

Designing Secondary Institutions of Self-Help Groups (SHGs) (engaged in savings and credit services)

Paper for discussion at APMAS workshop of 20-21 June 2003

This paper has been prepared for presentation and discussion, at a workshop to be organised by Mahila Abhivruddhi Society, Andhra Pradesh (APMAS), on 20-21 June 2003, on the theme of designing federations of self help groups (SHGs¹) engaged in savings and credit activities. The paper is based, not on direct field research carried out for this purpose, but on papers and reports already prepared by others (including APMAS) on the concept and functioning of federations of SHGs in savings and credit. The paper is also based on discussions held on the subject with ASP, CARE and its partners, CDF, Commissioner (Women Empowerment, Government of Andhra Pradesh), SERP and Nabard, and the author's experience of working with voluntary development organisations (VDOs) in the field of SHGs. The paper contains the following sections:

- 1. A brief background**
- 2. Issues in federating**
- 3. A way forward**

What has come through from the reading of available literature, is that most promoters are anxious to design the federations in a manner that will further strengthen the individual member at the heart of the movement, that while some answers have been found, there are more questions than answers at this point of time. There are some questions, too, on the very necessity of federations. This paper is an honest attempt to look more carefully at some of the issues underlying the concept of federations and practice of promoting them.

1. A brief background

In early eighties, the Bhagavatula Charitable Trust in Visakhapatnam district had begun mutual savings and credit groups in rural areas, mostly among women. These were probably the first set of rural savings and credit groups in the country, for and of women, although there were already several known instances of credit for rural women's groups, and of savings and credit for urban women. In mid eighties, there were a few more similar experiments, mostly in Andhra Pradesh and Tamil Nadu. The results were inspiring, and the rural development departments in Andhra Pradesh and in the Government of India, in late eighties, invited voluntary development organisations (VDOs), donors and bankers to discuss the possibility of consciously promoting savings and credit groups of women, across the state/country, in the place of the earlier DWCRA groups.

In most early discussions, people expressed shock at the idea of asking poor women to save, but Andhra Pradesh and the union government, chose all the same to promote, with willing VDOs, rural SHGs for and of women, and to introduce savings and credit component in DWCRA groups.

In particular, it was felt that women's livelihoods needed recognition, that they needed credit for their livelihoods and that this credit would be used well, if women's savings, too, were involved. There was some assumption then that women might prefer to engage in income generating livelihoods collectively. When the question came up of whether such savings and credit organisations should be registered or not, the decision was to keep

¹ The term "SHG" applies to all forms of self-help groups including those engaged in marketing, advocacy, etc. For the purposes of this paper, the term "SHG" is being used for such SHGs as provide (as key services) savings and credit facilities for their members.

them unregistered, as cooperative laws in the country were simply not helpful to collective action. The decision to continue with small groups followed, as it was felt that Section 11 of the Companies Act might be violated if the group had more than 20 members, although the groups were mutual help groups. There were, however, successful examples already of unregistered village level "organisations" of 100 to 300 women in savings and credit.

"After the first year, the voluntary agency should start moving towards federating the primary group societies. After about 3 years, the district federation should be able to manage the operations with occasional support from the voluntary agency." (Excerpt from the report on the brainstorming meet on thrift and credit for rural women, held in September 1988, organised by the state department of rural development in Hyderabad)

In late eighties, the union government, in handbooks published by it, the Andhra Pradesh government in its work with VDOs in the state, and the IFAD in its project document for Dharmapuri, had built into the design of SHGs, the likely emergence of federations of the savings and credit groups, for inter-group funds transfer, common staff, presence in local financial markets, and internal audit purposes.

In mid nineties, SHGs became visible across the country, and several VDOs, most state governments, donors and lenders saw in the SHG an opportunity to mobilise rural women to work for their own social and economic betterment. By late nineties, the SHG was not just a savings and credit group, but was seen as a common interest group, working on other concerns as well. Where earlier, a village would have just the one SHG, and, where nearby villages would not have any SHGs, over time, several SHGs were promoted in the same village, and neighbouring villages, too, began to be covered.

