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INDIA
Self-help Groups, Savings Mobilization and Access to Finance

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ACRONYMS

ADB AP	Asian Development Bank Andhra Pradesh	DWCRA	Development of Women and Children in Rural Areas
APL	Above Poverty Line	GOAP	Government of Andhra Pradesh
APM	Assistant Project Managers, Velugu Project	GOI GP	Government of India Gram Panchayat
APRPRP	Andhra Pradesh Rural Poverty Reduction Project	HH IB	Household Institution Building
BPL BR Act	Below Poverty Line Banking Regulation Act	ICDS	Integrated Child Development Scheme
BWDA	BWDA Finance Limited, a MFI working in Tamil Nadu	IGA	Income Generation Activity
CC	Community Coordinator, Velugu Project	IKP	Indira Kranthi Patham(Velugu Project)
CBO	Community Based Organization	INR	Indian Rupees
CIF CMS	Community Investment Fund Catalyst Management Services	LH LDM	Livelihoods Lead Development Manager
	Private Limited	M & E	Monitoring & Evaluation
CRI	Critical Rating Index	MACS	Mutually Aided Cooperative Societies
CSO DCC	Civil Society Organization District Consultative Committee (of	MACTS	Mutually Aided Cooperative Thrift Societies
	bankers)	MBK	Master Book Keeper
DCCB	District Central Cooperative Bank	ME	Micro Enterprise
DHAN	An NGO working in Tamil Nadu	MF	Micro Finance
DPIP	District Poverty Initiatives Project	MFI	Micro Finance Institution
DRDA	District Rural Development Agency	MIS	Management Information System
DWCD	Department of Women and Child Development	MS	Mandal Samakhya

			Acronyms Cont'd.
MTC	Mandal Training Coordinator, Velugu	SERP	Society for Elimination of Rural Poverty
NABARD	National Bank for Agriculture and Rural Development	SGSY	Swarnajayanthi Gram Swarajgar Yojana
NBFC NGO	Non Banking Finance Company Non – Governmental Organization	SHG SHPI	Self Help Group Self Help Promoting Institution
PD	Project Director, DRDA	ST	Scheduled Tribes
RBI	Reserve Bank of India	VO	Village Organization
RCL	Rice Credit Line	WB	World Bank
RPRP	Rural Poverty Reduction Project	ZS	Zilla Samakhya
SAP	Standard Accounting Package		
SCs	Scheduled Castes		

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This report has been prepared by a team led by Henry Bagazonzya (SASFP/SASDA) and comprised by Carlos E. Cuevas (FPDPR) and Catalyst Management Services P.L. – Consultants. An earlier draft received preliminary comments from Adolfo Brizzi and Parmesh Shah (SASDA), and from staff in the Andhra Pradesh SERP Unit. The report was peer reviewed by Syed Hashemi, Steve Rasmussen (both at CGAP), and Stuart Rutherford (SafeSave, external reviewer), who provided valuable comments for which the team is grateful. The team also received helpful guidance from senior management Messrs. Fayez Omar (SACIA), Adolfo Brizzi, and Simon Bell (SASPF) at a Decision Meeting held in February 2008. This report incorporates the clarifications and some of the comments provided during the dissemination meeting which was held in Andhra Pradesh with representatives from SERP, State Level Bankers Committee, APMAS and NABARD on June 12, 2009. These clarifications and comments are largely related to the key policy changes (spelt out in footnotes) that were reinforced or took place after the study was completed and how these changes have since influenced the flow of credit to SHGs. This has been done to provide the reader the context within which the study was carried out and to highlight the policy changes that have taken place after the study was finalized.

I. EXECUTIVE SUMMARY

1. Self-Help Groups (SHGs) are a unique and dominant model of financial inclusion in India, particularly for women and micro enterprises[1]. This movement has grown rapidly with support from the Government of India, the National Bank for Agriculture and Rural Development (NABARD), the State Governments, the World Bank, and other donor agencies. The NABARD program linking banks with SHGs that were formed by poor women, who were once considered un-bankable, was initiated in 1992. Since its inception the program has grown tremendously. By March 2006 it was reaching out to 2,238,565 SHGs linked to banks. Over 33 million women were covered in this program and the average loan sizes were about Rs. 22,240 (US $ 463)[2] per SHG and Rs. 1,300 per member (US $ 27 or about 3.3 percent of GNI per capita, arguably among the deepest outreach in the world). The reported March 2007 statistics on outreach indicates that 2,924,973 SHGs have so far been linked to banks[3].

2. In line with the objectives set forth in the Concept Note, the study examined the extent and modalities of savings practiced by members of the SHG movement, and identified factors that could facilitate or hinder mobilization of savings in financial form in rural areas (*first objective: identifying and evaluating mechanisms and instruments for fostering effective and reliable savings mobilization among self-help groups*). The study also assessed the performance and viability of the SHGs and its apex bodies, with a view to understand their potential to evolve into more formal entities providing financial services, especially credit and savings products (*second objective: assessing opportunities, potential and risks associated with further development of SHGs vis à vis the provision of comparable services by other market mechanisms*). In this context, the current interface of SHGs with formal institutions, particularly the banks, was analyzed to assess their policies, perceptions, experiences and potential for making these linkages more effective in extending financial services to members (*third objective: identifying constraints and opportunities for further integration of SHGs with formal financial intermediaries, and/or for meeting the market test for graduation as financial institutions*).

3. The scope of the study, it must be stressed, is limited to analyzing the value and potential of SHGs and the linkage model first as saving mobilization mechanisms catering to the poor, and second as financial concerns within the livelihood schemes in which they operate. These livelihood programs, however, encompass a diverse set of interventions among which the financial side of SHGs is just one part of the program in a multi-tiered structure that begins at the community level and goes up to the state level. This feature of livelihood programs poses significant challenges to isolate costs and benefits of their many individual components, hence to properly assess their

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[1] In India, an SHG "… refers to a group of 10-20 poor women who band together for financial services … and sometimes social services as well." CGAP. "Sustainability of Self-Help Groups in India: Two Analyses." Occasional Paper. August 2007.

[2] The differences in exchange rates from the time the study was completed and the time the report was disseminated did not change the figures significantly. For example, the average loan as indicated above during the study period was Rs. 22,240 ($463) and at the time of report dissemination in July , 2009 it was $ 459 after the change in exchange rate from Rs. 41.36 to the dollar to Rs. 48.45 to the dollar in July 2009.

[3] NABARD statistics for the movement, however, continue to be reported as cumulative figures, which cannot be compared with the "active clients" measure commonly used in microfinance to denote breadth of outreach.

sustainability. In addition, findings and implications which are valid for the "financial concern", e.g., an excessive number of tiers in the system, may not and are not intended to apply to the program as a whole.

4. The study approach involved two main sources of information: (a) secondary data analysis and review of literature from a variety of sources; and (b) primary data collection – at the SHG, village, bank and other stakeholders level - aimed at obtaining first hand information about the issues from all key stakeholders through interviews and observations. The study covered two states, Andhra Pradesh (where the SHG movement is well evolved) and Rajasthan (where the movement has just taken off). The field study covered 1,600 members of SHG, 400 SHGs, 100 bank branches, self help promotion institutions, and a number of diverse stakeholders at district and state level.

5. The working hypothesis for the study was that "*SHG-bank linkage model is crucially dependent on the group members' savings, which has a bearing on the sustainability of the model. The potential and capabilities of SHGs in this area has not been fully realized."* and a related hypothesis was that "*the sustainability of the model also depends on the quality of leadership, understanding subsidy elements, and on mainstreaming the model."* The study findings and their implications for the validation of the working hypotheses are summarized below.

Savings are the basis of self-help group cohesion and the entry point to credit access for SHG members

6. The study findings confirm the importance of savings as a valuable service required by the poor. While support for this notion is relatively abundant in the literature, effective support by donors and governments to expansion and improvement of savings opportunities still lags behind relative to the emphasis on credit[4].

7. Why do SHG members save? First, savings are an important criterion to enable SHG members' access to credit, and to increased amounts of credit as savings increase and the group matures. The study reveals, however, that in addition to credit access the SHG plays a fundamental role in the monetization of savings, and overall risk reduction in the asset portfolios of members. The findings clearly show that the compulsory savings deposits to participate in the group and obtain credit replace the members' holdings of inefficient and risky forms of informal savings, notably trusting friends and relatives and maintaining cash at home.

8. Moreover, regular savings, however mandatory for group participation and access to credit, seem to serve as material expression of group cohesion and stability. Savings are seen by members as a show of both trust and discipline.

9. There is a willingness among large proportion of members to increase savings within SHGs. Most prefer the SHG medium to any other for savings on account of its approachability, flexibility in savings and availability for withdrawal in emergencies. However, factors such as low levels of household income, operational norms within the SHGs not allowing voluntary savings and the perceptions that SHGs may not be able to

[4] For a milestone essay on savings and the poor see Rutherford, Stuart. *The Poor and their Money*. Oxford University Press, 2000. Note also the annotated "further reading" for Chapter One of the book (pp. 115-116).

handle more funds seem to be the factors that hinder higher levels of savings mobilization through this mechanism. Nevertheless, acquiring savings habits – learning to save – in SHGs seems to induce more active savings in formal institutions, notably banks. It should be noted savings have not been given much importance in many SHGs in the areas where SHG –Bank Linkage is progressing well. Not many SHGs have increased the amount of money each member saves regularly and in many cases they are not bothered about the regular savings[5].

10. Pursuing higher level of savings mobilization through the SHG mechanism is likely to require greater flexibility in terms or deposit amounts, frequency, and increased ease of withdrawal, in addition to incentives built through higher returns on deposits and other means (e.g., matching contributions by the group). The idea of making the SHGs an institutional mechanism for handling higher level of savings independently may not be viable in their present state, given current perceptions and level of operations. However, the local base of SHGs, and the second and higher tier structures as means of pooling resources and linking with formal financial institution offer diverse and important opportunities for growth. At the time of the study, a few very limited savings products including health and education products were being offered by the SHGs .Savings "prime the pump" for sustainable SHG-bank linkages.

11. The SHG-bank relationship is at first sight a heavily lopsided one which could only be understood as an intricate system driven by government mandates and subsidies. For SHGs, banks are the financial institutions where they hold their limited savings and from where they obtain most of their loanable funds. The data collected during the study, for banks that were visited, indicated that SHG business in the banks' portfolios was between 4% and 5% of the total bank business. However, according to other work carried out by APMAS and others in other locations, bankers have started to look at the SHGs savings as an important source of funds for their lending operations. Many branch managers keep a portion of the SHGs savings in fixed deposits. SHGs savings as a source of funds, especially in southern states seem to be attracting bankers, apart from the fact that the credibility of the SHGs to pay back still counts as the basis of lending to these institutional arrangements, without collateral[6]. It is therefore important that SHGs should not be collecting savings as a notional amount from their members. There should be genuine efforts to ensure that savings are increased since they have become a source of funds for on lending. This is where as indicated above the potential for second tier institutional forms, eg federations lies in terms of pooling savings from members and being able to offer different and diverse savings products.

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[5] During the dissemination workshop in Andhra Pradesh , the study team was informed that providing savings products was not part of the mandate in the design of these programs and that accepting savings amounts higher than the minimum agreed upon by the members would create inequality within the SHG , which could lead to conflicts. This is the reason why the report proposed that the second tier institutions should be involved in order to allow pooling of the savings, including regular savings to occur. This means that savings would then become an important source of funds for on lending.

[6] After the study was completed in October 2007, RBI issued instructions to commercial banks contained in Master Circular RPCD.MFFI.BC.NO.08/1201.001/2008-09, signed by B.P Vijayendra, Chief General Manager dated July 1,2009 which re- emphasized the need by commercial banks to implement financial inclusion as earlier directed . As a result of this, the credit flow increased by about 92% in the year 2007-2008 and has been projected to increase by 88% in the year 2008-2009 (see annex 3). It has been argued that this increase was also partly because the banks have found SHGs as good business partners, but the districts that were visited during the study did not show this result.

Further evolution of savings mobilization in the SHG system faces serious challenges

12. First, although banks could obtain cheap on lending funds from mobilizing savings from the SHGs , they do not seem to have put systems in place to do this. They also do not have capacity either to mobilize or service low volume savings due to many factors such as limited staff in rural branches, low technology penetration, poor infrastructure (e.g., roads, communications). Further, SHG members are, for the most part, illiterate and therefore need assistance to fill forms and other documents when they come to the bank (over 60% members are barely literate or illiterate), assistance that bank branches are not prepared to provide. These factors make savings mobilization from SHGs a high transaction cost proposition for banks. Hence they make no effort in mobilizing savings from SHGs or their individual members. This seems to be changing, given the potential of these savings as a source of funding for the banks' credit operations. This will lead to more diverse savings products being developed for SHGs. The model of providing credit through Bank-SHG linkages, with SHGs federations acting as financial intemediaries, provides the base for trying out these products in future.

13. Second, at the SHG level, more serious problems exist. Even though the cost of mobilizing savings is negligible, factors such as low levels of household income, SHG guidelines not allowing voluntary savings, no immediate payout of interest on savings and the perceptions that SHGs may not be able to handle more funds, seem to be the factors that hinder higher levels of savings mobilization through this mechanism.

14. In other words, the "first-order problem" (in Rutherford's terminology) of providing frequent, convenient, friendly and safe ways of making deposits – such as *SafeSave* with its daily collection – is not being addressed in SHGs. In addition, savings products rather universally valued by poor people such as a fully liquid passbook savings and some form of "commitment savings" that favors lump-sum accumulation were non-existent.

15. While there may exist very "well-behaved" SHGs which are addressing the first-order problem referred to above and offering adapted voluntary savings products (none in our sample), the question remains as to whether massively introducing voluntary savings mechanisms and products is a cost-effective proposition. Any government efforts in this direction may need to be carefully appraised against other market alternatives.

16. These findings also underscore the absence of reliable mechanisms within the SHG upper-tier structure to serve as conduits between the groups and the banks in savings mobilization. Overall, SHG savings volumes are large on aggregate, and important in absolute terms, but they are atomized within the system. Deposit-pooling facilities at the VO and/or MS level, for example, could solve the transaction costs constraint and become attractive means of funds mobilization for bank agencies at those multi-village levels.

Understanding governance and management issues

17. References to weak or corrupt governance and poor management in the SHG system abound in the literature; yet the specific nature of these problems is rarely made explicit. This study adds considerable value to this debate by "deconstructing" the nature

and extent of governance and managerial issues, among others affecting SHG performance (see Chapter V).

In spite of recent progress, especially in AP, governance continues to be weak. Bylaws exist but they are for the most part ignored or violated. Awareness of bylaws among members is low (28 percent in AP, 12 percent in Rajasthan). Rotation of leadership is erratic and sometimes non-existent. Awareness among group leaders about the SHG movement and its objectives is also low – only 32 percent of the groups in AP. Dependence on promoters is high and reinforced by the existing support mechanisms.

Among the managerial issues, bookkeeping is one of the weak areas where a majority of the SHGs need substantial improvement. Only 41 percent SHGs in AP and 35 percent in Rajasthan have proper bookkeeping systems (i.e., accounting practices that are regular, accurate, and transparent to illiterate members). Another weak area is clarity among members about features of savings and credit, which is an issue in 53 percent SHGs in AP and 66 percent in Rajasthan. On the other hand, more than 88 percent of the SHGs in AP and 62 percent SHGs in Rajasthan have agreed norms to run and manage the internal affairs. Clear benefit-sharing mechanisms exist in the majority of AP SHGs but are reportedly non-existent in Rajasthan.

The AP findings show that governance improves substantially at the second (VO) and upper tiers of the SHG system. This is attributed to the close connection with and guidance from the state government programs.

SHGs and their upper-tier bodies could be sustainable with a streamlined structure

18. A recent study concluded that "many well-executed SHG programs are achieving financial sustainability, even when all promotion and support costs are included, though this cannot be generalized for the entire SHG movement[7]." Our findings concur with this conclusion and indicate that SHGs can be financially sustainable provided that members save regularly the minimum prescribed amounts, that there is an established link with banks for credit, and that the basic governance and management issues referred to above are under control. The latter puts a majority of SHGs below sustainable standards.

19. Subsidies are provided at the different levels of the SHG organizational structure through the livelihood projects, such as the IPK program and through loans originated in NABARD and other institutions. Costs which are subsidized are either one time investments (e.g., organizing, start-up capacity building) or ongoing/recurrent expenses (e.g. operating costs, subsidized funds). The study estimates the start-up (one-time) costs of a typical district system in Andhra Pradesh (SHGs to ZS) at about Rs 20.2 million, while recurrent costs add up to Rs 76 million per year (see Chapter V). Using the start-up plus first-year recurrent cost as grand total, group and structure organization plus capacity building account for 16 percent of the total costs, while operating costs represent 11 percent and interest-rate subsidies comprise 73 percent of that total cost. After the one-time investment of launching the system is incurred, interest-rate subsidies will represent about 85 percent of the total costs each year, the remainder being accounted for by operating costs. At the risk of repetition, it must be recalled that while interest-rate subsidies are solely associated with the financial function of SHGs the initial system-

[7] CGAP, 2007; cited above.

launching investment refers to and should be spread across all the many functions – financial and non-financial - the system is intended to perform.

20. The subsidy element embedded in the interest rate is the highest, given the fact that loans to SHGs under the 'pavla vaddi' arrangement (subsidy based on performance) were at 3 percent p.a. at the time of the field study, loans provided through the CIF were at 6 percent and NABARD refinances at 8 percent, whereas market rates had been as a minimum at 10 percent p.a. The project management cost of IKP – i.e., the apex - in AP was estimated at about 2 percent of the loan amount.

21. Above and beyond the subsidy question, we underscore a structural issue associated with the four-tier system of AP. It is apparent from the summary of roles and responsibilities presented in Chapter V that, in what relates to financial functions, and bank linkages in particular, there is likelihood of repetition and duplication up and down the four-tier structure. This is in sharp contrast against modern financial networks where specialization at different tier levels is key to enable functional efficiency within the network, and enable the network to compete with other market providers[8].

If SHGs and their second-tier entities could meet the market tests for graduation as formal intermediaries – would this be desirable?

22. By design, SHGs were mainly promoted to be a micro lending platform utilizing strengths such as informality, homogeneity and affinity to help members understand financial operations, build their capacities, and, in the process, graduate them to the next level of direct bank access. According to key stakeholders, mainly NABARD and banks, the SHGs are mainly empowerment tools, with a limited agenda beyond the rather basic financial services that they currently provide. Mainstreaming of SHGs to undertake the operations of formal financial institutions may actually affect their structure, strengths and relationships. As a reviewer has pointed out, "the SHG-bank linkage program seems to be doing a more modest task reasonably well, and this shouldn't be disturbed[9]." Given governance and management issues, transforming the SHG system into specialized lending and savings services providers for the poor would be complex and expensive, relative to alternative systems such as the pro-poor MFIs (e.g., ASA Bangladesh).

23. This general remark notwithstanding, the close attachment of SHGs to communities and their relatively stable member base could possibly provide a channel for formal financial institutions to reach out to members and sell various services, with SHGs acting as an effective facilitator or formal agent (see below). In this role, however, the competition of established MFIs might prove difficult to overcome, although it has been suggested that because the SHGs federations have the trust of their members, since the profits go back to the members and if the current governance, systems and portfolio quality issues can be enhanced , then SHG Federations could emerge as strong community based microfinance organizations. The study findings suggest that due mainly to governance and management shortcomings only about one-third of SHGs

[8] It was clarified during the dissemination workshop that the AP model should be looked at more from the empowerment of communities, especially women point of view rather than applying exclusively financial intermediation criteria only. The State Government sees subsidies that are being provided as a way of helping the poor come out of poverty. It should be recognized , however , that providing safe, appropriate and accessible savings is a more sustainable way of empowering communities as this reduces their desire to get into debt, especially with money lenders.

[9] Stuart Rutherford, external reviewer.

would meet commonly accepted standards to qualify as agents of financial institutions. This perspective would substantially improve if the VO (or the MS) were made the locus of the principal-agent relationship. Enabling this would require, however, a full separation of accounts at the VO or MS level to isolate the financial transactions from all other functions the VO or MS perform, and a measurable (auditable) capacity at the upper-tier level to carry out monitoring and control at the retail (SHG) level.

24. There are some proven SHG-based models of formal microfinance institutions which could guide such transformation. Examples such as 'Sarvodaya Nano Finance Limited', 'BWDA Finance Limited', 'Nanayasurabhi Development Finance Services' exist, and these models could be replicated by banks, with upper-tier SHG structures (MS/VO) acting as an enabler/intermediary. While it is difficult to draw firm conclusions from our findings in this respect, the strengths of the SHG's community roots suggest that there is little risk of "mission drift" if SHG structures somehow formalize as financial intermediaries such as savings and credit cooperatives or deposit-taking MFIs, or better yet become correspondent agents for formal financial institutions.

Learning from AP – an agenda for SHG Development in Rajasthan and other states

25. The parallel analysis of AP and Rajasthan portrays a number of contrasts in several development indicators which reflect the "age difference" of the two movements to some extent, but more importantly underscore very different promotion and growth models[10]. In terms of development indicators, even though there is clearly room for improvement in AP, its indicators are systematically better than those observed in Rajasthan. For example, only 41 percent of SHGs in AP have proper bookkeeping, but the ratio for Rajasthan is much lower at 35 percent. Member awareness of the features of savings and credit is an issue in 53 percent of the AP SHGs, but in Rajasthan this problem affects 66 percent of the groups. Agreed norms to manage and run their affairs, a key governance issue, are in place in a large majority – 88 percent – of the AP groups, while less than two thirds of Rajasthan SHGs have reached this stage.

26. The findings suggest that a substantial difference exists between the approach the respective state governments have taken *vis à vis* the promotion and development of the SHG movement. First, there appears to be a contrast between the approaches the two states adopted to support the SHG movement. In AP the government has been interested in promoting stable, growth-oriented, self-governed community organizations, with a strong microfinance focus, that can respond to socio-economic aspirations of the communities that they serve and which can eventually become sustainable. In this regard, the Indira Kranthi Patham (IKP) is now concentrating on capacity building, provision of the community investment fund for asset acquisition, collective marketing, food security, employment generation, among other areas. These services are currently not being paid for by the communities, but are necessary if the community organizations are to be strong enough in order to provide the services required and to prepare the communities to handle future activities that relate to financial services delivery mechanism in a sustainable way, including linking the communities to wider markets.

27. The Rajasthan government, on the other hand, appears to see the SHG movement as a rather limited vehicle focused on social mobilization, self empowerment and a

[10] See chapter IV and V.

catalyst in the achievement of rural development programs. They are not looking at the immense potential that the SHG movement has beyond the above elements. It is understood that Rajasthan's SHG movement is young, but it would be helpful if the lessons that have been learned in AP could be used to restructure the overall mission and future plans in this state-a future in which the SHG movement can be promoted in such a way that it can provide something close to the diversity of services found in AP.

28. A second contrast in the nature of state intervention relates to the creation of and support to upper-tier structures, VOs, MSs, ZS, in AP, a critical factor in pursuing sustainability of the entire system. As noted in the report, federations have been promoted by the IKP program of Andhra Pradesh, while in Rajasthan this has not happened in a significant way. These second tier institutional forms, when properly constituted can provide a wide range of services that can contribute substantially to the sustainability of the SHG movement.

29. While we suggest that the multi-tier system in AP could be made more efficient and less costly, this conclusion does not take away from the fact that functional specialization in a multi-tier system could be crucial to render the movement sustainable and competitive in the microfinance market. Efforts in Rajasthan and other states may be able to leap-frog to tiered structures faster than AP did using AP's learning curve and hence shortening their own learning process.

The way forward

The study concludes that given the current structure and operations of SHG-bank linkage model, it is not crucially dependent on the group members' savings for sustainability. Yet we also find that these member savings are essential to create group cohesion and develop the image of creditworthiness that underlies the bank linkage and results in the group's access to bank loans. In other words, the findings support a qualified "proof" of our main hypothesis in that the model is indeed dependent on SHG members' savings albeit not as a critical source of capital but as a crucial bond among group members.

30. The study found strong support for the hypothesis that the sustainability of the model depends on the quality of leadership, understanding subsidy elements and mainstreaming the model. However, current capacities do not exist to make these institutions into mainstreamed financial bodies. Areas such as governance, SHG management and linkages need to be addressed effectively to ensure sustainability in operations.

31. Given these, the SHG movement is currently implemented more as a model of credit delivery and implementing various programs focused on poverty reduction, than as a mechanism to graduate the poor to access mainstreamed services. Given its current credit absorption capacity, the model has the potential to sustain itself operating under market conditions. But SHG capacity building is still incomplete. More needs to be done in terms of developing institutional models (adapting from existing experiences of federation model MFIs) to mainstream these SHGs. The study suggests an institutional and financial model of sustainability, building on the existing bases and strengths created through this movement.

32. For a majority of SHGs to be deemed sustainable (or to consider the movement in the aggregate and on average sustainable) the capacity of the SHGs and their upper-tier

bodies need to be built further for which support through VO/MS or Federations is essential. Areas such as governance, program management and linkages need to be addressed effectively to ensure sustainability in operations. In this respect, the movement, especially the more developed AP system, could consider learning from the networking principles and practices of well-developed cooperative financial institutions. The notion of "strategic alliances", i.e., fairly specialized networks with transparent and enforceable internal ordering (control) mechanisms, and clear allocation of management responsibilities among the different tiers, along with some degree of streamlining in the multi-tier AP system could potentially make the entire structure substantially stronger in the fulfillment of all its functions (financial and social).

33. In particular, we find strong indications for the need to streamline the roles and functions of the different tiers in the (AP) SHG system in what relates to the financial functions performed by SHGs. Several roles and responsibilities of the three levels above the retail SHGs seem repetitive or amount to simple delegation from one tier to the next with little value added. A careful review and evaluation of these roles is recommended to the AP government and program leadership, with a view to remove duplications but also aggressively introduce IT systems which would render functions at the VO, MS, and ZS levels more effective and less costly.

