

**Promotion of Self Help
Groups under the SHG
Bank Linkage Programme
in India**

by Malcolm Harper

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Linkage Programme at New Delhi
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Head Office, Bandra-Kurla Complex,

P.B. No. 8121, Bandra (E),

Mumbai - 400 051.

Tel. No. (91) (22) 26530084, Fax (91) (22) 26528141

E-mail : nabmcid@vsnl.com

Website : www.nabard.org

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Contents

Preface

Executive Summary	1
1. Objectives and Methodology	3
2. Types of SHPIs	12
3. Findings from Surveys of Informed Opinion	23
4. Findings from Field Interviews	27
5. Conclusions and Recommendations	46
6. NABARD's long-term management & monitoring strategy	52
Bibliography	57
Banks, SHPIs, and SHGs Interviewed	59
Schedule 1	62
Schedule 2	64
Schedule 3	66
Schedule 4	68
Schedule 5	70

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Malcolm Harper

Preface

Congruity with human nature enhances the relevance and utility of human development initiatives. The core of SHG-bank linkage in India has been built around an important aspect of human nature - the feeling of self worth. Over the last ten years, it has come to symbolize an enduring relationship between the financially deprived and the formal financial system, forged through a socially relevant tool known as Self Help Groups (SHGs). An amazingly large number of formal and non-formal bodies have partnered with NABARD in this unique process of socio-economic engineering. What had started off in 1992 as a modest pilot testing of linking around 500 SHGs with branches of half a dozen banks across the country with the help of a few NGOs, today involves about 20,000 rural outlets of more than 440 banks, with an advance portfolio of more than Rs.1, 200 crore (\$ 240 m.) in microFinance lending to SHGs. Financial services have reached the doorsteps of over 8 million very poor people, through 500,000 SHGs, hand-held by over 2,000 development partners. A brief history of the microFinance initiatives in India will help place the present study report in perspective.

The Background

The high level of dependence of the informal sector on non-institutional sources continued despite a rapid growth of banking network in India in the last five decades. The rural financial system at present functions through an impressively large network of more than 150,000 retail outlets. Despite such phenomenal expansion of the outreach of the formal banking structure, the All India Debt and Investment Survey (GoI), 1981, gave indications that the share of non-institutional agencies (informal sector) in the outstanding cash dues of the rural households was quite high at 38%. It was also seen that households in the lower asset groups were more dependent on the non-institutional credit agencies.

The main hurdle faced by banks in financing the very poor seemed to be the comparatively high transaction cost in reaching out to a large number of people who required very small doses of credit at frequent intervals. The same held true of the costs involved in providing savings facilities to the small, scattered savers in the rural areas. Feelings were mutual among the very small savers and borrowers in the rural areas as well, as they tended to view banking as an institutional set up for the elite; even if they tried to reach the bank branch the long distances and loss of earnings on being away from work while visiting bank branch were hurdles and they were never sure whether they would get any service or not if they did approach the branch. The levels of mutual inconvenience and discomfort made the poor look at banking as an almost inaccessible service, and the banks felt that banking with the very poor was not a 'bankable' proposition.

Role of NABARD

It is in this background that NABARD conducted studies in the mid-eighties that brought out the simple fact that the most important and immediate banking needs of the poor households, in the order of their priority were:

- Opportunities to keep safe their occasional small surpluses in the form of thrift
- Access to consumption loans to meet emergent needs and
- Hassle-free access to financial services and products, including loans for micro-enterprises

Viewed against this demand, there were serious limitations on the supply side, as the existing products and services of the banking system were largely meant for a different type of customer segment. In trying to fulfil the credit needs of the poor for financial services, the banks had to contend with regulated interest rates, high transaction costs and high cost of mobilization of funds.

In cases where credit was made available to the poor through special programmes, absence of an integrated savings component and something to fall back upon in case of any adversity was leading to poor repayment performance. The problem was further confounded, as the users were unable to distinguish between the State support (grants/reliefs) and bank credit as the rural and agricultural banking system was getting identified with the State. The political expediency for 'removing poverty at a stroke' was putting resources for running micro enterprises in the hands of the poor without nurturing them to handle such resources. The high cost of appraisal and monitoring led many banks to jettison those systems in the context of low-value advances, aggravating the already vitiated repayment climate further.

Based on the studies mentioned above and the results of action research conducted, NABARD developed the Self Help Group [SHG]¹ - bank linkage approach as the core strategy that could be used by the banking system in India for increasing their outreach to the poor. The strategy involved forming SHGs¹ of the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing loans to members, and in the process learning the nuances of financial discipline. Bank credit to such SHGs followed. NABARD saw the

¹ A SHG is a group of about 20 people from a homogeneous class, who come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritization of needs, setting terms and conditions and accounts keeping. This gradually builds financial discipline & credit history for themselves, as the money involved in the lending operations is their own hard earned money saved over time with great difficulty. This is 'warm money.' They also learn to handle resources of a size that is much beyond their individual capacities. The SHG members begin to appreciate that resources are limited and have a cost. Once the groups show this

promotion and bank linking of SHGs not merely as a credit programme but as part of an overall arrangement for providing financial services to the poor in a sustainable manner leading to empowerment of the members of these SHGs.

Fine-tuning Future Strategy

The corporate mission for microFinance set by NABARD envisages reaching banking services to one-third of the very poor of the country, i.e., a population of about 100 million rural poor through one million SHGs by the year 2007-08. The banking system has already reached microFinance services to 40 million poor through SHGs, reinforcing this commitment. NABARD and its partners are all set to traverse the path beyond the mid-mark. This is the right time to fine-tune the strategies for the future, based on the experiences of the past.

The overall strategy adopted by NABARD relies on two main planks: (i) expanding the range of formal and informal agencies that can work as SHG promoting institutions, and (ii) building up capacities of the increasing number of stakeholders. The key to all such initiatives has been training and capacity building of various stakeholders including the SHG members themselves, the range of which is growing at a fast pace. The series of studies undertaken now are oriented in this direction, and are

mature financial behaviour, banks are encouraged to make loans to the SHG in certain multiples of the accumulated savings of the SHG. *The bank loans are given without any collateral and at market interest rates.* Banks find it easier to lend money to the groups as the members have developed a credit history. 'Cold (outside) money' gets added to the own 'warm money' in the hands of the groups, which have become structures, which are able to enforce credit discipline among the members. The members have experienced the benefits of credit discipline by being able to save & borrow regularly without many hassles. The groups continue to decide the terms of loans to their own members. *The peer pressure ensures timely repayments & replaces the "collateral" for the bank loans.*

expected to help NABARD and its partners in this process of fine-tuning their future strategies.

The Present Study Series

These studies provide multi-perspective evaluation of the SHG-bank linkage programme from academics, consultants and practitioners of microFinance from India and abroad. What is germane to all these studies is the rapid growth of SHG-bank linkage into the largest microFinance initiative in the world in terms of its outreach and the need to closely look at the different critical issues related to it. The studies cover the overall programme and its impact, document the different steps taken so far, and evaluate the need and scope for fresh initiatives. These studies were commissioned by NABARD, with financial assistance from the SDC, GTZ, and IFAD. The focus of the five studies is:

- A review of the progress and impact of the overall strategy for scaling up the SHG Bank Linkage Programme over the last decade (by Dr. Erhard Kropp, formerly Senior Economist, GTZ, and Consultant)
- Role and scope of NGOs and non-NGO agencies as SHPI (by Mr. Malcolm Harper, formerly Professor, Cranfield School of Management)
- Study on commercial aspects of impact of SHG-bank linkage programme on bank branches (by Dr. Hans Dieter Seibel, Professor, Cologne University, Germany)
- Evaluation of SHG Bank Linkage Programme based on the economic indicators on the members of SHGs (by NABARD)
- Impact of SHG Bank Linkage Programme on Social Indicators and Empowerment of the members (by Mr. Aloysius Fernandez, Executive Director, MYRADA, India)

In addition, an independent study on 'The role of Self-Help Groups and the Bank Linkage Scheme in Preventing Rural Emergencies' by Ms. Kim Wilson, microFinance Advisor, Catholic Relief Services, Kolkata has also been made available to us. The findings of these studies will be deliberated upon in detail during a seminar organized by NABARD in collaboration with the SDC, GTZ and IFAD on 25 and 26 November 2002 at New Delhi. The seminar would be attended by key stakeholders like banks, NGOs, and government agencies, international agencies like the World Bank, GTZ, SDC, IFAD, ADB, representatives from some developing countries, as also some acknowledged experts on microFinance.

I am sure that the learning points emerging out of the deliberations of the wide range of participants would help NABARD and its development partners to fine-tune their strategy and approach for the next few years.

Y. C. Nanda
Chairman
NABARD

Mumbai
November 2002

Executive Summary

The objective of this study was to examine and compare the different ways in which Self Help Promotion Institutions (SHPIs) promote Self Help Groups (SHGs), in order to enhance the efficiency and quality of the SHG promotion process and thus to improve the extent and level of financial service provision to rural people now without access to formal financial services.

The SHG promotion work of banks, NGOs, Village Volunteer Vahini Clubs (VVs), Government agencies and individual 'volunteer' promoters was compared. The existing literature on SHG promotion was briefly surveyed, and a questionnaire was completed by 82 respondents with personal knowledge of SHG promotion and financing. Field work was undertaken in Orissa, Uttar Pradesh and Karnataka. Thirty five SHGs, which included examples which had been promoted by each of the types of SHPI, twenty SHPIs and sixteen bank branches, as well as other informants, were interviewed.

These samples, and the smaller numbers of each type of SHPI and SHGs which had been promoted by them, were too small to allow for definitive recommendations, but we have come to the following conclusions, based on the findings of the study:

- The banks, particularly co-operatives, are likely in the medium term to be the main SHPIs. They should support, and eventually be replaced by, SHG members' own initiatives.
- The SHPI roles of SHG federations and of non-volunteer individuals should be examined,

- The extent and quality of member-promoted SHGs should be monitored,
- The quality and equity of SHGs promoted by VVVs may be weak and must be monitored,
- A regular national SHG sample survey should be put in place, to enable NABARD to monitor SHG quality and to delegate the management of SHG promotion to banks ,
- The damage potential of the SGSY and other state and central government schemes should continue to be monitored and mitigated at all levels,
- Incentive schemes for NGOs and individuals should be redesigned and tested in order to cover the full costs of the SHPI,
- Non-management bank staff should be encouraged to promote SHGs,
- RRB and Co-operative Bank management who believe that SHG business is unprofitable should be encouraged to consider interest rate increases in order to make it profitable.
- Training should include hands-on SHG record keeping, SHG promotion for lower grade bank staff and improved understanding of the importance of access vs. the cost of finance,
- The management of the schemes to encourage SHG promotion should be experimentally delegated to banks, in order to avoid the problems caused by NABARD's thin district representation, and to take full advantage of the banks' greater field coverage.

1. Objectives and methodology

1.1. Objectives.

One major advantage of the 'Indian' SHG approach to micro-finance is its reliance on the existing very large network of banks, which are already legally and institutionally able to mobilise deposits and make loans. The SHG system does not require new 'MFI' (micro-finance institutions), which are slow and expensive to develop and whose competence and financial strength may be questionable.

The SHG system uses existing marketing channels, the banks, to bring formal financial services to a new market segment, the poor and particularly women. It does however involve a new sub-retailer to reach this market, namely the SHG itself, and these new intermediaries have to be developed. In an ideal world, the banks would themselves be expected to take on this marketing channel development task, without any assistance. The banks have had very little previous experience of dealing with poorer women, but their experience with the male members of this market segment has been bad, and it is not self-evidently profitable. Their initial reluctance to invest in the development of this market is understandable.