The concept was popularised to the extent that several departments of a government (sericulture, irrigation, rural development, and so on) became involved in the promotion of SHGs in several states, usually, with the help of a local VDO. Many a time, when a particular "project period" came to an end, work with the SHGs was discontinued, with the department withdrawing from the scene, and the VDO left without the funds needed for extension and training services.

Meanwhile, several VDOs, of their own accord, began to plan for and promote SHGs with a wider social and political agenda. With the bank linkages, and enthusiastic donor support, the numbers of SHGs in each village began to grow, and it became increasingly difficult for the external agency (government or non-government) to participate in every meeting of the SHGs. The numbers of SHG in each village, and the numbers of SHGs in small compact areas, gave birth to "federations" of SHGs – at village level, and/or at mandal/block levels. Federations were seen as an opportunity to ensure that the life of an SHG was not dependent on "project periods" of the external facilitator, that with its own support mechanism (through the federation), an SHG could function for as long as its members wanted it to.

Some VDOs, having promoted federations, began then to question the need for federations. They felt that federations usurped the functions of SHGs, and of VDOs, and did a worse job of both. Others felt that in the absence of a federation, controls lay with the external agency, and SHGs needed a federation in order to be better in control of the processes and operations. Federations performing mainly financial functions, a mix of financial and non-financial functions, a mix of financial, marketing and other business functions, and only non-financial functions began then to emerge. Where the value of

having a federation at all was in doubt, VDOs encouraged regular interaction among SHGs, but were wary about the formal establishment of federations.

Some of the key issues related to the emergence and functioning of federations are dealt with in the following section. The issues are categorised under the following heads:

- **Membership**
- **Objectives and activities**
- **Formation of federations**
- **Need for body corporate status**
- **Board and staff**
- **Finance, accounts and accountability**
- **Viability, sustainability, replicability**

The actual question of whether federations should at all exist is not being dealt with in this paper, although during the workshop, it is expected that this issue, too, will come up for discussion.

2. Issues in federating

2.1 Membership in the “federation”

The term “federation” is used to describe an organisation whose members are organisations. Just as an individual associates with another to fulfil those needs which he/she cannot fulfil on his/her own, so, too, organisations associate with one another through the setting up of yet another organisation in which they take membership, which will cater to such of their needs as cannot be fulfilled by them on their own. Such federations can be at secondary and higher levels, with federations of federations being formed.

At every level, the furtherance of the interests of the primary member is central to the setting up of the tier, and the vibrancy of its member-organisations is vital to its own vibrancy. A federation is not expected to compete with its member-organisations, or to undertake such activities as are best left to the member-organisations. While a federation may engage in public service, it does so if it serves the interests of the individual members. Federations are not agents of external parties – they are agents of their members. As agents of their member-organisations, they may choose to collaborate with others, but only within the mandate given to them by their member-organisations.

The literature on SHGs and their federations appear to use the term “federation” in a number of ways. These include:

- a. an organisation whose members are organisations;
- b. one whose members are informal groups;
- c. one whose members are representatives of groups; and
- d. one whose members are individuals, possibly, because of the legal requirement of establishing bodies corporate only with legal persons (individuals or other bodies corporate).

If we look at 'a' and 'b' above, it would appear that these are indeed federations. In the case of 'c' and 'd', however, it would appear that the organisation is in fact a primary, whose membership is that of individuals.

It is important to discern the true nature of an apparent federation, in order to design it well. Where the members of an SHG are also members of a "federation", unless structured very carefully, they are likely to treat each as a separate organisation and relate to each separately. As a result, the "federation" may survive, in spite of its member-organisations failing.

The Andhra Pradesh State Road Transport Corporation Employees' Credit Cooperative Society has lakhs of bus drivers, conductors, mechanics and others as its members. If a meeting of all the members of the cooperative were to be organised, it would probably be one of the very large gatherings in world history. It has, instead, arranged itself around the depots of the parent Corporation, so that from every depot (at which around 50 persons are employed), one representative comes to the general body of the cooperative. This does not make it a federation. It remains a primary cooperative, despite its size and the representative manner in which its general body has been constituted.