34. A hypothetically sustainable model was crafted from the data obtained through case studies (Chapter V). These case studies allowed the estimation of the average costs that are needed to financially operate a specific segment in the SHG delivery mechanisms-from the groups to the highest level - the Zilla Samakhya. The results show that this model is potentially financially sustainable, with some adjustment in pricing relative to current levels, if the roles at every tier level are redefined and the second and third tiers restructured so as to eliminate duplications and superfluous layering of functions in areas such as capacity building of village organizations and SHGs. They would also provide linkages for credit and other services, including overall supervision and monitoring. An efficiently run delivery mechanism as proposed would potentially qualify to act as a bank business facilitator or correspondent agent with substantial benefits for the entire SHG movement.

35. As indicated above, once the VO or Mandal-level organizations are strengthened and their roles explicitly realigned, then they could be business facilitators or formal bank correspondents, with the concurrence of - for example - specialized TA and a guarantee facility financed by the Bank or the IFC. The legal framework is already in place to enable this type of arrangement. All these organizational forms need to have is an appropriate legal and governance structure that meets the regulatory standards/conditions to be an agent. In AP these institutional forms already exist as Mutually Aided Cooperatives and more of these can be facilitated to become bank correspondents. The potential for the SHG upper-tier organizations to pool SHG savings and serve as agents for diverse products such as improved deposit instruments, money transfers and remittances is substantial. The fee-income obtained from these operations would increase system revenues thus improving further the sustainability of the movement.

36. In summary, the options for the way forward this study suggests are as follows:

a. Maintain the basic, simple compulsory savings *cum* micro-lending focus of SHGs which they do perform reasonably well, while reinforcing governance and

management across the entire system. The AP government programs are already working in this direction; Rajasthan would do well in following suit.

b. Selectively test and evaluate an agency role for the better performing SHGs grouped in the better performing VOs or MSs with a view to determine the effectiveness and sustainability of such a model to deliver financial services other than credit to the SHG members. The AP programs are in a position to rank VOs and MSs to come up with a pilot group, seek appropriate technical assistance, establish the necessary links with banks, and implement the requisite M&E to evaluate the outcomes within a rather short time frame.

c. Carefully evaluate the desirability of a massive effort to introduce voluntary savings and products against other market alternatives to provide these services, before embarking in such an effort. The public funds required for this broad reaching initiative may have more effective use supporting options (a) and (b) above.

II. RATIONALE, OBJECTIVES AND SCOPE

37. In India, the Self-Help Group is a unique and dominant model of development, with a distinct micro-credit component. It is a thrift movement with standard savings mobilization, internal rotation of funds to meet credit requirements, self-management, aimed at the social empowerment of poor women in rural areas. The movement is strongly supported and promoted by the Government, Non-Governmental Organizations (NGOs), the World Bank and many other national and international donors.

38. Linking banks with SHGs formed by poor women who were once considered un-bankable is one of the innovative programs initiated by the National Bank for Agriculture and Rural Development (NABARD) in India. Since its inception in 1992, the program has grown tremendously[11]. As of March 2001, 264 thousand SHGs had received Rs.4.81 billion (US$102.34 million) under the SHG-bank linkage program. By March 2006, 2.24 million SHGs linked to banks were actively functioning in India. As per NABARD statistics over 33 million women have been covered in this program and the average loan sizes are Rs. 22,240 (US $ 463) per SHG and Rs. 1,300 (US $ 27 or about 3.3 percent of GNI per capita) per member. By March 2007, the total number of SHGs that had been linked to banks was 2.93 million[12].

39. NABARD statistics, however, as well as those kept by most government-sponsored livelihood programs, focus on cumulative outreach thus making meaningless any comparisons with the standards "active clients" measure commonly used in microfinance. Loan amounts, as well, are reported as flows, i.e., amounts approved and disbursed as opposed to outstanding balances, again rendering comparisons with MFIs inadequate. In spite of this shortcoming, the outreach of the SHG movement as measured by the loan-amount to GNI ratio is arguably one of the deepest in the world.

40. Several studies have concluded that the SHG program is very strong in the four southern states of India, namely Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. Together these four states account for almost 54 per cent of SHGs in the country and, more importantly, form almost 75 per cent of bank credit to SHGs. For the past few years, the SHG movement has gradually been picking up in Orissa, West Bengal and Assam states.

41. Initially, the SHG movement started as small thrift organizations and gradually members began giving importance to access to credit. It is often seen that as members' savings grow in amount they do not feel confident to continue to save in the group, as they are not sure of the safety of their savings. The savings product that is offered by SHGs is generally not linked to the cash flow of the members or their families. Banks usually offer savings accounts and term deposit services to SHGs. There has been hardly any innovation towards designing suitable savings products, either by banks for the SHGs or by SHGs for their members.

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[11] Some trace the initial SHG-bank linkage with NABARD support as far back as the mid 1980s (i.e., about as old as the Grameen Bank), but there seems to be agreement in that the program started in earnest in the early 1990s.

[12] See NABARD (2006) "Circular No. 73/mCID 1/2006 - Scheme for financial assistance to Banks for rating of Micro Finance Institutions (MFIs) – Revised.

42. This study explores the potential for savings among members served by SHGs, and the potential for SHG and its apex bodies to become mainstream financial institutions offering services other than just credit. It also explores the missing links in the SHG movement, such as factors preventing SHGs from offering quality savings services, the support they require to provide savings services and important linkages that can enable the SHG to offer and access savings services.

43. One of the aims of the SHG linkage program was to mainstream the rural poor to formal financial markets. Hence an attempt has been made in this study to examine the context of different linkages – savings and credit linkages; primary, secondary and tertiary level linkages and explore the extent to which the linkage program has been successful in availing access to financial products from the mainstream financial institutions to the poor. The outputs of this study are expected to provide a base for discussions on a set of policy prescription and supportive measures for mainstreaming and scaling up this movement.

44. Overall, the study examined the extent and modalities of savings practiced by members of SHG movement, and identified factors that could facilitate or hinder mobilization of savings in financial form in rural areas. Given this scenario of savings mobilization, the study assessed the performance and viability of the SHGs and its apex bodies with a view to understand their potential to evolve into more formal entities providing financial services, especially savings products. In this context, the current interface of SHGs with formal institutions, particularly the banks, was analyzed to assess their policies, perceptions, experiences and potential for making these linkages more effective in extending financial services to SHG members.

A .Working Hypotheses

45. Flowing from the rationale for the study, the key hypothesis for the study is:

The SHG-bank linkage model is crucially dependent on the group members' savings, which has a bearing on the sustainability of the model. The potential and capabilities of SHGs in this area has not been fully realized.

46. A related hypothesis is:

The sustainability of the model also depends on the quality of leadership, understanding subsidy elements and on mainstreaming the model.

B. Main Questions

47. The study examined the following key questions:

- What is the extent of savings among the members of the SHGs, their current level of access to savings and what are the factors that help or hinder savings by them?
- What is the current performance and capacity of SHGs and their apex bodies to potentially become a mainstream financial institution offering financial services to its members, particularly savings?

- What are the policies, priorities, perceptions and experiences of formal financial institutions, mainly banks in this case, with regard to SHG linkages, and potential of SHGs becoming mainstream financial institution? What is the nature, extent and effectiveness of current linkages and their potential for providing long-term financial services to the SHG movement?

C. Scope

The study gathered and analyzed data for the states of Andhra Pradesh and Rajasthan. These states were selected for study based on the fact that they represent relatively high and low/intermediate presence of SHGs respectively; they also provide a cross-section of environmental features (economic activity, state policies, institutional development, among others). Both primary and secondary data was collected. A description of the methods and sampling techniques for primary data collection is included as Annex 1.

III. SELF HELP GROUPS IN INDIA AND THE BANK LINKAGE PROGRAM

48. Self help groups (SHGs) have rapidly grown in India with support from the Government of India (GOI), NABARD, and State Governments, the World Bank, several donor agencies and local SHG promotion institutions, which include NGOs, government agencies, banks, cooperatives and microfinance institutions.

49. The term Self Help Groups is used in many countries to describe a variety of financial and non financial associations. However in India it refers to a group of 10-20 poor women, who band together for financial services-beginning with periodic, compulsory savings and then mainly loans-and sometimes social services as well[13]. Government programs, such as the AP, DPIP and RPRP, have integrated SHGs into comprehensive rural livelihood efforts which considerably diversify the groups' purpose beyond their compulsory savings-cum-micro-credit role to include social services, marketing of crops, community infrastructure, among others. SHGs are among the channels envisioned by the GOI to implement its commitment to improve access to finance for the poor[14].

50. Initially, SHG are linked to banks by opening savings accounts and as they demonstrate their capacity to manage funds through successful internal lending, banks start lending to the SHGs thus increasing access to credit services by their members. The explosive growth of SHGs model outlined above has made it the dominant form of microfinance in India.

51. However, the SHG-bank linkage program faces numerous challenges. Group quality (stability over time, member rotation, effective governance), capacity of SHGs, impact of subsidized lending programs, low intra group repayment of loans, low mobilization of savings, weak governance, inability to manage large size funds and poor book keeping are among the deficiencies reported in recent studies[15]. In this context, the extent of access of members and SHGs to savings as a service, sustainability of SHG as an institution and further mainstreaming SHG Bank linkage as a program to the formal financial sector assumes importance. The SHGs model in India has been widely studied, but there is relatively little information on their financial performance. The recent CGAP study assessed the financial viability of the SHGs, albeit using an admittedly non-representative sample and data collected by promoting agencies, and also provided recommendations on SHGs sustainability, support services, loan collection, cost levels, savings, reaching the poor and elite capture[16]. The review of literature in this chapter will concentrate on trying to understand the challenges that the SHGs bank linkage program faces and what needs to be done to make it more effective and sustainable.

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[13] CGAP, 2007: Sustainability of Self Help Groups in India: Two Analyses.

[14] Union Budget 2005-2006: Finance Minister announces the creation of a Microfinance Development and Equity Fund to promote commercial bank-MFI linkages.

[15] World Bank (2004), "India. Scaling-up Access to Finance for India's Rural Poor." Report No. 30740-IN. Basu, Priya and Pradeep Srivastava. "Exploring Possibilities, Microfinance and Rural Credit Access for the Poor in India." Economic and Political Weekly 40 (17) Apri 23-29, 2005. APMAS (2007) Self Help-Bank Linkage Program. A Recurrent Study in Andra Pradesh; APMAS, Hyderabad.

[16] CGAP (2007); cited above.

A. Savings Services to Members and SHGs

52. Savings play a critical role in the financial management strategies of the poor. As indicated by Rutherford, deposit facilities make it easier for poor clients to turn small amounts of money into "usefully large lump sums" that can enable them to smooth consumption and mitigate the effects of economic shocks." The SHG model, however, has used borrowing – "saving down" in Rutherford's typology as the dominant means of acquiring "useful lump sums[17]."

53. In rural India, poor people tend to save to compensate for uneven income streams. They may save small amounts regularly, but at times are able to save larger amounts sporadically, for example at harvest time. They save for different purposes including insurance against bad health, disability and other emergencies, investments, social and religious obligations, and future consumption.

54. A number of studies have shown that the level of savings of poor households vary from 5 to 10 percent of their income, but a large part of it is not in the form of financial savings, but rather in livestock, jewellery, house construction and land purchase, including land and water resource development. One of the deterrents against financial savings is the transaction costs and perceived formality of the financial systems. The post office savings account and the small savings instruments line such as the Kisan Vikas Patras, however, have a substantial clientele among the rural people, including the poor[18].

55. Evidence shows that the poor will hold financial savings if appropriate facilities are available. Therefore, formal financial institutions cannot fulfil this need for savings until they can offer services that are secure, flexible, affordable, and located where poor clients live and work. Funding agencies, policy makers, and financial institutions themselves must work at all levels of the financial system to align incentives and create the capacity for formal institutions to tap the demand for savings services. While offering incentives to banks to downscale in deposit mobilization may be the most promising strategy in one country, staunching the flow of subsidized on-lending funds to cooperatives or strengthening postal bank management may be more important in another[19].

56. As formal financial institutions orient themselves to meet the need for savings services in rural areas, one potential option is that SHGs provide savings services to their members. Here it is important to note that SHGs were never envisaged as savings providers, but were largely aimed at meeting the credit requirements of their members, more as a supplementary credit delivery system. Although the overall strategy on microfinance of NABARD emphasizes regular thrift collection to solve immediate problems of consumption and production, meet most urgent needs, and to get trained to handle larger financial resources skilfully, prudently and with lasting impact, there is

[17] Rutherford (2000); cited above.

[18] See ADB (2003) "Technical Assistance Consultant's Report Volume 3: Microfinance Institutions INDIA: Rural Finance Sector Restructuring and Development" PriceWaterHouse Coopers PVT. Limited (Finance & Governance), India in association with Bhartiya Samurdhi Investment and Consulting Services Limited (BASIX), India for Ministry of Finance, Department of Economic Affairs (Banking Division).

[19] See CGAP, (September 2006), "Safe and Accessible: Bringing Poor Savers into the Formal Financial System: Building financial systems for the poor, Focus Note No. 37.

increasing thrust and recognition of SHG Bank Linkage Program as a major supplementary credit delivery system[20].

57. Here the question arises: Are SHGs in a position to meet savings services requirement of members? Through SHGs, members are able to save a small amount (say Rs.20 a month) at regular intervals. This is more seen in terms of equity for the group, seed money to access credit resources and more as thrift than opportunity to save. Somehow, there has not been recognition of SHG as an important institutional form potentially able to provide savings services directly or through linkage with other institutions like banks. Nevertheless, SHGs and their federations – it has been argued - could bridge the gap needed for formal financial institutions to design suitable savings products, by providing access to and information about their members. Local financial institutions such as SHGs and federations could also play a key role to reduce risks associated with servicing the unorganized sector[21]. There is at least in principle the potential to extend the current agency/ linkage role that is already happening at the SHG federations and Microfinance Institutions to SHGs, if they were able to fulfil the correspondents' eligibility criteria set by the RBI. This implies that the promoting institutions would have to ensure that the SHGs are of high quality in terms of governance and management, and that their internal procedures and control systems are up to the regulatory standards. The achievement of this level of linkage would increase the number of the excluded members of the population that are able to access bank financial products and services and at the same time increase the outreach of the banking sector.

B. Sustainability of SHG as an Institutional Form

58. A close look at the functioning of Self Help Groups in villages reveals that SHGs have multiple memberships, problems of non timely availability of credit, unavailability of long term credit, at times higher dose of credit, accountability to multiple promoting agencies, lack of discipline among members, inconsistent mobilization of savings, and lending to members even when members do not need credit. As the SHGs grow in age and funds, they find it difficult to govern themselves (quality of group deteriorates) and also lack skill to manage higher levels of fund disbursements and usage. In a recent survey by APMAS[22], it was reported that SHGs' quality – as measured by an ordinary score devised by APMAS - declines with age. It was found that 71.4 % of the SHGs with less than one year of age were in grade 'A', against 7.1 % of SHGs that were over 9 years old. This means that before the bank linkage is established the promoting institutions and the members strive to diligently maintain quality of the group, but after the linkage both the promoters and members relax and hence the slippage on quality and loan recovery. This indicates that the promoting institution needs to continue providing support in terms of capacity building and hand holding for a long period of time, if the bank linkage process is to be sustainable over the long run.

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[20] See NABARD (May 2007) report on microfinance institutions. www.nabard.org/microfinance/mf_institution.asp; and www.nabard.org/strategymicrofinacne/microfinance.asp

[21] See Ruchismita, Rupalee and Puneet Gupta (2005) "An Approach paper for the Delivery of Comprehensive Financial Services to the Informal and Unorganized Sector" Centre for Micro Finance Research, Working Paper Series.

[22] APMAS (2007) ; cited above.

59. Savings are a crucial service for the poor and constitute the second most important source of funds for SHGs after bank loans. The majority of Indian microfinance institutions, however, are not authorized to mobilize savings. Only banks, member owned institutions and a few non-bank finance companies are allowed to raise deposits from the public. Despite regulatory constraints, most microfinance institutions collect savings as a condition for membership or access to credit. There is, however, an increasing trend among institutions not to hold deposits and instead assist savings groups in creating and maintaining savings accounts directly with local banks.

60. As noted earlier SHGs are in a position to offer savings services to its members and in turn could also utilize the mobilized savings as critical capital for inter group lending. With the increase in credit linkage, however, members tend to see savings as a means to access (externally funded) credit and less so as a source of loanable funds. Although the members save in the SHGs, which in turn put the savings in banks, the members tend not to continue saving in their SHGs when the savings grow, and prefer to put these savings in authorized institutions. This "safety first" behaviour is not at all uncommon but it tends to undermine the growth potential of the local – unregulated – entity. This implies that although increased savings by the members would ensure long term sustainability of the SHG movement the fact remains that deposit taking by poorly capitalized and narrowly diversified entities including SHGs continues to be a concern[23].

61. It is also important to assess the legal status of the SHGs in India, if one is to determine what can make them sustainable. The SHGs have grown in number and in diversity. There is a possibility of combining different SHGs into a much larger organization, which can command greater credibility and therefore greater credit. In Andhra Pradesh, the Mutually Aided Cooperative Societies (MACS) established under a separate Act were intended to provide this legal form. The expectation was that these societies could be federated at sub district and district levels and then they would facilitate the linkage of the members to external financing in a much better fashion. These organizational issues need to be addressed squarely, if the SHGs are to become organizations that can provide support for income generating activities[24]. For example, although the MACs Act and even the earlier Cooperatives Societies Act could provide the legal basis for an "SHG-institution", they do not give these types of institutions authority to take deposits from non members.

62. Financial cooperatives that do well in most countries are subjected to regulation by a single financial regulator even though the law and rules for financial cooperatives may be different from those of commercial banks. A separate financial cooperatives law, which could be a part of the Banking Regulation Act, with the RBI as the regulator for this law could be explored[25]. The latter, however, may be a long-term proposition given

[23] See Nachiket Mor and Bindu Ananth, 2006. "Inclusive Financial Systems, Some Design Principles and the Case Study of ICICI Bank." Centre for Development Finance, Working Paper Series.

[24] See Rangarajan, C (2005) Chairman Economic Advisory Council to the Prime Minister, Key note Address at the High Level Policy Conference on microfinance in India, New Delhi 03 to 05 May 2005.

[25] See, ADB (2003) ""Technical Assistance Consultant's Report Volume 1: Executive Summary: Rural Finance Sector Restructuring and Development" PriceWaterHouse Coopers PVT. Limited (Finance & Governance), India in association with Bhartiya Samurdhi Investment and Consulting Services Limited (BASIX), India for Ministry of Finance, Department of Economic Affairs (Banking Division).

the current reform program aimed at the revival of rural credit cooperatives, which is beginning to induce states to adopt a uniform cooperative act.

63. The proposed Microfinance Act (a bill in the Parliament at the time of the study) which aims at regulating savings services by Microfinance Institutions in any form including MACS could solve the concern. It should be borne in mind that although it is necessary to have an institutional form that can legally take deposits, the license to take public deposits should be given to institutions that have reached a certain level of performance. Even without the desired legal form, the SHGs can only be sustainable if they can prudently manage their lending activities. A recent analysis by APMAS of the SHGs' repayment of bank and internal loans in AP indicates that members consider repayment of bank loans seriously, while repayment for internal loans is not good. The interest and instalments are not paid on time and this affects their viability. Further to this, the members do not take the issue of default seriously and in some places they even deny that any of their loans are in default. This is because the loan ledgers are not routinely updated, given the inadequate book keeping that is carried out at both the SHG and the federation levels[26].

64. It is important to note, however, that when the return on savings is analyzed the SHGs do post on average a good return. For example, the APMAS study in AP found that on average for every Rs 100 of funds (internal and external) available with an SHG, it had Rs.6.7 of accumulated profit. This is equivalent to 8.4 % annual rate of return (over 5 years) on a member savings of Rs16. According to this analysis this profit appeared sufficient to protect savings against inflation and at the same time provide a real return on savings. However, as indicated above, pervasively inadequate bookkeeping makes it almost impossible to keep track of funds and transactions, and consequently have some degree of confidence in the analytical results.

C. Mainstreaming of SHGs in Bank Linkage Program

65. The SHG concept is unique because of several factors. Firstly, it is built around both formal and informal systems. Secondly, it seeks to promote both social capital and financial capital, which are important building blocks for any meaningful development process. Thirdly, it allows for flexibility (e.g. interest rates, repayment schedules, loan amounts) around certain core principles. Fourthly, it facilitates the interaction between professional bankers and the local groups that have both the local knowledge and experience that is so crucial for the success of the linkage process.

66. Scaling up the SHG-bank linkage program while retaining its qualitative dimensions does pose a few challenges. These include training of a large number of stakeholders, maintaining the quality of groups, ensuring proper book keeping at the SHG level, further innovations in savings and credit products, insurance products and other services, graduation from livelihood enterprises to economic enterprises, establishing market linkages for products produced by members of SHGs, and managing expectations from the SHG movement[27]. In the views of some, this process would probably result in

[26] APMAS (2007); cited above.

[27] See Kumar, Ranjana (2005), Chairperson, NABARD, High Level Policy Conference on microfinance in India, New Delhi 03 to 05 May 2005.

costs and risks much higher than providing access to similar or better services through alternative institutional forms, such as "pro-poor MFIs" of the ASA-Bangladesh kind[28].

67. As earlier indicated depositors have to be protected and as was expressed by the Advisory Committee that was appointed by RBI in 2004 on flow of credit to agriculture and related activities from the banking system, the NGO-MFIs and SHGs may not be permitted to accept public deposits unless they comply with the existing regulatory framework. The only alternative for SHGs therefore, would be to act as agents of regulated and supervised financial institutions. In this case the SHGs would offer a variety of savings services on behalf of formal financial institutions or get directly linked to them.

68. The proposed Microfinance Act is likely to open opportunities for a range of Microfinance Institutions to offer savings services. Similarly, a recent RBI circular (in line with market developments) has proposed to increase the ceiling on the rate of interest payable by NBFCs (other than NBFCs) deposits by 150 basis points to 12.5 per cent per annum and such interest would be paid or compounded at rates which should not be shorter than monthly rates[29]. As indicated above, under this regime SHGs may still be unable to offer quality savings services.

69. In a number of states, SHG federations have started playing a critical role of bulking up SHG loans thus serving as an emerging critical link for credit linkage. Since the beginning of SHG linkage program, there has been provision for on-lending through SHG federations as they are formal institutions like an NGO - typically a Society, Trust or a MACS. NABARD has also gone a step further in states like AP, where separate guidelines for lending to SHG federation has been issued.

70. This effort is further being supplemented by providing grant support to MFIs including SHG federations to get themselves rated by Rating Agencies[30]. This would enable these organizations to access more credit funds, if they are found to have the requisite systems in place.

71. Mainstreaming of the SHG movement needs to be seen in a holistic perspective, not merely as a mechanism for delivery of credit services, but one where savings and credit as well as other services assume importance. This means looking at the profitability of the bank linkage and how this process could be improved to enable SHGs to access more services from the banks. Therefore, examination of indicators of profitability of this linkage may be appropriate at this point.

72. A few studies have examined lending by some commercial and regional rural banks to self-help groups and found it to be profitable. For instance, Bank of Baroda, one of the largest public banks, most involved in lending to self-help groups, had a regular repayment rate of nearly 100 per cent and reasonable transaction costs. The total cost of lending to these groups was not higher than that for large loans. Oriental Bank of Commerce, a small public bank, has also developed profitable lending to self-help groups.

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[28] Stuart Rutherford, external reviewer.

[29] See RBI (2007) "RBI/2006-2007/345 DNBS (PD) CC.No.92 /03.02.089/2006-07 - Amendments to NBFC Regulations - Ceiling on rate of interest" www. rbi.org

[30] See NABARD (2006) op.cit

73. Bank of Madura, an old private commercial bank, has found the self-help program so satisfactory that it has made it part of its strategy for achieving viability in its 104 rural branches. Bank of Madura, now part of the large private ICICI Bank, highlights the importance of finding innovative solutions to cut the costs associated with the program and their experience confirms that the private sector through innovative financial products can support the linkage process and therefore facilitate access to finance by the poor members of the SHGs. Bank of Madura expects its self-help group lending to become profitable even without using NABARD refinancing. As shown by recent studies bank lending to SHG has become the norm in states like AP and it is no longer an issue to lobby for, meaning that it is now seen as a profitable business proposition for the lending institutions.

74. Despite these successes, NABARD continues to work with banks to avail refinance on loans to SHGs at a lower cost compared to loans for other priority sector lending programs. The rate of interest on refinance for term loan to SHGs was fixed (at the time of the study) at 6.5% and 7% per annum for a per capita loan size up to Rs. 50,000 and above Rs. 50,000 respectively. This is 7.5% and 8% in the case of non-SHG loans. This facility continues to motivate banks to offer loans to SHGs, although given the above success stories, one would have expected that NABARD would be looking forward to weaning the banks from this facility and encouraging the banks to provide loans to SHGs directly from their own resources. This would give a very clear indication that the linkage is a profitable proposition for the parties concerned and would contribute greatly to the mainstreaming of the SHGs into the financial system.

IV. STATUS OF THE SHG MOVEMENT IN ANDHRA PRADESH AND RAJASTHAN

75. Of the 2.24 million SHGs reported as active in all India in 2006, 26.2 percent were in Andhra Pradesh and 4.4 percent in Rajasthan (see below). The growth in numbers of SHGs has been remarkable in the two states between 2000 and 2007. The results of the study in the two states show that the issues raised in the review regarding the viability, including governance and internal controls, book keeping at the SHGs level, and the linkage to the apex federations and banks play a major role in achieving the main objective of providing appropriate financial services to the groups' members. The two states have approached the SHGs Bank linkage model differently and, as will be noted below, they have achieved different outcomes.

