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SUSTAINABILITY OF SELF-HELP GROUPS IN INDIA: TWO ANALYSES

CGAP

Authors of Part I of this Occasional Paper are Jennifer Isern, lead microfinance specialist, CGAP; L. B. Prakash, executive director, Akshara; Anuradha Pillai, research assistant, CGAP; and Syed Hashemi, senior microfinance specialist, CGAP.

Robert Peck Christen, founder, Boulder Institute of Microfinance, and Gautam Ivatury, microfinance specialist, CGAP, wrote Part II of this Occasional Paper.

Richard Rosenberg, senior policy advisor, CGAP, wrote the Introduction.

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Introduction and Summary

The self-help group (SHG) model is the dominant form of microfinance in India. SHGs have grown explosively in recent years. It is reported that by March 2006, 2.23 million SHGs were reaching about 33 million members.[1] Such outreach appears to represent a major breakthrough in a country where 50 million households live in poverty, with very limited access to financial services.

Although the term *self-help group* is used in different countries to describe a variety of financial and nonfinancial associations, 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. SHGs are managed by their members, with varying degrees of external support.

SHGs are formed with the assistance of self-help promotion institutions (SHPIs), which include nongovernmental organizations (NGOs), government agencies, banks, cooperatives, and microfinance institutions. In addition to helping with group formation, SHPIs provide training, monitoring, and other support services. Occasionally, promoters give SHGs initial seed capital to lend, but more typically, groups begin by saving and lending out their members' own resources. Most, but by no means all, SHGs eventually borrow from an external source, usually a bank. This bank linkage is the most distinctive characteristic of the Indian SHG model.

The massive outreach of SHGs has generated interest in the model's sustainability and replicability in India and elsewhere. Although SHGs have been widely studied (see the bibliography for examples), relatively little information has been published on their financial performance.

This Occasional Paper reports on two separate studies of SHG programs conducted by CGAP staff and partners. In Part I, Jennifer Isern, L. B. Prakash, Anuradha Pillai, and Syed Hashemi review SHGs developed by five different SHPIs, representing the main approaches to SHG promotion in India. The study looks primarily at the financial viability of these SHG programs.

[1] Data from NABARD: http://nabard.org/pdf/stmt1.pdf.

Table 1. SHG Programs Included in the Two Studies

Part	Self-help promoting institution	Location
Part I	Panagal Mandal Mahila Samakhya (PMMS), supported by United Nations Development Programme (UNDP) South Asia Poverty Alleviation Program (SAPAP) of Government of Andhra Pradesh	Andhra Pradesh
	Sakhi Samiti promoted by Professional Assistance for Development Action (PRADAN)	Rajasthan
	Professional Assistance for Development Action (PRADAN)	Jharkand
	Chitradurga Gramin Bank (CGB)	Karnataka
	People's Action for National Integration (PANI)	Uttar Pradesh
Part II	Oriental Bank of Commerce (OBC)	Uttaranchal
	Saravodaya Nanofinance Ltd.	Tamil Nadu
	Dhan Foundation	Tamil Nadu
	Microcredit Foundation of India (MFI)	Tamil Nadu

The study reported in Part II was done by Robert Peck Christen and Gautam Ivatury for a leading commercial bank in India. This study proposes a methodology for designing SHG programs to ensure their sustainability. In essence, this approach asks (1) whether and how SHG programs provide essential support services, and (2) whether those services, and the SHGs they support, can be self-financing, without requiring continuing infusion of external subsidies. The study demonstrates the methodology by analyzing the operational structure and financial performance of four leading SHG programs. This study was not originally intended for publication, but in CGAP's view there continues to be a need to improve the sustainability of SHG programs, and the methodology proposed is likely to interest a wider audience.

The nine SHG programs that were analyzed in both studies (see Table 1) are *not* a representative sample of Indian SHG programs. Knowledgeable observers indicate that many SHG programs are weak and unsustainable. The nine programs studied here were chosen because most of them were reputedly stronger than average. The intent was to get a picture of the potential of the SHG model when it is well executed. The authors believe that strong programs, rather than weak ones, are most relevant to assessing the potential of the SHG movement.

The reason for this approach can be illustrated by looking at the evolution of conventional microfinance institutions. Most of the world's microfinance institutions are probably unsustainable, for reasons that include poor loan collection and interest revenue that cannot cover operating costs. But not surprisingly, sustainable microfinance institutions have grown much faster than unsustainable ones, and they now dominate the field. For instance, of all the world's microcredit clients who were reached by nongovernment microfinance institutions in 2005, about two-thirds of them got their services from institutions that were already financially sustainable.[2] One strong microfinance institution or SHG program that thrives and grows to massive size is more important than a dozen that remain small or perish.

Some of the more interesting findings that emerge from these nine programs are listed below. It is reasonable to suppose that they may have some broader relevance as well.

[2] Based on data from the Microfinance Information eXchange (MIX) and the MicroCredit Summit, provided by Adrian Gonzalez, MIX researcher for CGAP projects.

- **Sustainability.** 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.
- **Support services.** Well-run SHPIs seem to be able to provide an adequate package of external support services to establish SHGs and then keep them functional, and the SHGs seem to be willing and able to pay the cost of that support.
- **Loan collection.** In well-run SHG programs, there is usually very little default on repayment of external loans to the SHGs from banks or promoters. In addition, SHGs in some of the programs studied are quite successful in eventual collection of their internal loans even though those loans had been subject to unusually high levels of late payment.
- **Cost levels.** Generally, the SHG programs studied here compare favorably with other microfinance models in terms of administrative costs. However, this does not factor in the time members have to spend at meetings and the risks group members are subject to.
- **Savings.** Though all SHGs require periodic fixed amounts of savings from members, the model is credit driven. Clients of the nine programs studied in this paper joined an SHG mainly to get loans, not to save. For some programs, there is little voluntary saving beyond the minimums required to qualify for loans.
- **Reaching the poor.** Most of the programs in the studies reach very poor and marginalized clients.
- **Elite capture.** The researchers found little evidence of elite capture, which has been a problem with some other forms of community-based and member-managed finance.

Most Indian SHGs are externally funded by banks or by promoter organizations who borrow from banks. Indian commercial banks, most of which are government owned, began lending to SHGs because of government-imposed, priority-sector lending quotas. Elsewhere in the world, it is hard to find success stories among community-managed loan funds that are externally funded. Rather, almost all of the successful programs are savings based.[3]

What accounts for the success of externally funded community finance in India? One is tempted to speculate that the difference might be that, in India, external funding comes in the form of a direct or indirect loan from a commercial bank that is serious about getting its money back. On the other hand, Indian banks have experienced high default rates on other priority-sector lending in the past.

If the banking relationship is important to the success of the Indian SHG model, this may have implications for the replicability of the model in other countries. It remains to be seen how many other governments will impose such directed credit requirements, and whether commercial banks will be willing to lend to community groups without them.

Note that the performance information on programs discussed in this paper is fairly old. We do not view this as a major concern, because the point of the paper is not to give a current overview of the Indian SHG movement, but rather to investigate the question of whether and how SHG programs can be run sustainably.

[3] A recent CGAP study (Murray and Rosenberg 2006) found that members of community-managed loan funds were much less disciplined in handling outside money than they were in handling their own money accumulated through savings.

Part I. Do India's Self-help Groups Provide Value for Money?

What Is an SHG?

SHGs are autonomous collectives that deliver small loans to their members. SHGs are run by their members, who choose their own leaders and bank account signatories. They decide on compulsory savings amounts, interest rates, lending norms, and distribution of surpluses. Accounts are maintained by literate members, hired bookkeepers, or staff of promoting institutions.

Most SHGs are part of a federation that helps them with governance and financial monitoring and promotes new groups where needed. Federations and other promoters also link individual groups to external financial and social resources.

SHGs collect periodic savings and make loans to their members. Savings are usually compulsory, with the amount and frequency of savings collections decided by the group. Loans are funded by savings, revenues (interest, fees, penalties), and loans from banks and other external sources.

Initial loans to members are usually funded by savings. Such loans are typically small and used for consumption or to repay existing debt borrowed at higher interest rates from other sources. These loans range from 100 to 2,000 rupees (US$2.5–US$45), with a maximum loan period of six months and a bullet repayment scheme (that is, all principal is repaid in a single installment at the end of the loan, with interest paid monthly or with the principal repayment). Over time, SHGs mobilize more savings, retain earnings, and often borrow external funds, enabling larger loans for consumption and business purposes. These loans range from 1,000 to 20,000 rupees (US$23–US$450) and are repaid in monthly installments over one to three years.

In addition to financial services, some SHGs provide health care services (such as polio vaccinations and family planning information), social empowerment activities (such as literacy training), food-for-work opportunities, and mid-day meal programs; some even participate in local government elections. Because Indian law requires that larger organizations be formally registered, SHGs have no more than 20 members. Most groups have 10 to 20 members. Members typically are poor women who have similar socioeconomic backgrounds and who are from the same locality. Members join to get loans and other services, such as livelihood support—where the group offers skills training, promotes new markets, provides access to assets in addition to credit, and provides access to irrigation.

Most SHGs are formed with assistance from a promoting institution—such as the Small Industries Development Bank of India (SIDBI), Rashtriya Mahila Kosh (RMK), Housing and Urban Development Cooperation (HUDCO), Housing Development Finance Corporation (HDFC), and Friends of Women's World Banking (FWWB). Most of them receive funding from commercial banks (almost all government owned) or their promoting institutions.

The SHG-Bank Linkage Program, launched in 1992 by the National Bank for Agriculture and Rural Development (NABARD), stimulated the development of many SHGs nationwide. NABARD is a government-owned apex refinance (wholesale loan) institution with a combination of promotional, supervisory, and refinance functions for retail institutions—rural branches of commercial banks, regional rural banks, and cooperative banks.

SHGs were initially promoted mainly by NGOs such as MYRADA and PRADAN. Since the middle of the 1990s, when the model was scaled up, promotional work was largely done by specialized government agencies, such as the District Poverty Initiatives or the Velugu project in Andhra Pradesh and the Kudumbshree project in Kerala, the Women's Development Corporations in the states of Tamil Nadu and Maharashtra, the Women and Child Development departments, and the District Rural Development Agencies (DRDAs) in most others states. Although the more specialized agen-

Table I-1. Models of Support for Bank-Linked Indian SHGs

Type of support	Model 1	Model 2	Model 3
Promotion	NGO or government agency promotes the group	NGO or government agency promotes the group	Bank promotes the group
Financing	Bank lends directly to the group	NGO or government agency obtains funds from bank and lends to the group	Bank lends directly to the group

cies have, by and large, established SHGs of fair quality, the departments and the DRDAs pursued a numbers approach that produced SHGs of indifferent quality. In Andhra Pradesh, for example, the government uses gas connections and revolving loan funds as incentives to encourage women to form SHGs. Members joined the groups to capture these benefits. But after achieving their short-term goals, most of these groups stopped functioning. SHGs in which members have not been "bribed" by quick-and-easy subsidies have proven more durable. The incentives for such groups are more conducive to member participation and group solidarity, both of which are crucial to a group's sustainability.

Models Linked to Banks

Most—though not all—Indian SHGs eventually get loans from commercial banks. Three models have emerged for SHG–bank linkages. In the dominant model, used by NABARD's SHG–Bank Linkage Program, a bank lends directly to a group after evaluating the group's operations, maturity, and capacity to absorb credit. The groups lend the proceeds to their members. An SHPI—an NGO or government agency—remains involved with the group, but is not part of its funding chain. As of March 2005, 72 percent of bank-linked SHGs had been financed through this model.

In the second model, the promoting institution also plays a funding role. A bank lends to the promoter, which then on-lends the funds to its SHGs. As of March 2005, 7 percent of bank-linked SHGs had been financed using this approach. Banks like these two models because the costs of group formation and support are borne by SHPIs.

In the third model, a bank acts as an SHPI—forming SHGs, training them, and then lending to them. As of March 2005, 21 percent of bank-linked SHGs had been promoted by banks.

NABARD's program is designed to integrate informal savings and credit groups with the mainstream banking system. Under the program, NABARD refinances bank loans to SHGs—that is, it provides financing to banks at a below-market interest rate (currently 6%), though banks continue to carry the risk for their loans.

By March 2006, NABARD's program had lent 114 billion rupees (US$2.8 billion to 545 banks through 44,362 branches, half of which was still outstanding). These banks in turn extended loans to 2.23 million SHGs that served an estimated 33 million poor women over 13 years.[4]

Banks establish links with groups that have maintained regular savings relationships with them, usually after six months. Banks then lend to the group without collateral, relying on self-monitoring and group peer pressure for repayment. Banks typically initiate lending to SHGs with a loans-to-savings ratio of 1:1 or 2:1, then gradually increase this ratio to 4:1.

SHGs normally borrow from banks at an annual interest rate of 8–12 percent and lend to their members at 24 percent, although in some cases it has come down to 18 percent. Groups retain the interest rate differential as earnings. Over several

[4] http://nabard.org/pdf/stmt1.pdf

years, this revenue typically surpasses member savings as a source of funds. More than 95 percent of the bank loans to SHGs backed by the NABARD program are repaid.[5] The NABARD program is nationwide, but it is especially active in the southern states of Andhra, Tamil Nadu, and Karnataka, which are home to more than half of all bank-linked SHGs.