The first set of questions which, therefore, arise for discussion are:

- a. **Who should be a member – the individual or the SHGs? If the intention is to have SHGs as members, but because of legal requirements, individuals are members, in the place of SHGs, how can the structure be yet designed, so that the "federation" draws its mandate from the SHGs?**
- b. **Is the primary purpose of the more distant organisation, (the 'federation') the strengthening of the primaries, for the purpose of furthering the interests of the individual members? Is it of, by, and for the member-organisations? If yes, can its agenda have any element which is not drawn from the mandate that the primaries give it? Can a federation be in the same business as that of its primaries? If yes, what parameters need to be in place to prevent a federation from competing with its members (the primaries)?**
- c. **Is the primary purpose of the more distant organisation, the strengthening of its members, plus? Is it for the member-organisations, of them, but by them only partially? If yes, how much of its mandate needs to come from the member-organisations, and how much from other agencies?**

The responses cannot be the same for all promoter agencies, but do need to be asked by each for its own area.

A related question in the structuring of any democratic organisation is whether a member's right to vote needs to be linked to the fulfilment of certain responsibilities by the member. In at least some of the federations, timely repayment of loans is required for the right to vote in the federation. However, this and/or other conditions become useful, if similar obligations are required by the SHG of its members. Otherwise, the representatives of the SHGs in a federation may well be irresponsible members in their own SHGs, and the federation will be affected by such persons making decisions for it.

2.2 Objectives and activities of the federation

Available literature suggests that federations are set up with one or more of the following objectives/activities:

- a. to strengthen (through training, information dissemination, on-site support, etc) the capacity of member-SHG in one or more of a variety of fields (bookkeeping, accounting, marketing, financial management, advocacy, bank-linkage, accessing government schemes, to name some)
- b. to provide credit, especially multiple credit lines
- c. to provide savings facilities, especially voluntary savings
- d. to undertake marketing of the produce of the members of the SHGs
- e. to provide life/loan insurance services
- f. to access government or other schemes for member-SHG or their members, (as distinct from enabling SHGs to do so, covered by 'a' above)
- g. to provide staff support to member-SHG
- h. to write and/or audit the accounts of member-SHG
- i. to resolve conflict within SHGs
- j. to review/regulate/supervise the functioning of member-SHG
- k. to promote new SHGs
- l. to create the political/social space that women need to live their lives as fully as they desire to
- m. to be the window to the outside world, in replacement of the promoter organisation
- n. to undertake all that the external facilitator was undertaking, after its departure.

Protection of members' savings as an agenda: In none of the literature reviewed was the protection of member savings a stated agenda. If SHGs are members of federations, then the federation must have a life dependent on the life of the member-SHG. If member SHGs have the provision of savings and credit services to their members as a core agenda, then the protection of these savings become critical. If the provision of savings facilities is mainly to serve as leverage for accessing external loans, then the protection of the savings need not be central to a federation's agenda – in this instance, the savings are a form of collateral, and the lender, in his/her interest, will protect it.

Repeat loans of increasingly higher amounts, payment of one loan on the day that a larger loan is taken, loans outstanding with all the members of a group for much of the time, could well be signs of the inherent apprehensions of members about the security of their savings. The easiest way of protecting these savings, after all, is to ensure that they remain with you (as loans), or lie idle in a bank. So, too, repeat and multiple loans to some of the members, even while some others do not get to (or do not) borrow could be indications of the savings being at risk.

Pochamma repaid her loan of Rs 1000 on 5.11.01, to borrow Rs 1500 the same day. She repaid the Rs 1500 loan on 12. 08.02, to borrow a third loan of Rs 2500. At least half the members in her SHG have similar transactions. In a neighbouring SHG, Maria borrowed Rs 1500, paid back a part of it in monthly instalments. When she was still due Rs 900, she borrowed Rs 2000, and paid back the balance of Rs 900. While cumulative loan figures are impressive, do Pochamma and Maria actually get the full use of the loans that they apparently borrow?

It would appear important that strong accounting information systems and management information systems be in place, if the foundation on which federations are to rest is to be strong. For protection of savings, for review of default, for action on default, for closer scrutiny of yields, the SHG, its federation, and the VDO need to apply their minds to systems to be followed, information to be gathered, presented, reviewed and acted upon regularly.