Table 1: SHGs in Andhra Pradesh and Rajasthan vis-à-vis India

State	Number of SHGs	Amount of Rs. (millions)
India	**2,238,565**	**11,397,543**
Andhra Pradesh	**587,238 (26.2)**[31]	**4,345,518 (38.0)**
Rajasthan	**98,171(4.38)**	**244,794 (2.1)**

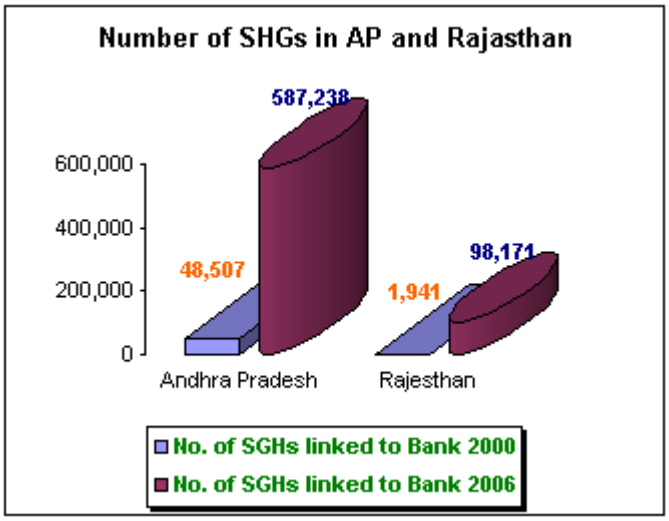
76. As also noted from Table 1 above out of the total loan amounts, SHGs in Andhra Pradesh accounted for 38% while those in Rajasthan accounted for only 2%.

A. Situation Analysis in Andhra Pradesh (AP)

[31] The State Banking Committee of Andhra Pradesh has indicated that since April 1999 a total of 900,798 SHGs have been formed (see annex 3).

77. The initiation of the SHG movement in Andhra Pradesh began in earnest by NABARD in 1992 when it started partnering with SHG promoters (State and NGO) and banks in order to create a conducive environment for the introduction of the linkage program in the state. DWCRA[32] groups were weak as micro credit users and NABARD along with the GOAP, took the initiative of strengthening these groups along their guidelines to incorporate them into the SHGs-linkage program. Over time, DWCRA SHGs improved, yet banks provided only savings accounts and did not see credit as a possible service to them. Organizing the poor into groups has reduced the transaction costs. However, the perceived limited and risky market opportunities in the rural areas clouded bankers' minds. NABARD played a key role in convincing them about the profitability of the arrangement.

Figure 1: Number of SHGs in AP and Rajasthan



78. From the year 2000, the District Poverty Initiative Program (DPIP) and the Rural Poverty Reduction Program (RPRP) have provided NABARD with a big platform for the expansion of the SHG-bank linkage, although conceptually, the SHG promoted by NABARD is slightly different from the one promoted by the APDPIP and RPRP. This is because, NABARD is a development agency that emphasizes rural development, treating empowerment and other social issues as by-products that could be gained from the scheme. In addition, NABARD seeks to provide access to credit to all persons living in the rural areas and not necessarily only to the poor. On the other hand, DPIP and RPRP are poverty alleviation programs that use micro finance as a tool to pull people out of poverty, which is understood in its various dimensions including economic situation, empowerment, and risk mitigation[33].

Role of Indira Kranthi Patham (IKP):

79. IKP is a state-wide poverty reduction project to enable the rural poor to improve their livelihoods and quality of life through their own organizations. It aims to cover all the rural poor households in the state with a special focus on the 3 million poorest of the poor households. It is implemented by Society for Elimination of Rural Poverty (SERP), Dept of Rural Development, Government of AP. SERP is an autonomous society registered under the Societies Act, and implements the project through District Rural Development Agencies (DRDAs) at the District level. The focus is on deepening the process, providing an institutional structure and developing a framework for sustaining

[32] DWCRA – Development of Women and Children in Rural Areas, a Government of Andhra Pradesh programme for poverty reduction.

[33] See Deshmukh, Ranadive (2004) "Women Self Help Groups in Andhra Pradesh: Participatory Poverty Alleviation in Action" paper presented in "Scaling up Poverty Reduction: A Global Learning Process and Conference" Shanghai May 25-27, 2004. http//info.world bank.org

the project for comprehensive poverty eradication. It is the single largest poverty reduction project in South Asia.

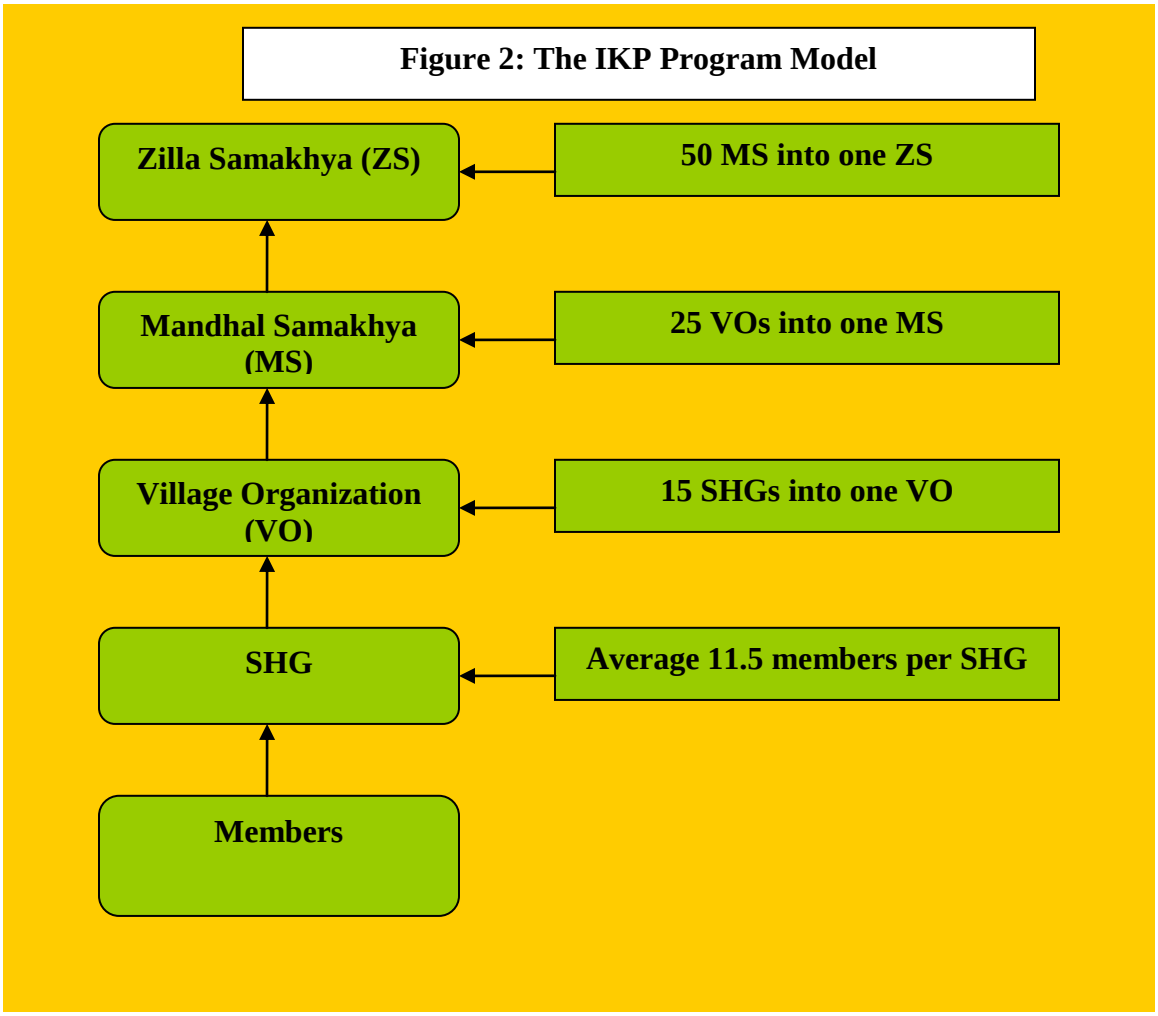
80. IKP works with Self Help Groups federated into Village Organizations (VO) and Mandal Samakhyas (MS). The project mandate is to build strong institutions of the poor and enhance their livelihood opportunities so that the vulnerabilities of the poor are reduced. The Community Investment Fund (CIF) is a major component of the project, which is provided to the SHGs/ VOs/ MSs to support a wide range of activities for socioeconomic empowerment of the poor[34].

81. The major thrust areas of IKP include the following:

- Institution Building – self-managed institutions of the poor (SHGs,Village Organizations, Mandal Samakhyas, Zilla/District Samakhyas).
- Building and nurturing social capital (grassroots' women leadership, developing community activists and para-professionals, community resource persons).
- Knowledge dissemination – training and capacity building of SHGs, para-professionals, project staff and others.
- Livelihoods Expansion - Increase in incomes and employment, decrease in expenditure, costs and risks.
- Networking / linking institutions of the poor with other institutions – corporate, public services, financial, markets, and educational.

82. By and large IKP is a community driven project where community organizations have an important role in implementation. Mandal Samakhyas (MS) and the Village Organizations implement the various project components: Each Mandal is divided into three clusters of 10-12 villages with hamlets. Cadres of development professionals, the Community Coordinators (CC) are placed in the clusters. In addition MS is assisted by Master Book Keepers (MBKs) and Mandal Training Coordinator (MTC). After their selection and training by SERP, they are contracted by and are accountable to MS. The VO is the sub-project implementing agency (SPIA). Micro-plans are evolved by the SHGs and VOs in each target village. These are converted into Comprehensive Subprojects and funded by the beneficiary contribution, CIF fund and Bank Linkage.

[34] See Department of Rural Development www.rd.ap.gov.in



Scope of the project:

83. The IKP encompasses 2 projects - Andhra Pradesh District Poverty Initiatives Project (APDPIP), IKP Phase I and Andhra Pradesh Rural Poverty Reduction Project (APRPRP), IKP Phase II. Both are externally aided projects, with financial support from the World Bank.

84. The APDPIP, covering 180 mandals in 6 districts with an outlay of Rs. 6.5 billion at the mid-term review was launched on 14 June 2000, and the project duration was from June 2000 to December 2005. In the year 2003, the scope of the project was expanded to cover 930 thousand rural poor families in all 316 mandals in the 6 districts.

85. The APRPRP was initiated on 1st June 2002. This project covers 548 backward mandals in the remaining 16 districts of the State. It also covers 260 coastal fishermen villages in 16 non-project mandals. The outlay for APRPRP was Rs.14.9 billion at the time of the study and is estimated to cover 2 million families. The project duration is from April 2003 to December 2008.

86. The State Government has decided that these processes of institution building and financial support for the sub projects of the poor will be extended to all the mandals and villages in the state and the State Government and Central Government are willing to support this effort. Thus, from the current financial year the entire state is covered under the Indira Kranthi Patham.

87. According to the 2007 statistics from SERP, the coverage of the program as of March 2007 was as follows:

Table 2: Coverage of the Program

Total Number of SHGs	**688,253**
Total Number of women covered	**8,651,024**
Total Number of SHGs linked to banks	**361,540**
Total Number of Village Organizations formed	**30,095**
Total Number of Village Organizations registered	**21,331**
Total Number of Mandal Samakhyas formed	**910**
Total Number of Mandal Samakhyas registered	**411**
Total Number of SHGs given IGA Community Investment Fund	**238,768**
Total Number of Village Organizations covered in food security	**19,869**

88. As seen from the table 2, the number of SHGs that have been formed have grown and many of these have been able to qualify for bank linkages. The following data show the outreach and financial progress of the SHG movement in Andhra Pradesh[35].

[35] See NABARD (2006) "Statistical details of SHG bank linkage" www.nabard.org

Table 3: SHG Outreach and Financial Progress

Cumulative No. of SHGs provided with bank loan up to March 31st, 2005	No. of new SHGs provided bank loan during 2005-06	Cumulative No. of SHGs provided with bank loan up to March 31st, 2006	Cumulative bank loan up to March 31st, 2006 (Rs million)
492,927	**94,311**	**587,238**	**4,345,518**

89. The NABARD Quarterly Bulletin of Statistical Information (April –June 2007) indicates that the total cumulative number of SHGs linked to banks in AP up to March 2007 is 643,351 SHGs. This means that the SHGs that are associated with the IKP program make up about 56 % of the total. Further analysis on agency wise cumulative participation indicates that commercial banks are playing a prominent role in SHG-Bank linkage[36].

Table 4: SHG Bank Linkage

Commercial Banks		Regional Rural Banks		Co-operative Banks		Total (Rs, million)	
No. of SHGs	**Bank loan**	**No. of SHGs**	**Bank loan**	**No. of SHGs**	**Bank loan**	**No. of SHGs**	**Bank loan**
382,422 (61.1%)	**2,934,981**	**190,120 (32.37%)**	**1,342,450**	**14,694 (2.5%)**	**68,078**	**587,238 (100%)**	**4,345,518**

90. Three models are being used to promote and establish the SHG bank linkage. The model consisting of SHGs formed by formal institutions and NGOs but directly financed by banks is by far the prominent one in Andhra Pradesh with 98 percent of the number of SHGs and of the amounts lent by banks[37]. The other two models, SHGs financed by banks through NGOs and SHGs formed and financed by banks have minimal share of the total number and amounts (1.4 percent and 0.4 percent, respectively).

B. Situational Analysis in Rajasthan:

91. The SHG movement in the State was by and large initiated by PRADAN[38] in late 1980s and Sakshi Samithi Federation in 1993 in Krishnagar Bas Block of Alwar district.

[36] See ibid.
[37] See ibid.
[38] PRADAN – Professional Assistance for Development Action, an NGO.

Similarly during the 1980s PEDO[39] started work with Mahila Mandals in Dungarpur district and transformed them into SHGs. Recently PEDO began to facilitate the formation of federations with technical support from DHAN Foundation[40]. URMUL Trust[41] is also one of the organizations that initiated SHG movement in Bikaner district. However, it was in 1990s when the Department of Women and Child Development (DWCD) recognized the importance of thrift that the SHG movement attracted many poor women. Using the huge infrastructure of the ICDS[42] Program, DWCD promoted the SHG program throughout the state. By March 2006, DWCD had promoted 109,998 SHGs in the state. This group of SHGs constitutes about two thirds of the total estimated SHGs in the state.

92. Even though the program started late in the state it gained popularity in terms of numbers as well as in forging bank linkages. Rajasthan's share in bank linkages increased from 3.1% in 2003-04 to 6.2% in 2005-06. In terms of cumulative linkages, the share increased from 3.1% to 4.4%. However, in terms of loan amounts, the situation is not as encouraging as the increase was only from 1.8% to 2.1%. In fact the average cumulative loan amounts per SHG as a percentage of the national cumulative average loan amounts have declined from 58.9% in 2003-04 to 47.4% in 2005-06. The same applies to the current average amounts, which declined more steeply from 45.4% to 35.1% (see table below).

Table 5: Trends in Bank Linkages in Rajasthan vis-à-vis India

Year	SHGs Linked		Amount in Rs. Million		Average loan size in Rs.	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
All India						
2003-04	11,104	33,846	258.7	721.3	23,298	21,311
2004-05	26,160	59,906	672.3	1,393.6	25,700	23,263
2005-06	38,165	98,071	972.5	2,366.1	25,481	24,126
Rajasthan figures as % of India figures						
2003-04	3.1	3.1	1.4	1.8	45.4	58.9
2004-05	4.9	3.7	2.2	2.0	46.3	54.6
2005-06	6.2	4.4	2.2	2.1	35.1	47.4

Source: For Rajasthan Malhotra, R. 2006 and for all India www.nabard.org as on June 20, 2006

93. The loan amount is one of the indicators considered while evaluating the quality and strength of the SHG. It is also the degree of awareness and/or apathy on the part of bank branch officials. Out of a total of 98,071 groups, with bank linkage in the state, 56,697 groups are DWCD groups, but these groups received a total loan amount of Rs.1,050.3 million (ibid) out of Rs.2366.1 million that was sanctioned in the state. The average loan amount of DWCD groups is Rs.18,525 compared to that of other promoters' groups, which is Rs.31,798[43].

94. Out of a total of 3,034 bank branches in rural and semi-urban areas in the state, 2,095 are participating in the SHG program. Of these 962 out of 1,631 are commercial

[39] PEDO – People's Education and Development Organization, an NGO.
[40] Dhan Foundation – an NGO.
[41] URMUL Trust – A Trust promoted by Udaipur Milk Union Limited.
[42] ICDS – Integrated Child Development Program of the Government.
[43] Pradhan, Veena, 2006.

banks, 938 out of 1,013 are RRBs and 195 out of 330 are DCCBs. Out of a total of 59,906 bank linkages by March 2005, the RRB number is 25,898 and the DCCBs' share is 8,776. Out of a total loan amount of Rs.1,393.6 million as on March 2005, the RRBs' share is Rs.633.84 million and the DCCBs' share is Rs.207.8 million[44].

95. The data in the table below shows that commercial banks are playing a more prominent role in terms of SHG supported and the amount of disbursements. The regional rural banks are the next in terms of provision of support to the SHGs Bank linkages in the state. The following data indicates the trends[45].

Table 6: SHG Support and Disbursements

Commercial Banks		Regional Rural Banks		Co-operative Banks		Total (Rs. million)	
No. of SHGs	Bank loan-Million	No. of SHGs	Bank loan-Million	No. of SHGs	Bank loan - Million	No. of SHGs	Bank loan-Million
44,519 (45.34%)	115,453	30,532 (31.1%)	92,770	15,120 (15.4%)	367.71	98,171 (100%)	244,794

96. As is the case in Andhra Pradesh, the SHG formed by formal agencies and NGOs but directly financed by banks is the most prominent model of linkage in the state. The data indicates that close to 90 percent of the SHGs have been linked using this model.

97. The average number of SHGs linked per district was a little over 1,000 in March 2004. It had increased to about 2,000 by March 2005 and over 3,000 by March 2006. However, there are alarming inter district disparities in bank linkages for credit. By March 2005, the cumulative number of SHGs that got bank linkages for credit is as high as 10,045 in Ajmer district, whereas it is only 147 in Jaisalmer district compared to the district average of about 2,000. Similarly the cumulative loan amount is also as high as Rs.247.65 million in Ajmer and as low as Rs.3.43 million in Karauli district. The number of credit linkages is around two times that of the district average in Alwar (4,685), Bhilwara (4,635), Tonk (4,104) and Jaipur (3,953) and Jodhpur (3,750). The lowest linkage districts are Jalor (229), Nagaur (310), Dholpur (339) and Karauli (365).

98. According to the state level bankers committee in Rajasthan, by March 31st, 2007 nearly 98,171 SHGs were covered under the SHG bank linkage program and Rs. 972.5 million had been disbursed as loans[46].

C. Future agenda:

99. In Andhra Pradesh IKP is planning to expand the micro-finance activities. The vision is to promote a stable, growth oriented, self-governed human organization (with strong micro finance focus), that respond to socio-economic aspirations of the community they serve, and is also able to internally meet all expenses in a sustainable way. The MF unit has set up ambitious goals for 2008.

[44] Malhotra, R., 2006.
[45] See NABARD (2006) Statistical details of SHG, www.nabard.org
[46] See Bank of Baroda (2007) "Minutes of the 89th meeting of state level bankers' committee" www.bankofbaroda.org

100. In Rajasthan, the government is using this SHG movement as a vehicle for community mobilization, self-empowerment and a tool for better achievement of rural development programs. The DWCD is making arrangements to strengthen the SHGs to transform themselves from only thrift groups into groups promoting micro-enterprises. Now DWCD is focusing on developing master trainers to train the SHGs in income generating activities. They want to create a structure to the SHGs at state, district and block level by establishing core committees to monitor the entire program.

V. KEY FINDINGS FROM THE FIELD STUDY

101. An overview of key findings is provided up-front for the benefit of the "quick reader." Substantial detail follows in the different sections.

102. In addition to ensuring access to credit, SHGs provide a way out of inefficient forms of informal savings, notably trusting friends and relatives with cash loans and maintaining cash at home. Savings habits – learning to save - in SHGs appears to induce more active savings in formal institutions, notably banks.

103. SHGs have clearly provided an effective mechanism for cash savings and are a preferred source for savings for members at the village level. Their potential for savings is currently limited, with a cap on the amounts that could be saved in each SHG and their second tier bodies. However, these institutions have promoted the habit of savings among the population which otherwise had very little access to savings services.

104. Transaction costs of savings mobilization at the SHG level are minimal for the organization and the members, a major advantage of SHGs versus other deposit takers. Yet valuable deposit instruments have not been made available to SHG members.

105. The idea of making the SHGs an institutional mechanism for handling higher level of savings independently may not be viable, given the level of operations and capacities that are required to handle these funds. However, the local base of SHGs for pooling and linking with a formal financial institution could be an option.

106. Credit through SHGs is the most important service that all SHG members access. Convenience and flexibility in accessing credit, higher volumes of credit with low interest rates and without any collateral and receipt of equal quantum of loans for all members seem to be important reasons for accessing credit through SHGs. However, the rate of interest charged to members by SHGs, without any charges for operational costs, seems unsustainable.

107. In spite of recent progress, especially in AP, governance continues to be weak. Bylaws exist but they are for the most part ignored or violated. Awareness of bylaws among members is low. Rotation of leadership is erratic and sometimes non existent. These findings confirm those observed in recent studies on SHG by APMAS, CGAP and others.

108. Among the managerial issues, bookkeeping is one of the weak areas where a majority of the SHGs need training. Only 41 percent SHGs in AP and 35 percent in Rajasthan have proper bookkeeping systems (i.e., regular, accurate, and transparent to illiterate members). Another weak area is clarity among members about features of savings and credit, which is an issue in 53 percent SHGs in AP and 66 percent in Rajasthan. On the other hand, more than 88 percent of the SHGs in AP and 62 percent SHGs in Rajasthan have agreed norms to run and manage the internal affairs. Clear benefit sharing mechanism exist in the majority of AP SHGs but are reportedly non-existent in Rajasthan.

109. The AP findings show that governance improves substantially at the second (VO) and upper tiers of the SHG system. This is attributed to the close connection with and guidance from the state government programs.

Contrasts between AP and Rajasthan and lessons/implications for SHG development

A number of contrasting findings portray the differences in the style and pace of development of the SHG movements in the two states. We underscore the following:

- The net borrower position (loan-deposits) was much higher in AP than in Rajasthan, reflecting the much more advanced level of development of the movement in AP.

- Independent analysis of Andhra Pradesh and Rajasthan clearly shows the divide in the capacities of SHGs between the two states. In AP 37 percent of the SHGs exhibit good overall capacities in terms of governance, functioning and so on and 58 percent have average capacities. However, the data indicate that they need to strengthen their capacities in areas such as establishing linkages with other financial products, program management and performance, and governance.

- Access to bank funds was substantially higher among AP SHGs than in Rajasthan. Repayment performance was also better in AP.

- Apex bodies/second-tier structures are operational only in AP, a major factor explaining the differences in performance between the two states.

- SHGs in Rajasthan need substantial capacity building if they are to be sustainable in the long run, moving from the first stage of thrift collection to second stage of accessing loans and eventually a third stage providing other financial services.

- The role of state programs in promoting and supporting the SHG movement has been important. Lessons from the AP experience will be useful for other states to avoid mistakes and skip stages thus improving their chances of growing quickly and sustainably.

A. Extent and Modalities of Savings Practiced by SHG members and Demand for Savings Services

110. The study covered four districts in total, of which three were in AP and one in Rajasthan. The districts were ranked according to SHG per rural family. The districts were then classified according to three categories based on SHG density, ie. high, medium and low. In AP one district per category was selected, while in Rajasthan only the district representing the medium category was selected. For further details see annex 1. While the report refers to findings for the surveyed district in Rajasthan as findings for Rajasthan, it should be noted that the district as noted above only represents those areas that have medium density of SHGs.

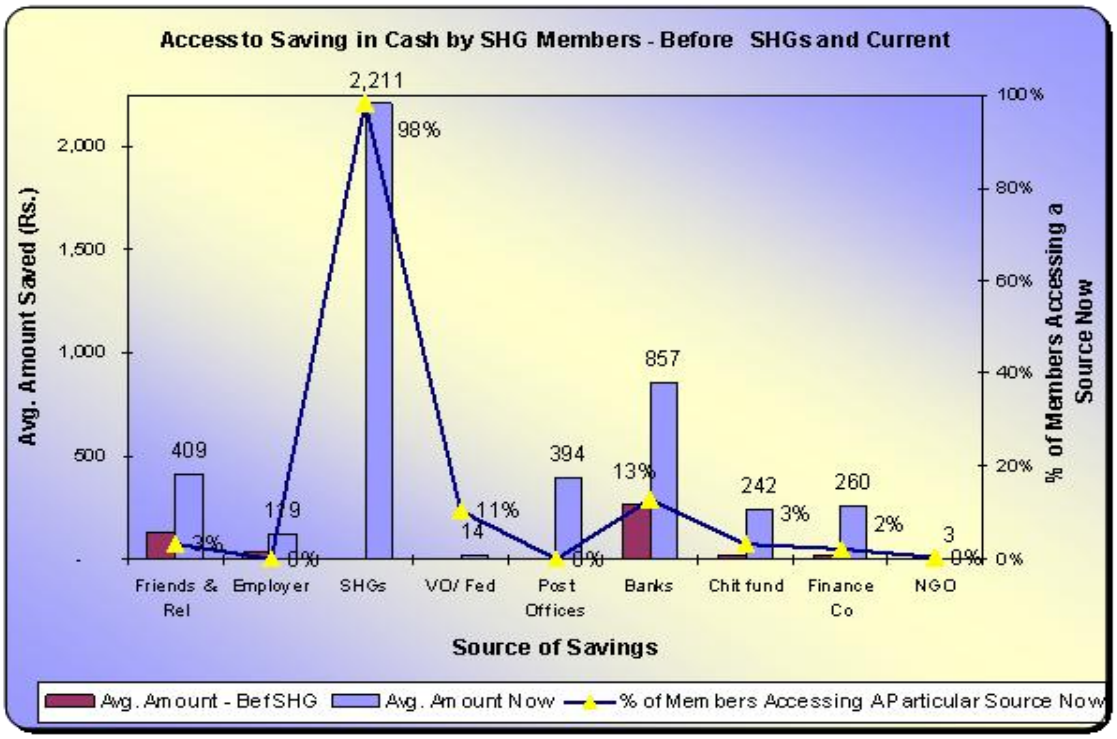
111. All the SHG members covered through individual interviews were asked about their current savings practices, changes in savings pattern after the formation of SHGs and their interest and perception about savings in SHGs.