Most of the banks that lend to SHGs in India are government owned, though a few private banks participate as well. What motivates the banks to lend to such unconventional borrowers? The dominant factor is government-mandated lending targets of 40 percent of total bank credit to borrowers from priority sectors, including agriculture, microfinance, small industry, housing, and education. Of this, 10 percent must be to the "economically weaker sections." These targets are monitored by bank senior managers and government officials, who are answerable to Members of Parliament. But some banks are engaging in SHG and other microfinance operations because they think this market may be profitable. It is an open question whether banks would have much interest in doing business with SHGs if there were no governmental lending targets.

Study Findings

The analysis in Part I is based on data from five well-established institutions that represent the main models for promoting Indian SHGs, covering diverse regions:

- Panagal Mandal Mahila Samakhya (PMSS), an SHG federation in Andhra Pradesh, was promoted as part of a United Nations Development Programme (UNDP) South Asia Poverty Alleviation Programme (SAPAP) initiative that ended in 2000. PMSS is currently supported by Indira Kranti Pathakam (formerly known as the Velugu project) and funded by the World Bank.
- Sakhi Samiti, an SHG federation in Rajasthan, initially promoted by Professional Assistance for Development Action (PRADAN), an NGO. In 1999, the federation assumed responsibility for SHG promotion.
- A PRADAN program in the Lohardaga district of Jharkhand, formed in 1992, that began promoting SHGs for savings and credit in 1996.
- Chitradurga Gramin Bank (CGB), a rural bank in Karnataka selected by NABARD in 1992 as one of nine regional rural banks to promote SHGs.
- People's Action for National Integration (PANI), a leading NGO in Uttar Pradesh that espouses a Gandhian ideology of integrated human development.

Table I-2 summarizes the inception, goals, and services of these five groups. Table I-3 provides a statistical overview of the five programs and the 150 SHGs covered by the study.

Methodology

A two-stage sampling process was used to select SHGs for detailed review. First, villages were chosen through probability proportionate to size sampling, which weighted samples based on the populations of different villages. This approach ensured appropriate representation of small, medium-size, and large villages. Next, 30 SHGs were randomly selected from each institution's list of those that had been active for at least three years in the sample villages.

Data for the 150 SHGs in the sample were collected between May 2003 and April 2004 and covered all the members of the sample groups. Analysis focused on the source and volume of SHG funds, loan portfolio quality, profitability, operating costs, efficiency, growth, outreach, and perceived life changes among members resulting from

[5] Here and elsewhere in Part I, "repayment rate" is calculated as (amount repaid minus prepayments of loans) / repayment due during the period.

Table I-2. Overview of Five Selected Institutions That Promote SHGs in India

Institution	Legal form of SHG promoter	When and how SHG promotion began	Objective	Services to SHG members/clients
PMMS Panagal Mandal,[a] Mahabubnagar Society, Andhra Pradesh	Mutually aided cooperative society Three tiers: SHGs, village clusters, and mandal federation	1995: Five-year program to organize poor women for social change and livelihood generation began as part of the UNDP-SAPAP project. UNDP initially contracted NGO partners to form SHGs; later the NGOs withdrew and SHGs were formed directly by project staff.	Empower poor women to overcome social, economic, cultural, and psychological barriers through self-managed institutions of the poor.	• Training of SHG members and bookkeepers • Linkages to banks and other external funders • Conflict resolution • Market linkages • Reproductive and child health services • Social initiatives[b]
Sakhi Samiti (Kishangarh Bas block, Rajasthan)	Public society Two tiers: SHGs and federation	1987: SHGs formed during a severe drought to buy fodder on credit. PRADAN promoted the initial SHGs, but the federation handles promotion now.	Improve women's access to government schemes and enable them to meet emergency financial and/or credit needs.	• Bookkeeping • Internal audits • Linkages to banks and other external funders • Conflict resolution • Reproductive and child health services • Social services
PRADAN (Lohardaga District, Jharkand)[c]	Unregistered Two tiers: SHGs and federation	1996: PRADAN formed SHGs to ensure sustainability of irrigation activities in Lohardaga district. PRADAN has since withdrawn; groups are now self-managed by members.	Promote and strengthen women's SHGs as a viable financial intermediary, create compact clusters for outreach, and follow up by consolidating enterprise-based livelihood activities.	• Internal audits • Computerized bookkeeping • Linkages to banks and other external funders • Facilitation of SHG clusters
CGB (Chitradurga District, Karnataka)	Regional rural bank; no federation	1992: Five SHGs promoted by MYRADA linked as part of the SHG-Bank Linkage Program. Groups are self-managed; CGB provides credit linkages and mentoring.	Inculcate savings habits among the poor, facilitate access to bank credit through an effective credit delivery system, and build mutual trust between CGB and the rural poor.	• Training of SHG members • Monitoring of SHG operations
PANI (Faizabad District, Uttar Pradesh)	Unregistered Two tiers: SHGs and federation	1995: Formed SHGs for free bonded laborers to help liquidate their debt.	Empower the target community so that they may help themselves.	• Training of SHG members • Bookkeeping • Internal audits • Linkages to banks and other external funders

Notes:

[a] A mandal is an administrative unit below the district consisting of 40–50 villages. In Andhra Pradesh, development blocks are divided into mandals, while the rest of the country used the taluk as the administrative block.

[b] Social initiatives include promoting the rights of lower caste people, advocating against child marriages, promoting schooling for female child laborers, and promoting livelihoods for disabled and destitute women.

[c] PRADAN promoted its first SHGs in 1987 in the Kishangarh Bas block of Alwar district, Rajasthan. They were later federated in 1997 as Sakhi Samiti.

Table I-3. Statistical Overview of 150 Indian SHGs, by Promoting Institution

Indicator	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Average age of SHGs (years)	6	6	5	4	5	5
Total number of members in sample SHGs	429	389	533	475	378	441
Average number of members per SHG	14	13	18	16	13	15
SHG members with outstanding loans (percent)	98	88	76	89	90	88
Average SHG outstanding loan portfolio (US$)	2,301	1,846	509	1,845	441	1,388
Average SHG outstanding bank loan (US$)	162[a]	903	84	1,177	372	740
Average SHG savings (US$)	580	881	573	1,101	166	660
Average savings per member (US$)[b]	41	68	32	69	13	45
Number of SHG promotion staff	28[c]	5	10	NA	79	31

Note: The survey covered 30 groups for each institution. Dates for financial information are for the year ending March 2003 for PMSS, Sakhi Samiti, and PRADAN and for the year ending March 2004 for CGB and PANI. Loan analysis was based on annual information: PMSS, 31 March 2003; Sakhi Samiti, 31 October 2003; PRADAN, 30 November 2003; CGB, 28 February 2004; and PANI, 31 March 2004. For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively.

[a] All PMSS SHGs had borrowed from their federation. The federation borrows from banks and then on-lends the proceeds, together with the federation's own funds, to member SHGs.

[b] Estimated as average savings per SHG/average members per SHG.

[c] Staff consists of 5 PMSS staff and 23 village organization staff.

SHG participation. Members were interviewed for both personal information and information about their SHG. Financial and meeting records were reviewed, verified, and entered into spreadsheets to create detailed financial statements, loan portfolio reports, and attendance records for each group. Data were cross-checked using loan and saving ledgers, member passbooks, and minutes of meetings, and verified with members during individual and group interviews. The CGAP research team assessed the five institutions, focusing on their costs of forming SHGs, provision of ongoing support, and links to external sources of credit.

Outreach

Most Indian SHG programs reach out to vulnerable and marginalized people who own little or no land, are predominantly illiterate, and who lack access to formal sources of financing. The depth of programs' outreach to such populations depends on program design and on their promoters' vision, leadership, and commitment. An NGO, such as PRADAN, whose mission is to help vulnerable groups, has deeper outreach than a regional rural bank, such as CGB, which serves clients who live near its offices. To determine how effectively the SHG model reaches these populations, the study analyzed the locations of the 150 SHGs in the sample and the economic and demographic profiles of their members (see Table I-4). Most of the groups' members live far from paved roads, bank branches, and health centers, although there is variation among the programs. CGB, for example, is based in a district capital, and its SHGs are closer to paved roads and health centers. PRADAN, on the other hand, aims to work with more disadvantaged groups and so operates in one of India's least developed states (Jharkhand), where settlements are more remote.

Accordingly, of the five programs studied, PRADAN had the deepest outreach: almost all SHG members are tribal people or members of scheduled castes. PRADAN's clients are also the poorest: 85 percent had no homestead land or only marginal nonagricultural landholdings, and almost 90 percent live in thatched huts or are squatters. CGB's clients were somewhat better off, with 70 percent living in concrete or brick houses and 40

Table I-4. Depth of Outreach of SHGs, by Promoting Institution

Indicator	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Distance from paved road or highway (miles)	3.3	1.7	10.6	2.4	8.2	5.2
Members from scheduled castes and tribes[a] (percent)	21.9	58.4	96.6	35.2	68.0	56.0
Clients who are marginal farmers or have no homestead or agricultural land (percent)	58.5	83.3	85.6	60.6	96.6	76.9
Members who are illiterate or can only sign name (percent)	88.0	89.0	86.0	14.0	93.0	74.0
Members without a house or only a thatch hut (percent)	11.2	28.0	87.6	29.7	35.2	38.3

[a] Scheduled castes and tribes are communities accorded special status by the Constitution of India. These communities were considered "outcastes" and were excluded from the four-caste system that was the social superstructure of Hindu society in India for thousands of years. These castes and tribes were relegated to the most menial labor, with no possibility of upward mobility, and degenerated into the country's most economically and socially backward communities.

percent owning agricultural land. In addition, 86 percent of CGB clients are literate, compared with just 7–14 percent in other programs. Annex tables IA-1 through IA-6 provide further data for each program.

Institutional performance

The institutional sustainability of SHGs depends on their management, systems (including external support), and membership. Overall, the five programs studied had good survival rates among their SHGs, relatively low member dropout levels, and consistent attendance and member participation. In addition, field staff of the promoting institutions rated most groups in the sample as above average to exceptional in their management, systems, and membership, indicating that these groups were probably capable of managing themselves.

Record-keeping. Because of low literacy rates among members, SHG records are maintained by NGO staff, a literate member of the group or its federation, or—most commonly—a literate person in the village who is paid for the service. Records generally include data on attendance, savings, loans, and member passbooks. The quality of records was rated good or acceptable in more than half of the sample SHGs and average in one-third of the sample. Rating criteria are defined in annex Table IA-7.

Leadership

In about two-thirds of the SHGs, elections for leadership positions had been held at least once since the group was created. In some cases, the same leaders were reelected, reportedly to avoid problems in changing bank account signatories.

Decision-making

Most SHGs reported that decisions were made at meetings attended by all (58%) or most members (31%). But a quarter of the groups promoted by CGB and PANI reported that decisions were made by a few members.

Membership and group stability

Over an average of five years before the study's start, 15 percent of members dropped out of the 150 sample SHGs; 9 percent joined as new members.[6] The main reasons for dropping out were death, marriage, or migration. Inability to meet savings requirements or attend weekly meetings was also cited in a few cases.

SHGs tend to last longer if their promoters provide good organizational support and social mobilization. For example, only 2 percent of SHGs promoted by PANI—which achieved deep outreach to

[6] In most cases, if someone wants to join an SHG, she has to contribute to the group an amount equal to the accumulated savings per member at that time. This deters prospective members from joining existing groups, and they often choose to motivate other people and start a new SHG.

Table I-5. Age Distribution of SHGs, by Promoting Institution

Program	3–5 years	5–7 years	More than 7 years	Average
PMMS	11	6	13	6.0
Sakhi Samiti	14	8	8	5.9
PRADAN	26	4	0	4.5
CGB	23	7	0	4.2
PANI	20	8	2	4.5
Total	94	33	23	5.0

vulnerable and marginalized groups—disbanded between April 2001 and March 2004. When the government had actively promoted SHGs (typically by offering immediate incentives for joining), higher numbers of recently launched groups disintegrated, reflecting the absence of adequate time for group organization and social mobilization. Table I-5 shows the ages of the 150 SHGs analyzed for this study.

The low rates of dropout and turnover convey a strong message about the groups' utility. Members would not continue to attend and invest in their groups unless they found them helpful.

Meeting attendance

SHG meetings are held regularly, with 82–100 percent of groups reporting regular meetings. But meetings seem to become less frequent as groups age. Attendance was consistent across the five programs, with about 80 percent of members attending.

In a quarter of the SHGs, members sometimes sent family members or others to make payments on their behalf. This practice was more common among the groups promoted by Sakhi Samiti and PRADAN, which have poorer members than the groups promoted by the three other institutions. Members were more likely to have family members make payments when meetings were held in the morning, which is a more convenient time for hired SHG bookkeepers than for members who need to be at work. When group members or leaders managed records, most meetings were held in the evening. (Annex Table IA-8 provides further details.)

Perceptions of promoting institutions

The research team asked field staff from the five promoting institutions to rank the cohesion and overall functioning of SHGs based on their links to external funding (such as from a bank or MFI), repayment rates on internal loans, and adherence to group norms. Although all the programs rated highly on cohesion, ratings were less impressive for overall functioning (Table I-6). (Annex Table IA-9 provides rating criteria.)