SHG development, or 'promotion' as it is usually called, therefore must at least in the earlier stages of the movement be subsidised, and must often be undertaken by different institutions, known as Self Help Promotion Institutions, or SHPIs. The objective of this study is to improve the efficacy of SHG promotion policy and practice, by comparing five different ways by which SHGs may be promoted, namely by Non-Government Organisations (NGOs), by Banks, by farmers' development clubs (Vikas Volunteer Vahini, or VVV), by Government agencies and by individual self-employed volunteers or agents, and by providing information as to the advantages and

disadvantages of each and the conditions where each may be most appropriate.

It is to be hoped that in spite of the short notice and the little time that was available, we have been able to provide some data which will be useful in the future design and implementation of programmes designed to promote SHGs as effectively and as efficiently as possible, from the points of view both of their members and of the banks which do business with them.

1.2. Definitions.

It was first necessary to be clear what we and our intended respondents meant by the terms we were using, and to set the limits of our study. We chose for our purposes to define SHGs as groups of women whose primary purpose is to save and then to take loans, initially from their own funds but eventually from a bank. We excluded SHGs whose members are mixed or all male, not because such groups do not exist, but because 90% of all SHGs which have borrowed from banks in India only have women members.

We also followed the common NABARD practice of defining 'linkage' as taking a loan from a bank, although banks in fact first become linked to SHGs by taking their deposits, and it has been widely shown in India and elsewhere that poor people, and particularly the poorest, often need and can benefit more from reliable and accessible savings services than from loans. We also excluded SHGs whose members are able to intermediate their financial needs within the group without the need for any external middleman or bank, and who need neither savings nor loans from a financial institution. There are probably very large numbers of these, most of which are of course undocumented, but the NABARD micro-finance programme is designed to benefit poor people by enabling them to access formal financial services, and to benefit the banks by introducing them to a new and potentially

profitable market segment. People who do not need or do not want such services are not NABARD's concern.

We defined the five types of self help promoting institutions (SHPI) as follows:

NGOs are trusts or societies which promote SHGs for bank linkage. We did not include NGO/MFIs which are themselves financial intermediaries. SHG promotion may be a major or a minor part of the NGOs work, but it must have the clear aim of linking the SHGs to a bank for savings and credit. The NGO may pay for this from its own resources, or from a NABARD or similar grant.

Banks are themselves SHPIs when branch staff themselves promote SHGs, from scratch, and then mobilise their savings and lend to them. The banks may be commercial banks, or RRBs, or co-operative banks. If the bank pays other agencies or individuals to perform the SHPI role, it is not itself considered a SHPI for the purposes of this study, although, as we later observe, we feel that banks should be encouraged and assisted to sub-contract the SHG promotion task to others if they think fit.

VVVs are farmers' clubs which have been set up, usually with assistance from NABARD, and initially to improve the credit culture in their community. They are strictly local community voluntary organisations, usually unregistered, and a number of them have recently started to promote SHGs in their own communities for bank linkage. Some do this without pay, or they may get financial assistance from NABARD or elsewhere.

Government agencies is a term which covers a wide range of state and central government entities which have started to promote SHGs under various schemes, usually but not always with an element of subsidy, with bank linkage as part of the scheme.

Self-employed individuals are people who promote SHGs not as employees or members of an institution but as individuals. They may do this as genuine volunteers, without any remuneration, or they may earn some income from the activity. There is a long history of using individual commission agents to improve the outreach of banking services, and many of these have promoted groups to facilitate their own work, particularly in urban areas. Savings collection agents working for Indian Bank and for Bank of Baroda, for instance, have promoted large numbers of informal savings groups; the concept of individual group promoters is not a new one. NABARD has recently started an experiment in five States to encourage individual 'volunteers' to promote SHGs, and a variety of experiments with commission agents (or local unpaid volunteers) are being undertaken by various MFI and some banks.

A further type of SHPI, which is not included in this study, is the **SHG federation**. Many of these have been set up, particularly in Andhra Pradesh but also elsewhere, such as around Jamshedpur in Jharkand where existing SHG members are promoting new groups to join their federations, and are being paid around Rs 40 a day for their time by the members of the groups. Some federations act as financial intermediaries between their member SHGs, or between financial institutions and the SHGs, but some perform no direct financial function. They perform a number of educational and advocacy roles, and may also promote new member SHGs and help them to borrow from banks. This is a fast growing and potentially important type of SHPI, and it should be included in any further study or analysis of future policy for SHG development.

There are also a number of '**no SHPI**' SHGs which have not been promoted or assisted by any of the above five types of agencies. Their members have set them up on their own initiative, probably after observing SHGs in other

villages. The staff of MYRADA reported that after they had promoted some 190 SHGs in Gulbarga District, over 300 SHGs came up independently, following their neighbours' example, and PRADAN observed that at least thirty SHGs came up in this way in Muri, Hazaribagh and Chatra districts of what was then Bihar, after PRADAN had itself withdrawn from the areas in question. It is not known how much outside assistance such groups need in order to be effective, but the numbers and proportion of SHGs promoted in this way is bound to grow in the future; this process should be better understood.

As we found in the field, it is obviously difficult to draw a clear line between this and others types of SHPI. We met two SHGs in Orissa whose members had formed a group and started saving entirely on their own initiative, and had then taken their accumulated savings to the bank to open an account and obtain advice about how to proceed. Are these 'bank-promoted' or 'self-promoted' ? Clear definition is impossible. Some 'self-started' SHGs may already have been claimed to have been started by one or other of the above SHPIs. This may not be an important issue now, but more people are likely to start SHGs on their own initiative in the future as the concept becomes more widely known, and as the level of women's literacy in India increases from the present shamefully low figure, however slowly.

1.3. Numbers and trends

The NABARD MIS provides information as to the numbers of SHGs promoted by 'formal agencies', that is government, and others, but it does not presently distinguish between linked SHGs which have been promoted by government agencies and by NGOs. This makes it difficult accurately to assess the relative importance and growth or decline of the different SHPI methods, but it is important to be aware that over-zealous attempts to document a phenomenon can easily damage it. It would be wrong for

NABARD or any other agency to discourage banks and other agencies from finding and promoting SHGs by demanding excessive information about the process.

Given this difficulty, it is informally estimated by NABARD that the 460000 SHGs which had borrowed from banks by the end of March 2002 had been promoted as follows:

Table 1

SHPI	NGO	Bank	VVV	Govt. agency	Individual Agent	No SHPI
Numbers promoted by 31.3.2002	136000	80000	2000	242000	Not known	Not known
Percentage	30%	17%	1%	52%	n/a	n/a

Nearly 60 per cent of the linked SHGs which have been promoted by government agencies are said to be in the State of Andhra Pradesh. This puts a different aspect on this form of SHPI, which otherwise appears to dominate the all-India picture. The Chief Minister of AP has taken a personal interest in the quality as well as the numbers of SHGs in his state, and has responded favourably to suggestions from NABARD as to how they can be improved. Other states have in the last year or so started to promote SHGs in very large numbers. Few of these have yet taken loans from banks, and only time will show the strength, or the weakness, of these new government promoted SHGs.

It is also important to note that only 16,300 or under 12%, of the linked SHGs promoted by NGOs have been promoted with financial assistance from NABARD. Such assistance has only been available on a regular basis since early 1999, and many NGOs were and still are promoting SHGs without such assistance. They are funded by foreign or domestic donors, or SHG promotion is 'bundled' with a range of

different social and community development programmes. Similarly, some banks, including Regional Rural Banks (RRBs) have been themselves promoting SHGs for many years. NABARD conducted an experiment with 16 RRBs to assist this process, between 1994 and 1998, but regular financial assistance to RRBs for this purposes has only been provided since 1999. By 31.3.2002 only 52 RRBs, or about one quarter of the total number, had been assisted in this way.

NABARD's assistance programmes for VVVs and individual volunteers have been operating for an even shorter time, and because of the necessarily slow process of institutional learning, and the gestation period for the SHGs themselves before they can take bank loans, it is not yet possible to make any prediction of their proportionate importance in the overall scene of SHG promotion.

Because of the lack of detailed data in the MIS, and the relatively short period during which NABARD's support programmes for NGOs and banks have been operating, it is difficult to measure the impact of NABARD's assistance. It is also difficult to observe any trends in the growth or decline of the share of new SHGs which are being promoted by any particular type of SHPI, or to draw any conclusions as to the future pattern.

The banks' share of the all-India figures decreased from 14% to 13% from 1999-2000 to 2000-2001, and then rose to 16% in 2001-2002. These percentages do not indicate a definite trend on which one might base any prediction that bankers were choosing to carry out this customer development role themselves, rather than taking SHG customers 'ready-made' by SHPIs such as government agencies, NGOs, VVVs or individuals.

The absolute numbers are more impressive, however. The banks promoted about 16000 SHGs in 1999/2000, 24000 in the following year and almost 50000 in 2001/2002. This remarkable achievement suggests that some Indian bankers, after a period of well-founded scepticism, have concluded that SHG promotion is good business; this augurs well both for the quantity and the commercial quality of the SHG movement.

1.4. Methodology

The importance of the topic, and the scale of existing experience, are such that it would have been both desirable and possible to carry out a substantial and wide-ranging study, which might be expected to produce statistically reliable findings and conclusions which could be used with confidence as a basis for changes in policies and programmes. The time and specifications allowed for the current study, however, were not such as to allow this.

Our study covered a small sample of SHPIs, the SHGs they had promoted, and banks which had lent to them, in the three states of Uttar Pradesh, Orissa and Karnataka. We interviewed representatives of each institution, and we also administered two simple SHPI ranking instruments to their representatives and to a number of other informed individuals, in these states and elsewhere. The interview schedules, and the ranking instruments, are reproduced as schedules one to five, appended to this report.

The numbers of institutions of each type which were interviewed, and whose staff completed the rating instruments, are given in table 2 overleaf. A detailed list of the institutions from which we obtained information is also appended to this report.

Table 2 : numbers of respondents and interviewees

States	Uttar Pradesh	Karnataka	Orissa	Elsewhere	Total
Schedules 4 and 5, SHPI rating instruments					
Bankers	15	3	10		28
NGO staff	1	0	2	4	7
VVVs	1	0	1		2
NABARD staff	1	2	1	31	35
SHP Individuals	0	0	1		1
Govt. agency staff	0	0	1		1
Others		1		7	8
Total	18	6	16	42	82
Schedule 2, SHG interviews					
NGO promoted	3	2	2		7
Bank promoted	3	3	4		10
VVV promoted	3	2	2		7
Govt. promoted	4	2	2		8
Individual promoter	0	0	2		2
Total	13	9	12		34
Schedule 1, SHPI Interviews					
NGOs	2	2	1		5
Banks	3	2	1		6
VVVs	2	2	1		5
Govt. agencies	1	1	1		3
Individuals	0	0	1		1
Total	8	7	5		20
Schedule 3, Bank interviews	5	5	6		16

The banks included scheduled commercial banks, regional rural banks (RRBs), a co-operative bank and two primary agricultural credit societies (PACS).

This is clearly neither a representative nor a random sample. The SHPIs were often nominated by the local NABARD representative, and the SHGs were generally chosen by the SHPIs which had promoted them. This presumably lead to some bias towards 'better' examples. The monsoon weather conditions also affected some choices. The numbers are of course too small for any significant conclusions to be drawn from the aggregated data, but we hope that our results give some useful pointers and indications of areas where further attention may be needed.

In the analysis which follows, we have been guided by our objective, which is to find out more about the strengths and weaknesses of different types of SHPI. We have not dis-aggregated the results according to the States from where they were obtained, because the sample is too small, and poverty, sadly, is a rather homogeneous condition throughout India.

2. Types of SHPI; their strengths and weaknesses - suppositions and evidence.

2.1. The desired qualities of a SHPI.

No one type of SHPI is the 'best', since each has its different strengths and weaknesses, and there are necessarily some 'trade-offs'. A low cost method of SHG promotion, for example, may not necessarily promote the most sustainable SHGs. In the following section, we identify the features which seemed to be particularly important to members and to banks, and report on evidence about them from other sources. As will be seen, there has been very little previous work to compare the qualities of different forms of SHPI, and this list of qualities

can in some sense be interpreted as a set of questions: which form of SHPI is least expensive, or promotes the most sustainable SHGs, and so on. We hope that our study provides at least the beginning of an answer to some of these questions.

