emerged to support livelihoods and empowerment of the poor mainly in rural areas. These in turn have been facilitated and mediated by varying degrees of government, donor, bank and NGO support; the legal and regulatory environment for their financial operations; and the larger socio-economic context. Indeed, the evolutionary paths of SHGs have been extremely diverse which also further represent differing degrees of success and sustainable functioning. A stock taking on how the SHG movement has fared in the past and what based on these experiences might be the new strategies for the future will be critical at this juncture.

As part of its national initiatives which seek to inform and support policy, ACCESS Development Services organizes a few Thematic / Policy Retreats during the year on topical issues concerning the sector. ACCESS in collaboration with the National Rural Livelihood Mission (NRLM) convened a Roundtable on Next Phase of Development of Self Help Group Model on September 29, 2011 in New Delhi to assess and explore possible future strategies to give this mainstream programme greater momentum to reach and impact the poor. As part of the NRLM design, major focus will be on strengthening SHGs and their federations as fundamental institutional structures for delivery of services. The proposed Roundtable is considered vital as the deliberations will be valuable, particularly in the design and roll-out of NRLM. The Roundtable aims to undertake a stock taking on the various trajectories that have evolved in the SHG model and also be a mechanism of feedback for NRLM on SHG related strategies.

<u>The key focus of this initiative was to bring together all stakeholders of the sector together to discuss and delve on:</u>

- Review major milestones in progress of SHGs and SHG based institutions and focus upon key constraints in the SHG movement gathering momentum and policy gaps and opportunities that exist in enabling the SHGs to be mainstreamed further into the formal financial system
- Trace the evolutionary path of the SHG movement from the point of view of major stakeholders
- Formulate a cohesive strategy to promote financial inclusion of the poorest by revival of the SHG model
- Delineate efforts and resources required for upscaling SHG model

Session Proceedings

Opening Remarks and Introduction

Radhika Agashe Mathur, Executive Director, ACCESS ASSIST opening the proceedings pointed out that the team had to organise this on short notice but it is our pleasure to facilitate a gathering of mostly those who we wanted to come. ACCESS organizes thematic retreats to see how we can bring stakeholders together and produce an agenda that can be available to stakeholders throughout the industry. The learning from Thematic Retreat organised in association with College of Agricultural Banking (C.A.B.), Reserve Bank of India in 2009 on Business Correspondents and Facilitators Pathway to Financial Inclusion was very useful and more recently the Client Protection Roundtable organised in association with UNDP helped provide a more concrete direction for the microfinance sector to adopt increasingly client friendly practices and at the same time provide more service orientation to the clients.

The Roundtable on Next Phase is being organized in consultation with National Rural Livelihoods Mission (NRLM), Ministry of Rural Development, Government of India and sponsored by NABARD. The Government of India's $5.1 billion NRLM is one of the world's largest initiatives to improve the livelihoods of poor rural people and boost the rural economy. NRLM aims to benefit approximately 350 million people in 12 states which account for almost 85% of the rural poor. Self-help groups are the fundamental units for rolling out NRLM and we thought that with the completion of 20 years of the SHG we should discuss how there could be a convergence of strategies.

N. Srinivasan laying down the overall format for ensuing discussions said that the delegates are well informed about the NRLM Framework for Implementation, are familiar with SHGs and as prominent stakeholders have vested interest in adopting corrective measure to ensure success for NRLM.

Session 1: Two Decades of SHG program: Retrospect and Review

Moderator: Smita Premchander

The discussion focussed on taking stock of the accomplishments of the SHG programme, while also looking at key issues that impeded its accelerated growth, the main policy drivers and policy gaps that influenced the program and acknowledged diverse roles played by different stakeholders in evolution of the program.

Given the amorphous nature of SHGs primarily because of the varied projects and agencies promoting them the delegates representing a good mix of SHPA, Government and Banks each presented their views. Each delegate opened discussions with two or three milestones in development of the SHG model over the past twenty years to come up with insights into policies for the future. The moderator asked the discussants to revisit two decades of SHG model and opened the floor to map out the SHG movement.

<u>Aloysius Fernandez suggested that discussions should trace a history from the important focal point in 1986-87 when NABARD commissioned the first grant of 1million rupees to MYRADA. Three key lessons emerged:</u>

a) SHGs are the most client friendly units of the poor and by the poor. The group formation process of MYRADA includes self selection by the poor in gram sabhas on the basis of affinity into SAGs. There is an emphasis on provision of agricultural credit but the demand has shifted from agriculture to family livelihood skill development and accordingly the SHG members should be allowed to assess their credit needs. Most clients have a list of 6-7 ideas for income generating purposes. There is an emphasis on mainstreaming every financial endeavor but the approach should be to customize and design credit/livelihood programmes keeping family as the basic unit of consideration

b) Need for investment in Institutional Capacity Building

c) Need for phased expansion

<u>1987-90 NABARD conducted several studies of the MYRADA Model, such as, the transaction cost study. Based on the feedback NABARD and RBI took three policy decisions:</u>

a) Banks could lend to groups worrying about the purpose and at low traction cost. Myrada would collect the purpose later to account for priority sector lending.