An important question, therefore, in the setting up of a federation is the role of the savings of individual members, in the larger scheme of things – are the savings as important as the access to credit? If yes, ought the protection of member savings to be an important concern of the federation? What can a federation do to help protect member savings? If member savings are not protected by an SHG, can the federation/s built on the SHGs, have a future?

Competing agendas: In at least some of the objectives, federations can actually compete with their member-SHG to the latter's detriment, as has already been illustrated. For this reason "..... federations should not be encouraged to take on such functions that the individual SHGs could perform on their own". ²

Cooperative history in the state and across the country is full of the destruction of both federations and their primaries because of the federation's desire to take over the agenda of the primary, to the detriment of both. SHGs and their (business) federations are cooperative in nature, and could learn from lessons already learnt in the field of democratically organised businesses.

It is, therefore, important to identify **which of the objectives and resultant activities of a federation compete with the business of member-SHGs**, and for a given structure to delete such items from either the federation's list, or that of the member-SHGs.

In particular, if both can access external credit for the purpose of lending to individual members, they are more likely than not to compete, and/or to mismanage the credit agenda. On the other hand, services such as regular audit, loan insurance service, inter-group funds transfer service, and so on are services that can only be provided by a federation. **Which services will not undermine the services provided by the primaries?**

The Charlapalli mandal federation lends money to village federations, which in turn lend to SHGs. The village and mandal federations are dependent for their survival on the interest earned from these loans. A visit to the Chandrapur SHG in this area, shows that the SHG has recently borrowed Rs 10,000 from its federations, even as Rs 11,000 of its own lie idle in its bank account. The federation appears to have pushed its funds, even though the SHG did not really need to borrow. The SHG will pay an interest on the loan, but get next to no interest on its funds lying idle in the bank.

Conflicting agendas: In the list of reasons for the setting up of a federation, there are some conflicting agendas, too. For example, it is unlikely to be in the interest of an SHG for its books to be written by the staff of its federation, and for audit, too, to be

The accounts of the Saptagiri SHG are in a mess. It seeks the assistance of the federation. The federation has a small team of staff. It has received grants for the promotion of more SHGs in the area. Its leaders and staff are all engaged in promotional work. They ask the SHG to wait till the promotional work is over.

conducted by the federation. Such conflicting activities could result in both the bookkeeping and the audit being done badly. So, too, if the promotion of SHGs and experimentation in the marketing of produce, etc, is based on grant funds received from an external agency, the federation is less likely to engage in the grind (and thankless task) of reviewing and enabling member SHGs, and in the meticulous management of its own accounts and work, than it is to engage in the exciting and easier

task of promotion of new SHGs, or, in experimentation. Again, cooperative history

² "A concept paper on federations of self help groups", Myrada

indicates that a federation promotes new member-cooperatives responsibly, if the latter's emergence is to the betterment of the business/survival of existing members and of the federation itself. It promotes them irresponsibly, when its own survival is only partly dependent on the vibrancy of the existing and new member-organisations.

Two related points for discussion, therefore, are (a) the review of activities to be undertaken by a federation, so that they are not in conflict of one another; and (b) the parameters within which a federation may undertake the role of promoting new member-groups.

A federation used the capital available with it to help 3 groups in its area procure and market forest produce. In the 3 SHGs, not all members supplied the produce. On the other hand, non-members, too, supplied some produce. Although the members received a good price for the produce, the operations resulted in loss to the federation. Would it be less of an issue if there had been a profit?

Some federations undertake several experiments, which help some sections of the membership. **Can a democratically set up organisation of those who need its services, use its resources to engage in any activity which does not benefit a large section of the members? If an initiative which benefits just a few, results in profit/loss, how (and why) should such profit/loss be allocated among all members?**

There appears to be some debate on whether or not a federation should be thought of as a replacement/substitute for the SHPI. While some argue that the federation may overwhelm the SHG and become politicised and, therefore, ought not to be thought of as a replacement, others argue that a federation is any day better than an external VDO, that if indeed subsidies are to be tapped, then why should these not go to the communities and their organisations, instead of some external facilitators.