We decided that for the purposes of this study the 'ideal' SHPI would have the following features:

- It would promote SHGs at low cost and in a short time,
- The SHGs it promoted would include the poor, and the benefits of membership would be equitably enjoyed by all the members,
- The SHGs it promoted would be autonomous, they would repay their loans on time, and their levels of savings and borrowings would grow over time,
- The SHGs it promoted would be durable and sustainable, and they would keep good records,
- The SHGs would be easy for the banks to deal with, and would also be 'member-friendly'.

We discuss below the reasons for including these features, and such evidence as there may be from existing sources as to which types of SHPI are more likely to have them.

India today has more poor people than have ever in human history lived in one country. If the SHG linkage movement is to achieve the level of market penetration necessary to make a real impact on this problem, which has been rightly been characterised as a cause of shame to the whole of humanity, it must be 'sustainable'. Non-commercial assistance may or may not continue to be available, from NABARD or from other sources, but total and effective coverage will depend ultimately on whether the banks are able to make profits out of their business with SHGs.

SHGs are no more than a new marketing channel, which banks have adopted because it enables them to serve a market segment, namely poor women, which they were previously unable to reach. The channel development costs have thus far been covered from a number of different sources, and it is important to note that the promotion costs of all the SHGs promoted by scheduled commercial banks, and most promoted by RRBs until recently, have been borne by the banks themselves. The NABARD assistance scheme for RRBs was only made available to all RRBs in June 2001.

The customer development cost is ultimately a part of the transaction cost of a loan to an SHG, and must therefore be kept as low as possible. There have been several studies which have attempted to calculate the cost of promoting SHGs. Most have focussed on NGOs as SHPIs, such as Fernandez (2001, pp. 35-36), and the costs of developing an SHG from 'scratch' to bank linkage have been found to range between Rs 1350 and Rs 16000 (Friends of Women's World banking, 2002, p. 15). One study (Harper et al, 1998, p.68, table 17) found that it cost a typical NGO Rs 8520 to develop an SHG for linkage, whereas the cost for a bank was Rs 11000. It has also been pointed out (Titus, 2002) that the costs depend very much on the previous level of community cohesion and other factors unrelated to the type of promoting institution.

Basix Finance has for some years been experimenting with individual 'Micro-finance agents', or mFA, to develop SHGs, in an attempt to reduce their reliance on NGOs and to demonstrate how the whole task of delivering financial services through SHGs can be made more efficient. These experiments are still in progress, but current performance suggests that the cost of bringing an SHG to the stage when it can take a loan costs around Rs 6000. Most of this sum is paid as a commission on the interest earned from repaid loans, with an advance to cover the initial SHG promotion costs of the agent. The

economics of this depend of course on the amount of business that the SHG will bring to Basix, but on present projections break-even should be achieved after six years.

If SHGs are profitable to their members and to their bankers, it is presumably better that they should be able to start doing business with their banks sooner rather than later; speed of linkage is therefore a valuable quality, so long as quality is not sacrificed. It has been reported that the time taken can range from between one month and as long as nine years (Harper et al, *ibid.* p. 55), and that banks tend generally to bring groups to the stage of borrowing faster than NGOs, but a range of between three months and two years is more normal (SIDBI, 1997). The NABARD guidelines of 1992 recommend a minimum period of six months, and one year is more common. There is little other published evidence as to which types of SHPI work more quickly.

There is a great deal of discussion as to whether micro-finance reaches the so-called 'poorest of the poor', and whether, if it does, it benefits them. It seems to be generally agreed that the main beneficiaries of micro-finance are 'the economically active poor'. It is not clear whether the SHG system reaches very poor people as effectively as the more internationally familiar Bangladesh Grameen Bank system, which is of course also being used in India and is growing, albeit from a smaller base, as rapidly as the SHG system. It appears most probable, however, that it does not (Friends of Women's World Banking, *ibid.*, pp.20-21).

There is even less evidence as to whether the distribution of benefits within SHGs is equitable. It was found (Harper A, p.38) that poorer people in some SHGs in the Northern areas of Pakistan which have been promoted and financed by the Aga Khan Rural Support Programme (AKRSP) were benefiting very little from their membership. Some members had never taken loans, either because they

were nervous of the debt or had no profitable investment opportunities, and were doing no more than lend their savings as free collateral for loans taken by their less poor fellow members. Similar situations have been found in Bangladesh, Kenya and elsewhere (Hulme, p.27)

There is however no evidence as to which types of SHPI promote SHGs which are more inclusive of the poor, or whether the distribution of benefits within the groups is more equitable in SHGs which have been promoted by one sort of SHPI than another. It would appear *prima facie* to be more likely that NGOs would promote SHGs which are more inclusive and more equitable, because of their commitment to social as opposed to financial objectives, but there is no previous empirical evidence for this.

One major study of the impact of SHGs (Pulzahendi and Satyasai, p. 48), whose main aim was not to compare the impact of different types of SHPIs, did compare various change indicators of SHG members' well-being between SHGs that have been promoted by banks and those which have been promoted by NGOs. It was found that the members of SHGs promoted by NGOs had gained almost twice the number of 'employment days' after becoming members as had members of SHGs promoted by banks. The changes in their asset holdings, however, excluding financial assets, suggested that members of SHGs promoted by banks had benefited more. There were no clear patterns of difference on other welfare improvement indicators, so this study cannot be said to provide conclusive evidence on the respective merits of the different types of SHPI.

The Oriental Bank of Commerce has established an 'SHG-only' branch in Rudrapur near Dehra Dun. The system used is a hybrid between the Bangladesh Grameen approach and the 'pure' SHG, but the transaction costs are similar. The branch carries out the complete process of promoting the

groups and preparing them for 'linkage', and this provides an unusual opportunity to isolate the costs of dealing with such groups as opposed to other types of customer. The total costs of this branch, including the cost of customer development, were estimated to amount to about 10% of the amount lent in 1999 (Malhotra and Chauhan, p.252) and to have fallen to 7% by the year 2000 (Friends of Women's World Banking, p. 15). These figures are almost certainly well below the total of the SHG promotion costs and the banking transaction costs incurred by other SHPIs and banks, but there is as yet unfortunately little information available as to the transaction costs of banks' dealings with separate categories of customers, so no useful comparison is possible.

We have not been able to find any previous data comparing the bank loan repayment rates of SHGs promoted by different types of SHPI, but Samruddhi Finance, a member of the Basix group, has monitored the repayment performance of the 250 SHGs which have been promoted by individual commission agents under their mFA experiment, and compared this with SHGs promoted by local NGOs. The on-time repayment rate of the mFA-promoted SHGs financed by the Bhadrachalam branch of Samruddhi was 100%, while the rate for otherwise similar NGO-promoted SHGs which had been financed by the same branch was significantly less satisfactory, at 93%.

One study of 291 SHGs promoted by government agencies in Andhra Pradesh (APMAS, 2002) found that the meetings and financial transactions of many of the groups were fundamentally 'driven' by the anticipation of subsidy, and many of the SHGs would not have qualified for loans at all under NABARD guidelines. As has already been mentioned, however, government sponsored SHGs in Andhra Pradesh are a special case; the small sample of such groups in our own study may be more typical of such groups in other parts of India.

Little is known about the sustainability of SHGs, how long they last, and how they and the scale of their transactions change over time. It is therefore not possible to compare the performance of SHGs promoted by different types of SHPI on these parameters, but we hope that our data will at least provide some preliminary indications. It is important not to forget, of course, that the quality of a given SHPI is not solely or even mainly a function of which type it is. An effective government agency is more likely to conform to our 'ideal' than a poorly staffed and in-effective bank or NGO. It is not our intention to suggest that anyone should accept and support a given SHPI and the SHGs it has promoted just because it is of a type that we or anyone else have concluded is stronger than another type. Each SHPI must be properly evaluated, as NABARD's various circulars make very clear.

2.2. SHPI Suitability

India has rightly been said to be a world in itself, and generalisations are dangerous. In addition to the above features, we therefore felt that it would be useful to obtain some indications as to the suitability of the different types of SHPI for particular areas and people.

Although banking with SHGs is slowly coming to be appreciated as profitable business, but the original and still the over-riding aim is to provide poor people with access to formal financial services. We therefore attempted to find out which types of SHPI were most suitable for reaching the poorest people, and those who share features commonly associated with poverty, such as illiteracy, and those living in remote areas, which usually have few bank branches. NGOs are not always concentrated in the places where the poorest people live. We also therefore asked our respondents which of the other types of SHPI are most appropriate substitutes for NGOs in such places.

Groups of any kind are attractive targets for politicians, particularly when subsidies are available. Political pressures impose many problems which some agencies are better at dealing with than others. We therefore tried also to address this issue. Finally, we looked briefly at urban areas. It has been estimated that half of India's population will be living in towns within the next twenty years, and the notion that poverty is a mainly rural phenomenon has been long discredited. We therefore asked which types of SHPIs would be most suitable in the very different urban environment.

2.3. The NABARD SHPI Assistance Programmes

Our purpose in this study is not only to compare different types of SHPI, but to comment and advise on the ways in which NABARD attempts to encourage them to promote more, and better, SHGs. We have therefore examined the various circulars which describe the schemes whereby NABARD assists SHPI of different types.

The maximum payments per SHG linked which NABARD can make to the SHPIs are as follows:

NGOs	up to Rs 2000
RRBs	up to Rs 1000
VVVs	up to Rs 700
Individual 'Volunteers'	up to Rs 700, plus Rs 400 for the bank

These amounts are based on detailed field assessment of the incremental costs of SHG promotion. It is very obvious, however, both from the wording of the circulars and the fact that the total amounts are well below most of the estimates of the cost of SHG promotion which have been referred to earlier, that these amounts are not intended to cover the full cost, for any of the institutions.

The payments to NGOs are specifically stated to be no more than 'add-on' payments, to cover some of the

incremental costs that the NGO may incur because SHG promotion involves certain tasks which are not part of the NGO's ordinary activities. It seems to be assumed, however, that the incentives are designed to encourage NGOs to promote SHGs as an additional service for communities with whom they are already working, not to extend 'SHG-only' service to new areas.

The last payment to NGOs is also made only three months after the disbursement of the first loan; there is no provision for the cost of follow-up support, which is presumably expected to be met from the NGO's own resources, as a part of their on-going work. Some bankers to whom we spoke said that one weakness of NGOs as SHPIs is that they are motivated mainly by the NABARD incentives, and stop providing follow up support once they have received their final incentive payment three months after the first loan has been disbursed. This suggests that in some cases the low level of the NABARD incentive may be leading to low quality SHG promotion.

The expectations as to the numbers of SHGs which a given SHPI will promote, or at least the numbers whose promotion costs will be partly covered by the scheme, are also very modest. Individual volunteers are only to promote ten SHGs in two years, and a VVV is expected only to promote ten SHGs in one year. These figures can be exceeded if the initial experience is satisfactory, but neither the scale nor the remuneration suggest that the activity is intended to be a fully sustainable source of livelihood to the SHG promoter.

The incentives to RRBs as SHPIs are similarly limited. NABARD's financial assistance cannot initially be extended to more than a quarter of a given RRB's branches, and the aim is not to provide a permanent subsidy. It is to overcome the banks' initial reluctance and thus to encourage them to extend their SHG promotion activity at their own cost.

SHG promotion is obviously not intended by NABARD to be seen as a sustainable or still less a profitable activity in its own right for any type of SHPI. It is also not a competitive activity, and sanctions to NGOs must state 'there are no other NGOs operating in the areas....'. This statement is apparently quite liberally interpreted, but as it stands would exclude a SHPI working in an area where another NGO was working in a field completely unrelated to savings and credit, such primary health care or education. The description of the scheme for individual 'volunteers' places repeated stress on the voluntary spirit and sense of social commitment which recipients of the NABARD assistance must have, so that SHG promotion is not seen as a source of livelihood.