b) In 1992 RBI agreed to give one loan to the group. Emphasis was on the giving the group the freedom to decide how best to distribute the loan amount

c) Banks could lend to unregistered groups as long as they functioned as registered societies

This allowed MYRADA to come up with the SHG Bank linkage model in 1992-93 with 500 groups. The groups were primarily credit management groups

Addressing the question about the innovative approach of the SHG model, Dr. Anushree Sinha, NCAER referred to the study conducted by NABARD and GIZ in 2005 on comparative performance of SHG – Bank linkage versus other priority sector credit and one of the observations of the study was that NABARD had done a fabulous job of forming 1.44 million SHGs with loans outstanding of Rs. 4,200 crores but the entire story has since been slandered because of excessive supply side push. There are a number of SHPIs that function without the original vision and float clusters without investment in institutional capacity building. SHGs are an important medium of empowerment of women across the country. Growth in SBLP has been skewed with major portion of linked SHGs in Southern Region (Andhra Pradesh, Karnataka, Kerala and Tamil Nadu). SBLP was more successful where SHGs had gone beyond financial linkages and emerged as an important vehicle for empowerment. The inbuilt subsidy component of forming groups under national schemes, such as, SGSY diluted the main objectives of SHG model.

<u>The practitioners presenting demand side perspective made the following points:</u>

a) Reason for the upscale in the SHG model was the simplicity and flexibility in the model. The model is built on the collective strength of different stakeholders – banks, government, NGOs. But the problem started when institutions tried to take upon the role of other stakeholder, namely, banks started promoting SHGs. The subsidy element introduced post 1999 clashed with the concept of self reliance.

b) The support from NABARD for SHG-Bank Linkage Programme (SBLP) covers aspects of financial, capacity building and group building but it was conditional on achieving pre-set objectives. Since introducing the SBLP there has been lack of innovation in policy.

c) Bank linkage support was based on certain premises, such as, savings to credit ratio

e) Assumption that SHGs only require credit

f) Capacity building of SHGs is a continuous process and not an event.

g) Provision of microcredit will not help the really poor segment living below the poverty line. We need to promote SHGs as livelihood groups in the poorest regions as the poor require multiple linkages to come out of the vicious circle of poverty on a sustainable basis. Livelihood support plays a vital role in creating demand

Citing development in Andhra Pradesh, C.S. Reddy divided the growth in SHGs model over the last 30 years in five distinct phases:

a) Important role of the model in social mobilization/community development for the poor to come out of poverty in the broader sense

b) Pilot phase of the model which led to 10-20 members mostly women coming together to form a SHG. The model had a minimalist approach of savings linked credit. It has remained a fringe activity for banks.

c) Emergence of federations as higher level of institution changed power relations in the community. The model benefitted from united vision, leadership and economies of scale.

d) SHG federations are increasingly taking up the role of service provider and livelihood promoter with the Second generation organizations taking up formation of producer companies

e) Federations emerging as financial intermediaries

Federations should be free to decide if they want to successfully provide financial and non-financial support to SHGs. Pointing out the drawbacks in the development of the SHG model, he said that promoters had forgotten the main concept of the SHG model. The self help does not exist; groups are formed for services and not for the essence. The model has lost its focus of forming groups of the poorest for collective action and social empowerment. NABARD as the apex agency also lost interest in the SHG model after 2003-04.

The government lost interest in the movement due to increasing emphasis on MFIs after 2003 and hype of expansion of credit.

Thanksy Thekkakara, Addl. Chief Secretary, Minority Development Department, Government of Maharashtra provided key lessons from her experience with Mahila Arthik Vikas Mahamandal (MAVIM). She stressed on the need for investment in capacity building, provision of savings as a product to the poor and problems of developing last mile connectivity to enable access to financial services. Size of the loan is an important consideration as very small loans are and bigger loans require handholding or are not utilized. Self Help Promoting Agencies (SHPIs) play an important role at all levels from group formation to developing backward and forward linkages. Going forward, all the stakeholders will need to develop a consolidated strategy and not promote groups under different schemes or to fulfill limited objectives. The subsidy element has hindered the growth of the programme and SHGs promoted for limited objectives run the risk of politicization and defaults.

M.I. Dholakia, Deputy General Manager, Rural Business (Micro Credit & Financial Services), State Bank of India spoke about the role of banks in microfinance. SBI has a current outstanding of INR 14,000 crores and 2.47 crore beneficiaries. SBI has more than 30% market share in SHG Bank Linkage. There needs to be greater investment in capacity building, financial literacy of SHG members. Increasing thrust on lending through MFIs, subsidy component is adversely affecting the movement.