Financial performance

Savings

Savings in the 150 SHGs consisted entirely of the compulsory deposits that are a condition of membership and loan access. The absence of large voluntary savings balances probably indicates that

Table I-6. Promoting Institutions' Ratings of SHGs (percentage of groups considered above average or exceptional)

Area	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Group cohesion	77	71	80	90	84	80
Overall functioning	70	60	47	64	60	60

Table I-7. SHG Members with Outstanding Loans, by Promoting Institution (percent)

PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
98	88	76	89	90	88

most members do not consider groups useful for storing surplus cash and use other savings mechanisms. In addition, the complexity of managing cash flows may limit SHGs from offering such services to their members.

Loans to members

The average outstanding loan portfolio (loans to members) was US$1,388 per SHG. Almost all the groups surveyed charged members a monthly interest rate of 2 percent for loans.[7] Only two of the 150 groups charged 3 percent a month—though in the past (generally at the start of the microfinance program), most SHGs in India charged that amount. Loan terms, typically six months to three years, with monthly repayments, were not related to loan size.

At the time of the survey, 88 percent of SHG members had outstanding loans (Table I-7). About two-thirds of the loans (68%) were reportedly for business use: agriculture (32%), animal husbandry (23%), and microenterprise (13%). The other third was reported as consumption loans.[8] (Annex Table IA-10 provides further details.) Loans were not concentrated in the hands of a few members. For example, SHG leaders represented 16 percent of group members and 21 percent of loans outstanding.

Among the sample SHGs, 23 percent of members still used moneylenders for credit. But among SHGs promoted by NGOs, only 2 percent of members borrowed from moneylenders. In Lohardarga, Jharkhand, where PRADAN works, SHG members reported that moneylenders went out of business because of reduced demand for their services. Overall, 14 percent of members of the sample SHGs supported by PRADAN still borrowed from moneylenders. The average loan per member was 6,750 rupees, where SHGs had access to outside capital from federations or banks, and 1,450 rupees where there was no such support.

Loans to members accounted for 68–98 percent of the SHGs' assets. Although data on portfolio at risk can be artificially improved by rescheduling loans, none of the SHGs in the sample did so. None of the SHGs, however, maintained loan loss reserves. Although most SHGs nominally required monthly repayments, in practice, members repaid their loans flexibly based on available cash flows, which did not necessarily correspond to monthly loan installment schedules. Such repayment behavior was especially common among members who depend on seasonal income, such as from agriculture and animal husbandry.

SHGs in the PMMS program had the best portfolio quality (lowest portfolio at risk), possibly because of the program's more individualized loan terms (see Table I-8). Members of all five programs said they consider SHG loans to be from family and friends; as a result, these loans are treated with less discipline than loans from banks to SHGs. But members also reported that most SHG loans to members are eventually repaid, with low eventual default rates.

Because the SHGs in the sample did not provision for loan losses, the analysis adjusted their financial statements to include loan loss allowances based on rating standards developed by APMAS, an Indian agency that specializes in assessment and

[7] The only exception was for groups that receive funds from Rashtriya Mahila Kosh, a government program that limits the nominal annual interest rate on member loans to 12 percent.

[8] Distinctions between business and consumption microloans are inherently difficult to track. Other microcredit studies have found that actual loan use often differed from reported loan use.

Table I-8. Average Outstanding Loan Portfolio and Portfolio at Risk for SHG Loans to Members, by Promoting Institution

Indicator	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Average outstanding loan portfolio (US$)	2,301	1,846	509	1,845	441	1,388
Portfolio at risk > 30 days (percent)	8	18	23	53	25	25
Portfolio at risk > 90 days (percent)	7	18	21	49	25	24
Portfolio at risk > 365 days (percent)	1	13	7	19	16	11

Note: Portfolio at risk is calculated as the total outstanding balance of loans with any payments overdue by more than *x* days divided by the total outstanding loan portfolio.

capacity building of SHGs and their federations (Table I-9).[9] APMAS derived these standards from an empirical analysis of SHGs' success in eventually collecting overdue loans. This provisioning schedule is much less stringent than is normal for microfinance institutions or banks—where, for instance, loans more than a year overdue are usually provisioned 100 percent or written off. This is because APMAS has found that SHGs eventually collect a substantial portion of late loans.

The levels of loan delinquency shown in Table I-9 would be disastrous for most microcredit providers.[10] Yet it appears that SHGs are surviving despite this. This has to do with the fact that a significant part of the SHG loans were used for crop cultivation and livestock rearing, neither of which offer a monthly cashflow. Yet loan installments were often fixed at monthly intervals, often out of inexperience and sometimes out of a desire to keep a discipline of "repaying something in each meeting." Thus the high level of late repayments in SHGs did not always translate into defaults. Nonetheless, this is an area to monitor closely for SHG programs, as it is for any lending operation.

Despite late repayments from their members, SHGs in the sample were generally able to repay their loans to banks using member savings and revenues from interest rate spreads, fees, and penalties for late loans. SHGs in the CGB program had the worst repayment record on member loans and, not surprisingly, the worst repayment rates on external (bank) loans.

Table I-9. Adjustments Made to SHGs' Financial Statements for Loan Losses

Number of days of overdue principal repayment	Loan loss allowance (percent)
1–30	0.0
31–60	0.0
61–90	2.5
91–180	5.0
181–365	12.5
> 365	50.0

Note: When adjusting financial statements, loan loss allowances were spread over two financial years, on the assumption that the delinquency had accumulated over that period or longer.

Loans from external sources

Three-quarters of the sample SHGs had borrowed from a bank or federation. In the case of PMMS, member SHGs borrowed from federations; SHGs under the other programs borrowed directly from banks. Outstanding loan balances from all external sources among the five programs ranged from US$84 to US$1,177 per SHG, with an average loan balance of US$739 (Table I-10). Some of the programs achieved high repayment of their bank loans, while others did not. Portfolio at risk at 30 and 365 days was excellent in three programs but poor in the other two.

[9] APMAS, a technical organization based in Hyderabad, Andhra Pradesh, has developed a rating methodology for SHG federations and rated more than 200 of them.

[10] In most other forms of microcredit, loan collection tends to spin out of control if the portfolio at risk more than 30 days late stays above 10 percent for very long.

Table I-10. Average Outstanding Loan Portfolio and Portfolio at Risk of Loans from External Sources to SHGs, by Promoting Institution

Indicator	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Average outstanding loan portfolio (US$)	1,162	903	84	1,177	372	740
Portfolio at risk > 30 days (percent)	0	14	0	32	0	9
Portfolio at risk > 90 days (percent)	0	14	0	26	0	8
Portfolio at risk > 365 days (percent)	0	9	0	13	0	4

Costs of group promotion

Costs of promoting SHGs include the costs of launching, providing training, and monitoring them for about three years, after which groups can usually function with considerably less—and less costly—external support. Promoters' costs were analyzed based on total spending over three years divided by the number of SHGs promoted or supported during that time. The average cost was US$259 per SHG, although costs varied widely among the five programs. The highest costs were for multipurpose programs that promote empowerment of members, such as PMMS (US$443 per SHG) and PRADAN (US$361).[11] The average cost of the CGB program, which formed SHGs solely for onlending, was only US$50 per group.

Several factors led to the higher costs for PMMS, which aims to organize poor people and women for empowerment, social change, and livelihood generation. The program sets up three tiers (SHG, village cluster, and federation) and provides an initial US$105 per SHG and per village cluster to defray the costs of launching the group or cluster. The program also gives each group and cluster US$210 to meet ongoing expenses.

CGB had the cheapest promotional model. This program focuses on literate, less poor women who live close to bank branches. Its promotion costs are mainly limited to the launch of SHGs, plus initial orientation and training, with the remaining costs covering CGB's administration. CGB SHG members have the highest socioeconomic backgrounds of all sample groups, which means that they had the least proportion of poor members. They had the weakest performance for on-time loan repayment. CGB's groups were the least profitable (see Table I-12), at least before promotional costs are considered.

[11] Costs for the PRADAN Lohardaga program included research and development for a pilot program.

Table I-11. Costs of Promoting SHGs, by Promoting Institution (US$)

Indicator	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Number of groups promoted	300	135	123	360	785	341
Total cost of promotion and support per group	443	232	361	50	211	259
Average cost per group launch	201	139	93	30	111	115
Average cost of training and monitoring per group	241	94	268	20	100	145
Average promotion and support cost per group member	32	18	20	3	16	18

Note: Data are for costs incurred over the previous three years, on average. For additional details, see annex Table IA-11.

Table I-12. Financial Sustainability (Profitability) of SHGs, by Promoting Institution (percent)

Indicator	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Return on assets without adjustment for loan loss provisions or SHPI costs	9	15	18	7	11	12
Return on assets after adjustment for loan loss provisions	9	12	16	1	7	9
Return on assets after adjustments for loan loss and SHPI costs	2	7	–1	1	–9	0

Note: For additional financial information, see Annex I, Table IA-12.

Several SHG promoters believe that the higher cost, NGO-led model generates greater social benefits in the form of member empowerment and well being. But this study's results do not consistently find that higher promotional costs lead to higher portfolio quality, deeper outreach, higher SHG ratings, or greater profitability after adjusting for loan provisions. The results are more nuanced and depend on the promoting institution.

Financial sustainability (profitability)

The study measured profitability in three stages. The first-stage return on assets was calculated from SHG records with no adjustment. By this measure, the SHGs in all five programs were highly profitable, with a return averaging 13 percent. But this result cannot be considered a reliable indicator of financial sustainability because it does not take into account the fact that there will likely be losses when uncollectible loans are finally written off.

Thus, the second-stage return on assets includes provisions (expenses) for estimated loan losses, spread over two years. This stage of measurement reflects the SHGs' ability to continue operating into the future. At this level, all the SHG models were still profitable, averaging a healthy 9 percent return. But this stage of measurement ignores the fact that some part of the costs of each SHG is paid by external actors: their SHPIs. These are real costs, and SHGs cannot be formed without them. The costs of the promoter would always be included in an analysis of a microfinance program based on solidarity groups or village banks, and these costs should not be excluded when looking at SHGs.

Thus the third stage includes the SHPIs' costs and amortizes them over three years. Once these costs are included, the profitability picture is mixed. The return on assets at this final stage ranges from very poor (a 9% loss for PANI) to very strong (a 7% profit for Sakhi Samiti). By way of comparison, returns on assets in most commercial banks are 1–2%.[12]

Conclusion

SHGs in India reach almost 33 million households and provide loans, empowerment, and social services in addition to limited, largely compulsory, savings mechanisms. It is true that many SHGs and SHG programs do not perform well. But the same has been true historically of most other microfinance institutions. If the purpose is to determine whether the Indian SHG model is a sustainable one, it is more relevant to look at the programs that are performing well than those that are not. One can expect that over time, the weak SHG pro-

[12] Financial analyses of microcredit programs often include a "subsidized-cost-of-funds adjustment" if the program receives loans at rates significantly lower than market rates. There has been no adjustment for cost of funds in this analysis because the rate SHGs pay banks (10–12%) is higher than the 90-day deposit rate in the banking system (5.0–6.5% a year during 2002–04) and close to the average bank lending rate (11%). Further, given India's long history of priority-sector lending requirements, SHGs will probably continue to have access to large quantities of loans on similar terms in the future.

grams will stagnate or close, and most outreach will be dominated by well-managed programs. This is what has happened among conventional microfinance institutions over the past three decades.

Thus, this study analyzed five better performing SHG programs. The findings paint a largely positive picture: Based on results to date, the Indian SHG model can work sustainably in well-managed programs. Compared to many other microfinance approaches early in their development, the SHG model seems to be producing more rapid outreach and (as Part II will show) lower costs. But there are also concerns.

How effective are Indian SHGs in reaching vulnerable and marginalized groups?

SHGs reach poor and excluded groups. Most members of the SHGs studied come from poor households, including marginalized groups; most say that participation has improved their lives.

SHG financial services are not fully matched to member need. Many group members pay their loans late, suggesting that SHG loan terms do not match members' needs and cash flows. SHGs under the PMMS model offer more individualized loan terms and experience lower late payments and default rates. Many SHPIs are concerned that adapting loan terms would make loan origination and monitoring more difficult, but the SHGs promoted by PMMS have managed this challenge.

Members do not use SHGs as savings vehicles. Another concern is that SHGs mobilize only modest amounts of member savings, mainly through compulsory deposits that members make, not because they want to save, but only because the deposits are required to get a loan. Only a limited number of SHGs offer voluntary savings, possibly because groups or promoting institutions do not want to address the complexities that voluntary savings entail, including liquidity management, more staff or volunteer time to meet member requests for access to their savings, and more record-keeping for SHG managers. Other reasons for low voluntary savings may be that members have other satisfactory options for savings or may not consider savings to be secure or accessible in an SHG.

How financially sustainable are Indian SHGs?

In well-managed programs, SHGs can be profitable, and many are. High income from their loan portfolios and low operating expenses enabled most of the SHGs in the study to be profitable, even after adjusting for loan loss provisions and the costs of launching, supporting, and monitoring in their initial three years. (Part II of this Occasional Paper addresses the sustainability of another group of

Table I-13. Average Operational and Outreach Indicators for SHGs, by Promoting Institution

Indicator	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Portfolio at risk > 90 days (percent)	7	18	21	49	25	24
Return on assets after adjustment for loan loss provisions and promotional costs (percent)	2	7	–1	1	–9	0
Promotion and support cost per group member (US$)	32	18	20	3	16	18
Promotion and support cost per group (US$)	443	232	361	50	210	259
Group members from scheduled castes and tribes (percent)	22	58	97	35	68	56
Group distance from paved road/highway (miles)	3.3	1.7	10.6	2.4	8.2	5.2

SHG programs, with greater focus on the costs of ongoing external support.)