Should federations be thought of as substitutes for the promoter VDO? Why? Why not? What activities, therefore, ought a federation take up that will help strengthen primaries, and not undermine them? (Financial? Non-financial? Marketing? Training and consultancy? Insurance? ...)

2.3 The formation of a federation

Self Help Promoting Institutions (SHPIs) have helped promote federations and part of the debate is on **who should promote the federation** – the primary groups, when they are ready to do so, and feel the need for it, or the SHPI, in the hope that the federation will help promote more groups, and develop existing ones?

Promotion of federation after the establishment of strong primaries: Several VDOs appear to consciously provide for opportunities for leaders of the primaries to meet regularly in different villages, and to share at formal meetings, their experiences, before helping them explore the need for a federation. The regular meetings at different villages, appear to expose members of the host village to relate to other groups, and for the leaders to build a spirit of mutual trust, and care for a wider world.

The meetings also appear to help them assess one another and to choose leaders appropriately, by the time the federation is actually set up. Several SHPIs also arrange for exposure visits to other areas, too, where successful federations already exist.

If a federation is to be an agent of its member groups, then it might be best to promote it after the establishment of strong groups.

Promotion of federation by SHPI for the establishment of SHGs: There is on the other hand, a sense of urgency in some SHPIs, to set up the federation/s first and then work backwards to the promotion of primaries. If carefully handled, the latter, too, might work, but in the process, several short cuts will need to be taken which could compromise the integrity of the federation.

One common area of compromise is in the selection of the leaders – if women/men from across villages have not had the opportunity to listen to one another, to work together, to observe one another, and to assess one another, the SHPI will wittingly, or unwittingly, influence the choice of leaders. The leader selected in such a manner will have more allegiance to the SHPI than to her/his peers, perhaps.

A young woman in a cluster was very articulate and appeared to be far more intelligent, and to have more far-sightedness and wisdom than the others. The facilitator encouraged her to take the lead in meetings in order to help the federation grow. Other leaders appeared to resent this woman and the facilitator put it down to jealousy which could be overcome with time.

Much later, however, it emerged that the young woman was politically very astute, had positioned herself in the home of the most powerful man in the village, even as she spread rumours about her own ultra left leanings.

So, too, when the federation is promoted by the SHPI (although with the signatures of the representatives of the primaries), the SHPI tends to decide the staff structure, wages, responsibilities in the federation. The staff, too, as a result, end with more loyalty and accountability to the SHPI than to the federation members, or Board. At best, in the spirit of do-gooders, even benefactors, they “help” the movement with dedication and skill. At worst, they run the federations, in spite of the members and the Board.

What is a good way for promoting a federation (on the assumption that it is needed) – who should promote it? When? Should the federation follow the establishment of several strong primaries, or should the federation be formed fairly early on in the process? Or, ought there to be no federation at all?

Positioning the federation: The “where” of a federation is as important as the why, how, who and what of it. Federations have been formed at various levels – the village level, the mandal or cluster level, the district level, and even the state level. One such structure is seriously considering whether it has one tier too many, and is now looking at the rationale behind each tier. It is important that a tier be added only if it is a value adding tier, and not a cost adding one.

Some VDOs work towards mobilising as many potential members as possible from within a given village, and some of these agencies then work towards repeating this in a cluster of villages nearby. This concentration of members in a compact geographical area helps the movement to capture a significant share of the local financial market, bringing with it a respect and recognition to the movement not arising out of rhetoric.

What questions need to be addressed by leaders of the primaries, and by SHPIs, in deciding the levels at which federations are required.

The bylaws: Where a federation is registered under some law, the framing of the bylaws needs to be in consonance with that law. For any organisation to be “owned” by its members (whether a primary or a federation, whether registered or not), it would appear necessary for the members to have thought through the bylaws. The bylaws are, after all, in the nature of a contract among members on the rules with which to govern their functioning as an organisation. On the other hand, the framing of the bylaws for registration does require a good understanding of the law and the form of organisation (society, cooperative, company, trade union) being chosen.