Mukesh Chandra Sharan, speaking about state of SHGs in Bihar said the development has been modest. 2004-05 total credit given to SHGs was only around 30 crores. In 2010 it was around 350 crores. The movement received support from the state government and the World Bank through setting up of the Bihar Rural Livelihoods Promotion Society (BRLPS). One of the problems stated were the terms of references developed post the inception of the program, namely, no yardstick stating clearly the number of years of handholding support provided to newly formed SHGs, KYC norms governing opening of bank account are more suited to urban clients. The terms must be stated clearly and rationalized.

<u>B. Rajsekhar, speaking about the SERP experience tracing the SHG bank linkage in Andhra Pradesh made the following points:</u>

a) Entry of government as SHG promoting institution. 1996 SNBC agenda introduced by Chandrababu Naidu's Government. NABARD has refused to recognize SGSY groups as SHGs. Fundamental policy decision was taken that there had to be savings, repayment, meeting of minds. 1997-98 IRDP subsidy was delinked from credit flow number of groups grew from 7 groups in1997 to 15000 groups in a year

b) In NABARD there were few champions who helped to upscale the program. There was a downturn after 2003-04. SHPIs could not play an important role in SHG Bank Linkage. There is a question of creating a cadre of 60,000 microfinance professions who can anchor the SG Bank Model and manage community based microfinance organisations and not manage the banks and government.

c) Incentive for the banks. In the period between 2007-2010, SHG model added 8000 crores and MFI added 8000 crore to the portfolio.

d) Conventional bank branch model may not be the ideal model. We are looking at mobile banking linkage. How do we develop a suite of products and develop an incentive system in the face of modern faceless banking

e) Inclusion areas of poor into the inclusion of agenda

Highlighting areas of concern in Rajasthan, said that the SBLP had been managed in a causal manner. There has been very limited investment in developing Resource Centers to promote a coordinated approach to promoting SHGs. Promoting organisations and government departments need to be cognizant of sustainability of SHGs and federations and the need for them to graduate to mainstream mechanism. There is also a looming issue of small loan sizes and linkage of insurance and pensions.

<u>N. Srinivasan pointed out that a lot of stakeholders have taken part in the movement over the last two decades and it has grown in portfolio size. Bu we have to do a lot of rethinking before moving forward.</u>

a) Horizon of the group is becoming shorter in term as a geographical area becomes saturated with SHGs. Women in older groups came together because of inherent trust in each other. But the newer groups lack the same level of trust. New groups divide the corpus every 12 months. Loans are also distributed equally. The principles of the SHG model formed 25 years ago do not hold true. Banks do not question usage of the loan. Evidence states that when Banks questions, 60% of the loans given by SHGs of MFIs are used or the purpose stated otherwise only 20% is used for the stated purpose.

b) Can we restore feeling of being in groups and ensure longer time horizon

c) How will NRLM build institutions of poor when the basic premise of the model no longer holds true

d) Subsidy does not always distort. In some states where there is disaggregated subsidy the size of loan distributed by banks is much higher.

Closing the discussion the Moderator summarized the discussion. The most path breaking element of the model was the policy decision of the Government to recognize unregistered groups as viable units for credit disbursement. Element of subsidy adds to the choice set for women and does not always distort.

Session 2: Stakeholder perspective on the evolution of the SHG Model and future direction of growth

Moderator: Mr. Aloysious Fernandez, Member Secretary, MYRADA, & Chairperson, NABFINS ***Opening remarks made by Al Fernandez brought out the following points:***

a) NRLM provides impetus to the SHG programme

b) A new surge in SBLP requires new way of thinking and SHG champions in Delhi

c) Amalgamation of RRBs made them large entities which were not interested in giving out small ticket loans of INR 1-2 lakhs

d) Financial inclusion is a distorted issue. Empowerment of poor requires investment in second level institutions. There is currently no national policy on second level institutions such as producer companies and nothing to finance these institutions and to cover the risk involved

Mr. Vipin Sharma, CEO, ACCESS said that at the outset, NABARD must be credited with conceiving the SBLP programme irrespective of the gap in support over the last few years. If we juxtaposition the support provided to MFIs by SIDBI to NABARD's association with SBLP, the position seems to have a short term vision. The major thrust of the long term investment provided by SIDBI was to create institutions and not just to generate numbers. An important consideration is fragility of SHGs and the need for long term support. One route is direct promotion of SHGs and nature of investment required to build 500 SHPIs are enabled to work with 1000 – 2000 SHGs in the future. Focus on unit costing of what it takes to promote institutions such as PRADAN. We need to look at the full architecture for SHGs promotion, invest in SHPIs, Resource Agencies and what is required to look at capacity building to link livelihood promotion in a composite manner.

Mr. Machiraju, World Bank, exhorted the delegates to look at concrete evidence of what is working on the ground made the following points:

a) Only 33% are bank linked according to NABARD's last report. The interest of the banks in SHG promotion is dwindling. Banks are not interested in increasing rural footprints. We should look at how MFI can access large funds to the tune of 8000 crores. We should consider what it takes to strengthen risk taking capacity from the bank manager or consider if aggregate institutions will encourage investment from banks.

b) Subsidy delivered as a public good can create wonders. Take the case of the District Rural Development Agency (DRDA) incentive structure tied to the element of subsidy in Andhra Pradesh. When the subsidy is given to a platform such as a federation (or DRDA) then different groups will have an interest to work for betterment of the poor.

c) NRLM is designed to work on the livelihoods of SHG members. Banks have to fund against a microcredit plan. Once there is an articulation of a need, it allows cloud sourcing of diff investment mechanism in areas where poor have the greatest interest.