Do Indian SHGs provide value for money?

The sample SHGs reach poor and marginalized groups with loans and other services and appear to produce social and economic benefits for members. It is clear that they can be financially sustainable, and most were profitable. Although costs of promotion and support have been subsidized, SHGs compare favorably with many other microfinance approaches in terms of the subsidy required per client and financial sustainability. The study's financial analysis indicates that most of the SHGs would be financially sustainable even if they had to pay the costs of external promotion and support.

How do differences in SHG models affect performance?

Is more intensive group formation and support worth the added cost? No simple answer emerges from the study. Programs with higher promotion costs, such as PMMS and PRADAN, have varying results. PMMS's SHGs scored higher on overall SHG ratings and have better loan repayment, but PRADAN has deeper outreach and better profitability. SHGs promoted by CGB, the least expensive model studied, had weaker outreach, collection, and profitability net of potential loan losses. This shows that "money saved" in the careful promotion of SHGs may be lost later through loan losses and other problems with the SHGs.

The SHG movement is still relatively young. Final assessment of its effectiveness will have to wait until more experience is acquired. One important question for the future is whether the increasing patronage by politicians and the resulting high growth rate of SHGs and their bank linkage could lead to high default rates. Another is the extent to which SHGs can adapt their lending and savings products to provide an appropriate fit with their members' financial preferences.

Part II. Designing SHG Programs for the Long Term

NGOs, government agencies, and banks in India choose to promote SHGs for a variety of reasons, not all of which are focused on long-term financial service access. Some of these SHPIs see SHGs primarily as a vehicle for grassroots social mobilization. Such promoters sometimes suggest that the social empowerment goals of their SHG programs are achieved even if the groups cease operations after a few credit cycles. Other promoters see SHGs as part of a permanent system providing village-level financial services.

SHGs vary widely in approach and quality. Some are little more than one-time events, often organized by government workers after hours, while others have been carefully built by NGOs as stable providers of various development services. In many programs, SHGs are organized into federations that provide services to individual groups and build the leadership capacity of SHG members.

Some observers question whether many SHGs will offer permanent access to finance. In conference presentations, proponents of the SHG approach tend to focus on the numbers of clients served rather than on how to maintain the system's financial viability. APMAS, a specialized support institution for SHGs, has trained thousands of professionals and analyzed over 300 SHG federations. It claims that only a minority of SHGs across India are of "good quality," or rated "A" using the APMAS grading scale. Nearly 40 percent of the SHGs it examined in one district of Andhra Pradesh state in 2002 had "grossly neglected" or nonexistent book-keeping. Groups that lack such a basic tool of financial service delivery are unlikely to last long. [13]

How can an SHPI ensure that SHGs continue to operate over the long term? Its SHG program must fulfill two conditions: first, the program must provide groups with an ongoing set of essential support services; second, the program must collect enough revenue to cover the cost of providing these continuing services.

Judging Sustainability

In mid-2005, a leading Indian commercial bank asked CGAP to review its SHG lending operation and to suggest improvements. In response, CGAP researchers tried to identify those elements that are essential for long-term success. Our first step was to review the literature. In addition, we studied four Indian SHG programs reported to be leading examples and sought to learn from their experiences.

A desk review of the SHG literature revealed that few studies have tackled the problem of sustainability of SHG programs. The studies that do treat financial performance (summarized in Table II-1) provide only a partial understanding of the issue. Some studies focus on the costs of running an SHG program, such as the costs of forming or maintaining the group, but do not look at revenue. These studies reveal little about whether SHGs can pay for the costs of forming and maintaining the group. Other studies look at whether lending to SHGs is profitable for banks, but ignore the costs incurred by NGOs and others in forming and supporting these groups. These studies create an artificially optimistic impression of the viability of SHG programs.

Only the studies done by Nair (2005) and Reddy and Prakash (2003) directly address the question of sustainability. These studies analyze superstructures (SHG federations) designed to provide support services to SHGs, including capacity building, performance monitoring, and helping to access bank credit. But neither study examines whether other external actors provide services to SHGs alongside the federations. Nair's analysis does not account for the setup costs of SHG federations in examining their sustainability (Christen 2005).

[13] See "The Study of SHG Movement in Visakhapatnam District." Available on www.apmas.org.

Table II-1 Studies on the Costs and Sustainability of the SHG-Bank Linkage Model

Author	Objective of analysis	Actors examined	Findings
Srinivasan (1999)	Profitability of SHG model for banks	1 RRB	Cost/SHG/year is US$18[a] Gross margin (interest revenue minus costs) is (0.07%) to 2.05%
Harper (2002a)	SHG promotion costs under various models	20 promoters, 34 SHGs, 16 banks	Cost/SHG unit linkage: NGO-promoted (US$25–US$424) Bank-promoted (US$25–US$182) Agent-promoted (US$8–US$87) Government-promoted (US$4–US$145) Individual-promoted (US$69)[b]
Seibel and Harishkumar (2002)	Profitability of SHG model for banks	1 commercial bank, 1 RRB, 1 district central cooperative bank	Revenues/average costs is 101–165% Return on assets is 1.4–7.5%
Tankha (2002)	SHG promotion costs and model sustainability	7 SHG programs	Cost of promoting SHG over various periods from 15 months to 7 years is US$93–US$517[c] (no sustainability indicators provided)
Sinha (2003)	Profitability of SHG model for banks	5 RRBs	SHG lending is unprofitable Portfolio yield of 12.5–13.0%, but operating cost of 19.0%
Reddy and Prakash (2003)	Efficiency and sustainability of SHG federations	26 federations of SHGs	All 3-tier SHG federations unprofitable: Operating costs/average portfolio is 10–25% Revenues/costs is 24–98%

RRB = rural regional bank

[a] Converted from rupees using rate at December 31, 1998.

[b] Converted from rupees using rate at November 30, 2002.

[c] Converted from rupees using rate at August 31, 2002.

To remain viable over the long term, SHGs are like other community-level savings and loan groups in that they require an adequate level of external support (Christen 2005). Given that most Indian SHGs borrow from commercial banks, one might argue that they need even more support than other forms of community-level finance that do not assume external liabilities. Christen (2005) discusses the types of support that have proven necessary for the long-term stability of community finance models.[14] They include the following:

- Promotion—Groups need help forming and maintaining their structure, especially in managing member exits and entrances.

[14] Rotating savings and credit associations (ROSCAs) are informal groups where all members contribute a fixed quota at each meeting, and members take turns receiving the entire amount collected at each meeting. Extremely simple mechanisms like ROSCAs can operate without continuing external support, but more complex arrangements seldom can.

- Training—SHG members must be trained in basic operations if they are to maintain quality service, especially in light of limited human resources available at the community level. Clients also need to be trained to understand the products being offered and the procedures they need to follow to access these products and services.
- Standardized Products and Norms—Local entities, such as SHGs, are usually better off when they can offer standardized products that have been developed by a higher level organization that is in a better position to develop supporting management information systems, rules, and risk mitigation strategies.
- Administration—Sometimes regular operating functions, such as book-keeping, processing transactions, and serving clients must be performed by nonmembers.
- Oversight/Intervention in Operations—When corrupt or unhealthy practices, including capture by SHG leaders, occur, someone outside the group should be able to intervene and help correct the problems.
- Liquidity—SHGs can provide better service if group members can draw from an external fund when cash flow needs are higher than usual, and deposit into that fund when excess cash is available. An external fund also may be used to invest excess cash in liquid instruments.

We do not argue that all of the above support services are essential for every community finance model. But some robust combination of most of these services seems to be important for long-term stability. When community-level financial service programs fail, the problem usually can be traced to inadequate external support structures.

As noted earlier, long-term SHG viability depends on two conditions. First, the individual SHGs must receive an adequate package of external support services. Second, the SHG program that provides these services must generate enough income from the SHGs to cover its costs.

We studied four well-regarded SHG programs in India to see whether they meet this two-part test and to uncover lessons they might have in helping SHGs achieve long-term viability.

Four SHG Promoters

The four SHG promoters we selected were reputed to be building sustainable SHG programs, based on conversations with government officials, microfinance practitioners/consultants, and others. They are the Oriental Bank of Commerce (OBC), headquartered in New Delhi; Sarvodaya Nanofinance Ltd. (Sarvodaya), in Tamil Nadu; Dhan Foundation (Dhan), in Tamil Nadu; and the Microcredit Foundation of India (MFI), in Tamil Nadu.[15]

These organizations are not representative of all SHG promoters; three of the four are located in just one of India's 28 states, Tamil Nadu in southern India. They are not the largest, the most profitable, or the best-known practitioners of the SHG approach. Rather, these organizations were chosen because their programs appeared to provide adequate support services—as confirmed by strong loan collection—and because their data and experience were available to us. The four included programs that were reported to serve large numbers of poor people and/or to operate particularly efficient programs.

Dhan Foundation has several SHG programs in Tamil Nadu; only the one run by the Kurinji Vattara Kalanjiam (KVK) federation of SHGs, in Madurai, was studied for this paper. OBC is an Indian commercial bank with 1148 branches[16]; the

[15] Data from these organizations presented in this paper were assembled through interviews and correspondence with their management and/or review of public sources, including annual reports, the Microfinance Information eXchange (MIX), and case studies published in *Small Customers, Big Market* by Sukhwinder Singh Arora and Malcolm Harper (ITDG 2005).

[16] As of April 29, 2006, according to the OBC Web site (www.obcindia.com/knowus/knowus_ourachivements.html).

Table II-2. Key Features of the SHG Programs Studied

Features	MFI (at 3/31/06)	SNFL (at 3/31/05)	OBC (at 3/31/03)	Dhan (at 3/31/03)	Unweighted average of 58 SHG promoters (M-CRIL)[a]
Legal status	Section 25 (not-for-profit) company	NBFI	Scheduled commercial bank	Trust	—
Region	South (Tamil Nadu)	South (Tamil Nadu)	North (Uttaranchal)	South (Tamil Nadu)	—
SHG members	517,784	47,282	4,949	164,552	21,057
Total assets of promoter organization (US$ millions)	4.5[b]	6.9	7,132.8	2.0	0.5
Promoter's return on average assets	NA	0.32%	1.0%	NA	–27.6%
Portfolio at risk of loans to SHGs[c]	0.33% (90 days)	0.7% (60 days)	0.0% (90 days)[d]	2.94% (30 days)[e]	27.7% (60 days)

[a] Calculated from "M-CRIL Microfinance Review 2003 (revised Feb. 2004)," Micro-Credit Ratings International Ltd., Gurgaon India. The numbers in this table do not always match numbers in similar tables from the original report, because some of those tables show weighted calculations and include results from non-Indian SHG programs.

[b] Authors' estimate.

[c] Outstanding balance of all loans that are late by more than a given number of days, divided by total outstanding balance of the whole loan portfolio. This statistic reflects repayment of external lending, not the loans within the individual SHGs.

[d] For Rudrapur program only.

[e] For KVK program only.

SHG program studied in this paper operates in one branch, at Rudrapur in the northern state of Uttaranchal.

Table II-2 compares the four SHG promoters with an average of 58 Indian SHG promoters in India—including NGOs, cooperative bodies, and nonbank financial intermediaries (NBFIs)—that were rated by M-CRIL, an Indian rating agency for microfinance institutions, between September 1998 and June 2003.[17] According to M-CRIL, the SHG programs it rated include some of the largest in India. These programs probably sought ratings either to access external funding or to improve their own performance. Thus, they probably are more focused on sustainability than the average Indian SHG program.

Sustainability Test Part 1: Are Essential Support Services Provided?

The first part of our sustainability test was applied to the four SHG programs in the study by examining whether an adequate package of support services is provided. In each of the four programs, support services are performed by more than one actor, including the following:

- A *support organization,* such as an NGO, nonprofit corporation, or NBFI, that is usually the SHG promoter and that supervises the overall

[17] Sarvodaya Nanofinance Ltd, one of the four promoters analyzed in this study, is also included in the M-CRIL sample of 58 SHG promoters.

functioning of the program (used in the MFI, Dhan, and Sarvodaya programs)

- An *SHG federation*, or collective of SHGs, usually with its own management and balance sheet, that forms, trains, or otherwise supports individual SHGs or smaller groups of SHGs, such as local-level associations (used in Dhan and Sarvodaya)
- An *individual agent or facilitator* contracted by the support organization, SHG promoter, or the SHG itself to handle bookkeeping, cash transactions, and other support services with or without pay (used in OBC)
- One or more *bank staff,* such as branch managers and loan officers who handle local SHG business; these usually follow policies designed by, and reported to, a higher authority in the bank, such as a microfinance project unit (used in all programs)

Based on short field visits, interviews with the SHG promoters, and the financial results of their programs, it appears that each program is providing an acceptable level of all the support services identified earlier. This is not to suggest that these programs could not be improved, but rather that the level of support services they offer is adequate to keep most of their SHGs healthy. Annex II-2 provides details of the support services offered in each program. Organizational structure and cost coverage are described below.