There are some less obvious aspects of the schemes which demonstrate a more business-oriented approach. Some concern is expressed because there is a long delay between the request for the first payment, due when the SHG is first formed, and the second and subsequent payments, when a savings account is opened and the first loan is disbursed. Sixty per cent of the incentive is paid before any loan is disbursed, but there is nevertheless a clear implication that NGOs should not promote SHGs which only save and lend internally, without using the services of a bank. The NABARD incentive is designed to develop customers for banks, and not merely to promote self-help groups which are genuinely 'self-help', in that their members conclude that they do not need formal financial services.

The payments to the individual volunteers are also routed through the SHGs. This is partly to avoid any risk of the volunteers claiming employment status with the banks, but it also creates a definite customer-supplier relationship between the SHG and the promoter; this is obviously a good thing.

The overall message of the NABARD circulars, however, is that the incentives for promoting SHGs should not be

perceived by potential SHPIs as a long term or sustainable source of income in themselves. There are obviously some good reasons for this emphatic rejection of the notion that any person or institution should be attracted to SHG promotion as an income generating activity. It saves money, since NABARD only covers a quite small part of the cost, it discourages ill-intentioned people who might be tempted to promote 'fake' SHGs, and incompetent ones who will only develop an SHG to the absolute minimum level to obtain the support, without any regard for the social aspects which are so vital for poverty alleviation. It also makes the schemes less attractive to 'free-riders' who may try to take credit for SHGs to whose promotion they have contributed nothing. In the case of the RRBs, it is also explicitly designed to motivate the banks to take on the SHG promotion costs themselves, once the NABARD scheme has overcome their initial reluctance.

There may, however, be some disadvantages to this approach. Group promotion is a social task, but it is also a marketing task; it involves persuading and assisting people to change their behaviour in the expectation of acquiring some future benefit. If the SHG 'movement' is to be marketed as effectively as other consumer products and concepts, and to achieve the market penetration that soft drinks and sweets and also some financial products have achieved, its sales men and women may need more tangible incentives.

NABARD has designed a very thorough grading system for NGO SHPIs, which includes marks for the scale and experience of the institutions, and also for good links to government schemes relevant to SHGs, such as the SGSY programme. Very few NGOs are said to fail this test, however. The agreement between the NGOs and NABARD stipulates that the NGO should set up a project monitoring and

implementation committee, to co-ordinate their SHG promotion activity with the banks, and also to enable NABARD to monitor progress. These committees do not always meet regularly, and it is very difficult for one NABARD District Development Manager (DDM), who may cover an area with a population of two million people, to be sure that every SHG which is promoted conforms to its social criteria

It is nevertheless easier to monitor and control very modest assistance schemes of this type than schemes which would cover the full cost, such as the Basix experiment which has been referred to earlier, where the mFAs are expected to earn from around Rs 40000 year to over one lakh rupees, depending on their success. In this latter case, the 'social' quality of the groups has to be very carefully monitored; Basix has a regular system for doing this, but this may be difficult for other institutions.

3. Findings from Surveys of Informed Opinion

The SHPIs, SHGs, and banks whose representatives we interviewed, as has already been pointed out, are neither a representative nor a random sample of the many thousands of institutions of each type. The numbers are also in any case too small to provide anything but tentative indications as a basis for further larger-scale studies. The opinions of the informed individuals who completed schedules four and five are also interesting, but these should not be taken as statements of fact nor even as a representative summary of views.

We have nevertheless attempted to draw together the accumulated data from the various institutions and individuals, in order to produce an approximate summary of our findings, on the basis of which it may be possible to suggest certain hypotheses and possibilities for changes to present policies.

Tables four and five summarise the rankings given to each of the five types of SHPI by the eighty-two informed

individuals who completed schedules four and five. As is the case for the whole study, these respondents cannot be considered as a statistically valid sample of informed opinion about the SHG movement and SHPIs, but we are fairly confident that all the respondents are well informed. They include NABARD's own staff from several offices, academics, bankers, and NGO staff. Their personal opinions are of course no more than just that, and in such a fast moving and diverse field they are bound to have a wide variety of views.

The analysis of the completed questionnaire was complicated because many respondents quite rightly did not rank all six types of SHPIs, since they had no personal experience of them. Others interpreted the suggested ranking schedule in a variety of different and sometimes idiosyncratic ways, thus making direct comparisons even more hazardous. We therefore decided to count only the 'A' grades, in order to find out which types of SHPI were considered the leaders in each of the different qualities and situations; we awarded half a point when the 'A' was shared between two types of SHPI. The figures themselves do not relate directly to the numbers of 'A' ratings, since they have been corrected to take account of the very different numbers of respondents who rated each type of SHPI. These numbers were as follows:

Table 3

	NGO	Bank	VVV	Govt. Agency	Indiv. Agent	No SHPI
Numbers ranking each type of SHPI	82	74	60	76	43	24

Tables 4 and 5 show which types of SHPI were rated highest for each of the eleven qualities and eight situations about which we asked respondents' views. The 'winning' figures are highlighted.

Table 4 : Ranking of Qualities of SHPIs

	NGO	Bank	VVV	Govt.	Individual	No SHPI
Low Cost	10	13	41	14	22	63
Fast Link	13	76	8	7	7	4
Equitable	38	27	13	7	9	13
Poorest	43	10	13	27	13	2
Autonomy	35	30	8	7	26	38
Repayment	21	52	16	14	8	4
Growth	35	47	10	4	5	8
Durable	51	24	13	5	5	15
Records	55	25	8	4	8	0
Bank friendly	17	71	7	5	3	0
Member friendly	35	21	29	3	12	27
Total	353	396	166	97	118	174

Table 5 : Suitability of SHPIs for different situations

	NGO	Bank	VVV	Govt.	Individual	No SHPI
Poor area	52	8	8	30	12	0
Illiterate	57	4	10	24	8	2
Remote	16	4	15	18	17	4
Unbanked	59	11	9	15	20	4
Politics	30	16	15	38	9	6
Marginal	59	4	9	28	8	4
No NGOs	22	23	13	23	14	8
Urban	36	24	0	7	12	25
Total	331	94	79	183	100	53

We had useful correspondence with many of the respondents about their replies. Many of them who had ranked VVVs, individual agents and 'no SHPI' admitted that their ratings were based more on their opinions than on personal experience, but since all the respondents were well informed about SHGs and their promotion we still considered that their opinions should be taken into account. Again, it is important to stress that these rankings are only perceptions, and that the 82 respondents are not a random sample. NABARD staff make up the largest group, but this is not unreasonable since they are more likely than others to have a fairly unbiased view of many different types of SHPI.

The results show that NGOs are considered to be the strongest SHPI in five of the eleven features which were identified as qualities of the 'ideal SHPI', and they are also considered the most suitable SHPI for five of the eight special conditions which were suggested. Banks are considered the best SHPIs for four of the 'ideal qualities', but only for one of the conditions.

One of these conditions was areas where there are few NGOs, in which it is self-evident that NGOs themselves could not be strong contenders. Presumably those who nevertheless ranked NGOs as the best SHPI for this condition considered either that thin coverage of an area by an NGO was better than more comprehensive coverage by another type of SHPI, or that new or existing NGOs should be encouraged to enter these areas.

The total figures at the bottom of each table should not be taken too seriously, because they imply that the eleven individual qualities of SHPIs are all of the same importance. If speed of linkage is ignored, for instance, NGOs have the highest total in both tables. Nevertheless, they show that banks are ranked very highly, particularly for those factors such as growth and on-time recoveries, which will in the final analysis determine whether SHGs become a main-stream market segment for the banking industry.

Banks were considered more likely to promote SHGs rapidly, whose financial needs would also grow, and which would be the easiest for bankers to do business with. VVVs were ranked as the least expensive, apart from the 'No SHPI' option, perhaps because their members are more likely to be genuine volunteers and to be willing to work with their neighbours for little or no payment, and government agencies were deemed most suitable to work in highly politicised areas. Individual agents were ranked higher overall than government agencies for the 'ideal qualities of a SHPI', mainly because they were perceived to be of low cost and to promote autonomous groups. Government agencies fared better in the 'special situations' ratings, because they are perceived to have better outreach, and to be more effective in highly politicised areas. This latter view might be disputed by some observers.

If the special case of Andhra Pradesh is excluded, these overall rankings correspond fairly closely to the proportions of the present numbers of SHGs which have been promoted by the different types of SHPI. NGOs are firmly in the lead, followed by banks, government agencies and VVVs, with individual agents and no SHPI far behind. The low ratings given to these latter two methods of promoting SHGs may relate more to respondents' unfamiliarity with them than to their personal experience of SHGs which have been promoted in these ways, but present perceptions will undoubtedly affect future trends.

These rankings give some indication of the views of people who are well-informed, but they are no more than subjective perceptions. We should now look at the more objectively measurable findings from the small sample of SHGs, SHPIs and banks whose representatives we were able to interview.

4. Findings from field interviews

4.1. SHGs

We interviewed the members of 34 SHGs, including examples promoted by five of the six types of SHPI. We were not able to

find an SHG which had received no promotional help at all from any SHPI and was thus a 'pure' example of the 'no SHPI' option. As has been pointed out above, however, it is likely that this type of SHG, which is the one which is most genuinely a 'self-help' group, will become more common in the future. Bankers will have to recognise this and to be aware of their strengths and weaknesses.

The SHGs were of various ages, but we tried to interview well-established groups; all had taken at least one bank loan and had established a repayment record. Many had taken several loans. The responses to our questions are obviously affected by the age of the SHG, and we have attempted to adjust our findings as reported below in order to take account of this. The following table gives an approximate summary of our more important findings, using the headings covered in interview schedule two, a copy of which is appended to this report.

Table 6 : Findings from SHG interviews.

Aspect of SHG	Summary of findings
Poverty level of members	SHGs promoted by NGOs and government were more inclusive of the poor, and those promoted by VVVs and banks tended to have members who were less poor.
Frequency of SHPI visits	There were no significant differences between the different types of SHPI.
Members' regular savings contribution increases over time.	Most SHGs do not increase the members' savings contributions, regardless of the SHPI which promoted them, and some government promoted SHGs reduce their savings.

Time taken from SHG formation to SHG opening a bank savings account.	Both bank and government promoted SHGs open SB accounts within a few days of formation; NGO promoted SHGs take much longer to reach this stage.
Time taken from SHG formation to SHG taking a loan from the bank.	Bank promoted SHGs are no faster to borrow than others, and individual-promoted SHGs are the slowest.
Frequency of meetings	Nearly all SHGs meet monthly; only the SHGs promoted by individuals meet weekly.
Interest rate charged to members on loans from bank funds (it is a sign of autonomy if SHGs take a spread on their on-lending)	31 SHGs charged 2% a month or more, and some charged as much as 3%, 4% or 5%. 4 SHGs, promoted by banks and a VVV, took no spread.
Access to other funds (SGSY and other grant-based funds are dangerous, but a good SHPI should assist its SHGs to obtain their entitlement; such access is therefore a plus point)	13 out of the 35 SHGs had accessed other funds apart from their members' savings and bank loans, and these SHGs had been promoted by all the different types of SHPI. Government-promoted SHGs had no monopoly of subsidy, and 4 of the 8 whom we met had not received any grants.

Internal repayment rates.	Most SHGs promoted by banks and by individuals achieved near 100% internal repayment rates. Others ranged from 50% to 98%.
Repayment rates to Banks	In every case SHGs repayment rates to banks were the same as or better than their internal rates. They ranged between 80% and 100%. The type of SHPI did not effect the repayment rate.
Equity of lending within SHGs	All members of most SHGs had borrowed at least once, and the amounts borrowed were reasonably equitable. Loan distribution in Government-promoted SHGs was less equitable.
Dropouts	VVV promoted SHGs have higher rates of dropouts, for reasons other than marriage or leaving the area, than those promoted by other SHPIs.
Quality of SHG records	The quality of SHG records is mixed, and the records of bank-promoted SHGs are the weakest.
Growth of SHG reinvested earnings	Three NGO-promoted SHGs are losing or paying out some of their earnings, all other SHGs were re-investing all their surplus.