1. Extent and Modalities of Savings by SHG Members

Sources and Quantum of Savings

112. All members interviewed (1,600) during the study reported savings in some form or the other. Savings were reported to be in cash and kind. Of the total members met during the study, 99.5% of members reported savings in cash.

Figure 2: Sources and Quantum of Savings



113. The data relating to 'before SHG' in the above figure may be referring to different years, as SHGs have been formed over a period of six to seven years. The comparison given here is meant to give an idea about change in patterns before and after SHG formation and does not take into account the number of years.

114. Within the SHGs, the average amount of savings per member was Rs. 2,211, or about 5.6 percent of India's per capita income. If one takes into account that SHG members are in the bottom quintile of the country's income distribution, the share of household income going into savings may be as high as one fourth or one third.

115. All members of SHGs have compulsory cash savings, which is a requirement for being a member of SHG and accessing credit services. Therefore, 98% of the respondents

reported savings in SHGs; the balance 2% members who reported no savings in SHGs are members of SHGs that have not been performing well.

116. The bank was the next preferred source with 13% of members reporting an average savings of Rs. 857 with the bank.

117. While comparing the profile of savings among SHG members in AP and Rajasthan before and after the creation of the SHG, in AP where the SHG movement is well developed, the proportion of members accessing other formal sources for savings, has slightly decreased whereas in Rajasthan, along with increased savings in SHGs, the proportion of members accessing formal sources of savings such as post offices and banks has gone up. There has also been a small increase in access to finance companies and chit funds in Rajasthan.

Table 7: Proportion of Members Savings and Average Amount of Savings in Various Sources

Sources	Average Amount of Savings in Various Sources			
	AP		Rajasthan	
Total Samples--->	1,198		392	
	Before SHG	With SHG	Before SHG	With SHG
Friends & Relatives	141	517	86	85
Employer	-	1	117	474
SHG	-	2,420	-	1,584
Village organization	0	18	0	-
Federation	-	0	-	-
Bank/Coop Socitely	217	705	420	1,313
Chit Fund	10	177	43	436
Finance Co/ mFI	-	192	62	467
NGO	0	5	-	-
Cash at home	145	471	337	764
Post office	84	243	406	848
Overall	**596**	**4,749**	**1,471**	**5,496**

Sources	Proportion of Members Saving in Various Sources			
	AP		Rajasthan	
Total Samples--->	1,198		392	
	Before SHG	With SHG	Before SHG	With SHG
Friends & Relatives	9%	4%	6%	2%
Employer	0%	0%	0%	0%
SHG	0%	99%	0%	98%
Village organization	0%	14%	0%	0%
Federation	0%	0%	0%	0%
Bank/Coop Socitely	11%	9%	16%	25%
Chit Fund	2%	2%	5%	7%
Finance Co/ mFI	0%	1%	3%	5%
NGO	0%	0%	0%	0%
Cash at home	85%	37%	86%	37%
Post office	9%	6%	8%	12%
	100%	100%	100%	100%

118. The effect of the emergence of the group that clearly stands out is the switch to SHG savings away from informal means of financial savings such as cash at home and lending to friends and relatives. The switch to SHG savings is in proportional terms rather than in absolute terms. Meanwhile, as indicated above, the use of other formal sources does not diminish.

119. The trend shows that in a well evolved system of SHGs, the members are likely to prefer saving in SHG (as seen in AP) compared to other (informal) means of asset holdings. It also shows that the access to formal institutions for savings (in banks, post offices and finance companies) has also increased, resulting in increased quantum of savings in formal institutions.

120. While analyzing the 'net' position of the SHG members, i.e., savings minus the credit from SHGs, 72% of the members had a 'negative' net position. The proportion was highest in AP where the SHG movement is well evolved and therefore members were able to get higher amounts of credit against their savings. Discussions with the SHG members revealed that members get large quantum of credit and most of their income is used to repay the loans, leading to lesser potential to save. They are therefore able to save only the minimum amounts prescribed for being SHGs members and for obtaining reasonable amount of credit from the banks.

121. None of the SHGs in the sample have offered 'voluntary savings' as a product for its members. Member's perception (documented during focus group discussions) is that SHGs is a mechanism for saving a prescribed amount and accessing loans to meet their immediate felt needs. The reported savings by members therefore have been compulsory savings as prescribed by SHGs and have been very minimal, in the range of about Rs. 50 per member per month.

Other Savings Service Providers in the Study Area

122. Other savings service providers in the study area have been banks, post offices and finance companies in the formal sector and friends/ relatives, employer and chit funds in the informal sector. There were a few private operators offering savings products in the last two to three years (see box).

The experience of post office at Pirangipuram, Guntur, Andhra Pradesh

This post office started operations 22 years before. From the villages, widely preferred scheme were savings bank account (7% interest) and recurring deposit (11% interest). In SB account, there are 20 accounts and in RD 50 accounts. Savings account has inbuilt insurance. Minimum for savings under these are Rs. 50.

Private Savings Service Provider
Jupudi Village, Andhra Pradesh

In this village there are 5 agents of 'Agrigold' company. One of the agents is an auto driver with whom the study team interacted. He covers 7-8 villages and has been in the business for the last two years.

The following savings products are offered by this Company:

Scheme	Who are the clients	No of clients	Key features of the scheme	Savings
Daily savings	Daily wage earners, petty business	30	Save Rs.10 every day for 25 months, and get Rs.8,300 (about 11% interest) at the end of the period	Rs.10 daily
Recurring Deposit	Farmers, Daily wage laborer	5	Save Rs.100 per month for 36 months, and get Rs.4,100 at the end of the period	Rs.100 to 200 per month
Fixed Deposit	Farmers, Daily wage laborer	4	An FD of Rs. 5,000 fetches Rs. 10,000 in 6.5 years and Rs.20,000 in 10 yrs	Rs. 3,000 to Rs.10,000

The daily savings scheme is the one most widely used by the villagers as they can save daily earnings at their door step. In this village around 35 SHG member households reported saving in Agrigold. Clientele of the agent mainly are his relatives and friends. The agent felt that SHG is making negative contribution to his business as all SHG members avail large loans and repay, and usually do not have money to save.

All five agents together have collected about Rs. 60,000 from this village through their savings products.

123. In the formal sector, next to SHGs, banks have been the most accessed source for savings, with about 13% of the members having savings in banks (mostly savings bank account). However, the average amount per member was only about Rs. 857 (with range from Rs. 100 to Rs. 100,000). On inquiries, it was found that many bank accounts have been opened to access funds under the housing program of the government. Very low proportions of members have used banks as a preferred agency for their savings.

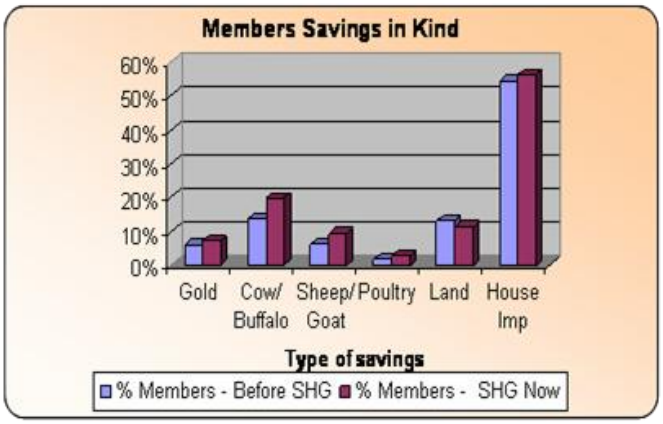
124. Post offices have also been used for savings, by about 8% of the members interviewed. The most used savings method under this source has been recurring deposits, followed by savings bank account, which is linked to insurance. The average

amount saved in post-offices is also low, at Rs. 394 per member. Thus, SHGs have clearly provided an effective mechanism for cash savings and are a preferred source for savings for members at the village level. Their potential for savings is currently limited, with a cap on the amounts that could be saved in each SHG and their second tier bodies. However, these institutions have promoted the habit of savings among the population which otherwise had very little access to savings services.

Profile of non-financial savings

125. There were also other forms of savings, i.e. savings in kind reported by the members. Improvements in housing has been the foremost investment choice for over half of respondents (repairing, adding new rooms, etc.). In Andhra Pradesh, investment in land was higher (for about 15% respondents) and in Rajasthan higher proportion of persons invested in livestock.

Figure 3: Members Savings in Kind

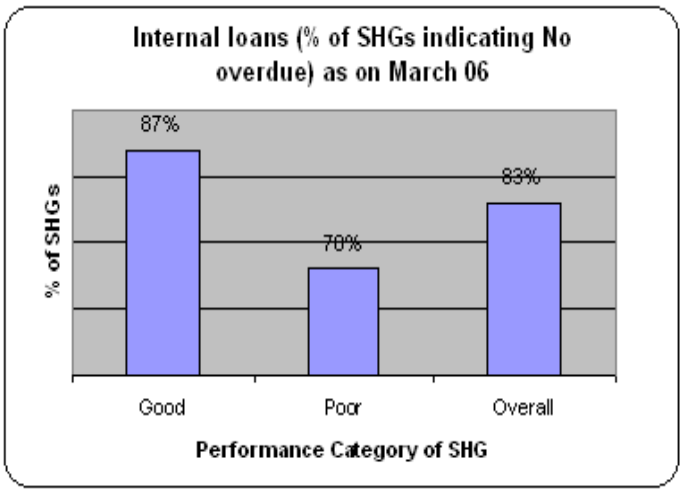


126. Here again, the study tried to explore the change in pattern of savings, and found that there has been very little change in use of these options (i.e. the proportion of members using these options remain more or less same before and after SHG). It is likely that continued investment in physical assets is because these are essentials that every household would want to invest in or, alternately, that such investment is driven by the absence of other safe and attractive options to save in cash.

Member Savings as Funding for Internal Loans

127. It is a common practice among SHG members to use their savings as internal loans. The study shows that 83% of internal loans are repaid on time, 87% in the case of good SHGs and 70% for poor performing SHGs.

Figure 4: Internal loans



128. While SHG repay their external loan promptly, a 17 percent overdues overall in their internal loans is well above acceptable levels in microcredit practice (typically about 5 percent). Data regularly kept by SHGs does not allow a portfolio-at-risk (PAR) type comparison with established MFIs

For example, MFIs reporting to the MIX in Asia had a median PAR>30 days of .2.1 percent in 2006. Those with a low-end target market had a similar level (2.3 percent).

Costs of Mobilizing Savings

129. At the SHG level, the direct costs associated with mobilizing savings are minimal, mainly because members save during the regular monthly/fortnightly meetings of SHGs. Members bring cash to these meetings and deposit it with the SHG book-keeper or the office bearers. Book entries are made against individual names for the receipt. The amount thus collected is usually disbursed as internal loan to members, and therefore costs for transferring that amount to the bank is usually not incurred. Any additional amount remaining with the SHG is deposited in the bank, usually during their visit to the bank for loan repayments. There are no additional charges paid for managing these funds. As mentioned previously, additional mobilization of savings by SHGs apart from the compulsory savings was not practiced by any SHG in the study sample.

Profile of Savings – Key Points

130. To conclude, savings as a habit has improved among the SHG members, with SHGs and its linkages providing a critical institutional base. There is an increasing trend in accessing formal sources for savings, but there is a long way to go in terms of developing appropriate savings products and institutional mechanisms that facilitate these. With the advent of SHGs, use of informal sources for savings has substantially come down in proportional terms. However, the savings services currently provided by SHGs and its linkages have limitations such as cap on savings amount, non-payment of interest, etc. which may hinder mobilization of higher quantum of savings through this mechanism. The role of savings in the sustainability of the system is addressed in the proceeding sections.

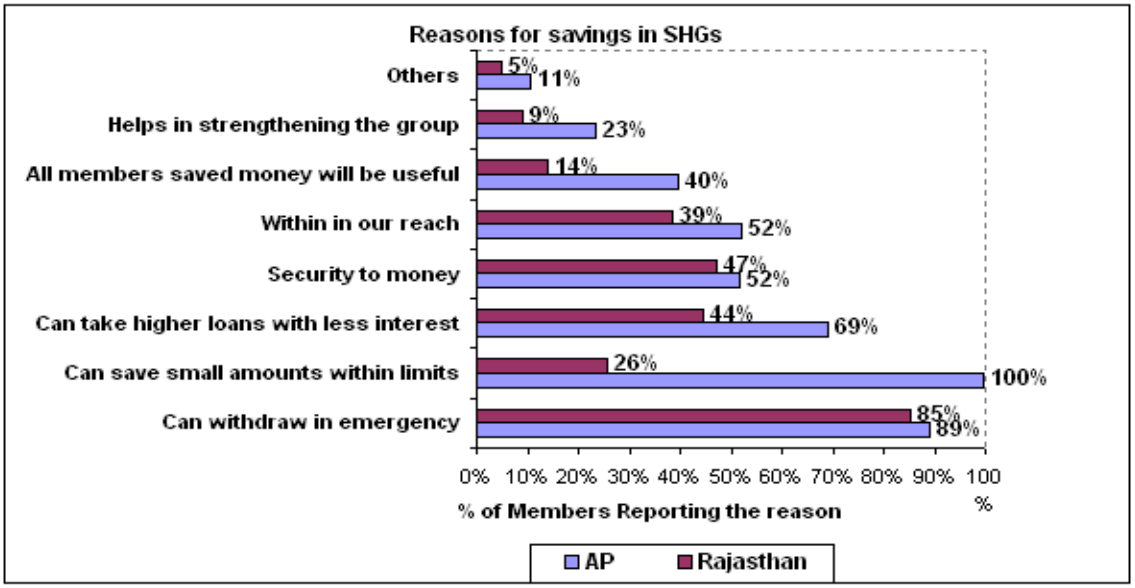
2. Interest and Willingness of Members in Savings with SHGs

131. Of the total members interviewed, 95% expressed interest to save with the SHG rather than the bank. In Andhra Pradesh, where the SHG program is strong, well evolved, and backed by the government, 98 per cent of the respondents expressed interest to save with SHG and very few were interested in saving with banks. Though 84 per cent in Rajasmound (sample district in Rajasthan) preferred to have savings with SHG, 16 per cent expressed interest to save with banks. There was no difference in members' interests based on the performance[47] of their SHG. The preference for savings in SHG was higher in Andhra Pradesh where the visibility and coverage of SHGs was far higher than Rajasthan.

[47] As per the Bank's category.

Main reasons reported by the members for preferring the SHG over the bank for savings are as follows:

Figure 5 : Reasons for Savings in SHGs



132. The data show that a majority of the SHG members in both Andhra Pradesh and Rajasthan are of the opinion that during an emergency situation (mostly crisis within the family) they can easily withdraw the amount that was saved with SHG. Looking at the opinions documented from members of both the states, members in Andhra Pradesh have strong perceptions on some of the issues related to the savings. They feel that thrift will help strengthen the group concept, saving the small amount within their budget limits and pooling the small thrift together will help meet the felt needs of individual members through loans and so on. Such perceptions indicate that they realize the importance of thrift and bank linkage. In Rajasthan such perceptions are slightly different since the SHG movement in the state has not yet crossed the first step of thrift and group concept.

133. Members who preferred to save with the bank were of the opinion that there would be security to their savings. It was found that such responses came from the members whose SHG were not functioning well (in their own opinion or perception).

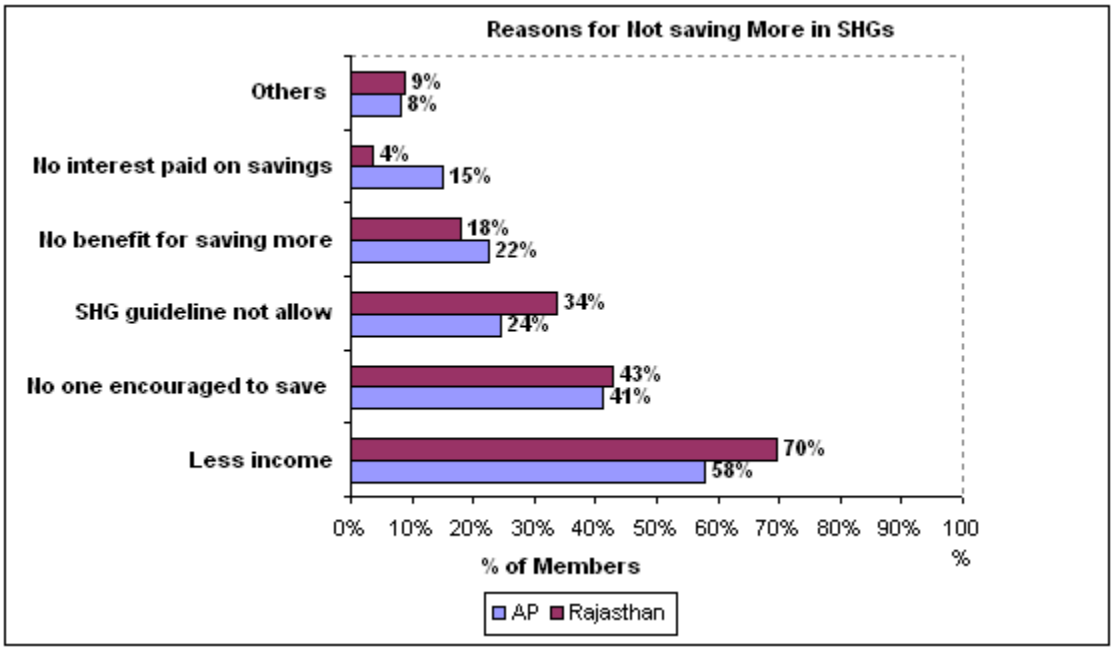
134. Although two-thirds of members wanted to save more money with SHGs (i.e. beyond the compulsory savings), close to 70% of them reported inability to do so due to low incomes and surplus in hand. Only 30% reported the capacity to save more immediately. By and large the agreed amount of savings is Rs. 30 per month by each member of the group. However this depends on assured livelihoods (mostly influenced by the climatic variations, particularly in AP) and the degree to which the members can "fall back" on the family in times of need. The study observed that the monthly savings

ranged from Rs. 20 to 100 in both the states. Further it was observed that some of the members are capable of saving more than what they are saving now.

135. These primary evidences indicate that members were ready to save with the SHG and to borrow from SHG because of the inherent advantages of convenience for operations, and incentives such as access to higher amount of credit with little savings and low interest loans for operations.

3. Factors Affecting Access to or Increasing Savings in SHGs

Figure 6: Reasons for not saving more in SHGs



136. When asked about reasons for not saving higher amounts in SHGs close to two-third of the responses from members were related to lack of potential to save more given their current levels of income. The factors related to SHGs were that the guidelines within SHGs did not allow for a higher quantum of saving and furthermore, there was no encouragement for or benefit from saving more in SHGs.

137. It is, therefore, important that the potential to save at household level is improved through activities that generate incomes. It should be noted that members can only channel increased incomes into the SHG if that is a product that gives better returns and benefits to the members for their savings.

4. Conclusion on Profile of Savings

138. To conclude, savings being an important criterion to access higher amounts of credit at low interest rate constitute the main attraction for the current level of savings through SHGs. The cost of mobilizing savings is negligible, as the members save during meetings directly with the office bearers (leaders) and savings are mostly given out as internal loans. There is willingness among a large proportion of members to increase savings within SHGs. Most prefer the SHG medium to any other for savings given its approachability, and flexibility in savings and withdrawal. However, factors such as low levels of incomes of households, guidelines within the SHGs not allowing voluntary

savings, no returns on savings and the perceptions that SHGs may not be able to handle more funds, seem to be the factors that hinder higher levels of savings mobilization through this mechanism.

139. In addition, albeit not explicitly voiced by SHG members, the instruments and modes available are too limited to attract additional voluntary savings. Moreover, the "first-order problem" of "savings as a verb" in Rutherford's terminology of providing frequent, convenient, friendly and safe way of making deposits – such as SafeSave with its daily collection - may have only been addressed in very few particularly well behaving SHGs, none of them in the study sample.

140. Once the first-order problem is resolved, then two products rather universally valued by poor people are: (a) a fully liquid passbook savings with absolute deposit/withdrawal flexibility; and (b) a form of "commitment savings" that favors some lump-sum accumulation before transformation in some other asset[48].

141. If a higher level of savings mobilization is thought of through this mechanism, these are likely to be in small amounts, with flexibility in withdrawal and in savings, and with incentives built through better returns. The idea of making the SHGs as an institutional mechanism for handling higher level of savings independently may not be viable, given the level of operations and capacities that are required to handle these funds (detailed assessment of capacities of SHGs and their linkages model is given in subsequent sections). However, the local base of SHGs may have some potential for pooling savings and linking with a formal financial institution.

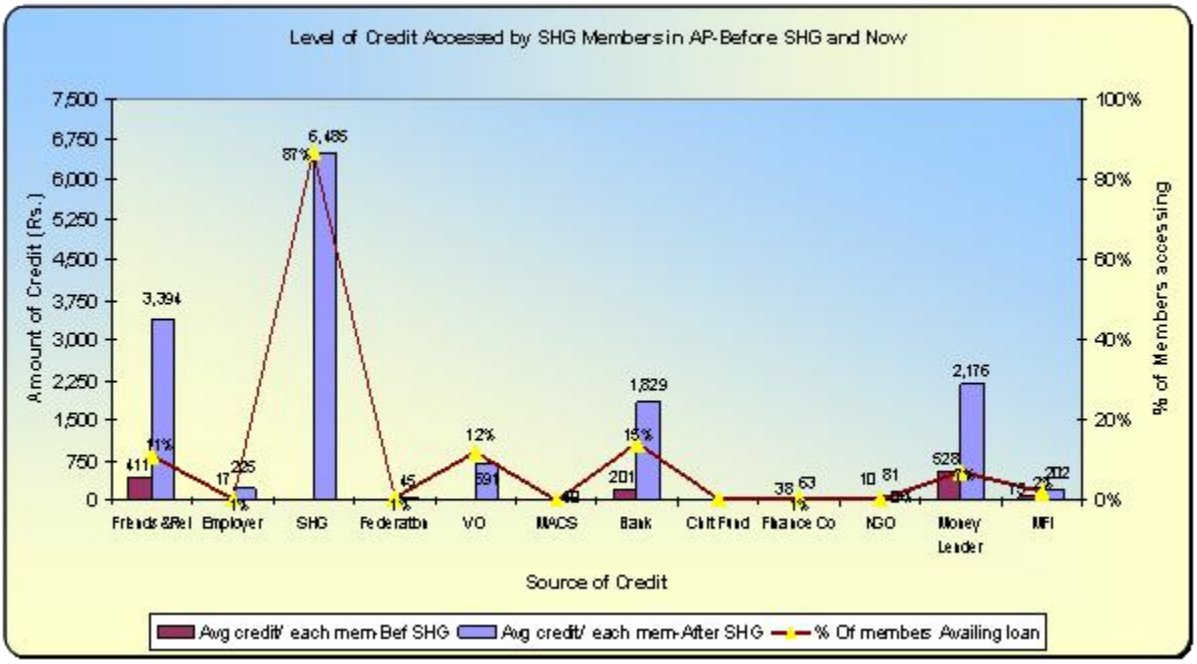
B. Other Financial Products - Credit and Insurance -through SHGs

Credit Access

142. Although savings is the focus of the study, the role of SHGs in accessing credit cannot be left out. In particular, since as has been documented throughout the report, giving group members access to credit is effectively the "raison d'être" of SHGs.

[48] Stuart Rutherford, communication with authors, March 2008.