In the MFI program, MFI acts as a support organization whose staff form, support, and monitor all SHGs. ICICI Bank, India's largest private bank, is the only lender to SHGs and also handles cash deposits and withdrawals for SHGs at its branches. The costs of these and other support services are borne by SHG members, who pay 18 percent per annum on loans from ICICI Bank.[18] MFI gets one-third of the interest, or 6 percent, as a "service fee," and ICICI Bank keeps the remaining 12 percent.

Sarvodaya Nanofinance Ltd. is a licensed nonbank financial institution that acts as a support organization. It establishes system-wide policies and products, borrows at commercial rates from banks, and on-lends to about 50 SHG federations that then on-lend to SHGs. Sarvodaya's field executives support and monitor these SHG federations, and the federations' field officers handle all group formation, monitoring, and cash transactions. Saravodaya and the SHG federations cover their costs through interest spreads. Saravodaya borrows from commercial banks at 7.5 to 8 percent per annum and lends to the federations at 12 percent, leaving it with a spread of 4 to 4.5 percent. The federations on-lend to the SHGs at about 22 percent, leaving a spread of 10 percent.

In the OBC program, the only role of the bank's Rudrapur branch is to service SHGs. The branch's two officers oversee about 1,000 five-member SHGs and perform most support functions. OBC charges SHGs 11 percent per annum on loans to cover the costs of funds, support services, and headquarters overhead. Day-to-day transaction and book-keeping services are provided directly to groups by individual "facilitators" who are identified by branch staff. Each facilitator is contracted by about 200 SHGs and is paid 1 percent of each group's outstanding loans for his or her support.

In the Dhan program, the Dhan Foundation NGO is a support organization that forms SHG federations to run SHG programs. In this case, it formed the KVK federation in 1997. The federation serves 350 SHGs at two levels: 16 local or cluster-level associations of 10–15 SHGs each, and the block-level federation of all the cluster-level associations. Cluster-level associations train and monitor SHGs and help them conduct bank transactions. The block-level KVK federation borrows from banks, on-lends to SHGs and cluster-level

[18] All interest rates in Part II of this Occasional Paper are stated on an effective (declining balance) basis.

associations, and trains and monitors the associations. Federation staff at both levels estimate their costs at the beginning of each year and collect this from SHGs in proportion to their loans outstanding. At the end of the year, any surplus contribution is returned to the SHGs.

Banks participating in the Dhan program lend to the KVK federation; they also lend directly to SHGs and handle their cash transactions at branches. They cover their costs through the interest rate they charge on loans to SHGs and SHG federations (typically 11–12% per annum).

Sustainability Test Part 2: Are SHG Programs Able to Cover the Costs of the External Support They Provide?

After ensuring the SHG programs in our study offer adequate support services, we looked at whether the total costs of providing support services are paid for out of operating income earned from SHGs. A three-step process was applied to each program.

We did not investigate whether SHG internal revenues exceed internal costs, in part because we did not have access to internal group results. However, the findings of Part I of this Occasional Paper have shown that, in general, group financial performance is generally positive. Also, in a study cited earlier, Srinivasan found that SHG administrative costs—such as stationery and travel—amount to roughly US$17 per SHG per year. We assumed that even SHGs that save only a few dollars each month[19] would be able to meet these annual expenses out of savings or the interest earned on savings.

Step 1. Account for income earned and the costs of support services

External actors earn two types of operating income from SHGs: fees and interest on loans. Both types of operating income are included in this analysis. The income may be paid by SHGs directly—through fees to an individual facilitator or interest payments to a lender—or indirectly, by paying interest to an SHG federation that, in turn, pays interest to a local bank. Still, the revenue earned by the bank is, at its origin, paid by an SHG.

External actors also earn nonoperating income from supporting SHGs. For example, a support organization that collects fees from SHGs may deposit the sum in a bank and earn interest. This type of nonoperating income is not predictable and was not counted in this analysis.

Quantifying costs is less straightforward. The most accurate approach is to measure the precise cost to each actor of performing each support service, separating out the cost of any activity unrelated to serving SHGs. Because doing this is not practical, several simple assumptions and estimates were made instead.

First, in some cases, it was assumed that *all* of an actor's operating costs relate to providing support services to SHGs. For example, in MFI's SHG program, MFI plays the role of a support organization whose main purpose is to perform administration, supervision, liquidity, and other functions for SHGs. But MFI also performs nonfinancial services, such as teaching SHG members about health and environmental issues. To be conservative, all of MFI's operating costs are accounted for in this analysis, even though some costs were probably incurred to deliver nonfinancial services.

Second, assumptions were made for banks' cost of funds and their cost of handling SHG transactions at branches. The Reserve Bank of India's rate for reverse repurchase agreements was used as a proxy for cost of funds when the actual cost was unavailable. For processing SHG loans and group transactions at branches, a cost to banks of 3 percent of loans outstanding was assumed. This was reduced to 1 percent of loans outstanding in the case of the Sarvodaya program, because group transactions are not handled by the bank. These operating cost assumptions are conservative (that

[19] The bank-organized groups we visited usually saved more—about US$20 per month per group.

is, probably on the high side), based on conversations with bank officials and on the 2002 Seibel and Harishkumar study. That study found that a commercial bank, a regional rural bank, and a district central cooperative bank incurred only a small marginal cost for processing SHG transactions, because of underutilized branch capacity and group-based transactions.[20]

Third, some costs we judged to be relatively insignificant were excluded. In most cases, the apportioned cost of the bank's head office overhead was not considered, because SHG lending is usually only a tiny portion of a bank branch's operations in rural areas, and head office overhead is allocated among a large number of bank branches.

Step 2. Adjust Income and Costs

After tallying the income and costs, three important adjustments were made to get a full picture of each SHG program's sustainability.

First, loan loss provisioning was standardized at 2 percent of average portfolio outstanding in each case. This is because each SHG program maintains a different policy on how much to provision against loan losses, and we wanted to be able to compare them without giving any one an unfair advantage.

Second, the cost of forming SHGs and SHG federations was amortized over five years when this activity was not included in ongoing costs of an SHG program. For instance, Dhan Foundation incurred a cost of US$200 per group in forming its SHGs, its local-level associations (CLAs), and the KVK federation over three years, beginning in 1997. We counted the amortized cost (one-fifth of the total) when we analyzed the program's 2003 performance. On the other hand, most of the SHGs and federations managed by Sarvodaya Nanofinance Ltd. were created before 2000 by an earlier SHG program, and these costs would have been fully amortized by 2005, the year for which we analyzed the organization.

Third, we ensured that, for each SHG program, subsidized funds received from international and local donor agencies were not included in operating income. By accounting for these subsidies separately, we are able to arrive at an understanding of the system's inherent sustainability—the comparison of its internally generated income to its total operating costs. This gives a better picture of the program's ability to expand when subsidies are no longer available.

One adjustment we *did not* make is to increase the interest rate banks charge SHGs to a commercial level. Critics of the SHG approach argue that rates of 8–12 percent per annum on loans to SHGs are below market rates and that the true cost to banks of making and servicing these loans is much higher. They argue that treating the bank loans as if they carried a market interest rate presents a truer picture of SHG sustainability. We did not make this adjustment because it would presuppose the conclusion to our main research question: how are external actors (including banks) in four SHG programs servicing SHGs, and are they covering their costs?

Step 3. Estimate loan portfolio and total assets

Finally, we estimated the total value of external loans to SHGs and the total assets managed in each SHG program to help us understand how efficiently the SHG program operates: the greater the loan portfolio and assets compared with the cost of providing support services, the more efficient the program.

External loans to SHGs include loans from commercial banks, SHG federations, and support organizations. In the Dhan program, for example, total external loans to SHGs include loans from the KVK federation and from Canara Bank.

The total assets managed by an SHG program include external loans, the total deposits SHGs maintain in bank accounts, and all the assets that

[20] In most cases, marginal costs were minimal because of excess capacity in the branch and no additional personnel requirement. The study also found that the SHG lending business resulted in returns on assets of 4.6 percent to 11.8 percent versus –1.7 percent to 2.3 percent for the banks as a whole.

Table II-3 Dhan's KVK SHG Program: Estimated Adjusted Income, Costs, and Assets (in US$)

	Dhan Foundation	KVK Federation	—	Canara Bank	TOTAL
Type of actor	Support organization	SHG federation	Individual(s)	Bank	All actors
Interest income	0	41,800	—	60,811	102,611
Fee income	0	2,800	—	0	2,800
TOTAL INCOME	0	44,600	—	60,811	105,411
Staff costs	0	8,600	—	0	8,600
Administrative expenses	0	6,900	—	15,864	22,764
Training costs	0	2,700	—	0	2,700
SHG promotion costs (amortized)	0	0	—	0	0
SHG federation promotion costs (amortized)	13,920	0	—	0	13,920
Total Operating Costs	13,920	18,200	—	15,864	47,984
Estimated cost of funds	0	26,400	—	37,016	63,416
Adjusted loan loss provisions	0	4,880	—	5,696	10,576
TOTAL COSTS	13,920	49,480	—	58,576	121,976
Startup subsidies (amortized)	13,920	0	—	0	13,920
Ongoing subsidies	0	0	—	0	0
MARGIN (Income – costs)	(13,920)	(4,880)	—	2,235	(16,565)
Estimated average external loans to SHGs	0	244,000	—	284,793	528,793
Average SHG deposits	0	0	—	227,471[a]	227,471
Estimated average assets used for SHG program	0	77,872	—	0	77,872
EST TOTAL ASSETS MANAGED	0	321,872	—	512,264	834,136

[a] These deposits are liabilities on the bank's books, but are financial assets of the SHGs.

external actors use to provide support services to SHGs. For instance, the total estimated assets of the Sarvodaya SHG program include external loans to SHGs from the Sarvodaya support organization, the aggregate savings held by the SHGs in their own accounts, and all the assets owned by the support organization and the 50 SHG federations that support SHGs. These include office equipment, working capital, and other fixed and liquid assets. In cases where an external actor uses these fixed and liquid assets for more than just serving SHGs, we made very rough estimates of allocations.

Data that emerged from this three-step process were used to construct a simple table that lists income, costs, and assets for each program. Table II-3 is a sample of this for the Dhan program.

Table II-3 suggests that Dhan's KVK program is running a deficit in providing support services to SHGs and could lose its ability to provide these services over time if adjustments are not made. External actors involved in the program spent a

Table II-4. Four SHG Programs: Estimated Basic Financial Results, Adjusted (in US$)

	MFI	Sarvodaya	OBC (Rudrapur)	Dhan (KVK Federation)	Mean (unweighted)
Operations					
SHG members	517,784	47,282	4,949	6,264	144,070
SHG borrowers	304,380	67,061	4,848	5,356	95,411
Staff of external actors supporting SHGs	1,846	613	10	35	626
Income					
Operating income earned by external actors	7,315,521	1,718,635	85,775	105,411	2,306,336
Costs					
Estimated operating costs incurred by external actors (adjusted)	2,701,918	742,701	20,525	47,984	878,282
Estimated total costs incurred by external actors (adjusted)	5,562,373	1,818,753	82,175	121,975	1,896,319
Margin (Income – Costs)	1,753,148	(100,118)	3,600	(16,564)	410,017
Loans and assets					
Average external loans to SHGs	40,863,636	4,306,169	602,500	528,793	11,575,275
Estimated average total assets managed	45,358,636	9,500,218	987,291	834,136	14,170,070

total of about US$114,000 to support SHGs but collected only US$105,000 from them directly or indirectly. To correct this problem, Dhan Foundation or KVK federation needs to reduce the program's cost of providing services or increase the interest rates or fees charged to SHGs.

Basic operational and financial results for each of the four SHG programs are summarized in Table II-4. (See Annex II-B for detailed tables.)

Assessing the Financial Performance of SHG Programs

Data from Table II-4 can be used to calculate simple indicators that can help explain several aspects of the financial performance of the SHG programs. The most important question in this study is whether these programs are sustainable:

- Do SHG programs cover the costs of providing support services? Indicator: Income/costs
- What is the cost to support one borrower? Indicator: Total cost/SHG borrowers
- How productive is the collective staff of these SHG programs? Indicator: SHG borrowers/staff members
- How big are the external loans provided to borrowers? Indicator: Period-average external loans/SHG borrowers
- What effective interest rate do borrowers pay on external loans? Indicator: Income/Period-average external loans
- What is the administrative cost to keep a given loan amount outstanding? Indicator: Operating cost/Period-average external loans

The indicators calculated in Table II-5 are simple proxies for the industry standard indicators most analysts use in assessing a single microfinance institution. The precise data required for those latter

Table II-5. Key Financial Results for SHG Programs

	MFI	Sarvodaya	OBC (Rudrapur)	Dhan (KVK Federation)	Mean (unweighted)
Portfolio at risk on loans to SHGs	0.33% (>90 days)	0.7% (>30 days)	0.0% (>90 days)	2.94% (>30 days)	—
Income/costs	131.5%	94.5%	104.4%	86.4%	104.2%
Estimated operating costs/ borrower per year	$8.9	$11.1	$4.2	$9.0	$8.3
Borrowers per staff person	165	109	485	153	228
Average external loan balance outstanding per borrower	$134.3	$64.2	$124.3	$98.7	$105.4
Income/average external loans to SHGs	17.9%	22.2%[a]	14.2%	19.9%	18.6%
Estimated operating costs/ average external loans to SHGs	6.6%	17.2%	3.4%	9.1%	9.1%

[a] This is interest income earned by the federations for lending to SHGs. The federations, in turn, pay interest on loans to the Sarvodaya support organization. That income is not included here.

indicators are not available because the SHG programs analyzed involve several external actors.