Smitha Premchander presenting a case for NGOs said that creation of quality SHGs needs upfront investment. There is a problem in the way that money allocated for promotion of SHG is allocated to SHPI and what amount is used for promotion of SHGs. There is a concern that the NGO space is shrinking with the government, corporate, banks competing with them and policy environment also becoming hostile for charitable societies

Brij Mohan, Chairman, ACCESS made the following points:

a) Since the NAABRD Bank Linkage in 1993-94 banks must get interested in giving loans to SHGs. In the case of MFIs for instance MFIs were giving the highest risk adjusted yields. Aggregation is important. Size of the loan.

b) Currently SHGs are not a viable unit, there must be an intermediary between banks and the SHGs. The intermediary must work to aggregate demand.

c) Issue of subsidy

d) Create a system which takes interest and pride in working on the SHG model

Kalpana Pant pointed out that the SBLP model has failed the SHG women in a way because it first created SHGs as a medium of financial and social intermediation. Then later separated the financial intermediation angle. Before we set out to promote aggregative institutions we must learn some lessons from the state of affairs in the microfinance sector. We must invest in creating quality institutions, have in place strong internal audit mechanism and sound MIS. Chaitanya has a triad structure to implement this – they have invested in a cadre of local resource persons, federation as the next level of aggregation and finally community resource centers at the state level. To get banks on board, we should consider bulk lending to federations and the BC model and ways of equalizing operating cost and financial cost to make a viable case.

<u>Presenting the SERP experience, B. Rajsekhar made the following points:</u>

a) Consider SHG as a instrument of reaching the poorest. They have created tremendous social capital and SHG are a vital unit for state governance.

b) SHG members form the most vulnerable section of society and the promoters have used them as low hanging fruits and have granted them loans without building their capacity to understand how to utilize and repay this loan

c) Building institutional architecture is important

d) We learnt a lesson from the MFI scenario in AP and realized that we were only offering a standard loan product which was a major cause of concern. We established Stree Shakti Bank which is an exclusive institutions by the poor people for the poor people . Corpus includes INR 100 crores by Mahila Mandal Samakhya and an equivalent amount has been invested by Government of Andhra Pradesh. The USP is that loans will be provided within 48 hours of origination of request using the existing architecture. This is to take care of emergency loans. The general loans for income generating will be provided through the general route.

Drawing a parallel from cooperatives, Mr. Arindom Dutta, Rabo Bank reminded the delegates that any cooperative that has worked for policy intervention has not worked anywhere in the world because cooperative is set up to serve its members and it is an economic entity. SHG is akin to an informal cooperative and various government departments promote SHGs firmly believing that it is the best way to reach the last mile. We need to be careful about the reasons for promoting SHGs and to see if they are functioning as unregistered cooperatives. Does the ownership lie more with the promoting agencies, apex agencies and government agencies.

SHG is not only about accessing finance but about changing behavior. When they work together their confidence is greater. We need to build the sector and backward and forward linkages. Livelihood finance is not as simple as giving credit but requires institutional capacity building and also skill. Multiple sources of finance is available.

Bhaskar Rao, APMAS pointed out that we need to understand the underlying assumptions and policies with regard to SHGs. We need to observe the emerging trends observed over last 25 years. There are so many stakeholders involved in this with differing points of view and we do not even fully comprehend our own biases. SHGs are poor and illiterate people's institutions and these institutions need to promote sensibly and not intensively.

Thanksy Thekkekara said one way of looking at policy is to consider States where the SHG model has not evolved. Data will show that reasons could be high leveles of literacy and inferior social status granted to women. In these areas we should strive to create member based organsiation managed by external agencies and not member run organisation because the women may not have the financial and organizational skill required to manage and repay loans on time.

Statistics show that the number of groups that were disbursed loans in 2010-11 declined last year despite government avowals on priority sector lending. In 2010, total small size loans (loans of less than INR 25,000) given by banks were less than leans disbursed by MFIs and SHGs together. This shows that the incentive structure for banks has to change. Banks need the freedom of pricing microfinance loans. We need to set up a guarantee fund with complete participation of SHGs. Data indicates that 17% of SHGs have defaulted in their loan to banks in a large state.

At the local level we need to ensure that the Branch managers take greater interest. Commercial banks have done a better job of linking SHGs. Cooperative are the worst kind of people to link SHGs – they hold the savings to ransom and give out very small loans about 1/4rth of the loan size given by commercial bank. Can we use the infrastructure of the cooperative banks.