Is it not necessary for members and leaders to have some understanding of the law and its requirements of them? Once one set of bylaws is registered, is it possible for the VDO to keep all options open in the matter of bylaws, for each federation being registered? If not, what can be done to create a sense of identity, ownership in members? What should be the process for the framing of the bylaws for any tier?

2.4 Need for body corporate status

Forms of organisation: The different forms of organisation used by federations appear to include the unregistered form, the society form, the cooperative form, and the company form. Aiamed, Delhi has published 2 reports dealing with this subject – one examining the advantages and constraints under various laws, and the other documenting the actual experiences of using these various laws. What emerged from the studies was that the choices available in each state are quite different, and the choice for registration is dependent on the objective of the organisation.

It is important to note that not every organisation needs to have body corporate status. If an organisation expects to hold immovable property, or to sue or be sued, it would be best if it opted for body corporate status. Section 11 of the Companies Act appears to require any group of 20 persons or more engaging in any business for gain, to be registered as a company, or to have been formed under some appropriate law. Although the spirit of this section was to prevent a large (and therefore, less likely to be held accountable) unincorporated association from dealing irresponsibly with the larger public, agencies such as governments and banks and VDOs applied the provisions to mutual help associations, too, and required that the groups remain small, if unincorporated. Some VDOs, however, argued that Section 11 did not apply to such SHGs as dealt only with their own members, and, therefore, promoted large unincorporated village level institutions with 150-300 members. These chose also to depend entirely on mutual (among members) savings and profits for capitalising rural women’s/men’s institutions. At least some of these, later broke their groups into smaller groups, when bank linkages began to require a smaller membership.

“Person”: In states such as Andhra Pradesh, new liberal cooperative laws are in place, and large primaries and federations are getting registered under this Act. A current debate is on the need for legislation to recognise SHGs as potential members of cooperatives. Law recognises only **persons** – natural (the individual), or bodies corporate (organisations registered as cooperatives, companies, societies, or trade unions). Law deals with persons. Registration is about a contract – among persons. The memorandum, the rules and regulations, the bylaws/articles, are the contract that persons enter into at the time of registration. Unincorporated associations such as SHGs are not “persons” in the eyes of the law.

The bylaws of at least some “federations” indicate that membership is in fact open to members of SHGs – that is, these “federations” are in fact primaries. As the law does not recognise an SHG as a “person”, therefore, the bylaws speak of the individuals as members. The bylaws elaborate that the individual should be a member of an SHG.

Profit/business in societies: There is a misconception that if an organisation is registered under the Societies Registration Act, it cannot earn profit, or undertake business. The laws relating to the registration of societies in various states, do not define societies as non-profit organisations. The Income Tax Act, too, does not refer to societies which receive tax exemption as non-profit societies. Yet, organisations registered as societies are, more often than not, projected as, and perceive themselves to be non-profit organisations. They sometimes go to the extent of showing year-end losses, or separately registering such activity as brings them profit.

Section 2(15) of the IT Act: “charitable purpose includes relief of the poor, education, medical relief, and the advancement of any other object of general public utility”.

It is likely that cautious chartered accountants or tax consultants, whose advice is sought at the time of drafting of articles of association, suggest that the words “non-profit” be included in the memorandum of association.

Till 1.4.84, Sec 2 (15) read as: “charitable purpose includes relief of the poor, education, medical relief, and the advancement of any other object of general public utility not involving the carrying on of any activity for profit”. The words underlined have since been deleted. The very fact that these words were deleted is indicative of an appreciation by tax laws of the activity mix of the creature called society.

A society can indeed choose to be a non-profit organisation. Income tax authorities, however, appear more anxious to satisfy themselves that any profit that a society does earn is used for the pursuance of its object – some charitable purpose.

There is nothing in current laws that prevents a society from taking up business activity and from profiting from it. If the business undertaken is not incidental to the attainment of the objectives of the VDO, then presumably, the net income derived from it will be liable to tax. If the business is incidental to the attainment of the objectives, then income from it will be treated as all other income of the VDO for exemption from tax. What is important for tax exemption is that the profits not be distributed among members, and that they be used instead to further the objectives of the society.