These findings are in some sense counter-intuitive, in that one might have expected to find that bank-promoted SHGs were clearly less 'social', and more 'business-like', than those promoted by NGOs or other agencies. This is not entirely the case. The strengths and weaknesses of the SHGs are fairly evenly spread irrespective of the type of SHPI by which they were promoted. This could be for a number of reasons:

- The quality of the work of a specific SHPI depends more on the particular individuals and institution, regardless of its type.
- The role of the SHPI is less important than might be imagined, and the way the SHG works is more a function of its members' inclinations than of the type of institution which promoted it.

It is obviously not possible to draw any substantive conclusions from so small a sample, and even less so for the much smaller numbers of SHGs promoted by each type of SHPI. Nevertheless, the seven SHGs promoted by VVVs whose members we met, which had been promoted by three different VVVs, did seem to share certain serious weaknesses in respect of the 'social' quality of their SHGs. The use of VVVs as SHPIs has many obvious advantages, but these findings do suggest that the poverty alleviation aspects of this approach must be carefully monitored.

4.2. SHPIs

We interviewed a total of 20 SHPIs, including one

individual volunteer and three or more representatives of each of the other five types.

We attempted to obtain objective data from these SHPI, in order to be able to compare them with one another. The reliability of the information must of course depend on the level of knowledge of our respondent, and few institutions have detailed information on issues such as how many working days of their staff time it takes to develop an SHG, or indeed of the cost of their staff's time. Overheads, non-productive time and other aspects of costing seem to be quite unfamiliar concepts not only to most NGOs, but also to many banks. Nevertheless, we did obtain some usable data, and table seven summarises our main findings.

Table 7 : Findings from SHPI interviews.

	5 NGOs	6 Banks	5 VVVs	3 Govt. agencies	1 Individual
Who keeps SHGs records after SHG linkage?	3/5, the SHG itself or its employee. 2/5, the NGO	6/6, the SHG or its employee	3/5, the SHG 2/5, the VVV	2/3 the SHG 1/3, the govt. worker	The individual volunteer
How long to prepare an SHG for linkage?	6 to 18 months	6 to 12 months	6 to 12 months	6 to 18 months	9 months
After linkage, how long do you support the SHG ?	6 to 36 months	12 months to 'for ever'	8 to 48 months	6 to 24 months	60 months
How many staff-day equivalents to prepare an SHG for linkage?	4 to 40 days	2 to 14 days	2 to 24 days	5 to 35 days	22 days
What is the cost of the process, including the staff time ?	Rs 1200 to 20400	Rs 1200 to 8750	Rs 400 to 4200	Rs 200 to 7000	Rs 3300
What stops you from promoting more SHGs ?	Staff time, NABARD delays, SGSY and political 'hijacking'	The expense, and shortage of management time	NABARD limits and delays, the cost and shortage of time	Defaults in existing groups, staff time, people are not interested	Bankers are reluctant to lend, particularly but not only if the members are related to defaulters

As with the previous table, the differences within the same type of SHPI are in most instances greater than those between different types; there is clearly no standardised procedure for SHG promotion, and it is probably right that there should not be.

Some responses may also be biased because all the interviews were undertaken in the presence of NABARD representatives. Some respondents may have inflated the cost of SHG promotion in the hope of increased incentives, and complaints about delays in the sanctioning and payment of NABARD incentives may also have been muted, or perhaps exaggerated, by the presence their staff.

Certain tentative conclusions can, however, be drawn from this data and the more detailed reports on the interviews from which the data has been taken:

- The banks, not surprisingly, are generally more ‘business-like’ in their approach. They work more quickly, they do not keep their customers’ books for them, since they recognise that one main merit of SHGs is that they allow the bank to deal with several customers in one account, and they are concerned with the cost. The officers of bank-promoted SHGs can also bring their books to the bank and receive advice when they make deposits; this saves time for both parties.
- Most bank branch managers believe that they themselves are the only bank staff who can undertake SHG promotion, or at least that they must initiate the process of group formation. They appear unwilling to entrust this work to their subordinates, and, given the small proportion of their business that is or is likely in the short to medium term to come from SHGs, many feel that it is an uneconomic use of their time. Many RRBs, however, have successfully employed their ‘peons’ and other lower grade staff for deposit mobilisation and recovery of overdues; there is no

reason why these people should not also be trained to promote SHGs.

- Some bankers (and indeed some NABARD staff) still do not treat SHG members as customers. They keep them waiting for meetings, they order them around as if they were inferior beings, they sit when the members are standing, and treat them as suppliants for favours rather than customers on whose business their own jobs depend. The members themselves, sadly, reinforce this behaviour by their own humility. This is totally contrary to the social empowerment which should be one major result of SHG membership, and NABARD should ensure both by the example of its own staff and through training for them and for bankers that SHGs are treated as respected clients.
- The SHG promotion process can take as little as two days, and as many as forty days. Some of this variation undoubtedly arises from the nature of a particular group or locality, but there would seem to be potential for identifying best practices and sharing successful and fast methodologies.
- VVVs, as in the previous analysis, appear to be somewhat weaker than the other SHIPI. They are slow, two of them keep the SHG's books for them, and they are constrained by the shortage of their own time, whose cost the NABARD incentives does not and is not intended to cover.
- The costs, if some allowance is made for the overheads which are omitted from the lower estimates, are generally well in excess of the sums allowed by the NABARD 'schemes'. As was discussed earlier, this is indeed NABARD's present intention, but the policy should be critically re-examined if SHIPIs are to be expected to expand their present rate of SHG formation.

- It is inevitable that a large national public sector institution such as NABARD, with very limited representation even at the district level, and none below, should have difficulty in administering a variety of necessarily complex incentive schemes. It is unfortunate, but perhaps sadly inevitable given the low level of intra-institutional trust, that sanctions for even the smallest sums have to be approved at head office. It may nevertheless be possible to overcome this problem by learning from the practice of some commercial marketing organisations; this issue will be dealt with later in the report.

4.3. The SHG Formation Process

As has already been mentioned, the actual process by which an SHG is formed can take many forms, and its efficacy is not necessarily related to the time it takes. Each SHPI, and indeed each staff member of the SHPI, clearly has his or her own approach to the task, which will be further varied according to the circumstances of the particular community. There are nevertheless some common features which the SHG promotion methods of most SHPIs of a particular type seem to share; a typical case for each type of SHPI is briefly described below.

NGO

The Pragati Mahila Sanchay Samiti

The Integrated Rural Harijan Adivasi Development Centre (IRHADC) of Govindpur in Dhenkanal District of Orissa is a small NGO with 14 staff, whose main activity is the promotion of SHGs among the very poorest people of the area. About 10% of the cost of their work is covered by the SHGs themselves, and the rest is raised from local contributors and voluntary work. One of the IRHADC workers surveyed Baladiabandh village to see if there might be scope for promoting SHGs, and she found that there was already an informal savings group of 26 women, who saved a handful of rice every day. She introduced the

idea of converting this group into a SHG, and after two weeks she attended a meeting where all the 26 women agreed to start an SHG. The actual formation process took about two months; it was facilitated by IRHADC volunteers.

The women agreed to save twenty rupees a month, and the group was formally established in October 2000; they opened a savings account at the local branch of the United Bank of India. During the following year seven of the members who were unable to save regularly were asked to leave. IRHADC failed after many attempts to persuade the United Bank to agree to lend to the new group, but the group then moved their account to the Angul United Central Cooperative Bank, and in September 2001 they were finally able to take a loan for Rs 15000. The group are now themselves active members of the federation, and they have started a group cashew plantation; this is not doing well because of shortage of water, but the IRHADC continues to advise and support them.

Bank

The Arundhati Womens Self Help Group

Mr. J J Doddamani, the manager of the Dandothi branch of the Krishna Grameen Bank of Gulbarga in Karnataka, had good experience with SHGs, and was anxious to promote more. NABARD was willing to cover about 15% of the costs of this work, but he felt that it was worth four or five days of his time because his SHG customers had significantly improved the overall credit culture and the repayment position of his branch. The manager held a short meeting in May 1999 for poorer women in Dandothi, and briefly explained the advantages of SHG membership. He said he would return later in the week, and when he did twelve women came forward and said they would like to form a group. The manager ensured that they all lived in the same neighbourhood and had low incomes. He then took them to meet another nearby group, which confirmed their interest.

After one more meeting the women formed a group. They wanted to save ten rupees a week each, and had brought their first contributions with them. The manager advised them on the appointment of officers, and on the same day he assisted them to open an account at the bank. After two months they started internal lending, and in June 2001 they took a loan of Rs 10000 from the bank. This has now been repaid, on time. The manager calls on the group every two months or so, and he looks forward to their next loan application.

VVV

The Mahila Kalyan Swaim Sahaita Samooh SHG, Dhorera

The Badte Kadam Kisan Club of Bareilly District of Uttar Pradesh has been selected by NABARD as a SHPI. Their chief volunteer, Shri Ram Pal Gangwar, has been trained in SHG formation, and it has been agreed that he will be paid Rs. 700 for every SHG which he promotes. He is well known in the community since he has been involved in a number of activities such as setting up a cane collection centre and the immunisation of cattle. Shri Gangwar convened a meeting of the potential SHG members in the house of a lady in the village, and he explained the benefits of SHG membership and how to form one. Twelve women agreed to form a group, and on July 7 2001, after two days of further discussions, they agreed to set up a formal group and to save Rs 50 a month each.

Shri Gangwar introduced them to the Dhorera branch of the Bareilly Krishna Grameen Bank, and on the same day they opened a savings account in the name of the group. They started internal lending from their savings after two months, and in May 2002 the Bank agreed to allow them a cash credit limit of Rs 2000; they have made extensive use of this since that time. Shri Gangwar continues to meet the group two or three times a month,

but he believes that by the end of they year 2002 they will no longer need his support.

Government Agency

The Aadarsh Womens SHG, Rajau

Mr. Omkar, The DRDA village level worker who covers Rajau village in Bareilly District of UP, went to the village in late 1999 and convened a meeting of women who were below the poverty line and were thus eligible for loans and subsidy under the SGSY scheme. He explained the SHG concept and the benefits of the scheme to the women. After three more meetings he was able to persuade ten of them to form a group. They finally agreed to save fifty rupees a month each, and in February 2000 they formally established their SHG and opened a bank account with the Rajau branch of the Bareilly Krishna Grameen Bank.

They started internal lending in September of the same year, and at the same time they were also allowed a credit line of Rs 25000; they had made three withdrawals under this by July 2002, amounting to a total of Rs 17000. They had not at that time made use of the SGSY facility. The group find it difficult to keep accurate and up-to-date accounts, and a number of them have got into difficulties with business transactions because of this. Mr Omkar or the bank manager regularly have to help them with their record-keeping.

Individual SHG promoter

The Swगतिका Self Help Group

The people of Dalabeherasahi in Purunagada village in Angul District of Orissa were generally aware of the SHG movement in the area, through TV and personal contact, and there was also already an active SHG in the village. Mrs. Kanak Nayak, an individual SHP volunteer who lives in Purunagada village, approached two women whom she knew in Dalabeherasahi about the possibility of forming

an SHG. These two women then convened a meeting among their neighbours and introduced the idea.

After some two months ten women decided to form a group and they asked Mrs. Kanak to come and explain the details to them. After four meetings over a period of three months, the women formally constituted a group in October 2000. They agreed to save five rupees a week each, and by June 2001 they started to take loans from the sum they had accumulated. Mrs. Kanak explained that they would have to open a savings account if they wanted to take a bank loan, and in August 2001 she introduced them to the Angul branch of the Bank of Baroda and they opened a savings account. They continued to save and to borrow internally, and in March 2002 they took a loan for Rs 10000 from the bank. A loan of Rs 2,50000 has been sanctioned for the group, with a subsidy of Rs 1,25000, but this has not yet been disbursed.