Presentation by Malcolm Harper

The afternoon proceedings began with a presentation by Malcolm Harper. The following points were highlighted during the presentation:

1. In the mid 1990s when the entire concept of SHGs was introduced, it was envisioned that everybody no matter how poor should have access to financial services.
2. Savings should be an end to itself rather than a mean/route to get loan from bank.
3. There is no need to federate the SHGs as this adds to cost but no study has yet proved the value addition in SHGs though this process.
4. SHGs are not immortal hence they need not continue forever. Once the purpose for which the group has been formed is achieved, the group should cease to exist. The method of termination needs to be worked upon.
5. Insurance too need not be included in the microfinance through SHGs.
6. SHGs are for Indian problems and hence there is no need for foreign assistance.
7. If an SHG does not borrow it does not mean it is defunct. We need to know more about defunct SHGs in order to understand the characteristics of defunct SHGs.
8. One of the important issues in SHG functioning is the methods of usage of funds. Are the members using one loan to repay other or the money is used on some productive purpose.
9. The thrust should be on the formation of a simple structure for SHGs

Session 3: SHG Federations as Financial Intermediaries: Potential and Challenges

Moderator: C. S. Reddy, CEO, APMAS

C.S. Reddy in his opening comments stated that the emergence of SHG federations is an important milestone in the SHG movement in the country. Statistics indicate that there are over 1.6 lakh federations. Federations are also an integral part of the NRLM strategy. The women feel that aggregation power of federation adds value for them.

Federations can offer a range of services according to the needs of the member SHGs:

- Social intermediation
- Financial intermediation – Role of federations as financial intermediaries is restricted to bulk financing in cases where banks are more comfortable lending to federations which then onlend to SHGs. Federations as financial intermediaries need to build systems, governance in order to become effective community based organisations
- Livelihood promotion
- Multiple purpose organisations
- Supplementary financial organisation. For instances, subsidy money is given to federation as seed capital

Taking up from the point of need and different roles played by federations T. Vijay Kumar pointed out that the mainstream institutions are moving away from SHGs. The sector needs to build community based institutions to offer a choice to the poor. Federations are tremendous support organisations as they are organisations owned by the poor and organized for the poor. Initially federations started as bridge financing to build credit record of SHGs but federations evolved and started lending according to microcredit plans paving the way for banks to move out of their fixation to lend in multiples of savings. The most interesting role played by federations is that of a force multiplier and their work on social issues. There is inherent risk in federations but poverty alleviation requires multiple institutions.

Various roles played by federations depend on the needs of the constituent SHGs but each role requires unique set of systems and processes. There should be a clear vision of the role envisaged for federations and SHGs. We must learn from the mission drift evident in MFIs and invest in infrastructure especially in case of financial intermediation.

Al Fernandez highlighting the MYRADA experience spoke about 100 community managed resource centers and the need for self regulation and regular audit. Poor performers are thrown out in case of irregularities. Federations provide bargaining and aggregative power to SHGs

SERP experience showed that federations emerged from the needs of the people to manage issues which individual SHGs could not manage. They evolve as per the needs of the people. Andhra today has district level federations.

Speaking about the Chaitanya experience, Kalpana Pant pointed out that SHG Federations started financial intermediation in 1991 because the SHG Bank Linkage programme could not provide adequate and timely credit to SHGs. So far block level federations with credit base of 250-300 SHGs works very efficiently. Federation sets aside certain part of profits for social and livelihood activities. Rebutting claims that federations should not do financial intermediation, she pointed out the people need avenues for progress and can grow into larger roles. These are community based and community owned institutions. GMSS for instance has a good mix of local and professional staff and banks feel confident in lending to regularly audited federations with good systems. NABARD has recently put in INR 75 lakhs as equity support.

Vipin Sharma, speaking about the example of 13 SHG federations promoted in Orissa, said that we need to be cognizant of value and viability of federations. If federations will be the base for NRLM we need to define standards. We need to look at what kind of investments is required to promote federations for financial intermediation. Federations can respond to the needs of its members more effectively than banks but require long term handholding support.

C.S. Reddy, emphasized role of federations as supplementary finance organisations while Bank Linkage should be the main stay because it is easier to link 1crore SHGs compared with 5 lakh federations. While it is not a problem for banks to lend to federations but it is for us to maintain a balance between SHGs accessing finance from banks, SHGS accessing loans from federations and individuals accessing bank loans

Federations do not emerge naturally with illiterate and poor women. Support institutions, government agencies promoting these federations have to train SHG members over months, formulate legal and organizational structure for the federation keeping in mind the needs of the people. This structure will differ across the country. There is a threat of politcisation in district level federations. Role of the federation should be to form, train and support weak SHGs. There are cases of SHGs defaulting on loans taken from federations but paying the loans taken from banks.

The way we are thinking about federations is akin to MFIs. They should be regulated and there should be equity invested in federations and exhibit good governance. The other issue is the individual to federation and group to federation dynamics. People don't like to be in groups.