The indicators reveal that, on average, the four SHG programs cover all (104 percent) of the costs of providing support services to SHGs. Two of the programs cover all of their costs. The other two must find ways to increase their revenues from SHGs or to become more efficient. On average, the four programs spend US$8 per SHG member to provide support services.

The most efficient program in the group studied is OBC, at Rudrapur, which uses a small number of bank branch staff and external facilitators to manage all SHG operations. Remarkably, nearly 500 SHG borrowers are served by each staff person (three branch officers and seven individual facilitators). Yet the program's low outstanding balance per borrower and its location in a rural mountainous region suggest that it reaches among the poorest clients of the programs studied.

How much do SHGs pay for credit? The average yield of the four programs is 18.6 percent. In other words, SHGs pay about 19 percent interest for credit and a full set of support services.

The last indicator in the table shows the administrative cost of keeping US$1 of loans outstanding to SHGs. It does not include the cost of funds and loan loss provisions. This administrative cost turns out to be less than 10 percent. This is approximately the same as the full interest rate that many banks charge on SHG loans. Where a bank is the only external actor supporting SHGs, it is difficult to see how the bank can charge this rate and cover all of its costs—but still expect to achieve long-term group viability.

Table II-6 compares the performance of the four SHG programs with benchmarks from other groups of microfinance providers. All of those comparator groups consist of single-institution, stand-alone providers. It is not completely precise to compare single-institution performance indicators against proxy indicators that consolidate the performance of multiple actors. Even so, we think that the comparison sheds some meaningful light.

The first comparator set is the group of 58 Indian SHG programs rated by M-CRIL between September 1998 and June 2003 and shown in Table II-2. The second comparator set is the group of nine Grameen-style microfinance institutions that were also rated by M-CRIL during this period. The third comparator set is a group of 37 leading microfinance institutions in India, of various types, that had voluntarily provided unadjusted financial information to the Microfinance

Table II-6. Key Benchmarks

	58 SHG microfinance institutions in India	9 Grameen-style microfinance institutions in India	37 leading microfinance institutions in India	302 microfinance institutions (global)	4 SHG programs (proxy indicators)
Source of data	M-CRIL (2003)[a]	M-CRIL (2003)	MixMarket[b]	MixMarket/ *MicroBanking Bulletin*[c]	This study
Average borrowers (unweighted)	5,912	27,847	44,031	62,246	95,411
Portfolio at risk	19.3% (>60 days, loans to SHGs)	4.2% (>60 days)	4.4% (>30 days)	3.9% (>30 days)	<3.0% (>30 or 90 days, loans to SHGs)
Operational self-sufficiency (income/costs)	48%	85%	98.5%	123.6%	104.2%
Average outstanding loan balance per borrower (as % of GNI p.c.)	US$37 (6.0%)	US$54 (8.7%)	US$134 (21.6%)	US$814 (62.3%)	US$105 (17.0%)
Operating costs per borrower per year (as % of GNI p.c.)	US$24 (3.8%)	US$18 (2.9%)	US$14 (2.3%)	US$153 (NA)	US$8 (1.3%)
Operating costs/average loan portfolio	63.8%	33.4%	15.5%	28.9%	9.1%
Borrowers per staff person	118	142	439	140	228
Yield on gross loan portfolio	12.6%	28.8%	20.7%[d]	38.1%	18.6%

[a] Calculations based on M-CRIL (2004). The numbers in this table do not always match numbers in similar tables from the original report, because some of those tables show weighted calculations and include results from non-Indian SHG programs.
[b] MIX Market and World Bank (2005).
[c] MIX (2006).
[d] Financial revenue ratio (financial revenue as a percentage of total assets). Yield on gross portfolio was not available.

Information eXchange (MIX) up to September 2005.[21] Microfinance institutions that report to the MIX are generally more commercially oriented programs, so the sample of 37 microfinance institutions is called "leading Indian MFIs" here. The last comparator set is based on adjusted data for a group of 302 microfinance institutions worldwide that voluntarily provided data for the 2004 fiscal year on a confidential basis to the MIX; five-sixths of these institutions have external audits, ratings, or assessments to support their performance information.

In general, the four SHG programs in our study compare highly favorably to the benchmarks. In particular, they seem to outperform the 58 stand-alone SHG-promoting microfinance institutions analyzed by M-CRIL.

The single clearest measure of success or failure in a microfinance program is the ability to recover money that is loaned. By this standard, the 58 SHG promoters rated by M-CRIL are not successful, given their average portfolio-at-risk (>60 days) of 19.3 percent. In other words, almost a fifth of the loans outstanding to SHGs by banks and other lenders are two months or more late and thus at substantial risk of default. Experience in other microfinance models suggests that when portfolio at risk measured at one repayment period rises above 10 percent, it usually becomes unsustainable—that is, it must be reduced quickly or it spins out of control.[22]

[21] Some, but not all, of the MFIs had external audits, ratings, or assessments to back up their financial information.

[22] It is important to note that the portfolio-at-risk figures reported here are for external loans to the SHGs. It appears that SHGs can sometimes sustain high PAR on internal lending by groups to their members, while still ultimately collecting a very high percentage of these loans (see Table II-6). But this does not mean that high PAR on external loans to the SHGs is sustainable.

This result leads us to suspect that, on average, these 58 SHG promoters do not adequately perform the support services necessary to ensure group stability and loan repayment. In contrast, the SHG programs studied here, and the other comparators, do a better job of collections. Their portfolio-at-risk ranges from 0.0 percent to 2.94 percent (> 30 days), compared to 4.4 percent (>30 days) for the leading Indian microfinance institutions.

Data from the four leading SHG programs studied indicate that, when it includes the necessary support functions underpinning long-term sustainability, the SHG approach can compare favorably with other models of financial service delivery—despite the poor results of many Indian SHG programs, as represented by the M-CRIL sample. Although three of the four programs do not yet cover all of their costs, they demonstrate the potential for doing so with relatively minor adjustments to cost and income. Moreover, they appear to serve people who are as poor as or poorer than clients of microfinance institutions in India when measured by average loan outstanding.

The four SHG programs studied also compare favorably to international benchmarks. Like most microfinance programs in South Asia, they make loans that are a far smaller percentage of average income than in other regions. Low labor costs and high population density in South Asia make tiny loans somewhat less expensive to deliver.

Strategic Implications for Proponents of the SHG Approach

The 2.2 million SHGs that currently exist provide a large and growing market for Indian banks. The results of this study show that well-run SHG programs compare favorably on outreach and operational efficiency with alternatives. Thus there is a case to expand these types of programs. However, a large number of SHG programs are not well run, and those need to be improved by adding essential support services.

But banks charge SHGs too little to cover the costs of supporting the groups over the long run. Banks normally fail to consider the sunk costs of NGOs that have organized and/or maintain the groups to which the bank is lending. If banks had to provide all the support services needed to protect the quality of their SHG loans, or pay NGOs or other actors to handle this function, they would have to charge SHGs higher interest rates or fees.

International experience with grassroots-level financial intermediaries has shown time and again that unless core external support functions are provided in a sustainable manner, and are paid by revenue generated within the system itself, community-level units will degrade over time and eventually unravel. The history of savings and credit cooperatives, financial service associations, community banks, and others have demonstrated that the reputation and ultimate success of a system depends on the strength of centrally provided support. In a few instances, this support has been built over a period of several decades, allowing the grassroots networks of membership-based financial intermediaries to compete into the modern era (Christen 2005). In most instances, this has not been the case.

In those few instances where community-based financial systems have been successful, the support infrastructure was usually built during a second phase, after the grassroots-level units were put in place. In India, therefore, it may not be too late, even though at present commercial banks and other promoters do not necessarily appreciate the necessity and the full cost of long-term support to maintain their SHG portfolio.

Making sure that such support is in place often will require increases—usually modest—in the interest or fees charged to SHGs. But sustainable funding of such support is very much in the interests of the members—and essential to the permanence of the SHG system.

Part I ANNEX
Detailed Data on 150 Indian Self-Help Groups

Table IA-1. SHG Location as Indicator of Outreach, by Promoting Institution (miles)

Average SHG distance from	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Bank	19.8	5.0	8.6	2.7	3.5	7.9
Health center	9.4	1.6	4.8	2.7	5.8	4.9
Paved road/highway	3.3	1.7	10.6	2.4	8.2	5.2

Table IA-2. SHG Location: Type of Settlement, by Promoting Institution (percent)

Settlement	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Few scattered houses	0.0	0.0	6.7	0.0	3.3	2.0
Small village	60.0	6.7	66.7	43.3	73.3	50.0
Large village	40.0	66.7	26.7	56.7	23.3	42.7
Town	0.0	26.7	0.0	0.0	0.0	5.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table IA-3. SHG Members Belonging to Scheduled Tribes and Castes, by Promoting Institution (percent)

Caste category	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Scheduled tribes[a]	0.9	0.0	84.6	25.9	19.3	26.1
Scheduled castes[a]	21.0	58.4	12.0	9.3	48.7	29.9
Subtotal: Scheduled tribes and castes	*21.9*	*58.4*	*96.6*	*35.2*	*68.0*	*56.0*
Minorities	1.6	11.6	0.0	2.7	7.4	4.7
Backward castes[b]	74.8	22.4	3.4	23.8	18.3	28.5
Other castes	1.6	7.7	0.0	38.3	6.4	10.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

[a] Scheduled castes and scheduled tribes are communities accorded special status by the Constitution of India. These communities were considered "outcastes" and excluded from the four-caste system that was the social superstructure of Hindu society in the Indian subcontinent for thousands of years. These castes and tribes were relegated to the most menial labor, with no chance of upward mobility, and degenerated into the most economically and socially backward communities in the region.

[b] "Backward castes" comprise the last of the four major castes in the Hindu social hierarchy. Though their status is above that of the scheduled tribes and castes, they are economically backward and have poor living conditions.

Table IA-4. Landholdings of SHG Members, by Promoting Institution (percent)

Landholdings	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Landless (no homestead land)	11.0	44.2	0.8	21.9	8.5	17.3
Marginal: Owns no agricultural land	47.6	39.1	84.8	38.7	88.1	59.7
Subtotal: Landless and marginal	*58.5*	*83.3*	*85.6*	*60.6*	*96.6*	*76.9*
Small landholding	35.2	16.2	12.0	18.5	3.4	17.1
Large landholding	6.3	0.5	2.4	20.8	0.0	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table IA-5. Primary Source of Income of SHG Members, by Promoting Institution (percent)

Source	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Work own land	42	26	80	28	39	43
Agricultural labor	40	34	14	16	55	32
Subtotal: Agriculture-dependent	*82*	*60*	*94*	*44*	*94*	*75*
Nonagriculture wage labor	10	22	2	44	1	16
Microenterprise	5	17	3	11	2	8
Other	2	1	1	1	3	2
Total	100	100	100	100	100	100

Table IA-6. Education Level of SHG Members, by Promoting Institution (percent)

Level	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Illiterate	17	43	61	14	74	42
Able to sign	71	46	25	0	19	32
Literate:						
Read and write	4	1	7	33	0	9
Primary school	4	10	1	23	2	8
Secondary school	3	1	5	9	4	4
Matriculate (passed 10th grade) and above	1	0	1	22	1	5
Subtotal: literate	*12*	*12*	*14*	*87*	*7*	*26*
Total	100	100	100	100	100	100

Table IA-7. SHG Organizational Details (categories used in rating the SHGs)	
Number of records	**Details**
Marginal	A few basic records exist and are being maintained.
Below average	All basic records exist, but only a few are maintained. Quality of minutes book is poor, containing only details of meeting date, number of members, financial transactions, and signatures.
Average	All basic records exist and are maintained, but are not up to date. Quality of minutes book is average, with details of meeting date, number of members, financial transactions and discussions related to loan sanctions, monitoring, and default, along with signatures.
Above average	All basic records exist and are maintained and up to date, but not updated regularly each month. Quality of minutes book is average, with details of meeting date, number of members, financial transactions, discussions related to loan sanctions, monitoring, default, federation functioning (if any), and social aspects, along with signatures.
Complete and up to date	All basic records exist and are maintained and up to date, but contain errors and do not tally with financial statements.
Virtually no errors	All basic records exist and are maintained and up to date and have virtually no errors.

Table IA-8. SHG Organizational Details, by Promoting Institution (percent)

Details	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
SHG meetings held in the morning	0	57	70	10	30	33
Records maintained by paid bookkeeper	97	100	80	10	0	57
Member's family sometimes makes payment	10	60	33	13	0	23

Table IA-9. Field Staff Rating Criteria for SHGs

Group cohesion rating	Criteria
Exceptional	All members have similar backgrounds; the SHG makes decisions by consensus; all members attend meetings regularly and participate in discussions and decision-making.
Above average	Most members have similar backgrounds; SHG decisions are made by leaders and 2–3 members; all, except 1–2 members, attend meetings regularly and participate in discussions.
Average	At least half of members have similar backgrounds; SHG decisions are made by leaders; all, except 1–2 members, attend meetings regularly and are aware of group transactions.
Below average	At least half of members have similar backgrounds; SHG decisions are made by one leader; more than half of members attend meetings regularly and are aware of group transactions.
Poor	Members have different backgrounds; SHG decisions are made by leader; attendance is variable—meets only for financial transactions.