Every one of these brief stories is of course unique, like any inter-personal transaction, but it is possible to draw out certain features of each type which confirm the impressions gained from other aspects of this study. These can be approximately summarised as follows:

Banks:

Fast, business-oriented, cost-conscious, minimalist, offer people a 'deal' and allow them to decide whether they want to 'buy' it.

NGO:

Concern for the poor, belief in federations and group businesses, difficulty in communicating with bankers, offer enterprise development and marketing along with financial services, continuing presence.

VVV :

Strong community contacts, good links to banks,

tendency to work with people they know rather than the poorest.

Government agencies :

Emphasis on the poorest, continuing community presence, driven by schemes and need to fulfil targets.

Individual 'volunteer' :

Close contact and concern, commitment, limited scale of operation, slow.

These are of course generalisations from particular cases, but they do emphasise that every type of SHPI has its strong and its weak points. The aim should be to maximise the former and minimise the latter, and to attempt to ensure that every type of SHPI learns from and adopts the best features of the others.

4.4. Banks

The banks are the most important stakeholders in the SHG movement, apart from the customers, that is SHG members themselves. We have already mentioned the difficulties involved in obtaining the views of SHG members, and they would in any case be most unlikely to have had experience of more than one type of SHPI and thus to be able to compare one supplier of the promotion service with another.

Bankers are also the customers of the SHPI, in a different sense. If a SHPI is unable to 'sell' its groups to banks, for whatever reason, then the system will break down. Bankers' opinions about the merits of different SHPIs are therefore vital, and we attempted to identify bank branches which had lent to SHGs which had been promoted by more than one type of SHPI. Thirteen of the sixteen bank branch managers whom we met had financed SHGs promoted by two, three or even four different types of SHG.

The sixteen branches included nine RRB branches, two commercial bank branches, three district central co-operative bank branches and two of their related primary agricultural credit societies (PACS). They had financed between 22 and 230 SHGs each, and in every case their on-time recovery experience with SHG loans was better than their average recoveries. The deposits from SHGs amounted to between 0.19% and 7.6% of their total deposits and between 0.26% and 17.3% of their total advances. In every case except one PACS and one RRB branch, their SHG loan portfolio exceeded their SHG savings balances by a wide margin.

The bankers held a wide range of opinions about SHGs as customers. The most commonly mentioned advantages and disadvantages of SHGs were as follows, listed in the order of their frequency of citation:

Advantages of SHGs:

- Economies of scale: with one SHG the bank can reach a large number of customers,
- Savings mobilisation: SHGs are regular and reliable depositors,
- Recoveries: SHGs repay on time, and they encourage other borrowers to do likewise.

Disadvantages of SHGs:

- Future recoveries: Politicians, government programmes, touts and the normal problems of growth may easily destroy the good credit culture that SHGs have thus far developed.
- Management and staff time: the staff and particularly the branch manager have to spend more time with SHGs than other customers, and transaction costs are therefore high.
- Lack of records; SHGs' books are unreliable, and it is therefore difficult to know exactly what is happening to the bank's money.

- **Competition:** SHGs demand lower interest rates than our bank can afford to offer.

The bankers were evenly divided as to whether they believed their bank could afford to pay the full cost of SHG promotion; eight said it could, and eight said it could not.

Eleven of the thirteen bankers who had experience of more than one type of SHPI were themselves operating as SHPI; every one of them preferred to do business with SHGs which their bank had promoted than with those promoted by others. The two bankers who had experienced a variety of types of SHPI but were not themselves playing this role preferred SHGs promoted by NGOs to those promoted by Government agencies.

The bankers' main reasons for their preferences for the different types of SHPI are summarised below:

Table 8 : Bankers' opinions about SHPIs.

Advantages	Disadvantages
NGOs	
No cost to bank, committed to the poor, good community contact	Motivated only by NABARD incentives, do not follow up SHGs after linkage
Banks themselves	
No 'middlemen', direct contact with clients, fast decisions possible without reference to others, no political or other interests except business, no withdrawal problem	Costly in staff time, and expenses such as transport, particularly heavy burden on branch managers.
VVs	
No cost to bank, have good community and bank	Untrained, dependent on voluntary effort, may

contacts, can mobilise community pressure for recovery	pursue their own personal interests rather than social benefits.
Government agencies	
Already have a presence in villages, know and are known to the community and to the panchayat officials	Politicised and grant or subsidy oriented.
Individual 'volunteers'	
Uneceived bank loans. biased, easy to contact, committed	Hard to identify and train, not clear who will pay, bank is dependent on one person, may have hidden intereasts.

The main conclusion which emerges from the bankers' views is that they would very much prefer to do business with SHGs which they themselves had promoted, so long as the two problems of staff costs and branch managers' time could be overcome. We should not forget, however, the two other weaknesses of bank-promoted SHGs which were identified earlier: they tend not to include the poorest people, and their book-keeping is weak.

The co-operative banks have until recently played a rather minor part in SHG promotion and financing, and have financed less than 9% of the SHGs which have received bank loans. This picture may be changing, however. Some 2000 SHGs in Angul District of Orissa have apparently opened savings accounts with their local co-operative bank, although few of them have as yet taken loans, and the Bidar District Co-operative Bank in Karnataka, as described below, is taking a national lead in SHG promotion and financing. This shows that co-operative banks can play the major role in the SHG movement for which their origins, governance and outreach so ideally qualify them.

District Co-operative Bank (DCCB) Bidar

The Bidar DCCB is heavily committed to the SHG movement. The board and management of the Bank all believe that SHG financing can be a good business proposition for the Bank. The entire board participated in a field visit to some SHGs promoted by MYRADA, and all of them were convinced. NABARD supported this initiative.

Initially the Bank used local NGOs to promote SHGs for lending, and formed a district forum of NGOs to co-ordinate the process. The Bank set a target of reaching 1,40000 families through SHGs, but soon realised that it would take decades to reach this goal if it had to depend only on NGOs. The Bank therefore decided to become a SHPI itself. They hired an ex-employee of MYRADA to develop a dedicated SHG cell, and this cell now employs four other staff who have worked with NGOs. The Bank trained all its staff in SHG promotion and financing, with assistance and encouragement from NABARD.

The Bidar DCCB has also worked closely with government agencies working to promote SHGs under the Shree Shakti scheme. The Bank has trained over 1150 Anganwadi workers and 1800 Shree Shakti SHG members, and 733 of these SHGs have taken loans from the Bidar DCCB. Their performance is as good as that of the other SHGs promoted by the bank.

The Bidar DCCB has now promoted over 7000 SHGs, and their loans constitute 8% of the total portfolio. This imposes a heavy load on the staff, who often have to help SHGs with record keeping and to attend their meetings at night, but the SHG business has helped to even out the heavily seasonal nature of the Bank's crop lending, and it has also improved the working culture. The Bank's branches and its associated PACS now open at 8.30 a.m. in response to demands from SHGs, the image of the bank has improved in the community and the general level of recoveries has increased.

Some bank staff fear that SHGs will not be able to repay as their loans increase, but in spite of the heavy workload, the staff are generally positive. The Bank has built a special training centre which now attracts co-operative bankers from all over India.

5. Conclusions and Recommendations for immediate change

Any conclusions must depend on NABARD's policy for the future growth of the SHG movement. Even if the exceptional performance of AP is excluded, because of the heavy predominance there of government promoted groups in whose development NABARD played an important but mainly indirect role through training and advocacy, the marketing of the SHG concept has been remarkable and worthy of the most successful international consumer goods manufacturers.

The numbers of SHGs linked each year in the rest of India has grown from 12100 in 1998-1999 to 1,22000 in 2001-2002, an average growth rate of well over 100% per year. If this rate of growth is maintained, or even if the pace slackens considerably, there should be no difficulty in attaining the target of one million linked SHGs by the year 2008, even excluding Andhra Pradesh. NABARD thus has the opportunity and indeed the responsibility to decide whether to try to maintain the present rate of growth, to increase it, or even possibly to decrease it through a more discriminating and poverty-focussed approach.

We are however assuming for the purposes of this study that NABARD plans modestly to reduce the rate of growth, in order to achieve but not to go far beyond the 2008 one million SHG target. This will require the continued use of all the types of SHPI which are presently being used, including the newly introduced individual 'volunteers' scheme, and it is unlikely that NGO SHPIs will maintain the rate of growth which they have achieved in the past. The major share of new SHGs will have to be promoted by

banks themselves, by existing SHGs and federations, by the new members themselves without assistance from SHPI, and, possibly by individual ‘volunteers’.

Our immediate conclusions and recommendations, based on the above assumptions and the findings from our study, are presented below, as they relate to the different types of SHPI, to capacity building, to regulation and to NABARD’s own management and policy.

5.1. NGOs as SHPIs

- There is some evidence that some NGOs which are benefitting from the NABARD incentive scheme provide no further follow up support to SHGs three months after disbursement of the first loan, because they will receive no further incentives after this date. NABARD should consider extending this period to perhaps six or twelve months.
- NABARD’s present SHPI incentive schemes are deliberately designed as ‘add-ons’, and not to cover the full costs of the SHG promotion process. If it is considered that there is a need for more NGOs in particular to promote more SHGs, NABARD should design and locally test an experimental scheme which covers the full costs of efficiently and effectively promoting equitable SHGs which include the poor.

5.2. Banks as SHPIs

- In the medium term banks should and will emerge as the main promoters of SHGs. In the longer term, the banks’ role will gradually be reduced, as SHG members themselves start their own groups. Bankers will have to respond to these initiatives, as they should for any new customer, by providing advice and assistance. The SHG promotion role as such, however, will in time cease to be necessary except in particularly deprived areas. It will be increasingly necessary to monitor the

social aspects of SHGs, and this task will necessarily devolve on NABARD. One approach to this is suggested in the following section.

- Within the banking sector, Co-operative Banks, such as the Bidar DCCB in Karnataka and the Angul DCCB in Orissa, are finally beginning to play an important role in SHG promotion and financing. Their large PACS networks, and their community roots, make them the obvious leaders in SHG promotion and financing. NABARD should identify and support co-operative banks which are taking initiatives in this, and should disseminate their experience to others which are not.
- About half the bankers to whom we spoke believed that SHG business was not profitable, because of the cost of promotion but also because of the higher transaction costs involved. It is should be unnecessary to repeat the now familiar arguments in favour of charging higher interest rates in order to improve sustainable outreach to the poor. NABARD should first ensure that all its own staff understand that access to credit is more important than its cost for poor people, and should then vigorously recommend interest rate increases, or associated charges, to any banks which claim that SHG business in unprofitable.

5.3. Government agencies as SHPIs

- We deliberately omitted Andhra Pradesh from our study, because of the unusual predominance of government sponsored SHGs in the State. A recent publication about SHGs in the State (Menon P, pp. 39-41) suggests that they are of good quality, but that the drought in some parts of the State is likely seriously to reduce recoveries from SHGs, and is already imposing severe hardships on many members as they attempts to maintain their savings and repayments. This only confirms the fact that SHGs, like other systems of

micro-finance, are not in themselves a solution for poverty. The rural poor need effective economic safety nets, such as crop insurance and effective income supplementation. NABARD should strictly maintain its present stance that SHGs are not a panacea for poverty, and should sedulously avoid giving any impression to the contrary.

- It may be unrealistic to suggest improved co-ordination between the NABARD-supported SHG promotion work and government programmes. The present Rs 10000 fee for NGOs promoting SGSY linked SHGs, for instance, is clearly inconsistent with the much more modest NABARD incentives. Nevertheless, our study showed that collaboration at the field level is possible, and this should be facilitated whenever possible.
- NABARD have already limited the damage potential of the SGSY and other subsidised government schemes. We found no cases where the availability subsidy had affected the quality of SHGs, but our study suggests that the fear of this is an important reason for bankers' hesitation to increase their SHG loan portfolios. NABARD should continue its efforts to minimise this problem, both at central and state government level and in the field.