Sec 11 (4A), too, refers to profitable or gainful business of a charitable trust or institution, providing that income from it will be included for tax computation, “unless the business is incidental to the attainment of the objectives of the trust or, as the case may be, institution, and separate books of account are maintained by such trust or institution in respect of such business”.

Registration: The Dhan Foundation has not only managed to get registered at least one federation promoted by it as a charitable Trust, (as the Societies Registration Act in Tamil Nadu has some illiberal provisions), but also managed to get income tax exemption for it.

A federation which is engaged primarily in business on behalf of its members, and intends to distribute profit among them, ought perhaps to look at the state cooperative law, or the Companies Act. More recently, the Companies Act has been amended to allow for the establishment of producer companies of farmers. The chapter on producer

“Exemptions” given by the RBI to Nidhis appear to undermine member control, and to concentrate information in the hands of a few. Permitting only a few to hold large numbers of shares, not requiring notices to general body meetings to be sent to individual members, not requiring annual reports and accounts to be made available to members, are perhaps the reasons why some Nidhis have acted irresponsibly. As in the case of the RBI, do SHPIs, too, appear to expect more accountability to themselves than to members?

companies has attempted to keep the company as close in nature as possible to a cooperative organisation, just as Section 620-A of the Companies Act provided opportunity to keep the Nidhi (an urban neighbourhood savings and credit NBFC) as close in nature as possible to a cooperative.

Many federations which are registered as cooperatives, do not get their accounts audited, and do not present their annual reports and accounts to their members. Some formats are prepared by the SHPI staff, or the federation staff, but very rarely are these presented to the general body of the primary. It is argued that accountability provisions in law are burdensome, and are what are coming in the way of the SHG structure remaining “simple”.

Is registration of federations required? Is it important that key functionaries of rural financial organisations understand the law under which the organisation is registered and fulfil all legal responsibilities? Ought provisions of accountability to members, be removed from the statute books? Do the facilitators/trainers from the SHPIs need to have a better grasp of related laws?

2.5 The Board and staff of the federation

Leaders vs Board: The literature on federations indicates that a fair amount of thought has gone into the building of leaders. Leadership development can be on individual basis, whereas for a federation (or any democratic organisation, for that matter) to succeed, it needs the Board members to work as a team, to frame policy, to plan,

At Dhamnapur, the leaders of various SHGs were at a cluster meeting. They were articulate, and were having animated discussions. The chief executive of the SHPI who was visiting, happened to look at the bank pass book of one of the SHGs, and found that it had not been updated for over a year. Apparently, the pass book had been with the former President, who recently quit. When the federation leaders were asked if they had been aware of the problems in the SHG, they said that they were not, as different delegates from the SHGs came to each meeting. When the SHG leaders were asked why they had not sought help, they said that they thought the federation was mainly for accessing external credit and for discussing contracts for the village.

budget, manage the organisational agenda, and review progress on an on-going basis for the organisation.

There have been conflicting views on whether or not representatives to the federation need to be “rotated” frequently. While those in favour, speak of the gains in leadership development, those against,

think that “changing women delegates to (*federation*) meetings is good for the individual woman delegate, (*but*) it is not good for institution building”.³

A federation not situated in the same village as the member-SHG already runs the risk of being in the control of a small team of staff who meet one another frequently, and have the time and opportunity to control its agenda. When then, the delegates from the SHGs participate in the affairs of the federation on a rotational basis, institutional checks and balances take a severe beating, as the delegates cannot see any concern of theirs through to a logical end.

The APMACS Act requires members to apply their minds while framing their bylaws on whether or not directors can be re-elected when their term of office comes to an end. If the bylaws are silent on this count, directors cannot stand for re-election immediately on the conclusion of their term. The Act also requires the terms of office of the Board members to be staggered, so that all the directors do not go out of office at once, bringing discontinuity into the decision making process. It is probably important that retiring directors be made to seek a fresh mandate from their members, on a regular basis. There is little to suggest from the literature that elections are held regularly in the federations, as much of the literature does not make mention of elections, even though there is mention of change in leadership (due to rotation). Constant change in leadership can result in the organisation being controlled by staff or the SHPI.