Overall rating of group functioning	Criteria
Exceptional	Group meetings and savings and loan plus interest repayments are regular. Group norms exist and those related to attendance and savings are implemented. SHG has accessed loan from bank or federation.
Above average	Group meetings and savings and interest repayments are regular. Group norms exist, and those related to attendance and savings are implemented. SHG has accessed loan from bank or federation.
Average	Group meetings and savings are regular. Group norms exist but some or all are not implemented.
Below average	Group meetings are regular but not scheduled. Savings are regular, but group norms are not articulated.
Poor	Group exists but does not meet regularly. Savings and loan repayments are highly irregular.

Table IA-10. SHG Members' Use of Loans, by Promoting Institution (percent)

Use	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average
Agricultural purposes	51.7	9.6	51.0	34.0	12.0	31.7
Animal husbandry	17.3	33.9	9.4	25.0	30.0	23.1
Consumption	11.0	23.5	16.0	7.0	28.0	17.1
House construction and repair	11.0	13.6	0.0	7.0	2.6	6.8
Microenterprise	6.2	14.8	17.0	9.0	21.0	13.6
Loans for repayment of other loans	0.0	0.0	0.0	5.0	2.0	1.4
Other	2.8	4.7	6.6	13.0	4.5	6.3

Table IA-11. Average Cost of Promotion of SHGs over Three Years, by Promoting Institution
(amounts in US$, exchange rate of 47.65 rupees to US$1 for year ending 31 March 2003 and 44.125 rupees to US$1 for year ending 31 March 2004)

Item	PMMS	Sakhi Samiti	PRADAN	CGB	PANI	Average	As % of average cost
Number of SHGs promoted	300	135	123	360	785	341	—
Cost of social mobilization							
Salaries, allowances, and honorariums	34	101	47	14	68	53	20.2
Cost of books and materials	5	10	—	—	—	3	1.2
Training costs	39	15	38	13	33	28	10.5
Capital for entry-point activity of SHGs	105	—	—	—	—	21	8.2
Subtotal	183	126	85	27	101	104	39.9
Overhead—project management @ 10%	18	13	8	3	10	10	4.0
Average social mobilization cost per SHG (A)	**201**	**139**	**93**	**30**	**111**	**115**	**44.1**
Support costs							
Staff costs (excluding field workers)	13	21	116	—	29	36	13.8
Office administration costs, including meetings	12	47	152	20	65	59	22.6
Training of executive committee members and staff	7	26	—	—	6	8	3.0
Endowment fund for federation (Mandal Samakhya) per SHG	210	—	—	—	—	42	16.4
Average support cost per SHG (B)	**242**	**94**	**268**	**20**	**100**	**145**	**55.9**
Total cost of mobilization and support per SHG (A + B)	**443**	**233**	**361**	**50**	**211**	**260**	**100.0**

Figure I-A1. PMMS—Statement of Income and Expenditure

	2001–02	2002–03
Operating Income		
Service charge (interest from loans)	**368**	**494**
Fines	1	2
Interest on account with bank	—	—
Interest refund of SHG from Federation	1	6
Other:	—	—
1. Fees/membership	2	—
2. Resource Fee	—	—
Total operating income	**372**	**502**
Operating Expenses		
Salaries/honorarium	11	14
Stationery	1	1
Interest on borrowings from Bank/VO/Fed.	215	274
Interest paid on group savings	—	—
Consumables	—	—
Travel	2	3
Equipment	—	—
Social mobilization costs	66	67
Support costs	79	80
Loan loss provision	11	12
Others	3	4
Total operating expenses	**388**	**455**
Net operating profit/(loss)	**(16)**	**47**
Non-operational income (grants from NGO, etc.)	—	—
Non-operational expenses	1	5
Total consolidated profit/(loss)	**(17)**	**42**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

Figure I-A2. PMMS—Balance Sheet

	2001–02	2002–03
ASSETS		
Cash in hand balance	6	7
Bank balance	11	16
Total loan portfolio (with members)	2,069	2,324
Loan loss reserve	(11)	(23)
Deposits (investments by the SHG)	2	2
Share capital (equity) in village organization	17	20
Net fixed assets (after depreciation)	—	—
Total assets	**2,094**	**2,346**
LIABILITIES AND EQUITY		
Liabilities		
Savings: compulsory	450	583
Savings: voluntary	—	—
Loans: financial institution*	145	179
Loans: village organization/federation	760	889
Other short-term liabilities	291	102
Total liabilities	**1,646**	**1,753**
Equity		
Paid-in-equity (membership share)	—	—
Funds distribution	(11)	(80)
Grant: revolving fund**	75	94
Grant from promoting institution	144	148
Previous years' retained earnings/losses	257	389
Current year retained earnings/loss	(17)	42
Total equity	**448**	**593**
Total liabilities and equity	**2,094**	**2,346**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

*Borrowings from financial institutions were through the federation or village organization.

**The District Rural Development Agency (a state government institution that promotes SHGs) gives SHGs older than one year 5,000–20,000 rupees to meet members' credit demands.

Figure IA-3. Sakhi Samiti—Statement of Income and Expenditure

	2000–01	2001–02	2002–03
Operating income			
Service charge (interest from loans)	193	270	347
Fines	8	12	25
Interest on account with bank	—	—	—
Interest refund to SHG from federation	—	—	—
Other			
1. Fee/Commission	9	16	17
2. Stationery and others	1	—	1
Total operating income	**211**	**298**	**390**
Operating expenses			
Salaries/honorarium	39	44	54
Stationery	2	5	5
Interest on borrowings from bank/village organization/federation	32	42	62
Interest paid on group savings	—	—	1
Consumables	—	—	—
Travel	1	1	1
Social mobilization costs	47	45	46
Support costs	32	31	31
Loan loss provision	—	66	67
Others	1	1	—
Total operating expenses	**154**	**235**	**267**
Net operating profit/(loss)	**57**	**63**	**123**
Nonoperational income (grants from NGO, etc.)	—	—	—
Nonoperational expenses	—	—	—
Total consolidated profit/(loss)	**57**	**63**	**123**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

Figure IA-4. Sakhi Samiti—Balance Sheet*

	2000–01	2001–02	2002–03
ASSETS			
Cash in hand balance	74	56	68
Bank balance	13	14	18
Total loan portfolio	1,041	1,373	1,918
Loan loss reserve	—	(66)	(72)
Deposits (investments by the SHG)	—	—	—
Equity in Federation (Sakhi Suvidha shares)	14	14	14
Net fixed assets (after depreciation)	3	—	—
Total assets	**1,145**	**1,391**	**1,946**
LIABILITIES AND EQUITY			
Liabilities			
Savings: compulsory	591	714	881
Savings: voluntary	—	—	—
Loans: bank	431	527	811
Loans: Federation (Sakhi Suvidha)	7	18	6
Other short-term liabilities	—	—	—
Total liabilities	**1,029**	**1,259**	**1,698**
Equity			
Distribution of funds/savings	(54)	(73)	(31)
Funds with federation (Sakhi Suvidha)	28	64	75
Promotional grant by promoting institution	79	76	77
Previous years' retained earnings/losses	6	2	4
Current year retained earnings/loss	57	63	123
Total equity	**116**	**132**	**248**
Total liabilities and equity	**1,145**	**1,391**	**1,946**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

*In the case of Sakhi Samiti, some SHGs were not carrying forward profits and choosing to distribute a portion of retained earnings after the close of the fiscal year. This affects calculations for retained earnings for the subsequent year.

Figure IA-5. PRADAN—Statement of Income and Expenditure

	2000–01	2001–02	2002–03
Operating income			
Service charge (interest from loans)	64	88	131
Fines	14	14	16
Interest on account with bank	—	—	—
Interest refund of SHG from federation	—	—	—
Other			
1. Fees/commissions	—	—	—
2. Stationery and other	—	—	1
Total operating income	**78**	**102**	**148**
Operating expenses			
Salaries/honorariums	—	—	—
Stationery	—	—	—
Interest on borrowings from bank/federation	1	1	8
Interest paid on group savings	—	—	—
Consumables	—	—	—
Travel	—	—	—
Social mobilization costs	32	30	31
Support costs	91	87	89
Loan loss provision	—	17	18
Other	4	2	6
Total operating expenses	**128**	**137**	**152**
Net operating profit/(loss)	**(50)**	**(35)**	**(4)**
Nonoperational income (grants from NGO, etc.)	—	—	—
Nonoperational expenses	16	14	7
Total consolidated profit/(loss)	**(66)**	**(49)**	**(11)**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

Figure IA-6. PRADAN—Balance Sheet*

	2000–01	2001–02	2002–03
ASSETS			
Cash in hand balance	46	87	112
Bank balance	42	72	129
Total loan portfolio	284	366	509
Loan loss reserve	—	(17)	(18)
Deposits (investments by the SHG)	—	—	—
Net fixed assets (after depreciation)	—	—	—
Total assets	**372**	**508**	**732**
LIABILITIES AND EQUITY			
Liabilities			
Savings: voluntary	295	422	573
Savings: compulsory	—	—	—
Loans: bank	20	21	47
Loans: village organization/federation	—	—	—
Other short-term liabilities	—	4	10
Total liabilities	**315**	**447**	**630**
Equity			
Distribution of funds/savings	—	—	—
Promotional grant by promoting institution	123	118	120
Previous years' retained earnings/losses	—	(8)	(7)
Current year retained earnings/loss	(66)	(49)	(11)
Total equity	**57**	**61**	**102**
Total liabilities and equity	**372**	**508**	**732**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

*In the case of PRADAN, profitable SHGs were carrying forward only 20% of the previous year's retained earnings and distributing 80%. However, loss-making SHGs would carry forward the losses. This affects calculations for retained earnings in subsequent years.

Figure IA-7. CGB—Statement of Income and Expenditure

	2000–01	2001–02	2002–03	2003–04
Operating income				
Service charge (interest from loans)	90	129	241	219
Fines	2	2	1	1
Interest on account with bank	3	3	3	3
Interest refund of SHG from federation	—	—	—	—
Other	—	—	—	—
1. Fees/commissions	—	—	—	—
2. Stationery and others	—	—	—	—
Total operating income	**95**	**134**	**245**	**223**
Operating expenses				
Salaries/honorariums	—	2	2	2
Stationery	1	—	1	—
Interest on borrowings from bank/federation	15	37	54	64
Interest paid on group savings	—	—	—	—
Consumables	—	—	—	—
Travel	—	—	1	1
Board	—	—	—	—
Social mobilization costs	9	9	9	10
Support costs	6	6	6	7
Loan loss provision	—	—	118	128
Others	1	—	3	2
Total operating expenses	**32**	**54**	**194**	**214**
Net operating profit/(loss)	**63**	**80**	**51**	**9**
Nonoperational income (grants from NGO, etc.)	4	—	—	—
Nonoperational expenses	12	1	14	6
Total consolidated profit/(loss)	**55**	**79**	**37**	**3**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

Figure IA-8. CGB—Balance Sheet*

	2000–01	2001–02	2002–03	2003–04
ASSETS				
Cash in hand balance	—	4	3	—
Bank balance	133	158	189	205
Total loan portfolio	508	1,000	1,716	2,088
Loan loss reserve	—	—	(118)	(243)
Deposits (investments by the SHG)	—	—	—	—
Net fixed assets (after depreciation)	—	—	—	—
Other loans	9	—	—	46
Total assets	**650**	**1,162**	**1,790**	**2,096**
LIABILITIES AND EQUITY				
Liabilities				
Savings: compulsory	376	645	987	1,102
Savings: voluntary	—	—	—	—
Loans: bank	172	385	614	850
Loans: village organization/federation	—	—	—	—
Other short-term liabilities	26	5	7	50
Total liabilities	**574**	**1,035**	**1,608**	**2,002**
Equity				
Distribution of funds/savings	—	(39)	—	(124)
Sakhi Suvidha Fund	4	3	3	4
Promotional grant by promoting institution	16	15	15	17
Previous years' retained earnings/losses	1	69	127	194
Current year retained earnings/loss	55	79	37	3
Total equity	**76**	**127**	**182**	**94**
Total liabilities and equity	**650**	**1,162**	**1,790**	**2,096**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

*In the case of CGB, there was no distribution of earnings. Therefore, retained earnings in a given year will be the sum of Current Retained Earnings + Promotion Grant + Previous Retained Earnings - Distribution of Funds/Savings.