Figure 7: Level of Credit Accessed by SHG Members in AP

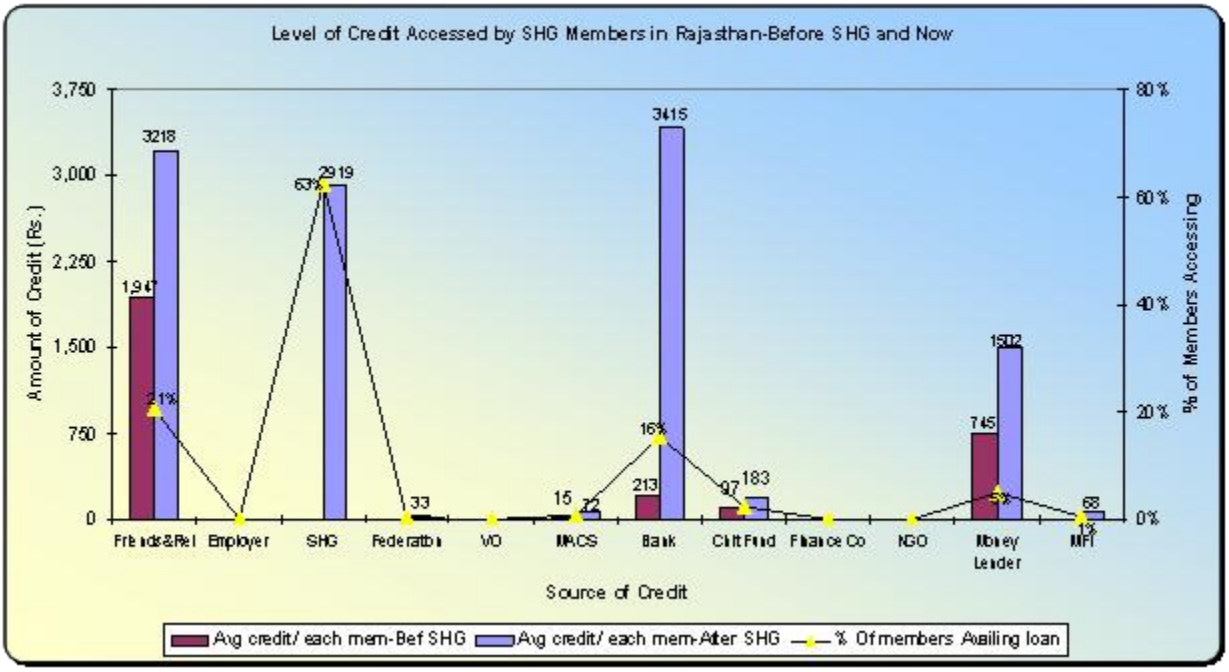


143. Detailed analysis on access to credit by the SHG members indicates that in AP the majority of the members (87%) are accessing credit through SHGs. Quite a few are accessing loans from their friends and relatives, money lenders and directly through banks. It is interesting to note that other sources such as employer, NGO, finance companies, chit fund, MFIs, VOs and MACS are also providing credit to the SHG members but very few members are applying for credit from these sources. During the focus group discussions members explained that whatever credit they access from SHG is used for consumption purpose and/or on expenditure such as meeting the health and education needs of the family members. In addition, if they need more credit to meet their occupational requirements then they opt for other financial products. It is also evident that before joining the SHG, members used to access credit from friends and relatives, moneylenders and even banks. After joining the SHG members do not only continue to access these sources, but it has been noted that the proportion of loans taken from these other sources has increased considerably.

144. These findings also apply in Rajasthan. Before joining the SHG, a large number of members used to access credit from friends and relatives and money lenders. A few accessed from chit funds and banks. After joining the SHG the majority accessed credit from the SHG, but at the same time they also started getting a much larger proportion of credit from other sources.

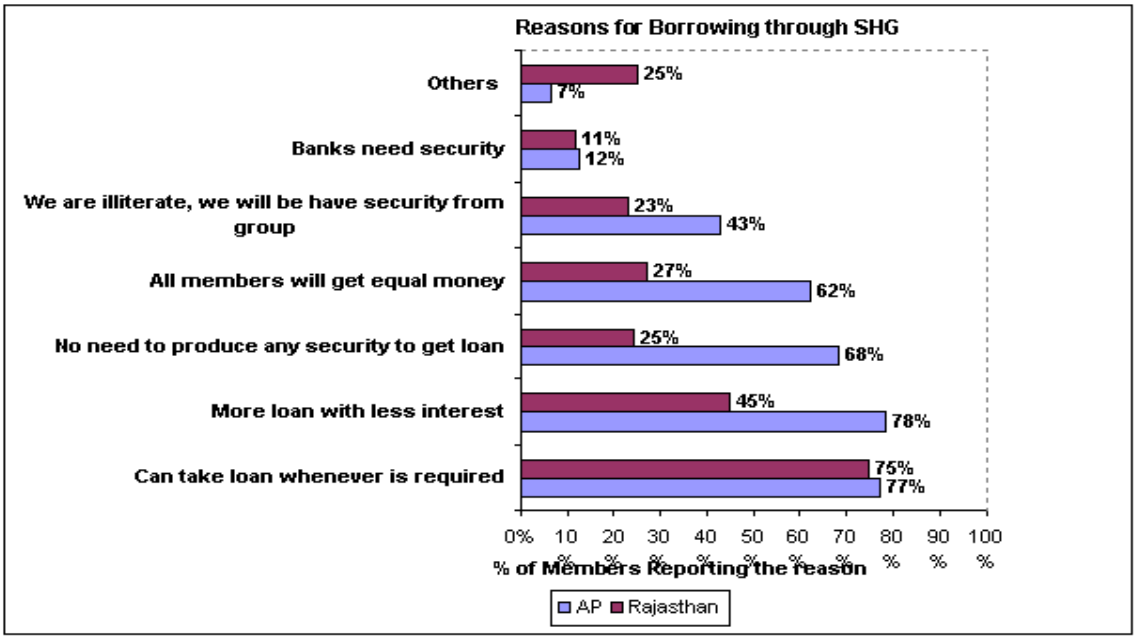
145. During the focus group discussions it was also reported that in some cases, members took loans from other sources to repay their loans to the SHG.

Figure 8: Level of Credit Accessed by SHG Members in Rajasthan



146. Before joining the SHG members were accessing the credit from informal sources like friends and relatives and money lenders (84% of SHG members). After joining the SHG 83% members accessing credit from formal sources like SHG –VO and Banks. Reasons for preference of SHGs as a credit source are shown in the chart below.

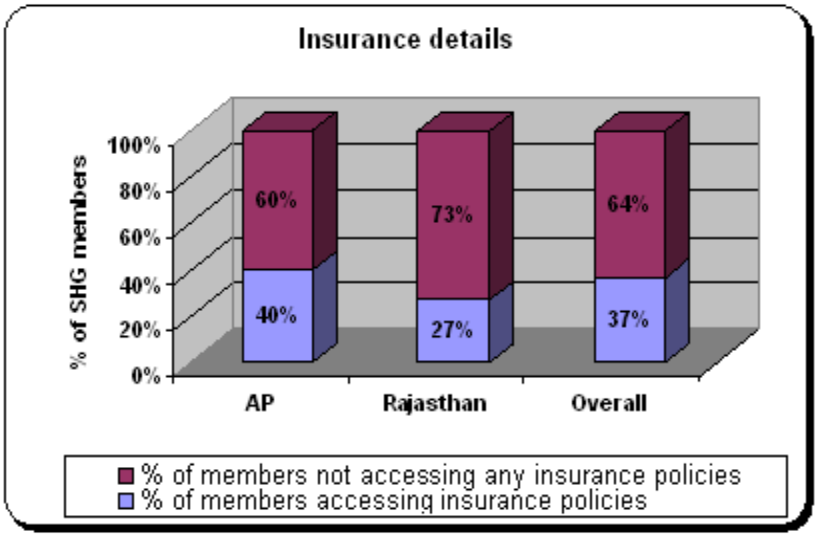
Figure 9: Reasons for Borrowing through SHGs



147. The study explored the key reasons for the preference of SHGs as a credit source Here also a striking perception difference was observed between the members of AP and Rajasthan. SHG members in AP identified a few advantages in borrowing through SHG. For instance, there is no need to produce any collateral while taking a loan (which banks insist on), more credit is available for less interest (interest rates range from 2 to 6 percent in April, 2007 in AP if money was borrowed from money lender [49]); and that the loan can be shared equally among the members. These are also driving factors strengthening the SHG movement in AP. Fewer members from Rajasthan have expressed such opinions, probably since the SHG movement is relatively new, and they yet have to fully realize the benefits of credit from SHGs.

Insurance Services

Figure 10: Insurance Details



148. The data shows that in AP 40% SHG members were accessing insurance services, while in Rajasthan, the corresponding figure was 26.7%. These services were provided by insurance agents in 66% of the cases.

Other Financial Services – Conclusion

149. Credit through SHGs is the most important service that all SHG members access. Convenience and flexibility in accessing credit, higher volumes of credit with low interest rates and without any collateral and receipt of equal quantum of loans for all members seem to be important reasons for accessing credit through SHGs. However, the rate of interest charged to members by SHGs is the same as bank interest (i.e. 10% p.a. in AP), without any charges for operational costs, which seems unsustainable. These operational costs which include monitoring and supervision costs of VO, MS and SHGs, work out to about Rs. 490 per SHG per month (detailed calculations given later in the sustainability analysis).

[49] See Vijay Kumar, S. & K.S. Bhat, (2006) "Undeserved Deaths: Farmers Suicides in Andhra Pradesh" Edited, New Delhi: Allied Publishers.

C. Capacity and Viability of SHGs and their Apex Bodies

150. This section analyzes the capacities of the SHGs and their second tier structures with a view to understand the potential of these institutions to be viable, self sustaining and become mainstreamed institutions based on market mechanisms. To facilitate an understanding of the assessment, the roles envisaged for the various organizational tiers are summarized below.

	Roles and Responsibilities
Zilla Samkhya	-Monitoring all the mandal samakhyas effectively - Monitoring committee visit each mandal once in a month -Participate in project initiatives implemented by District Project Management Unit (DPMU) -Guiding all MS, VOs and field staff - Facilitating the bank linkages; widow, old age, disability pensions - Providing training - Solving problems - Facilitating marketing - Implementing the group life insurance - Providing scholarship to the children's of the SHG members
Mandal Samakhya	-Monitoring all the Village organisation effectively -Guiding all VOs and field staff - Facilitating the bank linkages; widow, old age, disability pensions - Providing training - Solving problems - Linking SHGs to insurance, marketing - Distributing CIF (Community investment fund) to VOs - Recycling of CIF - Review of functioning of VOs
Village Organisation	- Promoting and building capacities of SHGs - Monitoring all the SHGs effectively -Guiding all SHGs and field staff - Distributing the bank linkages; widow, old age, disability pensions - Credit facility, rice credit line, food security scheme - Solving problems - Linking SHGs to insurance, marketing - Distributing CIF (Community investment fund) to VOs - Recycling of CIF - Review of functioning of SHGs - Promoting the new SHGs - Attending regular meetings of MS - RGB and other meetings
SHG	- Savings, internal loans, bank linkages for credit - Monitoring all the members effectively - Guiding the members '-Solving problems - Promoting new SHGs - Facilitating bank linkages, insurance, other services - Attending regular VOs meeting - Saving regularly with VOs - Managing procurement of agri commodities; supply of inputs

151. It is apparent from the summary of roles and responsibilities that, at least in what relates to financial functions, bank linkages in particular; there is substantial repetition and duplication up and down the four-tier structure. This is in sharp contrast against modern financial networks where specialization at different tier levels is key to enable

functional efficiency within the network, and enable the network to compete with other market providers.

1. SHGs

152. The capacity of the SHG is analyzed in the following key areas of performance, which feeds into their sustainability. These key areas were given the same weight while determining the capacity of SHGs.

(a) Governance: Years of operation, bylaws, rules, rotation of leadership, control by office bearers and dependence on SHPI

(b) Functioning of the SHG: Regularity of meetings, level of participation in decision, following of group norms, equal opportunities

(c) Program Management and Performance: Access to records, performance of credit and savings, income generation operations

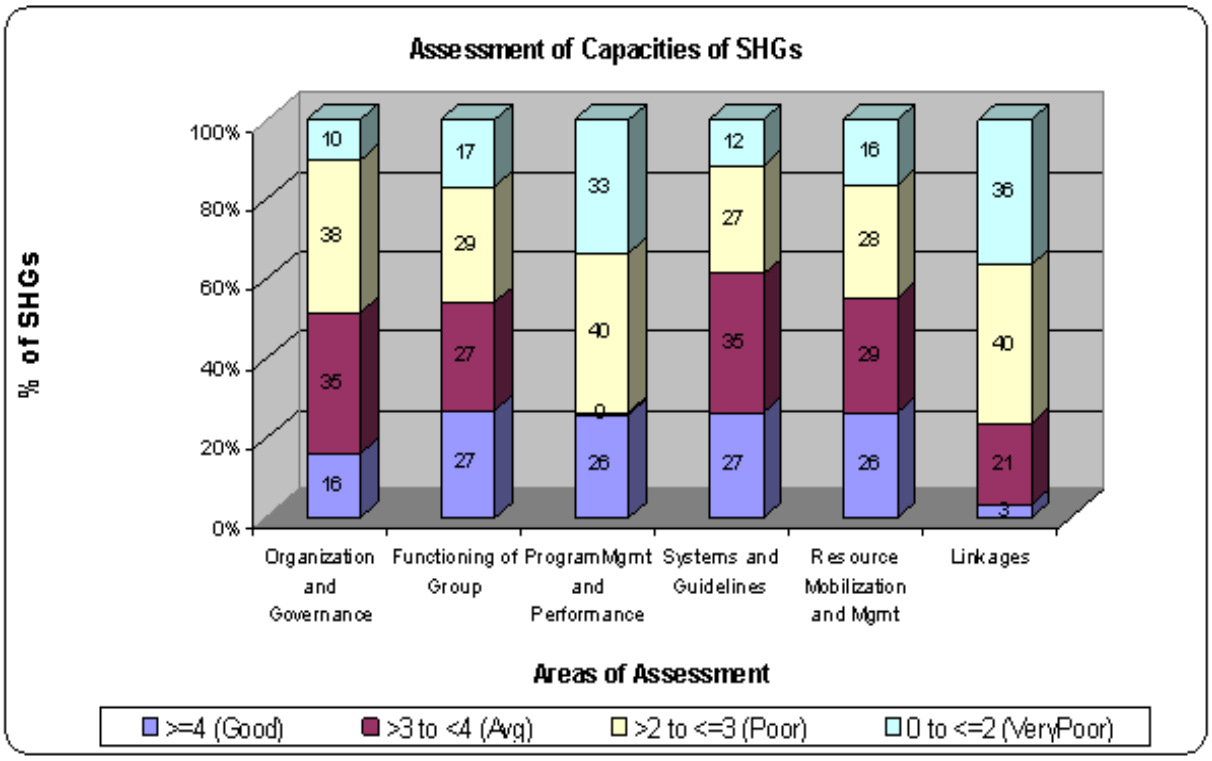
(d) Systems, Procedures and Guidelines: Book keeping, guidelines, awareness on features of products, benefit sharing mechanism, information sharing

(e) Resource Mobilization and Management: Regularity in savings, type and extent of utilization of internal funds, loans accessed from financial institutions, level of default and penalties, defaulted for external borrowings

(f) Linkages: Bank link for credit, extent of mobilization of credit and other services from other sources, linkages to federations, government programs, involvement in other programs.

To provide a quick overview of capacities that exist, the field study used a scoring method built on indicators under each of the above areas (between 0 and 5, with 0 being ‘poor’ and 5 being ‘good’). The results of this assessment are presented below.

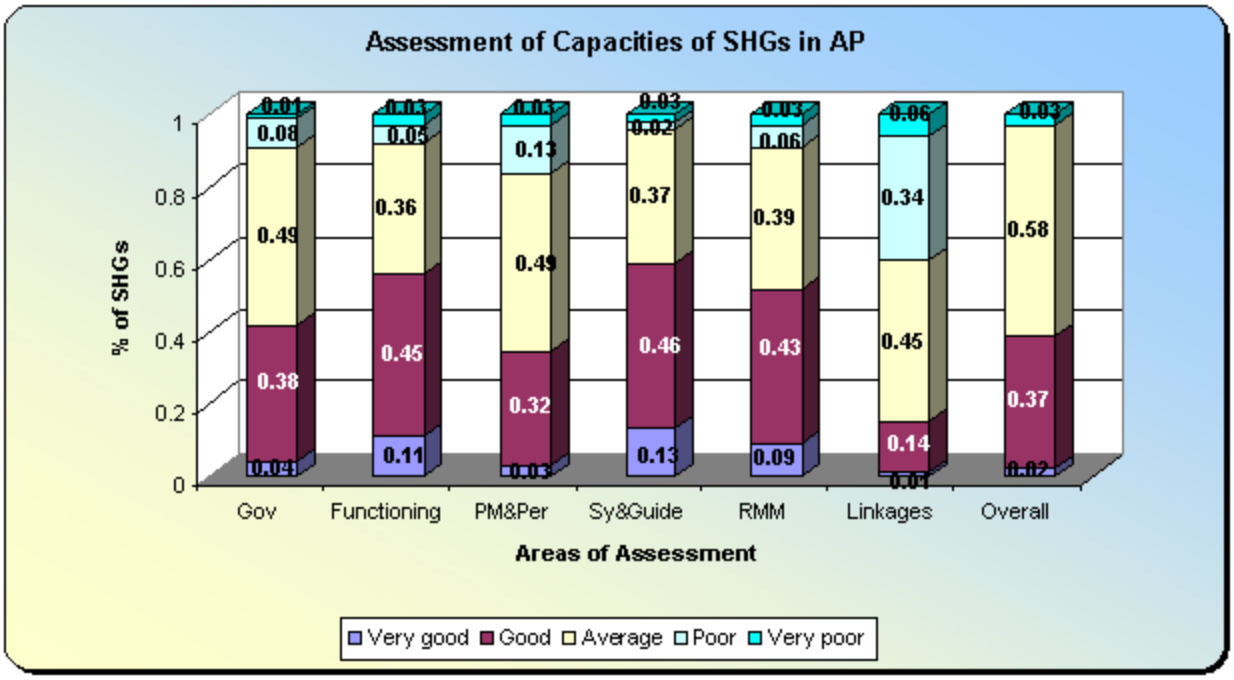
Figure 11: Assessment of Capacities of SHGs



153. As can be seen from the above chart, SHGs have exhibited higher levels of capacities related to 'systems and guidelines', 'functioning' and 'resource mobilization', with more than 55% SHGs exhibiting 'above average' performance (scores more than 3). The weakest areas identified have been 'linkages' and 'program management and performance', with about 75% of SHGs exhibiting 'poor' or 'very poor' performance. This shows that SHGs have been performing well in areas where there have been clear cut guidelines and operational support, but have faired poorly in areas that required working together as a group and taking up initiatives on their own (such as linkages and performance management). These areas are extremely crucial and most SHGs depend on SHPIs to provide them support in this respect. This may adversely affect their independent operations and effective management of programs by them.

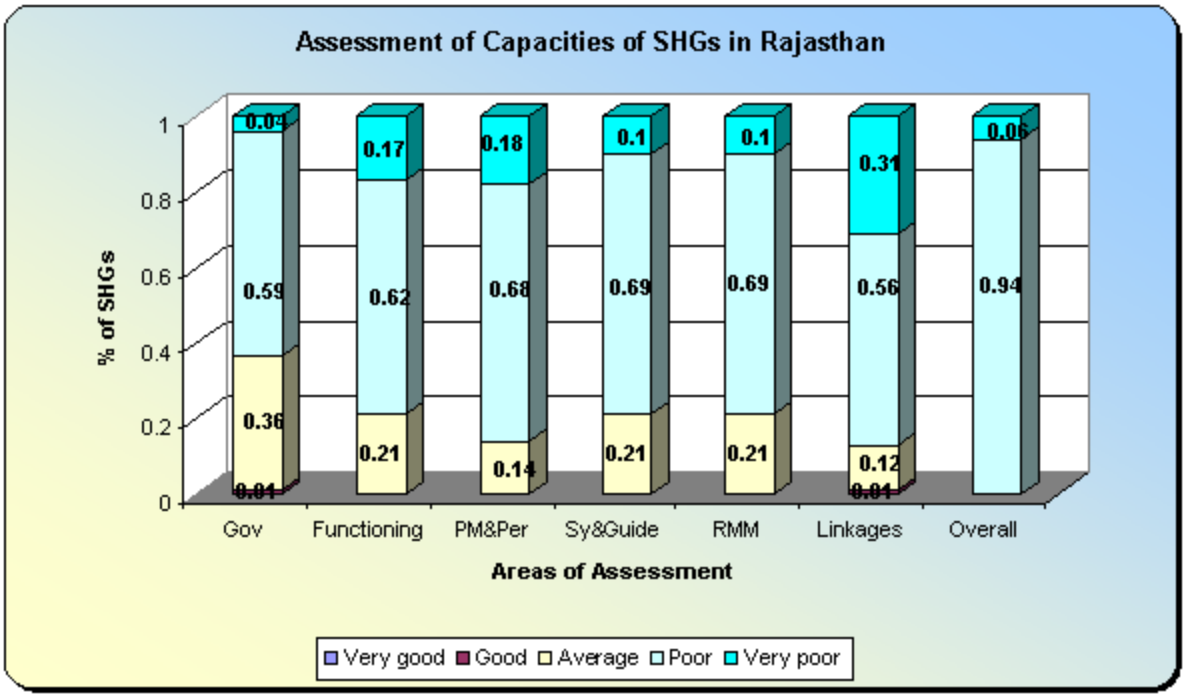
154. Independent analysis of Andhra Pradesh and Rajasthan clearly shows the divide in the capacities of SHGs in both the states. In AP 37 percent of the SHGs exhibit good overall capacities in terms of governance, functioning and so on and 58 percent have average capacities. However, the data indicates that they need to strengthen their capacities in areas such as establishing linkages with other financial products, program management and performance, and governance.

Figure 12: Assessment of Capacities of SHGs in AP



155. Data from Rajasthan shows that there is a major gap in several issues that determine the capacities of the SHG. About 94 percent of the SHGs are categorized as poor. In all the issues related to capacities their performance ranges from average to poor and a negligible number of SHGs are seen to perform well in terms of governance and linkages. This indicates that the SHGs in Rajasthan need substantial help with capacity building if they are to be sustainable in the long run, moving from the first stage of thrift collection to the second stage of accessing loans and finally the third stage of entering into income generating activities.

Figure 13: Assessment of Capacities of SHGs in Rajasthan



156. The study also observed large difference in capacities between SHGs that were categorized as 'Good' and 'Poor' by banks. The maximum difference between these categories was in the area of 'functioning of the group', followed by 'resource mobilization and management'. Overall, there has been an 'average' performance exhibited by the groups, with a long way to go for effective and sustainable self management. A detail of the assessment under each area is given below:

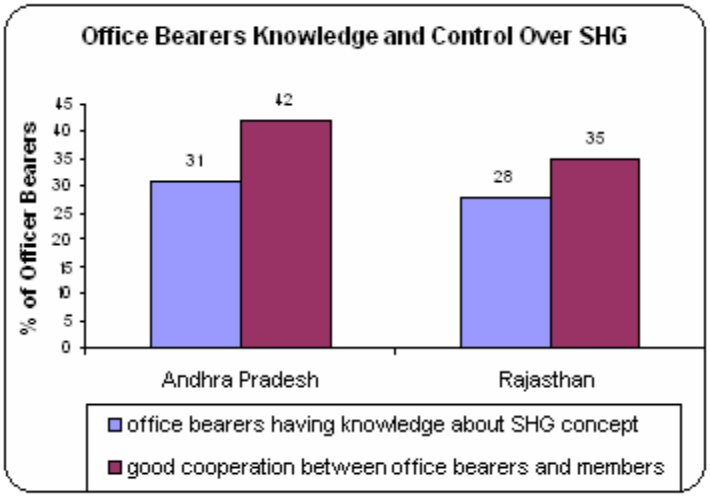
(a) Governance

157. All the SHGs that the study team covered had written bylaws. However, in a majority (66 per cent) of the cases in Rajasthan these bylaws were violated. In Andhra Pradesh violations were relatively fewer (23 per cent). Awareness and knowledge of the bylaws among the members is one of the important factors that determine the quality of the SHG. Very few SHG members in Rajasthan (12 per cent) had knowledge of bylaws whereas the situation in AP was slightly better (28 per cent). This is a common syndrome of top-down promotion by NGOs and/or governments even when true community roots exist. "Template" bylaws quickly appear and are allegedly "signed" by illiterate members without much understanding of their meaning.

158. Governance within the group was largely determined by the rotation of the leadership among the SHGs. In AP leadership was changing once in 5 years in 32 percent of the groups and once in 8 years in 17 percent groups. In 28 percent of the groups the leadership changed in one year. This could be on account of initial conflicts

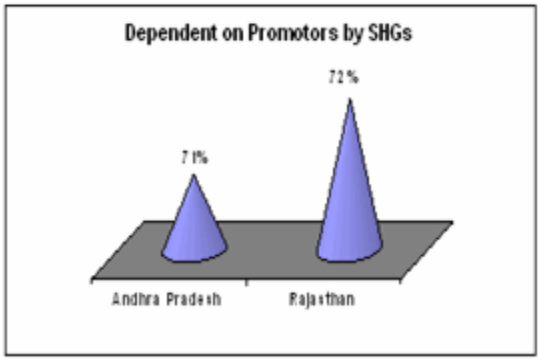
among the members that were resolved through a change in the leadership. The study findings showed that in few cases there had been no change in leadership since the inception of the SHG. Members of such groups explained that they had faith in their existing leader and no on else wanted to take on the leadership responsibility. Hence they were continuing with the same leader over time. While there are no established standards in leadership rotation, there seems to be professional consensus in that some regular rotation is desirable.

Figure 14: Office Bearers



159. In AP, only about 32 percent of the leaders (office bearers) knew about the SHG movement and its objectives. Also in AP, 42 percent of the respondent SHGs, there was comfortable cooperation between the office bearers and members. This is an indicator of the sustainability of the SHG. A similar situation was seen from the sampled district in Rajasthan.