5.4. VVVs as SHPIs

- Our small sample of VVV promoted SHGs suggested that these may have some weaknesses. NABARD should urgently and intensively monitor the quality and poverty aspects of VVV promoted SHGs, in order to identify and correct any problems.

5.5. Individuals as SHPIs

- It is unlikely that many more real volunteer individuals will be identified, since most competent people need to earn a living. NABARD should therefore

examine the experience of Basix and any other agencies which work with individual SHG promoters, and should design and test an experimental scheme which enables unemployed young men and women to earn a modest but sufficient living as SHG promoters.

5.6. Federations and self-promoted SHGs

- The potential of SHG federations as SHPI should be examined as soon as possible, since they are already playing an important role and this is likely to increase rapidly in the future.
- There are likely to be increasing numbers of 'no SHPI' SHGs. NABARD should investigate this phenomenon in order both to ensure that SHPIs do not claim credit for SHGs in whose promotion they have played no part, and to assess the quality of such groups and devise ways of correcting any weaknesses they may have.

5.7. Capacity Building and Training

NABARD should improve and modify its extensive SHG-related training programmes in the following respects:

- RRB and co-operative bank board members, management and branch staff must understand that access to finance matters much more than its price. If they believe SHG business is unprofitable, they should increase the interest rates charged to SHGs in order to cover the full costs, including that of SHG promotion. There is extensive training material (see, for instance Harper M, 1996, pp.115-119) to demonstrate that this benefits both SHG members and the banks, and NABARD should ensure that this issue is included in all SHG related training for its own staff, for government officials and for bankers.
- The concept of SHGs is now widely known. One somewhat neglected training need is the actual

mechanics of book-keeping at the SHG level. All training programmes for anyone who is personally involved in SHG promotion should include practical hands-on exercises in this.

- SHG promotion is not difficult, and it does not need a bank branch manager to promote an SHG. Bank management must realise this, and lower level branch staff should be trained and encouraged to perform this task.
- NABARD's own staff, government officials and bankers must learn to treat SHG members with respect, as valued customers and not as suppliants for grants or handouts. Training material to achieve this vital change of attitude, such as role play exercises and video clips, should be produced and used in all SHG related training, as a matter of urgency.

5.8. Regulations

- Although SHGs are specifically excluded from the service area requirements, the SGSY is tied to service areas unless special permission is requested. Some bankers are thus naturally reluctant to finance SHGs outside their service areas, even if the bank in whose service area the SHG falls is unwilling to finance them, since this would make it difficult for such SHGs to take advantage of the SGSY subsidies. NABARD should try to persuade the authorities to allow any eligible SHGs to access the SGSY, regardless of the location of the bank which financed them.
- Some banks require SHGs to complete a 'power of attorney and inter se agreement' before taking a loan. The stamp duty costs around fifty rupees, and the 'transaction costs' associated with obtaining this form can be substantial. NABARD should investigate this problem and if necessary suggest ways by which this requirement can be simplified or eliminated.

5.9. NABARD day-to-day management

- The unevenness of SHG coverage at the regional and state level is mirrored within states and within districts. The SHG movement is expanding so rapidly in some areas that there is a danger of over-saturation, such as has already occurred in Bangladesh and some other countries, where people become members of more than one group and competition becomes counter-productive. The ready availability of the SGSY subsidy in some places exacerbates this problem. In other areas, however, the coverage is very low. NABARD should assess the market potential for SHGs in each district, using a rough rule of thumb such as one SHG per 20 or 30 rural households, and should target its promotional resources, including DDM postings, at districts with low SHG market penetration. DDMs should do the same within their districts.

- We found little evidence that SHG members are unable to sell the extra goods which their loans have enabled them to make, but the fear of this is probably banks managers' main reason for reluctance to finance SHGs. The rapidly growing numbers of SHGs, however, make it very likely that some markets will become saturated in a few years and managers' fears will be justified. It is much easier to sell financial services to SHGs than it is to help their members to sell their products, but NABARD should investigate and when appropriate support potentially successful private sector approaches to improving quality and market access for rural products, at the District, State and national levels.

6. NABARD's longer term management and monitoring strategy

6.1. Delegation of management of SHG promotion

More generally, we feel that NABARD's present approach

to the management and organisation of the SHG promotion process might usefully be reconsidered.

SHG promotion can usefully be viewed as a case of retail marketing channel development or merchandising. NABARD can be taken to be the 'manufacturer', both through the provision of refinance and the dissemination of a new approach to financial services for the poor, and the banks are the wholesale and retail channels through which the 'product, financial services, must reach its final customers, the rural poor. Refinance is becoming less attractive as interest rates fall, but the marketing task still has to be carried out, regardless of the banks' sources of funds. SHGs have been identified as a new type of sub-retailer, through which it is less expensive and more effective to reach the final customer.

In the commercial world of fast moving consumer goods, where cost-effectiveness and efficiency are all-important, manufacturers have to choose between carrying out the task of channel promotion and development themselves, through independent or company-employed and locally-based teams of merchandisers, or persuading their wholesalers and retailers to do it for them, through a combination of training, financial incentives and other forms of assistance.

NABARD has thus far chosen to use a combination of these strategies. It has a limited field force of District Development Managers (DDMs), who have many other tasks in addition to the development of SHGs, and it works through both the banks themselves and other types of SHPIs, through the provision of training and incentives. The supervision and management of the SHG promotion function and the various schemes to encourage it, however, lie with the DDMs and NABARD itself. The banks reap the fruits, in terms of SHGs which are good customers, but the schemes to promote the merchandising task are designed, supervised and in part at least paid for by

NABARD itself, even when the task is undertaken by the banks.

It is paradoxical that NABARD, with no field representation below the district level, is attempting to supervise the detail of promotion schemes which are designed to generate business for banks which are themselves heavily represented in the field and are located within the communities where the promotion work has to be done. We heard complaints from all types of SHPIs about the delays they experienced when dealing with NABARD. It is actually remarkable how effective NABARD's service is, given the extraordinary but perhaps unnecessary difficulty of the task they have set themselves.

As has already been stated, there is some evidence that the banks are themselves promoting a growing share of newly linked SHGs, but this is inconclusive. NABARD should consider handing over a greater part of the management of the SHG promotion task to the banks, regardless of whether the bank itself acts as the SHPI, or pays another institution to do the job on their behalf. This could be done by allowing banks a certain 'capitation fee' for each SHG linked, and leaving to the banks the decision as to how the SHGs should be promoted. It is probable, so far as can be judged from our findings, that many if not most banks would in such circumstances chose to undertake the SHG promotion task themselves, and this would be a major step towards the 'mainstreaming' of the SHG movement within the banking system. The 'quality' of the SHGs, in terms of the poverty of their members, and the quality of the banks' service to them, like the quality of service of any distributor, could be objectively audited by NABARD or by independent observers, perhaps in the way that is suggested below.

This may seem a radical suggestion, which pre-supposes a far greater degree of trust between NABARD and the banks than actually exists. We suggest, nevertheless, that

NABARD should design and initiate an experimental initiative of this sort.

6.2. Monitoring

The above suggestion requires the development of a routine system to enable NABARD to monitor and audit the quality and equity of SHGs promoted with its assistance. This should focus on the 'social' aspects of SHGs, since bankers should only be responsible for monitoring the financial performance of their SHGs like that of any other customer. Any additional monitoring must not involve extra work for SHG members or bank staff. SHGs are bank customers, like any others, and they are not a particularly important group in financial terms. Any 'special' reporting requirements may be counter-productive in that they may discourage bankers from doing business with SHGs. It should be increasingly unnecessary to demand any more of SHGs than of other customers.

The 'social' aspects of SHGs are not the banks' direct concern, but they must be regularly monitored in order to avoid 'client drift' away from the poor. NABARD should urgently design and field test an objective system for appraising SHGs and their membership, which can routinely, rapidly, economically and consistently be used to measure the financial and social health of SHGs. Such a system could be the basis of a routine national sample survey of SHGs, which would continually monitor the health of SHGs throughout India.

Indicators such as the poverty levels of members, rates of drop out, equity of borrowing among members, and the socio-economic impact of membership should be included in such a survey. We suggest that NABARD should invite bids from commercial market research firms to design and manage a national SHG sample survey programme, such as Hindustan Lever already operate for their consumer goods, which monitors the health of SHGs nationwide, on a regular basis.

This would be a major undertaking, but it could make a major contribution to governments' knowledge and policy making related to rural livelihoods and other developments. The results would be in the public domain, and could also include indicators of welfare, or even company sponsored questions about consumer behaviour which could defray some part of the costs. If properly managed, and regularly carried out, this could become a nationally important indicator of the opinions and welfare of a segment of society whose views are generally ignored outside election times, which would be regularly reported on in the media, and would reflect favourably on NABARD.

Such a survey would also make it easier for NABARD to delegate the management of the SHG promotion process to the banks, since it would monitor the social aspects which the banks might otherwise neglect.

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BANKS, SHPIs AND SHGs INTERVIEWED

Karnataka

District Central Co-operative Bank, Chitaguppa, Taluka Humnabad,

District Central Co-operative Bank, Gandhiganj, Bidar, PACS, Dandothi,

PACS Kurikoti,

Krishna Grameen Bank, Dandothi, Taluka Chittapur, Gulbarga,

Krishna Grameen Bank, Tengli, Taluka Chittapur, PACS, Taluka Humnabad, Bidar,

SAHAYOG NGO, Bidar,

MYRADA NGO, Kamalapur, Gulbarga,

Jyothi Vikas Vahini Volunteers (VVV) Kurikota, Gulbarga Taluka,

Krishna Grameen Bank, Head Office Gulbarga,

Women and Child welfare Department, Bidar,

National Cooperative Union of India, Gulbarga,

Renuka Stree Shakti Group, Taluka Gadagi,

Dayasagar Self Help Group, Chitta, Taluka Bidar,

Mariyat Self Help Group, Chitta, Taluka Bidar,

Ganga Women Self Help Group, Kurikota, Taluka Gulbarga,

Arundhati Women Self Help Group, Dandothi, Gulbarga,

Shabari Mata Women Self Help Group, Bidar,

Banni Mahakali Women Self Help Group, Sirgapura Cross, Gulbarga,

Akkamahadevi Women Self Help Group, Tegli, Gulbarga,

Ahilyabai Self Help Group, Gadgi, Bidar.

Orissa

Gadasila Branch, Dhenkanal Gramya Bank, Dhenkanal, Angul Branch, Bank of Baroda,

Dhenkanal Branch, Angul United Central Co-operative Bank,

Shankarpur Branch, Dhenkanal Gramya Bank,

Tumusingha Branch, Dhenkanal Gramya Bank,

Dhenkanal Gramya Bank, Women Development Cell,
 Mrs. Kanak Nayak, Individual SHPI, Purunagada, Angul,
 Dhirapatna Bank Bandhu Club VVV, Dhirapatna,
 Shankarpur, Dhenkanal,
 Integrated Child Development Services (ICDS) Project,
 Kamakhyanagar Block, Dhenkanal,
 Maa Tarini Mahila Samiti, Balarampur, Odapada,
 Dhenkanal,
 Maa Tarini Sanchay Samiti, Kumbharasahi, Siminai,
 Block Odapada, Dhenkanal,
 Swagatika Self Help Group, Dalabeherasahi, Purunagada,
 Badakera, Angul,
 Bindusagar Self Help Group, Purunagada, Badakera,
 Angul,
 Pragati Mahila Sanchay Samiti, Baladiabandh, Govindpur,
 Dhenkanal,
 Uma Ambika Mahila Sanchay Samiti, Harizansahi,
 Deopada Deulasahi, Manipur, Dhenkanal,
 Gayatri Mahila Sanchay Samity, Upper Sahi, Dhirapatna,
 Dhenkanal,
 Jagannath Mahila Sanchay Samity, Deulsahi,
 Dhirapatna, Dhenkanal,
 Matrusurakhya Self Help Group, Harizansahi
 Kantiakateni, Kamakhyanagar, Dhenkanal,
 Brahmanidevi Self Help Group, Julong, Kantiakateni,
 Kamakhyanagar, Dhenkanal,
 Shakti Ma Subadhra Mahila Sangstha Samiti, Kasiadihi,
 Gadasila, Dhenkanal,
 Budhi Ma Mahila Sangha Samiti, Ankrantipur, Gadasila,
 Dhenkanal.