Figure IA-9. PANI—Statement of Income and Expenditure

	2000–01	2001–02	2002–03	2003–04
Operating income				
Service charge (interest from loans)	17	35	55	71
Fines	—	—	—	—
Interest on account with bank	1	1	2	2
Interest refund to SHG from federation	—	—	—	—
Other				
1. Fee/commission	—	—	—	—
2. Stationery and other	—	—	—	—
Total operating income	**18**	**36**	**57**	**73**
Operating expenses				
Salaries/honorarium	—	—	—	1
Stationery	1	2	2	3
Interest on borrowings from bank/village organization/federation	3	10	15	18
Interest paid on group savings	—	—	—	—
Consumables	—	—	—	—
Travel	—	1	—	—
Social mobilization costs	35	33	34	37
Support costs	32	30	31	33
Loan loss provision	—	—	19	21
Other	—	—	1	1
Total operating expenses	**71**	**76**	**102**	**114**
Net operating profit/(loss)	**(53)**	**(40)**	**(45)**	**(41)**
Nonoperational income (grants from NGO, etc.)	—	—	—	—
Nonoperational expenses	—	—	1	2
Total consolidated profit/(loss)	**(53)**	**(40)**	**(46)**	**(43)**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

Figure IA-10. PANI—Balance Sheet*

	2000–01	2001–02	2002–03	2003–04
ASSETS				
Cash in hand balance	1	5	1	4
Bank balance	35	39	75	98
Total loan portfolio (with members)	133	287	327	441
Loan loss reserve	—	—	(19)	(41)
Deposits (investments by the SHG)	—	—	—	—
Other	—	—	—	4
Net fixed assets (after depreciation)	—	—	—	—
Total assets	**169**	**331**	**384**	**506**
LIABILITIES AND EQUITY				
Liabilities				
Savings: voluntary	77	105	131	166
Savings: compulsory	—	—	—	—
Loans: bank	73	176	192	211
Loans: village organization/federation	—	9	2	42
Other short-term liabilities	—	—	1	1
Loan loss reserve	—	—	—	—
Total liabilities	**150**	**290**	**326**	**420**
Equity				
Distribution of Funds/Savings	—	—	—	—
Distribution of retained earnings	—	(1)	(4)	(4)
Promotional Grant by Promoting Institution	67	64	65	70
Previous years' retained earnings/losses	5	18	43	63
Current year retained earnings/loss	(53)	(40)	(46)	(43)
Total equity	**19**	**41**	**58**	**86**
Total liabilities and equity	**169**	**331**	**384**	**506**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

*In the case of PANI, there was no distribution of earnings. Therefore, retained earnings in a given year will be the sum of Current Retained Earnings + Promotion Grant + Previous Retained Earnings – Distribution of Funds/Savings.

Part II ANNEX A
How System Functions Are Covered

ORGANIZATION	MFI	SNFL	OBC—Rudrapur Branch	Dhan—KVK Federation
STRUCTURE	**Support organization**	**Support organization, SHG federations**	**Bank branch staff Individual agents**	**SHG federations**
FUNCTIONS				
Product design (loan terms and membership requirements/fees)	Support organization (MFI) designs basic SHG products along with ICICI Bank team. Products include mandatory and recurring savings, emergency fund, and bank and internal group lending.	Support organization (SNFL) designs basic SHG products. Financial products include mandatory and voluntary savings, bank and internal group lending, and investments in the capital of the federation.	OBC staff design products that are uniform across all branches doing microfinance. Products include mandatory and voluntary individual savings accounts, term deposits, bank and internal group lending, and others.	Block-level SHG federation (BLF) designs basic SHG products. Products include term loans from banks, consumption loans from BLF, revolving line of credit to mature groups from bank, mandatory and voluntary savings.
Administration (bookkeeping, travel, management, transactions)	Support organization has tiered staffing structure, including promoter (manages 25 SHGs), assistant project officer (APO) (manages 8 promoters), project officer (PO) (manages 4 APOs), area manager (manages 2–3 POs), and zonal manager (manages 2 area managers). Promoters and APOs and POs handle bookkeeping and group meetings. Transactions are processed at ICICI Bank branches. Computerized MIS now being installed.	Support organization has 4–5 person operational staff, 3-person finance team, CEO, and support staff. Each federation has a CEO, 2–10 field officers, and an accountant. Group meetings, bookkeeping, and transactions are handled by field officers. Support organization appoints federation CEO and 2 members of federation Board of Directors. Computerized MIS in place at head office.	Every SHG is organized in a center of 6–8 groups, and about 12 centers are managed by a facilitator who is paid for by the SHGs. The facilitator is a local secondary school graduate who handles bookkeeping, transactions, and client meetings. Bank branch has 2–3 staff dedicated to SHG business. Branch staff members supervise these facilitators. OBC also has a development manager who forms and nurtures groups in the Rudrapur area.	Group meetings and bookkeeping are handled by CLA manager and accountant. Bank transactions are conducted at bank branches, although BLF has set up an office across from the bank branch to help SHG leaders complete transaction forms. Bank staff occasionally attends SHG and federation meetings.
Support (customer acquisition/group formation, group nurturing, management of exits/entrances)	Promoters form and nurture groups with support of APOs and POs. Strict mechanisms in place for group exits and entrances, such as requiring new members to invest 1/20th of group profit account to join. Promoter organizes two meetings each month, one for business and one for discussion of social development topics picked by group.	Federation field officers are responsible for forming and nurturing groups and for managing exits and entrances. SHGs are members of the federation, with 1 vote per group. New members pay a one-time admissions fee—Rs. 1,000—per group to join an MBT, but are not required to contribute share capital to the federation.	Bank branch manager promotes groups for the first 2–3 months of SHG operations, and then relies on facilitators who emerge from groups or friends/relatives to handle group meetings and supervision. OBC requires members to be from similar economic backgrounds. Elected group and center leaders are also responsible for group nurturing and inter-group discipline.	CLAs, the second-tier organization at the panchayat level, promote and strengthen groups at the village level, and also perform community mobilization and other social services. BLF, the third-tier block-level federation, supervises these functions and supports CLAs with training, etc.

(Continued on next page)

Part II ANNEX A (continued)

ORGANIZATION	MFI	SNFL	OBC—Rudrapur Branch	Dhan—KVK Federation
STRUCTURE	**Support organization**	**Support organization, SHG federations**	**Bank branch staff Individual agents**	**SHG federations**
FUNCTIONS				
Liquidity (treasury and fundraising)	Treasury functions are performed by the three-person head office. All funding is sourced from ICICI Bank.	Support organization handles all fundraising from banks. Federation staff handle treasury management for lending to SHGs, with support from support organization's head office.	Bank branch staff handle all treasury functions, including use of deposits for lending, and requests from OBC headquarters for additional funds.	BLFs handle treasury management, including borrowing from banks, and lending to SHGs through CLAs.
Training (staff and client training)	Staff training conducted by zonal and area managers. Client training conducted by project officers and area managers.	Contract with BASIX (http://www.basixindia.com/), paid for by grants and earnings, to pay for staff training, systems, and planning.	Bank branch staff trains facilitators and clients. Clients receive skills training from government or master craftsmen, and pay for this directly.	CLAs conduct training for SHG members. BLFs conduct trainings and support CLA staff. CLAs and BLFs are set up and trained by Dhan Foundation over 2–3 years, funded by subsidies.
Direct supervision/ intervention in operations (verification of procedures, action in case of default)	APO, PO, area manager, and zonal manager staff perform all supervision functions, including monitoring bookkeeping, completing registers, and checking group meetings. Each level is responsible for intervention at lower levels.	All SHGs have one external audit annually. Internal audit team supervises trusts (SHG federations), and support staff supervise and intervene in federation operations, including monitoring repayments.	SHG members monitor each others' loan use. OBC microfinance officer (development manager) monitors branch operations, verifies bookkeeping, etc. Facilitators supervise group operations and, in turn, are supervised by bank branch staff, who have power to intervene.	Cluster-level and federation-level managers and accountants monitor credit use and repayments. Bank branch managers and federation staff visit groups to motivate members and solve problems.

Part II ANNEX B
Detailed Financial Analyses

Table IIB-1. Microcredit Foundation of India Program: Estimated Adjusted Income, Costs, and Assets (in US$, as of March 31, 2006)

Type of actor	MFI (Support organization)	ICICI Bank (Bank)	TOTAL (All actors)
Interest income	0	4,903,636	4,903,636
Fee income	2,411,885	0	2,411,885
TOTAL INCOME	**2,411,885**	**4,903,636**	**7,315,521**
Staff costs	1,016,563	0	1,016,563
Administrative expenses	327,805	1,225,909	1,553,714
Training costs	115,033	0	115,033
SHG promotion costs (amortized)	16,608	0	16,608
SHG federation promotion costs (amortized)	0	0	0
Total Operating Costs	1,476,009	1,225,909	2,701,918
Estimated cost of funds	0	2,043,182a	2,043,182
Adjusted loan loss provisions	0	817,273	817,273
TOTAL COSTS	**0**	**4,086,364**	**5,562,373**
Startup subsidies (amortized)	0	0	0
Ongoing subsidies	0	0	0
MARGIN (Income – costs)	**935,876**	**817,272**	**1,753,148**
Estimated average external loans to SHGs	0	40,863,636	40,863,636
Average SHG deposits	0	NA	NA
Estimated average assets used for SHG program	4,495,000[a]	0	4,495,000
EST TOTAL ASSETS MANAGED	**4,495,000**	**40,863,636**	**45,358,636**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

[a] CGAP estimate.

Table IIB-2. Sarvodaya Nanofinance Ltd.'s SHG Program: Estimated Adjusted Income, Costs, and Assets (in US$, as of March 31, 2005)

Type of actor	Sarvodaya (Support organization)	SHG Federation (Trusts)	Bank (Banks)	TOTAL (All actors)
Interest income	490,637	864,766	294,748	1,650,151
Fee income	4,567	63,917	0	68,484
TOTAL INCOME	**495,204**	**928,683**	**294,748**	**1,718,635**
Staff costs	77,666	271,728	0	349,394
Administrative expenses	89,016	143,829	43,062[a]	275,906
Training costs	117,401	0	0	117,401
SHG promotion costs (amortized)	0	0	0	0
SHG federation promotion costs (amortized)	0	0	0	0
Total Operating Costs	284,083	415,557	43,062	742,702
Estimated cost of funds	294,748	490,637	204,543	989,928
Adjusted loan loss provisions	0	86,123	0	86,123
TOTAL COSTS	**578,831**	**992,317**	**247,605**	**1,818,753**
Startup subsidies (amortized)	0	0	0	0
Ongoing subsidies	117,401	0	0	117,401
MARGIN (Income – costs)	**(83,627)**	**(63,634)**	**47,143**	**(100,118)**
Estimated average external loans to SHGs	0	4,306,169	0	4,306,169
Average SHG deposits	0	0	NA	NA
Estimated average assets used for SHG program	1,180,829	4,013,220	NA	5,194,049
EST TOTAL ASSETS MANAGED	**1,180,829**	**8,319,389**	**0**	**9,500,218**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

[a] CGAP estimate.

Table IIB-3. Oriental Bank of Commerce's SHG Program: Estimated Adjusted Income, Costs, and Assets (in US$, as of March 31, 2003)

Type of actor	Facilitators (Individuals)	Oriental Bank of Commerce (Bank)	TOTAL (All actors)
Interest income	0	79,550	79,550
Fee income	6,025	200	6,225
TOTAL INCOME	**6,025**	**79,750**	**85,775**
Staff costs	6,025[a]	9,950	15,975
Administrative expenses	0	4,550	4,550
Training costs	0	0	0
SHG promotion costs (amortized)	0	0	0
SHG federation promotion costs (amortized)	0	0	0
Total Operating Costs	6,025	14,500	20,525
Estimated cost of funds	0	49,600	49,600
Adjusted loan loss provisions	0	12,050	12,050
TOTAL COSTS	**6,025**	**76,150**	**82,175**
Startup subsidies (amortized)	0	0	0
Ongoing subsidies	0	0	0
MARGIN (Income – costs)	**0**	**3,600**	**3,600**
Estimated average external loans to SHGs	0	602,500	602,500
Average SHG deposits	0	364,344	364,344
Estimated average assets used for SHG program	0	20,447	20,447
EST TOTAL ASSETS MANAGED	**0**	**987,291**	**987,291**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

[a] CGAP estimate.

Table IIB-4. Dhan's KVK SHG Program: Estimated Adjusted Income, Costs, and Assets (in US$, as of March 31, 2003)

Type of actor	Dhan Foundation (Support organization)	KVK Federation (SHG federation)	Canara Bank (Bank)	TOTAL (All actors)
Interest income	0	41,800	60,811[a]	102,611
Fee income	0	2,800	0	2,800
TOTAL INCOME	**0**	**44,600**	**60,811**	**105,411**
Staff costs	0	8,600	0	8,600
Administrative expenses	0	6,900	15,864[a]	22,764
Training costs	0	2,700	0	2,700
SHG promotion costs (amortized)	0	0	0	0
SHG federation promotion costs (amortized)	13,920	0	0	13,920
Total Operating Costs	13,920	18,200	15,864	47,984
Estimated cost of funds	0	26,400	37,016	63,416
Adjusted loan loss provisions	0	4,880	5,696	10,576
TOTAL COSTS	**13,920**	**49,480**	**58,576**	**121,976**
Startup subsidies (amortized)	13,920	0	0	13,920
Ongoing subsidies	0	0	0	0
MARGIN (Income – costs)	**(13,920)**	**(4,880)**	**2,235**	**(16,565)**
Estimated average external loans to SHGs	0	244,000	284,793	528,793
Average SHG deposits	0	0	227,471	227,471
Estimated average assets used for SHG program	0	77,872	0	77,872
EST TOTAL ASSETS MANAGED	**0**	**321,872**	**512,264**	**834,136**

Note: For all five SHG programs, financial information for the periods ending March 2001, March 2002, March 2003, and March 2004 was converted at Rs. 46.577 to US$1, Rs. 48.733 to US$1, Rs. 47.65 to US$1, and Rs. 44.125 to US$1, respectively. Given the variable annual exchange rates, balances carried forward from one year to the next will have different values.

[a] CGAP estimate.

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Tel: 202-473-9594
Fax: 202-522-3744

Email:
cgap@worldbank.org