Figure 15: Dependence on Promoters by SHG

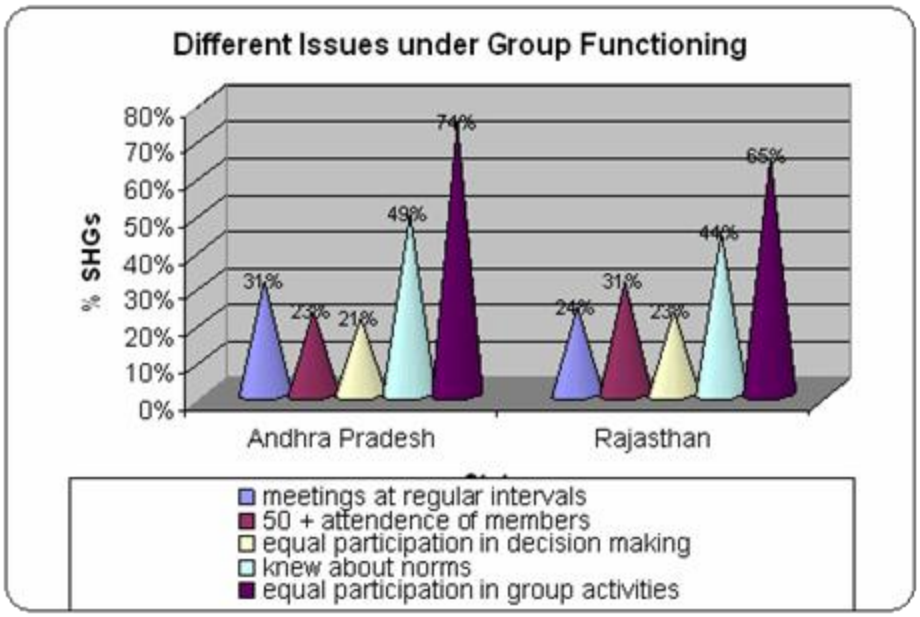


160. Dependence on promoters is high and the existing functional mechanism is promoting such dependence. Initially most of the groups were formed through the motivation and facilitation of NGOs. Later the government began encouraging poor women to form the thrift groups. In the case of Rajasthan, the government is playing a nominal role, whereas in Andhra Pradesh all the SHGs are under the supervisory control of the Velugu program. In both states the SHGs are being promoted by different agencies at different levels and a majority of the groups are dependent on their promoters. This dependency is in the areas of handling loans and subsidies, linkage with other government programs and capacity building.

161. By and large the quality of governance is average among the SHGs in both the states. However, in most cases the members are aware of the rules and regulations but do not have sufficient knowledge on how the regulations operate. This is one of the essential issues that should be emphasized in order to strengthen the governance of the SHGs.

(b) Functioning of the SHGs

Figure 16: Different issues under Group Functioning

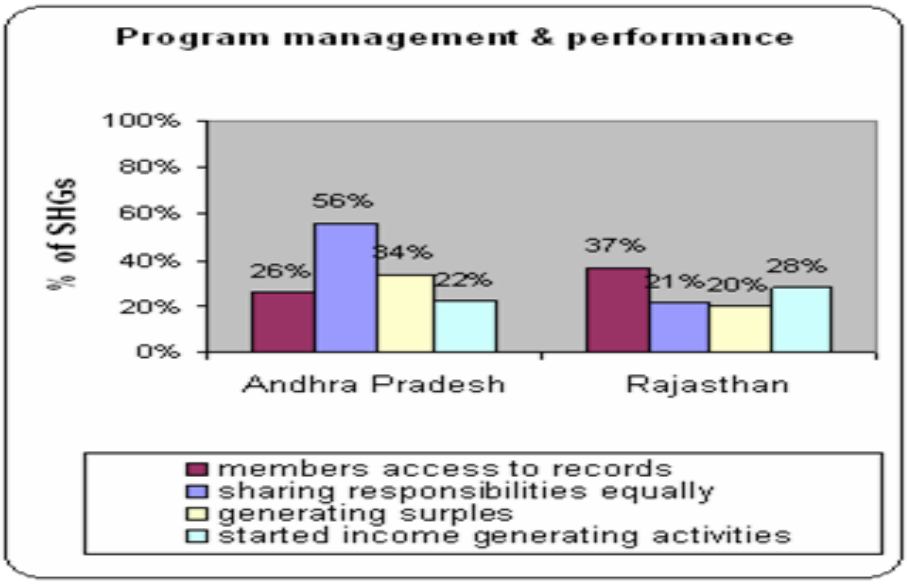


162. Functioning of the group as per the bylaws is an important factor determining the group quality. Regular meetings, member's participation, awareness of norms are some of the issues studied in this category.

163. The data in the figure above indicates that regular meetings have been held in nearly one-third of the groups in AP and a quarter of the groups in Rajasthan. This is largely because members are busy with livelihood activities. In addition, attendance rates are also low with 23% of groups in AP and 31% in Rajasthan reporting more than 50% attendance. Members, despite knowledge of norms, are not exercising their rights when it comes to making decisions. Only 21 percent of the groups in AP and 23 percent in Rajasthan report members participating in decision making within the group. Interestingly, in more than 65 percent of the groups the members are taking an equal role in group activities, an important indicator of group homogeneity and cohesion.

(c) Program Management and Performance

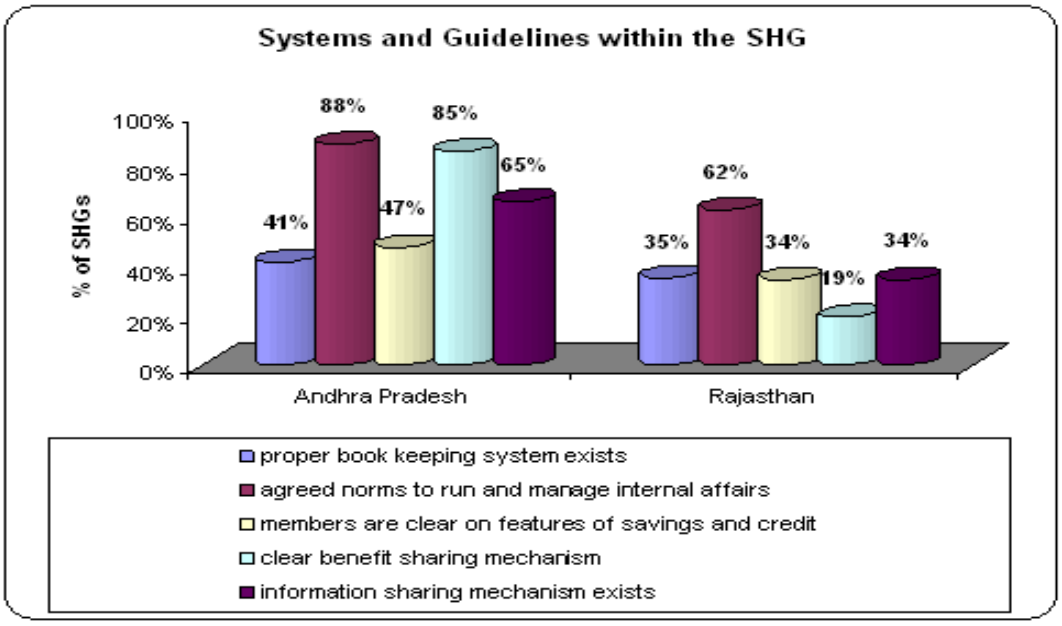
Figure 17: Program Management & Performance



164. Even though the government in AP has created a structure for the program, fewer SHGs (26 per cent) report access of members to reports whereas in Rajasthan this situation is somewhat better as shown in Figure 18 above. A notable observation is that in AP the majority of the SHGs (56 per cent) members are sharing responsibilities equally, whereas this is not the case in Rajasthan (only 21 percent). Generating surplus amount will occur if the group has reached a stage where all the members are having assured livelihoods. In AP 34 per cent of the groups have generated surplus amounts whereas in Rajasthan this figure stands at 20 per cent. In this context it is to be considered that if the group is taking loans for social consumption it would be difficult to generate surplus amounts to take the group activities further, unless productive activities are being funded from other sources. In AP particularly, the majority of the SHGs are now in the transition stage between fulfilling social consumption needs of members and lending for income generating activities. Personal interviews with bank managers indicate that unless the SHGs are supported with income generating activities it is difficult to sustain the groups with routine type of taking loan for social consumption and repaying the loans.

(d) Systems and Guidelines

Figure 18: : Systems and Guidelines



165. One of the important criteria of assessing the SHG performance and strength relates to its systems and guidelines. The study found that bookkeeping is one of the weak areas where the majority of the SHGs need training. Only 41 percent of the SHGs in AP and 35 percent in Rajasthan have proper bookkeeping systems, meaning regular accounting using the very basic standards of SHGs, carried out comprehensively and accurately and presented to members in the simplified audiovisual way that characterize SHG meetings.

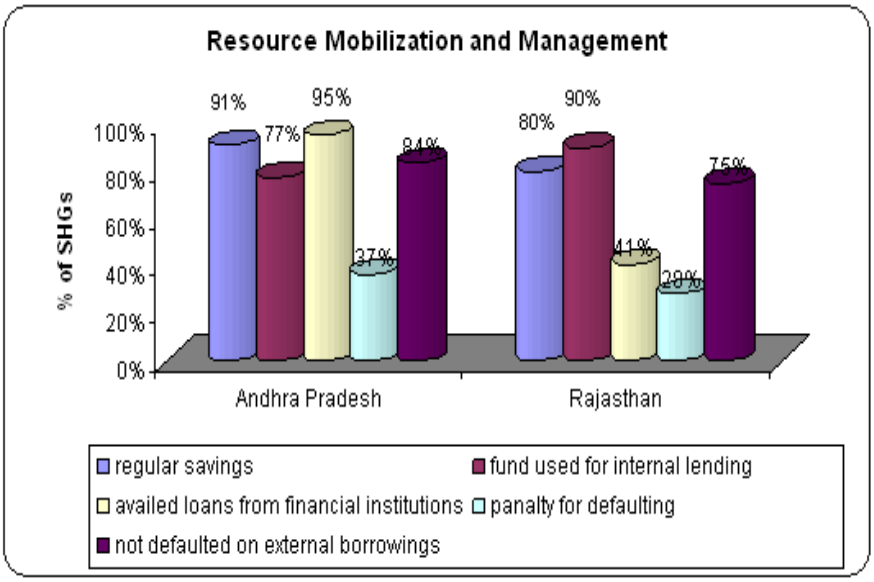
166. Another weak area is clarity among members about features of savings and credit, which is an issue in 53 percent of the SHGs in AP and 66 percent in Rajasthan. More than 88 percent of the SHGs in AP and 62 percent of the SHGs in Rajasthan have agreed norms to run and manage the internal affairs. It is important to note that clear benefit sharing mechanism exists among 85 percent of the SHGs in AP whereas this is as low as 19 percent in Rajasthan. In focus group meetings it was reported that such a system is not in operation among the SHGs in Rajasthan. Similarly information sharing mechanism is much stronger among the SHGs in AP as compared to Rajasthan.

(e) Resource Mobilization and Management

167. The study found that more than 80 percent of the SHGs in both the states have regular savings. Slightly over 77 percent of the SHGs in AP and 90 percent in Rajasthan utilized their funds for internal lending and in the majority of the cases the loans were utilized by the members for consumption purposes. In only few SHGs (22% in

AP and 28% in Rajasthan) did members obtain credit from the SHG for income generating activities. Since all the SHGs studied were linked to banks, they could obtain loans depending on their savings. About 95.2 percent of the SHGs in AP obtained loan facilities from financial institutions such as banks, or from IKP and DRDA.

Figure 19: Resource Mobilization and Management



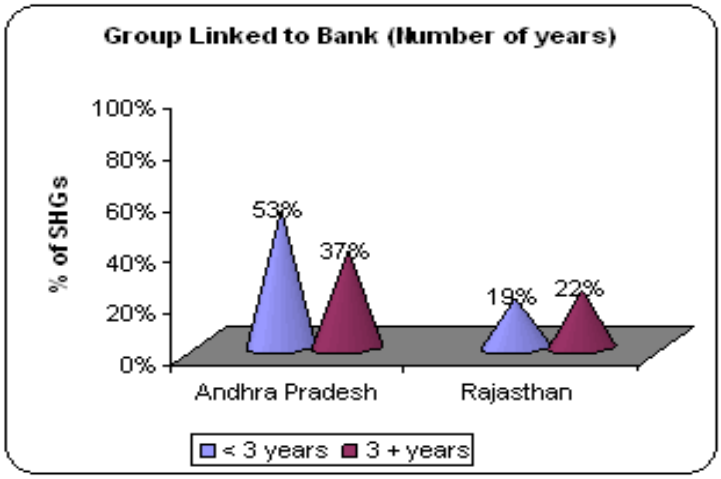
168. In Rajasthan fewer SHGs (41 percent) received loans from banks and other financial institutions than in AP. As per the norms of SHGs, defaulters need to pay a penalty to the group. However, such penalties are not strictly followed by the SHGs in either state. Of the SHGs that have taken loans from banks and other institutions, more than 75 percent have a good repayment record. In Rajasthan the default rate is 25 percent and in AP it is 16.5 percent. The main reasons given for default are drought or migration of members to towns in search of livelihood.

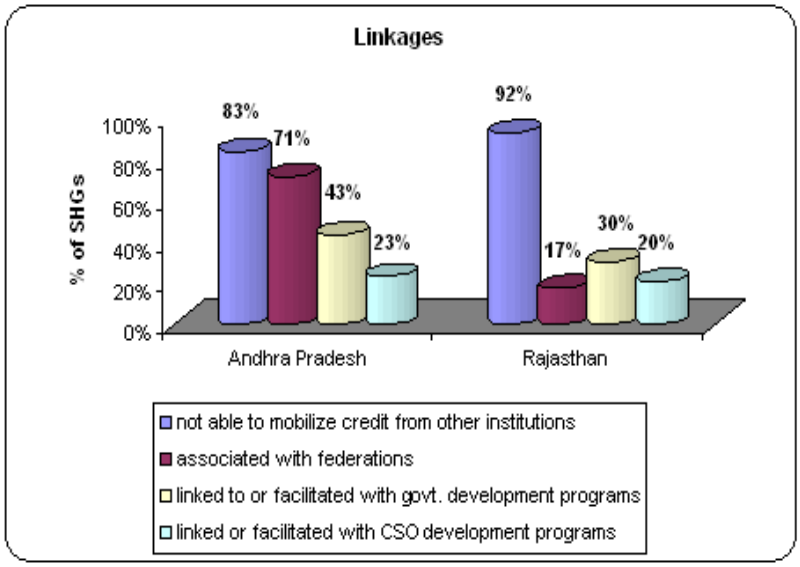
(f) Linkages

169. Bank linkages depend on the savings mobilization of the group. If for a year the group sustains with regular thrift and is able to save it in the bank, only then is it linked to the bank. In AP 37 percent of the SHGs have been linked to bank for over 3 years whereas in Rajasthan 22 percent of the groups are in this category.

The study found that more than 80 percent of the SHGs in both the states have not been able to mobilize credit from institutions other than the banks. In AP 71 percent of the SHGs are already federated into Village Organizations promoted by IKP. In Rajasthan 17 percent of the SHGs are federated with a couple of NGOs. Though governments in the two states claim that they are linking SHGs with their development programs, the results of the study do not support this claim. Only 43 percent of the SHGs in AP and 30 percent in Rajasthan were participating actively in government initiated development programs at the time of the field study. A similar situation exists in relation to the linkage with CSO development programs.

Figure 20: SHG-Bank Linkages





Conclusion

170. From the above discussions it can be concluded that there is a reasonably well established system of governance in a minority of SHGs, just about one third of the sample. Rotation of leadership is practised in most SHGs but is erratic. The dependence on promoters seems high in a few SHGs. Most groups have agreed norms to run their business and internal affairs but only a fraction (37 percent) actually follows them, due to lack of awareness or weak leader/member interaction. Many groups have borrowed from banks, but are yet to get linked to any other financial intermediaries. Only a few groups have defaulted in repayments, and where there has been default it has been on account of unfavourable livelihood conditions. In AP many SHGs have registered with federations promoted by IKP (VOs) whereas in Rajasthan few have such linkage. A moderate number of SHGs are linked to government programs, mostly in AP. Improved and

simplified linkages of SHGs upward through second and third tier apex bodies and with external agencies for sustained credit and other inputs would be essential to enable the SHG system to truly perform as a financial concern in the AP market.

2. Apex Bodies (Village Organisations, Mandal Samakhya and Zilla Samakhya)

171. Of the two states studied, apex bodies/ second-tier structures have been formed and are operational only in Andhra Pradesh. In Rajasthan, this concept was just evolving in 2007. The assessment under this section therefore focuses on second tier apex bodies in Andhra Pradesh.

172. As mentioned earlier, under the IKP community organizational structure, there are three levels of apex bodies above the SHG level: Village Organizations (VO) at the village level, federating all the SHGs in a particular village; Mandal Samakhyas (MS) are the apex bodies of VOs at the mandal level; and Zilla Samakhyas are apex bodies of MS at the district level. This section analyzes the functional and financial capabilities of Village Organizations in which SHGs from one cluster are federated.

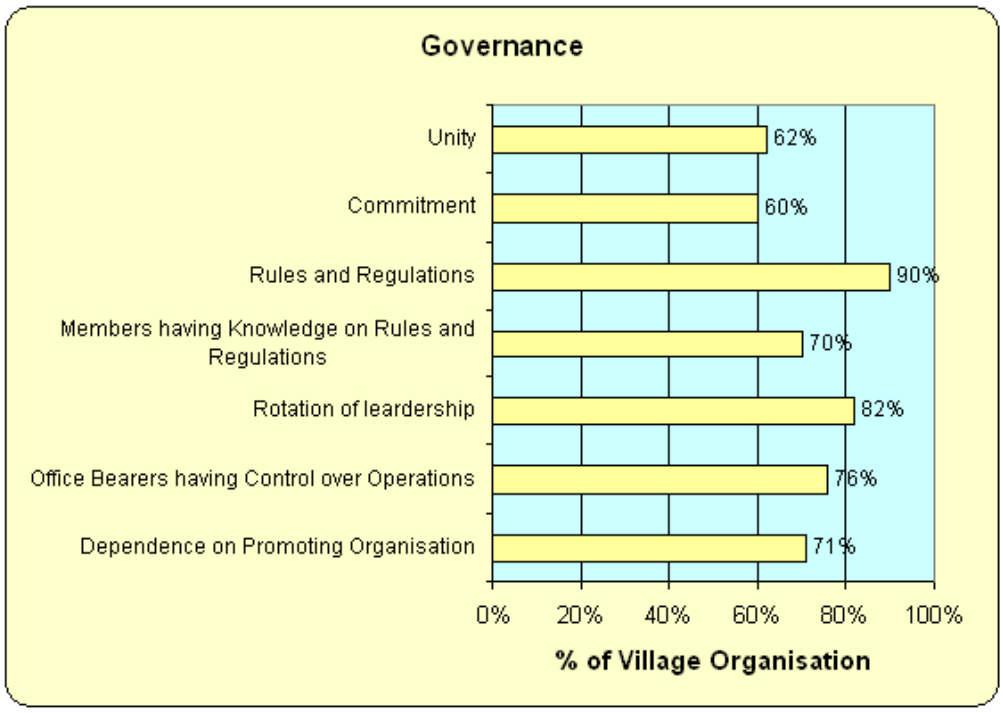
Governance

173. Unity among the members is the most important indicator of sustainability of this type of organization. Out of the total 29 sample village organizations studied, more than 60 percent reported unity and commitment among the members. Since all these VOs are formed by the IKP there are a standard set of rules and regulations to run the VOs. Almost close to 90 percent of VOs have such bylaws and about 70 percent of members are aware of these rules. As per the bylaws the leadership is rotational and 82 percent of the VOs follow this rule. However, in a few cases this rotation is after one year and in some cases it is after 2 or 3 years.

174. Because there are bylaws and the VOs are working under the supervision of the Self Help Promotion Institutions, the office bearers (76 percent) have total control over the operations related to financial, collective marketing and food security. Since the entire SHG movement is now controlled and promoted by IKP, over 70 percent of the VOs are dependent on the IKP for administrative and financial issues. In theory, if the VOs became self sufficient in terms of administrative management and access to financial products, particularly from banks, this dependence will automatically come down and the structure of the federation (SHG and VO linkages) would be independently sustainable.

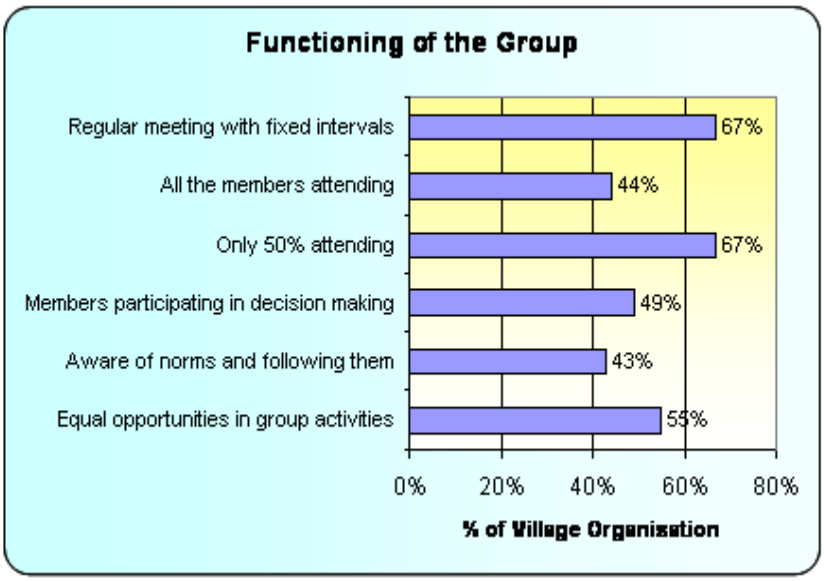
175. In terms of overall governance it can be concluded that the majority of the Village Organizations have good governance systems and adhere to the rules and regulations. The key area for improvement is reducing their dependency on the promoting organization.

Figure 21 Governance



Function

Figure 22: Functioning of the Group



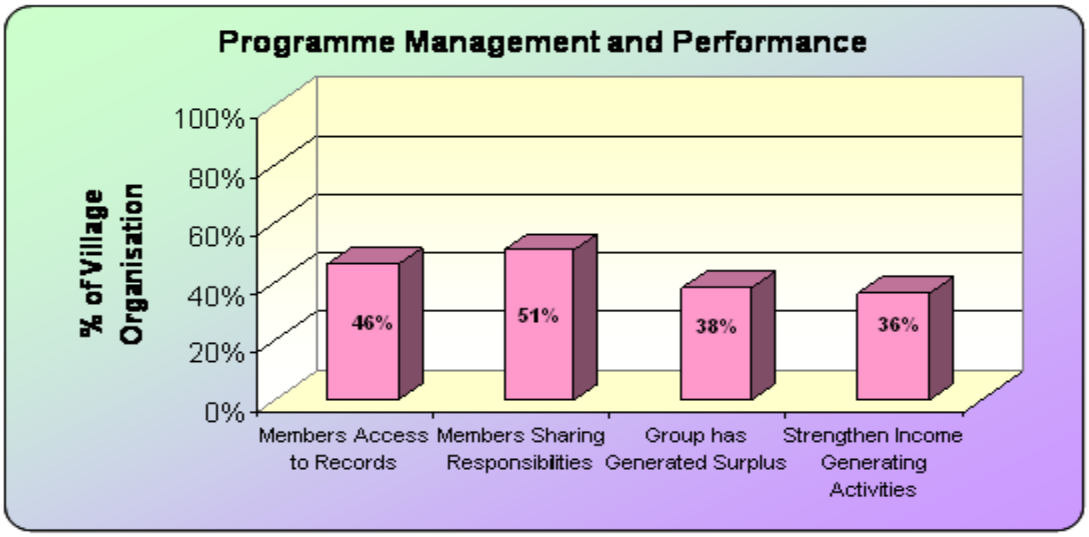
176. As per the schedule every village organization needs to conduct at least one meeting every month in which all the members need to participate. The study shows that 67 percent of the VOs are conducting regular meetings. In 44% of the VOs all the members attend regularly and in 67% of the VOs, 50 percent of members attend the meetings. Those that are not attending all the meetings are losing the privilege of taking decisions on important issue that affect their VO. 43% of VOs have members who are well aware of the norms of VOs. There are standard sets of activities to be carried out by the Village Organization. For instance, under the food security scheme every VO has to distribute the food grains to the needy

members. Similarly they collectively purchase and market food grains. All members need to participate in these programs, however in many cases only a few top-level office bearers participate. In only 55 percent of the VOs, equal opportunity to participate in the group activities was reported.

Program management and performance

177. In less than 50 percent of the VOs the members said that they have access to records and other books related to VO maintenance. In more than 50 percent of the VOs members are sharing the responsibilities of day-to-day activities of the VO. Though VOs are purchasing and marketing certain grains and other food products, only 38% of the VOs have generated surplus amount. Similarly only 36% of the VOs have strengthened their income generating activities. During the focus group discussions, VO members said that there is a need for IKP to design certain strategies and provide skills development services to members to take up the activities related to income generation.

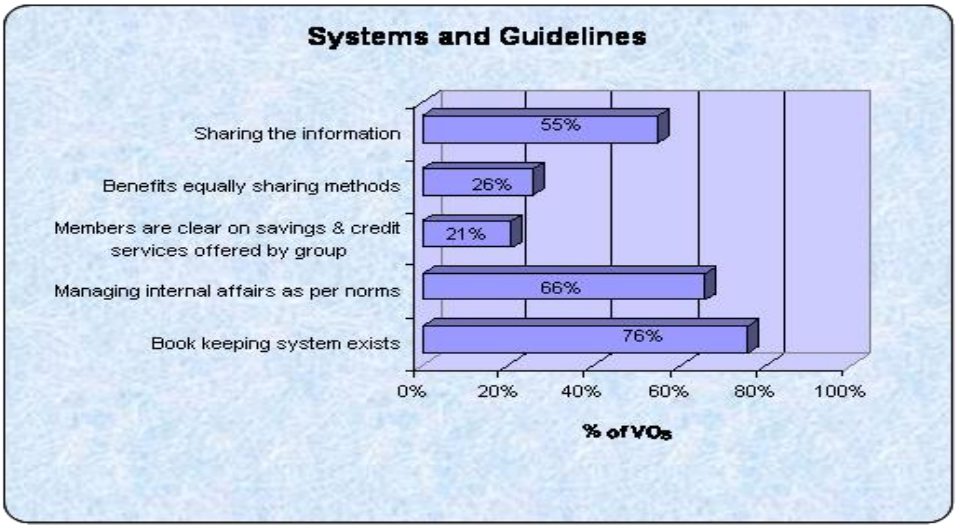
Figure 23: Program Management and Performance



Systems and Guidelines

178. Book keeping systems exists among 76 percent of the VOs, however, as per the study team's observation improvement in bookkeeping still needs to be done for the majority of the VOs. A majority of the VOs are managing their internal affairs without any external interventions. However, when issues crop up, that they cannot handle, they seek the support of the IKP staff. It is important to note that just 21 percent of the VOs said that their members are clear on savings and credit services offered by the VOs. This may be due to the fact that in most VOs no particular savings product or credit services are offered. Similarly the issue of sharing benefits does not arise because most VOs have yet to start their own agenda of income generation and benefit sharing. As of now any external loans that VOs get from either the bank or IKP are distributed to the member SHGs. Normally IKP shares information with the VOs during the monthly meetings.