Bank loans are a problem for federations because they are registered as societies, do not have professional staff, no collateral, do not get regular ratings and do not possess track record. Federation promoters need to tell the banks and rating agencies to judge an organisation by its mission and financial track record. SEWA in Gujarat and GRAM in Andhra Pradesh are inspiring and extremely well functioning examples of federations.

With federations being promoted by the government departments, SHPAs, NGOs, we should not judge them on the basis of pedigree and look at them as organisations of people. They should be entitled to a whole range of services. There should be an exit role planned for SHPAs.

<u>Delegates also outlined reasons for the failure of federations. These are as follows:</u>

a) No capacity building is done for the members of federations.

b) There is no role clarity for the members of these federations.

c) Involvement of professionals which in turn leads to the power of decision making shift from members hands to the hands of the professionals.

d) Formation of federations without understanding the need for it or conducting any need assessment for it.

Session 4: Next Phase of SHG Program: Strategy and Design

<u>Moderator: N. Srinivasan, Author, State of the Sector Report</u>

N. Shrinivasan opened discussions by asking delegates to list three key changes required in policy to make SBLP effective.

<u>Bihar is one of the few states that are NRLM ready and representatives from BRLP speaking from practical experiences of the institutional model being promoted by Jeevika pointed out:</u>

- Evaluate if the block level infrastructure being created for training SHG women is useful

- What are the dynamics between the government promoting NRLM and on the ground SHPAs
- Implementation of NRLM requires a large number of community professionals. We need to think about the large scale of investment required to build this human and social capital.
- Fatigue has set in the SHG movement and the group needs to discuss the reasons and how to re-energise the movement.
- Compensation must be provided to community level workers for their time and effort in managing community based institutions

Delegates also presented the following points:

- The basic design of these institutions should be simple as they are for the poorest of the poor
- Sensitive rather than intensive promotion
- Banks should be convinced of the value proposition rather than consider this as an anti poverty scheme. There was a suggestion to establish a fund on the lines of Rural Infrastructure Development Fund (RIDF) where banks would contribute funds according to the shortfall in stipulated priority sector lending
- Invest in creating financial literacy and awareness to be able to make informed choice
- Marketability in products created by SHG
- Evaluation process for SHGs who have failed to avail credit from bank. The evaluations should include all agencies.
- Build ability of SHPIs
- Region specific policies is needed
- NABARD is the originator of the Bank Linkage Programme and needs to align as an institution with NRLM
- Think about SHGs which exist on paper only
- Grading of SHGs/regulations what is the mechanism for that?
- Policy governing SBLP should be contextualized to geography
- A uniform cost of promotion of INR 7,500 per SHG to form new SHG does

not take into account differential investment required for capacity building of existing SHGs

- Creation of sustainable SHG based institutions requires long-term assistance. Federations take approximately 8 years to emerge as sustainable, self-managed institutions
- Timely provision of funds to SHPAs
- Finacial mechanism has to be created exclusively for SHGs
- Technical resources agency at the district and block level and this cannot be left to federations
- Lack of state level government nodal agency responsible for SHGs formation and promotion
- An important consideration in NRLM design strategy is the issue of targeting beneficiaries as the BPL list is not reliable and role of subsidy. NRLM will work with existing structures on the ground and in that regard SHG promoting agencies should be brought into the design fold.
- NABARD should have a policy for SHG federation promotion where the SHG and the federation are both linked together.
- Insurance and savings is an integral component of community based institutions and there should be a regulatory process in place for efficient delivery
- To maintain quality of institutions it is important that the loan fund be linked to expenditure incurred by SHPI on capacity building. The Business Correspondent model is currently viable only for urban MFIs and should be adjusted to be adapted widely across the country
- NRLM, currently implemented by MoRD and the World Bank is an unconventional programme and cannot be seen from the prism of SGSY. It requires large scale investment of approximately INR 1 lakh per target household over 10 years and the financial structure in the country should be geared for this. Financial Inclusion agenda of the Government needs to be merged with SHG Bank Linkage and should form the banking architecture required to implement NRLM. Effective implementation also depends on a large extent on product development, investment in technology and strong MIS to maintain comprehensive database of SHGs.

Financial literacy remains a prerequisite condition as well. We already see that Andhra Pradesh took 12 years of investment but Bihar took 3 years.

- NABARD can play an important role in depolitising SHGs from federations
- Sashi Rajgopalan's recommendations are relevant while considering regulations for federations

<u>Responding to the next questions put forward by the moderator about three institutional arrangements required to strengthen SBLP, the delegates made the following observations:</u>

- Strengthen and support the BC model to customise it to needs of the clients
- NRLM is not SHG centric but is designed to bring people out of poverty through new institutional arrangements
- Banks can pay a fees to SHG federation or SHPIs - this will attract professionals, capacity building institutions, aggregation will naturally happen.
- Mobile banking system should be promoted for servicing the remote and inaccessible areas in villages.
- To aid capacity building a concerted effort is required and federations can work with academic institutions to design entry level and higher level managerial courses
- There are 1.30 lakh postal offices in India. Facilitating the vast network of Indian Postal Service to function like can help deal with the problem of bank's disorientation for SHG lending.
- PACS could also emerge as important institutional arrangement.
- It has been observed that the poorest of the states have the poorest of HR pool hence capacity building is very crucial in this regard.
- With respect to the livelihood linkages, people must be made aware of the choices; specialized institutions must be roped in for the training and capacity building of SHGs.
- Substantial changes are required in the existing infrastructure and we need to learn from our experience of the last twenty years for the next phase of development of SHGs and implementation of NRLM.