Uttar Pradesh

Mahila Kalyan Swaim Sahaita Samooh, Dhorera,
 Chaudhry Charan Singh Kisan VVV Club, Sundri, Bareilly,
 Janta Shikshan Sansthan, PO Sundari, Nawabganj,
 Bareilly,
 Society for Appropriate Technology (SOTEC), 182, Civil
 Lines, Jail Road, Bareilly,

BKGB, HO, 124-C, Civil Lines, Bareilly,
DRDA, Vikas Bhawan, Bareilly,
Bank of Baroda, Balia, Bareilly,
Bank of Baroda, Fatehganj East, Bareilly,
Gulshan Vikas Club, Kesarpur,
Bareilly Krishna Grameen Bank (BKGB), Kesarpur,
BKGB Rajau,
BKGB Dhorera,
BKGB Nawabganj,
BKGB Hafizganj,
Shma SHG village- Kesarpur,
Inqulab SHG village- Kesarpur,
Vikas SHG, Kesarpur,
Mahila Kalyan Swaim Sahaita Samooh, Dhorera,
Jago Bahan SHG, Indhjageer, Dhorera,
Mahila Chetna SHG, Satuiakhurd,
Aadarsh SHG, Rajau,
Adarsh Ambedkar SHG Dhamipur,
Pooja Mahila Mandal first, Village Khera,
Pooja Mahila Mandal second, Khera,
Hina SHG, Sagalpur,
Pooja SHG, PipalSana Chaudhary,
Peetampura Mahila SHG, Peetampura.

SCHEDULE ONE

Interview schedule for SHPIs which have linked SHGs to banks

Type: (underline one only) NGO - Bank - VVV - Government agency - Individual volunteer

Name and address of institution, and names and positions of informants.....

.....

.....

How many people does your institution employ ?

What is the approximate annual budget of your institution? Rs.....

What is the single most important source of funding for your institution ?

What is the main single activity of your institution ?

When did your institution start to promote SHGs for linkage. Month..... Year

Why did your institution start to promote SHGs for linkage? (probe).....

.....

About what proportion of your institution's time is devoted to SHG promotion ?%

How many SHGs which you have promoted have taken loans from banks ?.....

How many **additional** SHGs have you promoted which have not yet borrowed ?

Why have they not yet borrowed ? (Underline as many reasons as apply)

Not yet ready to borrow - Do not need more money - Banks refuse to lend - Other reasons

.....

About how many months does it take, on average, to bring a group from scratch to be ready to borrow from a bank ?
..... months

For how many years do you believe SHGs need your support, after they are linked ?.....yrs.

Who keeps the internal records of the groups you promote after they are linked ?.....

Please briefly describe the process whereby your institution promotes SHGs (briefly summarise this, giving the main stages process and the time each takes)

About how many days of your staff time does it take to make a group ready to borrow?

What is the approximate total cost of a day of such a staff member's time, including overheads, transport, management, training and all other cost ? Rs.

Who pays the cost of SHG promotion ? (Underline as many sources as apply, and give a rough estimate of the proportion of the cost paid by each)

Donor% NABARD.....% Other government scheme
.....% Bank%

The SHGs% Other sources (name them)
.....%

What is the main constraint that prevents your institution from promoting more SHGs for bank linkage ?

.....

.....

SCHEDULE TWO

Interview schedule for SHGs which are linked to banks

Name and location of SHG.....
.....

Bank and branch to which the group is linked
.....

Who promoted this SHG ? (institution and its type)
.....

What is the poverty level of the members ? (probe) very poor/poor/not so poor/mixed

How often does someone from the SHPI visit the SHG, nowadays ? daily/weekly/monthly/.....

How many members does it have today ?.....How many did it have when it was formed ?.....

When was the group formed ? m/y .../... How much did the members save per week each when the SHG started? Rs.....And now ? Rs.....When did the SHG open a savings account ?.../...

How often does the SHG meet ? How regular is attendance? Perfect/good/so-so/poor.

Briefly describe the process whereby the group was formed, giving the main milestones and briefly describing any problem incidents, and their timing. (Summarise this, on a separate sheet, very briefly and clearly)

When did the SHG start internal lending with its own funds? .../...

When did the SHG take its first bank loan ? ../... For how much ? Rs.....

How many loans has it take since ? ... For what amounts? Rs..... Rs..... Rs..... (etc.)

What interest rate/s do your members pay for their loans?
.....%

What other sources of funds has your group tapped, apart from members' savings, bank loans and internal surplus?
..... Rs.....

What is the approximate on-time repayment rate of loans within the group ?%

What is the on-time repayment rate of the SHG to the Bank %

During the last 12 months, how many members have taken loans from the SHG ?.....

How many members have never taken a loan from the group?..... Why ? (probe).....

What is the largest loan any member has taken from the SHG ? Rs..... How many loans of that size has the group given in the last 12 months ?

How many members have dropped out of the group since it took its first bank loan ?

For what reasons ? (probe)

Who keeps the SHG's records ?(try to see them)
What does this service cost per month ? Rs..... Who pays for this service ?

.....How up-to-date are the records?
Totally/Fairly/not at all.

Provide on a separate sheet a rough balance sheet and profit/loss account for the group, showing its sources and uses of funds, on the day of your visit, and an estimate of its annual income and expenses.

SCHEDULE THREE

Interview schedule for banks which have lent to SHGs

Name and address of bank and branch.....

Name and position/s of respondent/s

(This schedule is worded for a branch. Please try also to get the same information for the bank as a whole, if it is an RRB.)

How many SHGs have savings accounts with this branch?
 What is the total of their savings, today ? Rs..... What proportion is this of your branch's total deposits ?%

How many SHGs have borrowed from this branch ?.....
 How many have loans outstanding today ? For what amount in total ? Rs.....What % is this of the total portfolio of the branch today ?% What is your branch's overall on time repayment rate ?%

What is the on time repayment rate of your loans to SHGs?.....%

What % of the branch's business do you estimate will be with SHGs in 5 years time?.....%

What is the main single advantage of SHGs as customers?

What is their main single disadvantage?

Which SHPIs have promoted the SHGs which have borrowed from this branch ? (give their types and their names, and the nos. of SHGs promoted by each)

What is the main weakness of this/these promotion institution/s?.....

.....

What is its/their main strength ?

.....

(If the branch (or the bank) has lent to SHGs promoted by more than one type of SHPI)

Which SHPI promotes the best groups for you to deal with, and why ? (probe, summarise answers on a separate sheet, and ask the respondent to fill in the table in annexe four)

What do you believe it costs per group to promote the SHGs to which your bank lends ?

Rs..... Who pays for this cost ?

.....

If necessary, could your branch cover this cost itself, out of the profits earned on business with SHGs Y/N. If not, why not ? (probe)

.....

SCHEDULE FOUR

Opinions on strong and weak points of different SHPI methods - ranking exercise.

There are five different types of SHPI (SHG promotion institutions), which assist people to form SHGs and to link them to banks for credit and savings:

1. NGOs: that is, trusts or societies which promote SHGs for bank linkage. This does NOT include NGO/MFIs which are themselves financial intermediaries.
2. Banks: that is, bank branches whose staff themselves promote SHGs, from scratch, and then mobilise their savings and lend to them. The banks may be commercial banks, or RRBs, or co-operative banks.
3. VVVs (village vikas vahini) community clubs: These are local community voluntary organisations, some of which promote SHGs in their own communities for bank linkage.
4. Government agencies: These are local offices of the DRDA or other national or state level programmes, which promote SHGs under various schemes, usually with an element of subsidy, where bank linkage is part of the scheme.
5. Self-employed individual SHG promotion agents: these are less common, but experiments with commission agents (or local unpaid volunteers) are being undertaken by various MFI and some banks.

There are also an increasing number of SHGs which develop without any assistance at all; their members observe what their neighbours are doing, and do the same.

NABARD have asked us to help them to answer the following question about SHG promotion:

“what are the advantages and disadvantages of each method of SHG promotion, for the SHG members and for the banks, and which is most suitable for what kinds of situation ?”.

The matrix below lists these five types of SHG promotion institution across the top, along with the ‘no SHPI’ option, and lists down the side eleven desirable qualities of any such

institution. Please rank those of the six promotion methods which you know about against each quality, from A (the best) to E (the weakest) against each quality. Do NOT rank any of the methods of which you have no personal experience.

Quality	NGO	Bank	VVV	Govt. agency	Individual agent	No SHPI
Promotes SHGs at low cost (regardless of who pays)						
Promotes SHGs which can be quickly linked to banks						
Promotes SHGs whose members share the benefits equitably						
Promotes SHGs which include the poorest people						
Promotes SHGs which become autonomous and totally self-managed						
Promotes SHGs which repay bank loans on time						
Promotes SHGs which grow and absorb and repay bigger loans						
Promotes SHGs which are durable and last many years						
Promotes SHGs which keep good records						
Promotes SHGs which are easy for banks to work with						
Promotes SHGs which are 'member friendly'.						

Your name, position and e-mail address

..... Thanks for your help.

Please state whether you would like us to send you a copy of our report.

Y/N

SCHEDULE FIVE

Opinions on conditions where each type of SHPI is most suitable - questionnaire.

There are five different types of SHPI (SHG promotion institutions), which assist people to form SHGs and to link them to banks for credit and savings.

6. NGOs: that is, trusts or societies which promote SHGs for bank linkage. This does NOT include NGO/MFIs which are themselves financial intermediaries.
7. Banks: that is, bank branches whose staff themselves promote SHGs, from scratch, and then mobilise their savings and lend to them. The banks may be commercial banks, or RRBs, or co-operative banks.
8. VVVs (village vikas vahini) community clubs: These are local community voluntary organisations, some of which promote SHGs in their own communities for bank linkage.
9. Government agencies: These are local offices of the DRDA or other national or state level programmes, which promote SHGs under various schemes, usually with an element of subsidy, where bank linkage is part of the scheme.
10. Self-employed individual SHG promotion agents: these are less common, but experiments with commission agents (or local unpaid volunteers) are being undertaken by various MFI and some banks.

There are also an increasing number of SHGs which develop without any assistance at all; their members observe what their neighbours are doing, and do the same.

NABARD have asked us to help them to answer the following question about SHG promotion:

“what are the advantages and disadvantages of each method of SHG promotion, for the SHG members and for the banks, and which is most suitable for what kinds of situation ?”.

The matrix below lists these five types of SHG promotion institution across the top, along with the 'no SHPI' option, and lists down the side eight different types of client and area which may characterise the place where the SHPI has to work. Please rank the six promotion methods against each quality, from A (the best) to E (the weakest) against each type of area or client. Do NOT rank any of the methods of which you have no personal experience.

Opinions on conditions for which the different SHPI methods are appropriate - questionnaire.

Type of area and numbers	NGO	Bank	VVV	Govt. agency	Individual agent	No SHPI
Very poor people						
Very low literacy						
Very Remote area						
Area with few bank branches						
Highly politicised area						
Members from marginalised sections						
No NGOs in the area						
Urban areas						

Your name, position and e-mail address

.....

Thanks for your help. Please state whether you would like us to send you a copy of our report Y/N.

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by Kim Wilson



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