Figure 24: Systems and Guildelines



Resource mobilization and management

179. To manage their day-to-day activities VOs need to mobilize financial resources. According to existing procedures VOs get a portion of savings from member SHGs for this purpose. The funds VOs get from external linkages are distributed to the member SHGs. In the majority of the cases (80 percent) funds mobilized by VOs are used for internal lending within its SHG members. To maintain savings and loan repayment schedule, a rather large proportion of VOs (44%) are imposing penalties on defaulter SHGs.

Figure 25: Resource Mobilization and Management

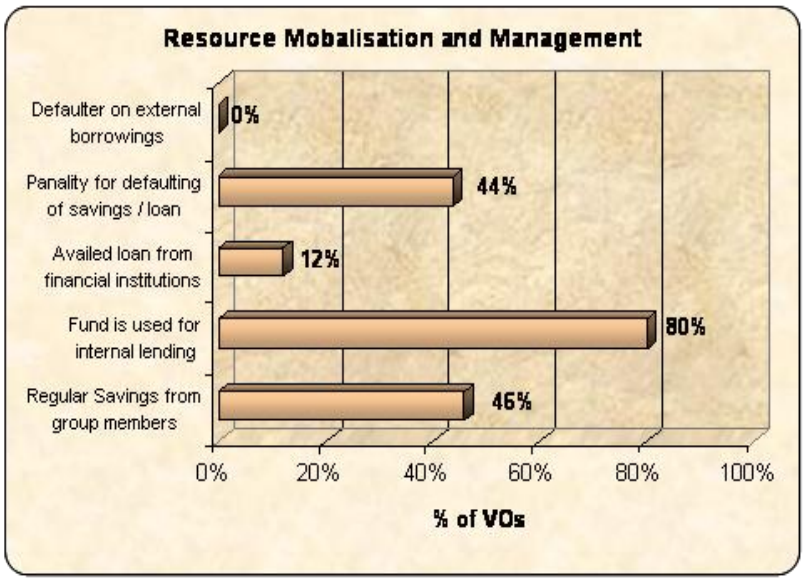
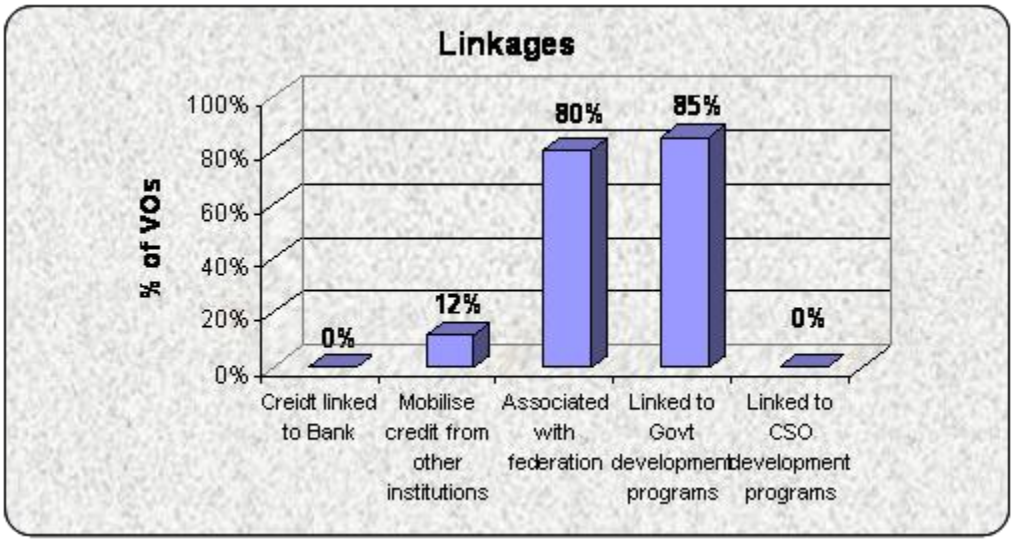


Figure 26: Linkages



180. Recently no VO has linked with any bank and only 12 percent of the VOs have mobilized loans from other financial institutions (mostly from IKP). Since all VOs registered in Andhra Pradesh need to be federated into Mandal Samakhayas (MS) in the present sample 80 percent of the VOs were associated with the MS. To strengthen the activities of VOs, IKP has linked them with different development programs promoted by the government. VOs are playing active roles and taking responsibility in activities such as distribution of National Old Age Pension and distribution of fertilizers.

181. To conclude, in AP, Village Organizations are appropriately promoted by the IKP with required levels of inputs. But the biggest gap is that there are no financial linkages (except in one place). This implies that no bank has recognized the VO as a business group despite the fact that the majority of the SHGs are linked to bank. Without links to banks at the VO level, in lieu of direct links between SHGs and banks, the VOs are not playing a role as a federation of financial entities. They do, however, seem to be effective in performing non-financial functions assigned to them by diverse programs, although this is "anecdotal" evidence in this study.

3. Estimated Costs of Operations of SHGs and Apex Bodies

182. The current levels of costs of operations at SHG level and their apex bodies were studied through case studies. These costs are used for developing a potential model for financial sustainability later in the report. The current level of costs at various levels is shown in Table 9 below:

Table 8: Costs of Operations of SHGs and Apex Bodies

Self Help Group Level		
	Particulars	**Amount/ Qty.**
1	Honorarium (Rs.)	300
2	TA/ DA (Rs.)	75
3	Stationery (Rs.)	29
	Total p.m. (Rs.)	404

Village Organisation		
	Particulars	**Amount/ Qty.**
1	Honararium (Rs.)	348
2	TA, bank charges (Rs.)	81
3	Rent (Rs.)	93
4	Social activity (Rs.)	131
5	Total p.m.	652
6	No. of SHGs per VO	28
7	Per SHG p.m.	23.71

Mandal Samakhya		
	Particulars	**Amount/ Qty.**
1	Honararium (Rs.)	24,999
	Administration Costs (Rs.)	3,493
	Meetings Costs (Rs.)	1,137
	Training Costs (Rs.)	3,358
	Total p.m. (Rs.)	32,987
	Vos (Nos. per MS)	19
	SHGs (Nos. per MS)	502
	Cost of MS Per VO p.m.	1,736
	Cost of MS Per SHG p.m	66

183. Given these costs, the team tried to work out how much of the costs particular SHG needs to cover to take care of its own costs, that of VOs and the MS (using AP data). For MS that has about 500 SHGs and about 20 VOs, the costs to be taken care of by each SHG to sustain the institutional mechanism works out at Rs 5,928 per year as shown in Table 9 below.

Table 9: Projected SHG's Costs

If SHGs need to take care of expenses:	
	Rs.
For its own costs at SHG level	404.17
For sustaining VO cost	23.93
For sustaining MS cost	65.91
Total p.m. (Rs.)	494.01
Total per year (Rs.)	**5,928**

184. The study also tried to analyze the level of revenue that SHG could possibly generate from the interest they gain from both internal and external loans. The details are as follows:

Table 10: Level of SHG Revenue Generation

Particulars	Rs. Per Annum	Remarks
SHG Margin-Internal Loans	8,400	(at Rs. 35,000 O/s, with 24% Rate of interest)
SHG Margin-External Loans	900	(at Rs. 90,000 O/s, with 1% Margin)
Margins from Potential Savings	72	(margin from savings - 1% of Rs. 720 per year)
Total revenue - potential	**9,372**	
Costs that are needed to sustain	**5,928**	
Savings/ Excess	**3,444**	

185. From the analysis above there seems to exist potential for financial viability of the entire institutional mechanism, which is explained under the section "model for sustainability", later in the document.

4. Subsidy Elements in SHG Formation and Functioning

186. The study has done a detailed analysis of the kind of inputs provided at various levels (starting from SHG to Zilla Samakhya/ District Federation) of the costs elements and how much of these costs are provided either through the livelihood projects (such as Velugu, estimates) or other means. Interest-rate subsidies are estimated in relation to market rates and using the volume of funds transferred for on-lending at the different rates.

187. The types of costs which are generally subsidized are: groups organization costs (at various levels), capacity building costs, interest rates and costs of operation (supervision, administrative costs, other support) which SHGs do not reimburse. These costs could be one time investments (e.g., organizing, start-up capacity building) or

ongoing/recurrent (e.g. operating costs, subsidized funds). An estimate is provided below, worked out for different levels using field data:

Table 11: Subsidy Elements in SHG Formation and Functioning

For on ZS area of operation (district)	No. of Units in a district	One time costs per unit	Every Year costs per unit	One time costs	Every Year
SHG	18,750	910	3,500	17,062,500	65,625,000
VO	1250	2410	4,000	3,012,500	5,000,000
MS	25	5400	200,000	135,000	5,000,000
ZS	1	11600	400,000	11,600	400,000
Total Amount per District				20,221,600	76,025,000
Per SHG				1,078	4,055
Per Member				90	338
Subsidy - head-wise					
Organising	4,682,100	5%			
Capacity Building	10,539,500	11%			
Operational Cost	10,400,000	11%			
Interest Rate	70,625,000	73%			
Total for a district - estimated using assumptions	96,246,600	Ind Rs.			

188. The subsidy elements in the interest rates is the highest, as the loans under 'pavla vaddi' were charging about 3% per annum and CIF funds were being lent at 6% per annum, whereas the market rates (to financial intermediaries) were about 10% minimum at the time of the study. Details are provided below:

Table 12: Subsidy Costs

Level	Details	Type of costs				Total subsidised costs	
		Organising	Cap Building	Interest Rate	Costs of Operation	First Year (Ind. Rs.)	Every Year (Ind. Rs.)
SHG	Human resources	1 person for about 6 months; over 100 SHGs	Two CBs per year	Rate of interest at 3% per annum	Nil		
	Other costs	Travel and staff cost	Training costs	7% subsidised on about Rs,. 50,000	Stationery, etc.		
	Total Cost (Ind. Rs.)	180	480	3500	250	910	3,500
	Type of Cost	One time	One time	Per year	One time		
VO	Human resources	1 person for about 6 months; over 25 Vos	Two CBs per year	Rate of interest at 6% per annum	Nil		
	Other costs	Travel and staff cost	Training costs	4% subsidised on about Rs,. 100000	Stationery, etc.		
	Total Cost (Ind. Rs.)	960	1200	4000	250	2,410	4,000
	Type of Cost	One time	One time	Per year	One time		
MS	Human resources	1 person for about 6 months; over 10 MS	Two CBs per year	Fin transactions not taken, as it is refl in VO	Complete operating csots		
	Other costs	Travel and staff cost	Training costs	Nil	All costs		
	Total Cost (Ind. Rs.)	3900	1500	0	200000	5,400	200,000
	Type of Cost	One time	One time	Nil	Every year		
ZS	Human resources	1 person for about 6 months; over 10 MS	Two CBs per year	Fin transactions not taken, as it is refl in VO	Complete operating csots		
	Other costs	Travel and staff cost	Training costs	Nil	All costs		
	Total Cost (Ind. Rs.)	9600	2000	0	400000	11,600	400,000
	Type of Cost	One time	One time	Nil	Every year		

189. Group formation costs are generally incurred by NGOs, other organizations and NABARD. Banks tend to give loans at 10% interest rate, while SHGs lend to their members at 18 % to 24% interest. In terms of management cost, IKP provides these as a capacity building institution (through a project grant).

D. Banks and SHGs – the Current Interface

1. Bank Operations with SHGs

190. The linkages between the SHGs and banks start with SHG opening a savings bank account to deposit their group savings. After successful operations of the group (in terms of savings and internal rotation of their funds), the bank appraises SHGs and extends credit to them. Depending on the performance of the SHGs and the priorities set out by the department of the Government/ program that promotes SHG in the state, the quantum and interest rates for the SHG credit is decided. An analysis of the secondary data for all India shows the following position:

Table 13: Bank Operations with SHGs

Overall Progress	Unit	Till March'06
SHGs financed by Banks	Nos	2,238,565
Poor Families who have accessed Bank Credit through SHGs	Nos	32,980,000
Poor People assisted through SHGs	Nos	164,900,000
SHGs comprising of Women Members only	Percentage	90
Bank Loan disbursed to SHGs	Rs. Billion	114
Paticipating NGOs and Other Agencies	Nos	4,896
States & Union Territories Covered	Nos	31
Districts Covered	Nos	583
Bank Branches lending to SHGs	Nos	44,362
Grant Assistance Sanctioned to SHPIs	Rs. Million	335
Revolving Fund Assistance to mFIs	Rs. Million	215
Refinance drawn by Banks from NABARD	Rs. Million	41,597

Particulars	Unit	Till March'06
SHGs financed per Bank Branch	SHGs	50
No of Families associated per SHG	Nos	15
Loan disbursed per Family - Cummulative	Rs.	3457
Cumm Refinance Drawn to amount Lent	Percentage	36.49%

191. As can be seen from the above table, the loan disbursed per family is truly "micro", at about 9 percent of per capita income. The number of SHGs per branch is also small even after 15 years of SHG movement. Cumulative refinance drawn to total amount lent is 36.5%, which could indicate that the cost of refinance may be higher than other fund sources and/or that banks are willing to lend out of their own funds to the better established SHGs.

Table 14: Progress in SHG-Bank Linkage in the country

Year	Unit	1992-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
SHGs Financed	SHGs	32,995	114,775	263,825	461,478	717,360	1,079,091	1,618,456	2,238,565
New SHGs financed in the Year	SHGs	NA	NA	149,050	197,653	255,882	361,731	539,365	620,109
Increase over previous Year - New SHGs Financed	%age	NA	NA	NA	33%	29%	41%	49%	15%
SHGs provided with repeat Bank Loan	SHGs	NA	NA	NA	41,413	102,391	171,669	258,092	344,502
SHGs provided with repeat Bank Loan - Increase over previous Year	%age	NA	NA	NA	NA	147%	68%	50%	33%
Bank Loan - Cumm	Rs. Million	571	1,930	4,809	10,263	20,487	39,042	68,985	113,975
Bank Loan per SHG - Cumm	Rs.	17,306	16,816	18,228	22,239	28,559	36,180	42,624	50,914
Increase of Bank Loan over previous Year	%age	0%	-3%	8%	22%	28%	27%	18%	19%

192. The table above provides details of progress in SHG-Bank linkage in the country. Since 2000/01, SHG financing has consistently grown at a high rate. New SHG financing has also grown very significantly till 2004-05. In 2005-06, it has come down. As can be seen, the incidence of number of SHGs able to avail repeat loan is on decline. Per SHG loan amount is growing at a high rate. In 2005-06, per SHG loan amount was Rs 50,914.

If we assume an average of 15 persons per SHG, then the average loan amount per member is Rs 3,394.

193. In terms of importance of SHG Bank linkage, SHG credit accounts for 2.85% of credit to agriculture in 2005-06. During this year Banks lent Rs 1,574,800 million to agriculture and Rs 44,990 million to SHG. But it is important to note the reach that SHGs provide. During 2005-06, 7.873 million new farmers were brought into banking sector. At the same time 620,109 new SHGs were created and linked to banks. At an average of 15 members per SHG, banks reached 9.3 million poor households in 2005-06, which is a very significant achievement through this model.

194. From the primary data collected from the bank branches (total of 95 branches – 70 in AP and 25 in Rajasthan, see Annex 2), SHG deposit accounts are 3% of bank deposit accounts and SHG loan accounts are 4%. The share has increased from 2% in 2000 to 4% now. However, one notes from this data that SHG business is still very small for banks. Deposit and loan amounts are 5% of the total business. The share has remained stagnant since 2005.

Table 15: Proportion of SHG A/C in Banks (95 Branches)

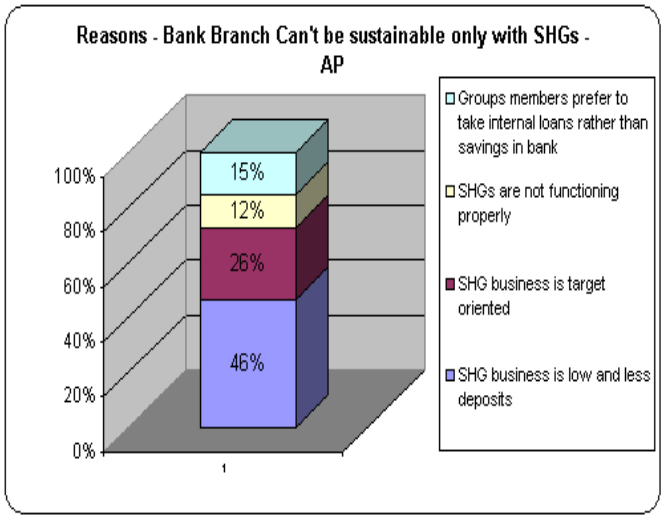
Year	Deposit A/C		Loan A/C	
	SHG A/C	Other Bank A/C	SHG A/C	Other Bank A/C
2000	3%	97%	2%	98%
2005	3%	97%	5%	95%
2006	4%	96%	5%	95%
2007	3%	97%	4%	96%

Table 16: Proportion of Deposit and Loan Amounts – SHG and others

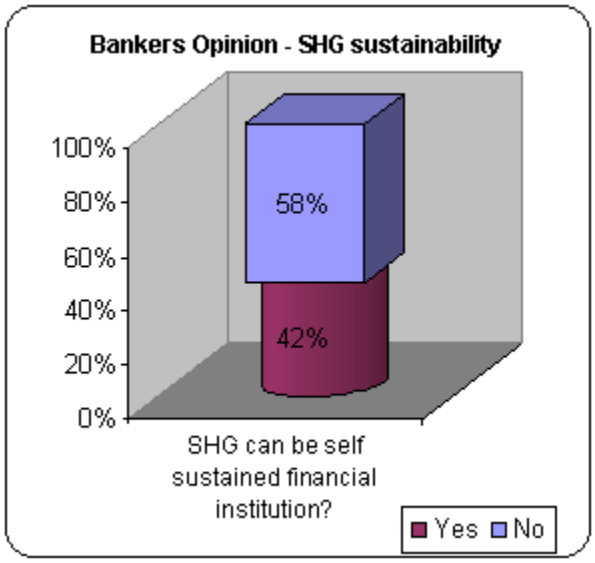
Deposit Amounts	2000	2005	2006	2007
Bank	97%	96%	96%	95%
SHG	3%	4%	4%	5%
Loan Amounts	**2000**	**2005**	**2006**	**2007**
Bank	91%	94%	95%	95%
SHG	9%	6%	5%	5%

195. When probed about the possibilities of a bank branch operating sustainably with only high proportion of SHG portfolio, about 90% of the branches visited reported in the negative. This is understandable given that the SHG business currently is at very low levels (46% of responses). More than a quarter of responses related to SHG business being target driven, usually by the government programs and not market driven business. A few responses related to poor quality of functioning of the groups, and SHGs preferring to keep savings with them in the form of loans and not depositing with the banks. While analyzing responses state-wise, large numbers of bank branches in Rajasthan (41%) believed that SHGs were not functioning properly. Substantial proportion of managers in AP (26%) felt that they were into SHG business because of targets given to them. All these show that there is still a long way to make these linkages more market driven.

Figure 27: Reasons – Bank Branch Can't be Sustainable



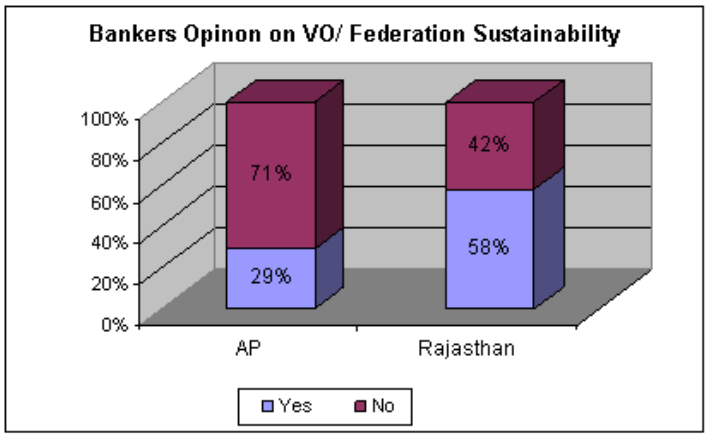
196. When probed about their opinion on SHGs becoming financially sustainable, only less than half of the banks interviewed felt that they can be made sustainable financially. The proportion of bankers that provided positive remarks was higher in AP (close to half), where the bank linkage with SHGs is at its best in the country.



197. The main reasons given by bankers who felt that SHGs could be financially sustainable were that these groups were well united and therefore can work together well to achieve financial sustainability. On the other hand, the reasons given by bankers for low potential for financial sustainability of SHGs were mainly the poor quality of governance, lack of coordination among members, low levels of savings and asset creation and low level of awareness. Many respondents felt that there is need for constant support and capacity building to sustain the SHGs and this support need to be institutionalized and should be provided on cost basis.

198. AP and Rajasthan bankers expressed conflicting views on VOs or federations becoming a self sustainable model. AP managers strongly felt that VOs cannot be the basis of a self sustainable model while Rajasthan bankers felt federations could be the base of a sustainable functioning model. Presence of private financial institutions, lack of knowledge and illiteracy, and members not having confidence in others were cited as

main reasons by AP bankers, while in Rajasthan many bankers felt that the group unity and larger base through federations were the bases on which sustainability could be built.



199. In both of the states, the bankers felt that both at SHG and federation level, continuous capacity building and close hand-holding support is essential if these models are to be sustainable in the long-run. It is therefore important to explore possibilities of these critical support services being built into both institutional and financial models.

2. Potential for Banks to Expand Financial Services through the SHG Movement

200. Among the ideas formulated by stakeholders, a number of them referred to possible ways of establishing SHG deposit accounts of different types with counterpart banks. Special recurring deposit accounts (saving fixed amount every month for a definite period) where SHGs may collect fixed monthly additional saving only from members who decide to save more money and keep in this account were mentioned, among others. The period of deposit could be one or two years. After that period members may be allowed to withdraw the amount through SHG or keep it in their individual name as fixed deposit for further specified period. This would help the SHG members to save small amount and the when the amount saved become sizeable, it then can be kept in an account in the individual name. Such a product would reduce the transaction costs for both the bankers and SHG members.

201. The study has further shown that some of the SHG members do save in LIC, Post office RD and private institutions like Agri Gold, Sahara, PEARLS, etc. The main reasons to save with these institutions that were provided by the members are:-

- Presence of an agent – all these institutions use agents to collect savings from the clients' door steps and deliver services. These agents always keep contacts with the customers and sell new products. Many of these institutions have appointed anganwadi workers, animators and SHG leaders as agents.
- Perceived rate of returns are high
- They offer multiple products to the clients
- These institutions offer products to individual members without reference to SHGs. And many members prefer this arrangement.

202. Banks could certainly take a clue from these practices and appoint agents or give agency fees to SHGs so that more savings can be mobilized. The reality is, however, as

this study has also shown, that only about one third of individual SHGs may meet the standards any bank would require to operate financial products other than credit with SHGs as "agents." Governance and management indicators being much better at the VO level would indicate that a preferred locus for a principal-agent arrangement would be at the VO level.

E. Towards a Sustainable Model

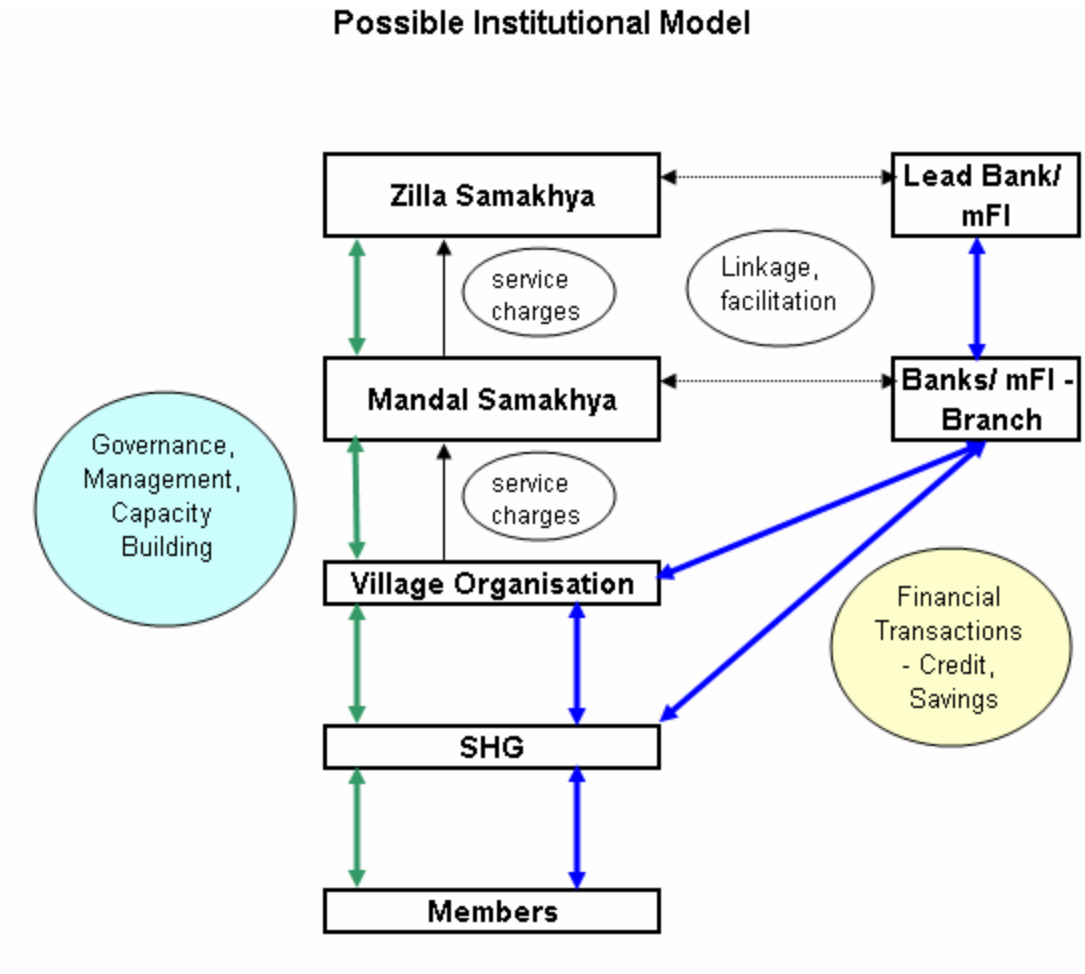
203. The results of the study show that credit and savings are critical services for the members of SHGs, with SHG being the most preferred source for availing these. The SHG-bank linkages and supportive institutional structure being supported by the State Governments have ensured that these work effectively. The current SHG programmers of the State Government and refinancing by the NABARD for loans to SHG have been the critical subsidy elements that keep the current mechanism operating well.