Annexures

1. Agenda

Time	Agenda
10.30-10.45 a.m.	Opening Remarks and Introduction
10.45 – 11.45 a.m.	**Two Decades of SHG program: Retrospect and Review** **Moderator: Smita Premchander** The discussion will focus on taking stock of the accomplishments of the SHG programme, while also looking at key issues that impeded its accelerated growth, the main policy drivers and policy gaps that influenced the program and acknowledge the diverse roles played by different stakeholders in the evolution of the program.
11.45 – 1.00 p.m.	**Stakeholder perspective on the evolution of the SHG program and future direction of growth** **Moderator: Aloysius Fernandez, Member Secretary, MYRADA, & Chairperson, NABFINS** This session will bring together the perspectives and ambitions of various stakeholders - NABARD, banks, NGOs, government, donors – for designing a cohesive strategy for the next phase of the SHG program as financial intermediaries and vehicles of livelihoods promotion nationally as well as specifically in the context of NRLM.
1.00 – 1.45 p.m.	Lunch
1.45 – 2.15 p.m.	Presentation by Prof. Malcolm Harper

Next Phase of SHG Programme

Time	Agenda
2.15 – 3.15 p.m.	**SHG Federations as Financial Intermediaries: Potential and Challenges** **Moderator: C. S. Reddy, CEO, APMAS** This session will discuss the need and significance of organising informal SHGs and aggregating into formal structures as federations. This experience is largely localised at a large scale in Andhra Pradesh, and undertaken by few NGOs in other states. The roles of SHG federations, specifically as financial intermediaries, and also in value added benefits of livelihoods services and gender and empowerment, will be discussed. Other issues including availability of trained and sensitised human resources to promote and handhold the federations, the governance and management capacities of community leaders and the existing gaps in policy guidelines in various states will also be considered, leading to consensus and way forward for next phase of SHGs in India.
3.15 - 3.30 p.m.	Tea
3.30- 4.30 p.m.	**Next Phase of SHG Program: Strategy and Design** **Moderator: N. Srinivasan, Author, State of the Sector Report** With large amount of additional resources being assigned through NRLM to promote SHGs and SHG federations, renewed focus within NABARD to propel the SHG program and in view of slowdown in pace of the growth of MFI channel, the strategies and direction for SHG program need to be redesigned. Various aspects including ensuring quality of SHGs, effective bank linkages, role of federations, SHGs as vehicles of livelihoods promotion and new mechanisms for financing of SHGs and their federations discussed in earlier sessions will need to be woven into a strategy.

Time	Agenda
4.30 – 5:15 p.m.	**Key Takeaways** **Moderator: N. Srinivasan, Author, State of the Sector Report (An Access Publication)** This session will help to conclude on the key areas of consensus and propose a consensus based strategy on next phase of SHGs, along with delineating the roles of various stakeholders in the next phase strategy.

2. Participants

Sl. No.	Name	Organisation
1	T. Vijay Kumar	Joint Secretary, Director, NRLM, Ministry of Rural Development
2	Nita Kejrewal	Director, Department of Rural Development, SGSY Division, Ministry of Rural Development, Government of India
3	Ankita Sriram	GIZ
4	C.S. Reddy	CEO, APMAS
5	Ms. Ramalakshmi	APMAS
6	Aloysious Fernandez	Member Secretary, MYRADA, & Chairperson, NABFINS
7	H.K. Behera	General Manager, Union Bank of India
8	H.L. Ahuja	Dy. General Manager
10	Sitaram Machiraju	Agriculture and Rural Development Specialist, South Asia Sustainable Development Network, The World Bank
11	Dr. Bhaskara Rao Gorantla	Associate Vice President & Coordinator Enable, APMAS
12	Nayana Chowdhury	Senior Program Officer, Sir Dorabji Tata Trust
13	Tamali Kundu	Pradan
14	N. Srinivasan	Author, State of the Sector Report (An Access Publication) and Independent Consultant