204. The analysis of the sustainability model indicates that the SHG institutional structure can be sustainable given a few modifications in the structure, roles, and operational mechanisms. The study team proposed the following model that could possibly sustain the benefits of the SHG-Bank linkages, given the market tests. The costs and returns expected are based on the actual data collected from the field.

205. Sustainability of the model is defined as "continued availability of efficient and effective financial services (savings, credit and others) to the members of the SHGs with the financial market based mechanisms, to enable members to address all financial needs". To achieve this, the model that is being proposed should have two important components:

(a) Institutional capacity
(b) Financial viability

206. The level of capacities of institutions at different levels has been varying and requires a lot of efforts in terms of capacity building and close supervision. That means, an institutional mechanism that provides these on a sustained basis needs to be in place, for which the business model should be able to generate adequate resources. Hence, the second and third tier mechanisms, with appropriate roles and resources have been suggested. The roles of the second and third tier mechanisms is to assess capacities of VO and SHGs periodically, building their capacities through training, learning, etc., provide linkages for credit and other services and overall supervision and monitoring. It is therefore important that the returns expected from the financial operations be sufficient to pay for these services. Possible institutional model could be:



207. The current roles being performed by each level could continue, but the funding of these could happen through operations. Possible financial model could be:

Existing Model of Program Delivery	Nos. at Each Level		Avg. Savings Possible Per Annum	Avg. Credit Requirement - O/s amount	Possible monthly returns from credit operations			Total Cost for Op. per Annum	Net income from Credit Operations	Possible spread from savings		Total Net Amount Per Month
	No.	Ratio			Interest Rate	Interest Spread	Returns per annum			Rate	Amount per annum	
Zilla Samakhya	50	MS for ZS	138,240,000	1,152,000,000	10.5% to bank at VO level - to be shared	0.05%	576,000	407,000	169,000	0.03%	34,560	203,560
↑												
Mandal Samakhya	20	VO per MS	2,764,800	23,040,000		0.95%	218,880	207,000	11,880	0.40%	11,059	22,939
↑												
Village Organisation	24	SHGs per VO	138,240	1,152,000		2.00%	23,040	9,500	13,540	1.00%	1,382	14,922
↑												
SHG	12	Members per SHG	5,760	48,000	13.50%	1%	480	4,850	(4,370)	1.00%	58	(4,312)
↑												
Members			480	**4,000**	**14.50%**							

Details of costs and possible returns are given below, level-wise:

Level 1	**Self Help Group**				
	Operations at the village level				
	Consists of about 12 members per SHG				
	Main functions - Savings, Credit (internal rotation and bank)				
	Self managed; with one animator managing operations				
	Model analysed - SHGs get margins from both savings and credit				
		Unit	No. of Units	Unit Rate	Amount
A	Revenue from Operations				
1	Internal rotation of funds	Amount repaid	20,000	24.00%	4,800
2	Margin from external loans	Amount repaid	48,000	1%	480
3	Margins from savings	Total Amt/Yr	69,120	1.00%	691
	Sub-total				**5,280**
B	Cost Structure				
1	Book keeping	Person Months	12	300	3,600
2	TA/ DA	Months	12	75	900
3	Stationery	LS			350
4	Cost for collection of svg, credit	Nil			-
	Sub-total				**4,850**
C	Net Revenue per Annum				**430**

Level 2	**Village Organisaton**				
	Operations at the village level; second tier body federating SHGs				
	Consists of about 15 SHGs per VO				
	Main functions - Support to SHGs, capacity buildings, supervison, credit				
	One staff plus local expenditure				
	Model analysed - VO gets margins for credit and savings mobilisation				
		Unit	No. of Units	Unit Rate	Amount
A	Revenue from Operations				
1	Internal rotation of funds	Amt repaid	-	24.00%	-
2	Margin from external loans	Amt repaid	1,152,000	2.00%	23,040
3	Margins from savings	Total Amt/Yr	1,658,880	1.00%	16,589
	Sub-total				**23,040**
B	Cost Structure				
1	Book keeping	Person Months	12	500	6,000
	Rent	Months	12	100	1,200
2	TA/ DA	Months	12	75	900
3	Audit	Months	12	100	1,200
4	Stationery	LS			200
5	Cost for collection of svg, credit	Nil			-
	Sub-total				**9,500**
C	Net Revenue per Annum				**13,540**

Level 3	**Mandal Samakhya**				
	Operations at the manda level; third tier body federating VOs				
	Consists of about 25 VO per MS				
	Main functions - Support to VO, capacity buildings, supervison, credit				
	Four staff plus local expenditure				
	Model analysed - MS gets margins for credit and savings mobilisation				
		Unit	No. of Units	Unit Rate	Amount
A	Revenue from Operations				
1	Internal rotation of funds	Amt repaid	-	0.00%	-
2	Margin from external loans	Amt repaid	23,040,000	0.95%	218,880
3	Margins from savings	Total Amt/Yr	2,764,800	0.40%	11,059
	Sub-total				**218,880**
B	Cost Structure				
1	Book keeping	Person Months	12	2000	24,000
2	Office bearers	Person Months	12	2000	24,000
3	Other staff	Person Months	12	1800	21,600
4	Rent, electricity	Months	12	2200	26,400
5	TA/ DA	Months	12	3000	36,000
6	Training		12	2750	33,000
7	Audit expenses	Months	12	1000	12,000
8	Stationery	LS	12	1500	18,000
9	Communication, other adm	Months	12	1000	12,000
11	Sub-total				**207,000**
C	Net Revenue per Annum				**11,880**

Level 4	**Zilla Samakhya**				
	Operations at the District level; fourth tier body federating MS				
	Consists of about 50 MS per ZS				
	Main functions - Support to MS, capacity buildings, supervison, credit				
	Four staff plus local expenditure				
	Model analysed - MS gets margins for credit and savings mobilisation				
		Unit	No. of Units	Unit Rate	Amount
A	Revenue from Operations				
1	Internal rotation of funds	Amt repaid	-	24.00%	-
2	Margin from external loans	Amt repaid	1,152,000,000	0.05%	576,000
3	Margins from savings	Total Amt/Yr	138,240,000	0.03%	34,560
	Sub-total				**576,000**
B	Cost Structure				
1	Book keeping	Person Months	24	3500	84,000
2	Supervsion - Regional	Person Months	24	6000	144,000
	Rent, electricity, others	Months	12	2000	24,000
2	TA/ DA	Months	12	2500	30,000
3	Training	Months	12	5000	60,000
4	Stationery, consumables	LS			5,000
5	Meeting and other facilitation expenses		12	2000	24,000
5	Communication, other adm	Months	12	3000	36,000
6	Cost for collection of svg, credit	Nil			-
	Sub-total				**407,000**
C	Net Revenue per Annum				**169,000**

FI Level	**Financial Intermediary - Bank or mFI**				
	Operations at the Mandal Level - Typically a Rural Branch				
	Consists of one MS per Branch, i.e. 375 SHGs and 4,500 members				
	Main functions - Credit for onlending to SHGs or Vos or MS; savings for members				
	Two staff - 12 VO per Staff (approx), with other Overheads				
	Cost of funds - 7% (which includes savings); lending at 10.5%				
	Model analysed - Whether Bank can operate this model sustainably				
		Unit	No. of Units	Unit Rate	Amount
A	Revenue from Operations				
1	Interest earned from credit	Amt repaid	23,040,000	10.50%	2,419,200
2	Other income	Total Amt/Yr	-	0.00%	-
	Sub-total				**2,419,200**
B	Cost Structure				
1	Salaries of Officers	Person Months	24	12,000	288,000
2	Allocated Overheads	Person Months	24	1,800	43,200
3	Rent, electricity, others-Allocated	Months	12	1,000	12,000
4	TA/ DA	Months	12	1,500	18,000
5	Meeting and other facilitation expenses		12	500	6,000
6	Miscellaneous	Nil	12	500	6,000
7	Loan default	% of O/s	1.00%		230,400
8	Cost of funds	% of O/s	7%		1,612,800
	Sub-total				**2,216,400**
C	Net Revenue per Annum				**202,800**

208. It is possible for the banks or MFIs or other financial institutions at the Mandal level (branch) to be able to operate sustainably, provided the savings could be mobilized. For savings mobilization, the banking correspondent model is a highly promising option.

ANNEX 1: METHODOLOGY AND SAMPLING

1.1 Overall Approach

209. The study approach involved two main sources of information:

Secondary data analysis and review of literature, from a variety of sources

Primary data collection – at the village, bank and other key stakeholder's level. The main focus of this study is on obtaining first hand information about the issues from the key stakeholders through interviews and observations.

1.2 Secondary Data Analysis and Review of Literature

210. Both secondary data analysis and review of literature focused on analyzing recent data and literature on the three key aspects of the study viz. savings as a service, sustainability of SHG as an institution and mainstreaming of SHG-bank linkage as a financial services delivery mechanism. NABARD, the Apex Bank steering the SHG-Bank Linkage Program in the country is regularly compiling data relating to the program. The recently published document - Progress of SHG Bank Linkage in India 2005/06- was the main source of data for the analysis. Data analysis focused on the profile of SHG-Bank Linkage Program i.e. both status and trends across states, nature of the linkage, self-help promoting institutions and commercial banks. The findings have been interpreted taking into account the perspectives of those interviewed and the key hypothesis of the study.

211. As the SHG-Bank Linkage Program is quite old and is of interest to most development practitioners, there have been several studies relating to the SHG movement in India. While going through the literature, the study team realized that most of the studies focused on the social aspects, for example, the impact of SHGs. There are very few studies on the financial aspects of SHGs and savings as a service. Recent documents that covered issues being explored in the current study were identified for the literature review. In addition, relevant circulars relating to the SHG-Bank Linkage were reviewed. Documents relating to key discussions/presentations in recent policy conferences were also compiled. Some of the policy related sectoral studies like the ADB Financial Sector Study and studies by the Planning Commission have been also been referred to. An attempt was also made to understand the implications of the proposed Microfinance Bill on the SHG-Bank Linkage Program.

1.3 Primary Data Collection

212. The primary data collection included key stakeholders at various levels – starting from the members of SHG, SHGs as a group, their linkage partners, banks, etc. A sampling process was followed to select samples of these stakeholders at various stages – state, district, and villages. The overall sampling process is presented below:

Sampling Frame		
Levels	**Nos/Level**	**Basis for Sampling**
States	2 States Andhra Pradesh and Rajasthan	AP – representing large presence of SHGs Rajasthan – representing medium/low presence of SHGs
Districts	4 Districts in total. Of which 3 in AP and 1 in Rajasthan	All the districts in the State were ranked using the ratio – "SHG per rural family" (No. of SHGs in the district divided by the number of rural families in the district). Districts then were classified into three categories based on SHG Density – high, medium and low. In AP, one district per category was selected. In Rajasthan, one in 'medium' category was selected for the study.
Bank Branches	100 Branches total AP- 75 Branches Rajasthan – 25 Branches	In each district, 25 Rural Bank Branches were selected on a random basis from amongst the specific category of Rural bank branches i.e. Commercial, RRB/LAB, Coop and Private banks. Number of branches in each category were in proportion to number of Rural Bank Branches in the State. Three sets of samples were drawn. The sample covering the highest number of district Banks was finally accepted.
SHGs	AP – 300 SHGs Rajasthan – 100 SHGs	Four SHGs per branch were covered as samples. At branch level, SHGs were classified based on quantum of loan and savings, into well performing and poor performing. Two SHGs per category were selected for the study.
Members	Four members per SHG (as available on the day of visit) – 1,600 SHG members	As SHG is a homogenous group – a random sampling among those available on the day of the visit was followed to decide the sample Members.
Other SHPIs	2 SHPI in the branch coverage area; total of 200 across states.	SHPIs: Two SHPIs per branch were interviewed, depending on the presence in that area and their availability
2 States; 4 Districts; 100 Branches; 200 SHPIs; 400 SHGs; 1,600 Member		

Based on the above, the following districts were selected.

S No	Districts	Cumulative No. of SHGs provided with bank linkage up to March 2006	Rural HH (Nos.)	No. of SHG per Rural HH	Representing Criteria - Density of SHG
AP	Khammam	33,625	486,856	0.069	High
AP	Kurnool	24,266	540,822	0.045	Medium
AP	Guntur	26,311	783,685	0.034	Low
Rajasthan	Rajsamand	1,570	140,705	0.011	Medium

Source of Information

1. Cumulative number of SHGs linked to Bank - Data 2006 - from NABARD
2. Rural HH - from Census of India, 2001

ANNEX 2: List of Banks Surveyed - by Location

No.	STATE	DISTRICT	MANDAL	Name of the Bank	BRANCH - Place
1	Rajasthan	RAJASAMOUND	RAILMARG	MEENOR ANCHLIB GRAMEEN BANK	RAILMARG
2	Rajasthan	RAJASAMOUND	RAILMAGRA	SBBJ	GILUND
3	Rajasthan	RAJASAMOUND	RAILMAGRA	BANK OF RAJASTHAN	BOR KURAJ
4	Rajasthan	RAJASAMOUND	AMET	ALLAHABAD BANK	LAWA SARDARGARH
5	Rajasthan	RAJASAMOUND	AMET	SBBJ	SYENA
6	Rajasthan	RAJASAMOUND	AMET	U C C B	AMET
7	Rajasthan	RAJASAMOUND	RAJSAMAND	BANK OF RAJASTHAN	BOR KELWA
8	Rajasthan	RAJASAMOUND	RAJSAMAND	MEENOR ANCHLIB GRAMEEN BANK	V BADARDA P BADERDE DIST RAJSANAND
9	Rajasthan	RAJASAMOUND	RAJSAMAND	U C C B	U C C B KANKROLI
10	Rajasthan	RAJASAMOUND	RAJSAMAND	RUCB	R V C B KANRROLI
11	Rajasthan	RAJASAMOUND	RAJSAMAND	SBBJ	S B B J KUNWARIA
12	Rajasthan	RAJASAMOUND	BHEEM	SBBJ	S B B J BHEEM
13	Rajasthan	RAJASAMOUND	BHEEM	SBBJ	BALI JAISAKHEDA
14	Rajasthan	RAJASAMOUND	BHEEM	U C C B	U C C B BHEEM
15	Rajasthan	RAJASAMOUND	BHEEM	MEENOR ANCHLIB GRAMEEN BANK	MAGB BHEEM
16	Rajasthan	RAJASAMOUND	DEVGARH	RUCB	DEVGARH
17	Rajasthan	RAJASAMOUND	DEWGARH	SBBJ	S B B J DEWGARH
18	Rajasthan	RAJASAMOUND	KHEMNOR	SBBJ	KHEMNOR
19	Rajasthan	RAJASAMOUND	KHEMNOR	MEENOR ANCHLIB GRAMEEN BANK	KOTHANA
20	Rajasthan	RAJASAMOUND	KHEMNOR	MEENOR ANCHLIB GRAMEEN BANK	MOLELA
21	Rajasthan	RAJASAMOUND	RAJSAMAND	MEENOR ANCHLIB GRAMEEN BANK	PADASILI
22	Rajasthan	RAJASAMOUND	RAJSAMAND	BANK OF RAJASTHAN	MOHI
23	Rajasthan	RAJASAMOUND	KHAMNOR	BANK OF RAJASTHAN	NATH DWARA
24	Rajasthan	RAJASAMOUND	KHAMNOR	SBBJ	MACHIND
25	Rajasthan	RAJASAMOUND	KHAMNOR	MEENOR ANCHLIB GRAMEEN BANK	ODEN
26	AP	KHAMMAM	VR PURAM	SBH	REKHAPALLY
27	AP	KHAMMAM	KALLURU	ANDHRA BANK	KALLURU
28	AP	KHAMMAM	ASWAPURAM	ANDHRA BANK	MONDE KUNTE
29	AP	KHAMMAM	KOTHAGUDEM	ANDHRA BANK	RUDRAMPUR
30	AP	KHAMMAM	DAMMAPETA	ANDHRA BANK	VADLE GUDEM
31	AP	KHAMMAM	KALLURU	ANDHRA PRAGATHI GRAMINA VIKAS BANK	CHENNUR
32	AP	KHAMMAM	ENKURU	NGB	ENKURU

ANNEX 2: List of Banks Surveyed - by Location

No.	STATE	DISTRICT	MANDAL	Name of the Bank	BRANCH - Place
33	AP	KHAMMAM	KOTHAGUDEM	VIJAYA BANK	KOTHAGUDEM
34	AP	KHAMMAM	MADIRA	SBH	SIRIPURAM
35	AP	KHAMMAM	TIRUMALAYA PALEM	ANDHRA PRAGATHI GRAMINA VIKAS BANK	T PALEM
36	AP	KHAMMAM	TALLADA	ANDHRA PRAGATHI GRAMINA VIKAS BANK	TALLADA
37	AP	KHAMMAM	DAMMAPETA	ANDHRA PRAGATHI GRAMINA VIKAS BANK	DAMMAPETA
38	AP	KHAMMAM	KOTHHA GOODEM	ANDHRA PRAGATHI GRAMINA VIKAS BANK	RAMA VARAM
39	AP	KHAMMAM	JOOLURUPADU	ANDHRA PRAGATHI GRAMINA VIKAS BANK	JOOLURUPADU
40	AP	KHAMMAM	BURGAM PAHAD	ANDHRA PRAGATHI GRAMINA VIKAS BANK	A P G VIKAS BANK
41	AP	KHAMMAM	MANUGOORU	SBH	MANUGOORU
42	AP	KHAMMAM	YERRU PALEM	ANDHRA PRAGATHI GRAMINA VIKAS BANK	MAMUNUR
43	AP	KHAMMAM	SINGARANI	SBH	KAREPALLI
44	AP	KHAMMAM	TIRUMALAYAPALEM	ANDHRA PRAGATHI GRAMINA VIKAS BANK	PATHARLA PADU
45	AP	KHAMMAM	PANAPAKA	SBH	EDULLA BAYYARAM
46	AP	KHAMMAM	KUSUMANCHI	SBI	NAIKANGUDEM
51	AP	KURNOOL	BETHAM BERLA	ANDHRA PRAGATHI GRAMINA VIKAS BANK	BETHAM BERLA
52	AP	KURNOOL	BANAGANA PALLI	Syndicate Bank	BANAGANA PALLI
53	AP	KURNOOL	VELDURTHI	SBI	VELDURTHI
54	AP	KURNOOL	KOLIMIGUNDLA	ANDHRA PRAGATHI GRAMINA VIKAS BANK	PETNAGOTA
55	AP	KURNOOL	GOSPADU (M)	ANDHRA PRAGATHI GRAMINA VIKAS BANK	DEEBAGUNTLA
56	AP	KURNOOL	KOVELAKUNTLA	SBI	KOVELAKUNTLA
57	AP	KURNOOL	ASPARI	SBI	ASPARI (3364)
58	AP	KURNOOL	ALUR	SBI	ALUR
59	AP	KURNOOL	EMMIGANOORU	ANDHRA BANK	EMMIGANOORU
60	AP	KURNOOL	NANDYALA	CANARA BANK	NANDYALA
61	AP	KURNOOL	DHARNIPADU	ANDHRA PRAGATHI GRAMINA VIKAS BANK	DHARNIPADU

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No.	STATE	DISTRICT	MANDAL	Name of the Bank	BRANCH - Place
62	AP	KURNOOL	BANIGANI PALLI MANDALAM	ANDHRA PRAGATHI GRAMINA VIKAS BANK	TANGATURU BRANCH
63	AP	KURNOOL	SRI SAILAM	SBI	SUNNIPANTA BRANCH
64	AP	KURNOOL	KURNOOLU	SBI	KURNOOL MAIN BRANCH
65	AP	KURNOOL	NANDYALA	ING VYSYA BANK	NANDYALA
66	AP	KURNOOL	YERRAGUNTLA	SBI	YERRAGUNTA 2813
67	AP	KURNOOL	NANDIKOTKUR	ANDHRA BANK	NANDIKOTKUR
68	AP	KURNOOL	C BELAGAL	ANDHRA PRAGATHI GRAMINA VIKAS BANK	KOTTHAKOTA
69	AP	KURNOOL	KURNOOL	ANDHRA PRAGATHI GRAMINA VIKAS BANK	GARAGYA PURAM
70	AP	KURNOOL	PAMULA PADU	ANDHRA BANK	KRISHNA RAO
71	AP	KURNOOL	HALAHARVI	INDIAN BANK	HALAHARVI
72	AP	KURNOOL	BETHAM CHERLA	SBI	R S RANGA PURARAM BRANCH
73	AP	KURNOOL	ADHONI	Syndicate Bank	ADHONI
74	AP	KURNOOL	MIDTHUR	ANDHRA PRAGATHI GRAMINA VIKAS BANK	MIDTHUR BRANCH
75	AP	KURNOOL	PYAPILI	ANDHRA PRAGATHI GRAMINA VIKAS BANK	PYAPILI
76	AP	GUNTUR	TENALI	ANDHRA BANK	KALAKALURI BRANCH
77	AP	GUNTUR	ATCHAMPET	CHAITANYA GODAVARI GRAMEENA BANK	ATCHAMPET
78	AP	GUNTUR	PONNURU	ANDHRA BANK	BRAHMAN KODURU
79	AP	GUNTUR	GUNTUR RURAL	ANDHRA BANK	GORANTLA
80	AP	GUNTUR	TADIKONDA	SBI	MOTHADAKA
81	AP	GUNTUR	BAPATLA	ANDHRA BANK	BAPATLA
82	AP	GUNTUR	NAGARAM	SBI	DHULIPUDI (SBI)
83	AP	GUNTUR	KULLURU	SBI	KULLURU
84	AP	GUNTUR	CHILAKALURIPETA	UNION BANK OF INDIA	PASUMURRU - CHILAKALURIPETA
85	AP	GUNTUR	NAGARAM	INDIAN BANK	NAGARAM
86	AP	GUNTUR	ATCHAMPET	SBI	ATCHAMPET
87	AP	GUNTUR	NARSARAOPETA	CHAITANYA GODAVARI GRAMEENA BANK	YELLAMANDA
88	AP	GUNTUR	PEDAKAKA	CANARA BANK	PEDAKAKA
89	AP	GUNTUR	VINUKONDA	CANARA BANK	ENUGUPALEM
90	AP	GUNTUR	BAPATAL	ANDHRA BANK	VEDURELLAPALLI

ANNEX 2: List of Banks Surveyed - by Location

No.	STATE	DISTRICT	MANDAL	Name of the Bank	BRANCH - Place
91	AP	GUNTUR	PHIRANGI PURAM	SBI	REPUDI
92	AP	GUNTUR	DURGI	SCGV	MUTUKERU
93	AP	GUNTUR	VINUKONDA	CHAITANYA GODAVARI GRAMEENA BANK	CGBV
94	AP	GUNTUR	BAPATAL	CANARA BANK	BAPATLA
95	AP	GUNTUR	EPURU	SBI	A MUPPALLA
96	AP	GUNTUR	PONNUR	SBI	PONNUR
97	AP	GUNTUR	NIZAM PATTIRAM	ANDHRA BANK	KUCHINAPUDI
98	AP	GUNTUR	TENALI	ING VYSYA BANK	NANDI VELUGU
99	AP	GUNTUR	REPALLE	CHAITANYA GODAVARI GRAMEENA BANK	REPALLE

ANNEX 3: UPDATED DETAILS OF SHG MOVEMENT IN ANDHRA PRADESH

As shared during the dissemination workshop:

Self Help Groups in Andhra Pradesh and Credit Access

Total number of Women SHGs formed in the State since 1-April-99 : 900,798

Year	Groups Covered for Credit access	% increase Year on Year - Groups accessing credit	Credit Accessed by the Groups (Rs. In Millions)	% increase Year on Year - Amount of Credit to SHGs
1999-2000	43,568		886.30	
2000-2001	103,606	138%	1,733.80	96%
2001-2002	117,352	13%	2,619.50	51%
2002-2003	165,093	41%	4,767.60	82%
2003-2004	248,368	50%	8,982.20	88%
2004-2005	289,238	16%	12,384.20	38%
2005-2006	288,711	0%	20,014.20	62%
2006-2007	266,489	-8%	30,638.70	53%
2007-2008	431,515	62%	58,827.80	92%
2008-2009 (Projected)	426,189	-1%	110,370.00	88%

Source: State Level Banking Committee of Andhra Pradesh - 164th SLBC Meeting; Page 136

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