Sl. No.	Name	Organisation
15	Brij Mohan	Chairman, ACCESS Development Services
16	Rajesh Singhi	IBTADA
17	C P Arun	Plan India
18	Kalpana Pant	Chaitanya
19	Smita Premchander	Founder and Chief Executive of SAMPARK and independent Development Consulltant
20	Ajit Kanitkar	Programme Officer, Ford Foundation
21	B. Rajsekhar	CEO, SERP
22	Dr. (Ms) Anushree Sinha	Senior Fellow, NCAER
23	Thanksy Thekkekara	Addl. Chief Secretary, Minority Development Department, Govt of Maharashtra
24	P.C. Kishen	Collector, Dungarpur, Government of Rajasthan
25	Arindom Datta	Director and Head, Rural & Development Banking Advisory Rabo India Finance
26	M.I. Dholakia	Deputy General Manager, Rural Business (Micro Credit & Financial Services), State Bank of India
27	Govind Rao Chintala	General Manager, NABARD Regional Office Delhi
28	Dr. Alok Misra	Chief Executive Officer, M-CRIL
29	Mukesh Chandra Sharan	Senior Project Manager, BRLP
30	Pushpendra	Project Manager, BRLP
31	P. L. Kulkarni	DGM, BIRD
32	Sarita Singh	Commissioner, Directorate of Women Empowerment, Raj. Jaipur
33	Vipin Sharma	CEO, ACCESS
34	Radhika Agashe Mathur	ED, ACCESS

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Mission

Promotion of Sustainable and Equitable Agriculture and Institutional Development and Other Innovative Initiatives.

Rural Prosperity through Effective Credit Support, Related Services,

Major Activities

- Credit Functions: Refinance for production credit (Short Term) and investment credit (Medium and Long Term) to eligible Banks and financing institutions
- Development Functions : To reinforce the credit functions and make credit more productive. Development activities are being undertaken through
    - ◊ Research and Development Fund
    - ◊ Micro-Finance Development and Equity Fund (MFDEF)
    - ◊ Financial Inclusion Fund (FIF)
    - ◊ Financial Inclusion Techonology Fund (FITF)
    - ◊ Farm Innovation and Promotion Fund (FIPF)
    - ◊ Farmers' Technology Transfer Fund (FTTF)
    - ◊ Watershed Development Fund (WDF)
    - ◊ Rural Infrastructure Development Fund (RIDF)
    - ◊ Tribal Development Fund (TDF)
    - ◊ Cooperative Development Fund (CDF)
    - ◊ Rural Innovation Fund
- Supervisory Functions: NABARD shares with RBI certain regulatory and supervisory functions in respect of Cooperative Banks and RRBs.
- Provides consultancy services relating to Agriculture & Rural Development. (nabcons@nabard.org)

PRINCIPAL PARTNER

National Rural Livelihood Mission, Ministry of Rural Development

The GoI established the National Rural Livelihoods Mission (NRLM) in June 2010 to implement the new strategy of poverty alleviation woven around community based institutions. The NRLM has been designed for implementation in a Mission mode. Introduction of NRLM in the place of SGSY would result in a radical transformation of the role of the Ministry of Rural Development (MoRD). Apart from the reform of the centrally sponsored program of SGSY, the NRLM seeks to bring about fundamental changes in the support structures and institutions at the central, state, district and sub-district levels and introduce process oriented reforms that would improve the quality of rural poverty outcomes.

The Mission's primary objective is to reduce poverty by promoting diversified and gainful self-employment and wage employment opportunities for sustainable increase in incomes. The Mission would work in conjunction with the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) of MoRD and would primarily focus on creating self-employment and wage/job employment opportunities for the rural poor who would enable them to cross the threshold of poverty and become productive agents. NRLM would provide a combination of financial resource and technical assistance to states such that they could use the comprehensive livelihoods approach encompassing four inter-related tasks viz :

- Mobilizing all rural, poor households into effective self-help groups (SHGs) and their federations;
- Enhancing access of the rural poor to credit and other financial, technical and marketing services;
- Building capacities and skills of the poor for gainful and sustainable livelihoods; and
- Improving the delivery of social and economic support services to the poor

Roundtable Organisers

ACCESS Development Services

ACCESS was set up in March 2006 as a not-for-profit Section 25 company to build and consolidate the successful experiences of CASHE (Credit and Savings for Household Enterprises), programme implemented by CARE a large microfinance and livelihoods programme funded by DFID to contribute to the future growth and evolution of respective sectors in India. However, the full value of ACCESS is better understood by the fact that it was, more importantly, conceptualized and aligned to the needs of a growing, evolving and maturing microfinance sector in India. ACCESS's sector level initiatives include the Microfinance India Summit and the State of the Sector report have become well established in the sector in India as well as globally. As a sub initiative, ACCESS has institutionalized the Microfinance India Awards in collaboration with the HSBC. ACCESS through its affiliate organization, ACCESS-ASSIST continues to provide technical support to NGOs, MFIs and CBOs as well as support other sector development work of other stakeholders.

While the original premise for setting up ACCESS was to consolidate and build on microfinance experience, it was soon evident that to make a serious and sustainable impact on the lives of the poor, more composite solutions need to be devised and employed. In its third year, ACCESS built a strong portfolio under livelihood programme unit outgrowing the microfinance programme portfolio. ACCESS positions itself as the gateway agency between the poor and the markets, helping in better access of the poor to resources, capital and markets, as also to entitlements. Within 5 years, ACCESS has set up operations in 7 states and 28 project locations.

Next Phase of SHG Programme

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