An important issue that then arises is the issue of accountability of the Board to the General Body on matters on which they take decisions – **what is more feasible as a secondary or tertiary organisation grows – that every member/leader knows everything, or that systems are in place which enable members to hold their elected Board accountable for the areas in which they are responsible? Is it the job of the SHPI to build a “second line in leadership”, or to generate enough knowledge and confidence in enough members/delegates for there to be an inbuilt desire to serve on the Board?**

Qualities required of Board members: The question of leadership has perhaps not been

thought through enough. An organisation which expects to depend significantly on financial services for its sustenance, needs a Board which is prudent, understands accounts, financial services, financial management and analyses. A federation which expects to access schemes and services from the government and other agencies, needs a Board which is articulate, extrovert, good at negotiation, and leads from up front. The mixing of financial services with other services in the same federation, especially one which receives grant and corpus funds from external agencies, may result in

Yellamma is a poor woman who has changed as a result of her participation in the SHG movement. She is very articulate, and has been able to lead demonstrations against cases of injustice to women. She is the President of the federation, and has helped initiate several experiments in the area. When asked for a copy of the federation's annual report, Yellamma blinked. When asked about the profit/loss in the federation, she suggested that the chief executive (on deputation from the SHPI) be asked for particulars. The chief executive did make available a copy of the annual report with accounts which indicated that the organisation was running on loss. The federation was one involved in financial intermediation.

the emergence of a Board which is articulate, extrovert, and has all the charisma required by negotiators, without the prudence, or, financial and business acumen required by an organisation involved heavily in the rendering of financial/marketing

³ Micro-credit and women's empowerment – the Lokadrusti case, UNDP

services. Some agencies are already beginning to wonder whether the marketing of agro/forest produce ought to be handled by existing federations, as the commodity will influence the area, membership and leadership profile of the organisation.

What are the areas in which Boards need to be trained? For such Board training, what should be the qualifications of the trainers? Can a trainer who does not understand organisational or business management, train others in these? Where the staff of a federation have been deputed/recruited by the SHPI, they may also be acting as trainers – will this interfere with the chief executive’s accountability to the Board?

Ought a federation to be loaded with multiple agendas? In particular, should financial and non-financial agendas be handled by the same federation? Are we so competent that we can successfully handle multiple agendas on our own behalf? If not, are we asking for the impossible from the Boards of federations? Ought there to be separate federations for businesses and for the socio-political agendas?

Staff: As already mentioned earlier, when staff is deputed from and/or recruited by SHPIs, they take on the demeanour of the SHPI, undermining thereby their accountability to the federation. There have been promoter chief executives, who have chosen to promote an organisation and chosen to be accountable to the Board. In such cases, the promoter chief executive was not strictly the choice of the Board, but chose to be accountable to it. However, in other cases, where a person who feels accountable to an SHPI is positioned in a federation as its chief executive, the Board will, more often than not, assume that the SHPI is monitoring the work of the chief executive, and relax on that count. This becomes even more accentuated when the chief executive is in direct contact with the SHPI for training, meetings, and other interchanges, which the Board may be informed about, but for which the permission of the Board is not sought.

Raghu is the chief executive of the Ramapuram federation. He informs Yasmin, the President that after the federation’s Board meeting that month, he will be conducting training for the leaders of all the SHGs in Yasmin’s village, and that she should inform all of them about it. How does Yasmin or any colleague of hers on the Board of the federation hold her chief executive-cum-trainer accountable?

Even though some of the literature suggests that the chief executive and other staff recruited/positioned by the SHPI, were removed by federations when the federations chose to become self managed, it is possible that this happened either because the SHPI truly respected this right of the federation, or, because the federation wished to break free of the SHPI, for good or bad reasons.

It should be possible for leaders to recruit women from within the area of the federation for their work. Even though rural women tend to underestimate and even deny their capacity to read and write, with printed books of accounts and other records, it should not be difficult to help a woman with minimum reading and writing skills to perform the functions required of staff.

Apart from the case of the promoter chief executive of a people’s organisation, is it possible to have an effective Board which takes responsibility for agenda setting, for end achievements, for personnel management, if the chief executive and other core staff are positioned in the federation by the SHPI? If then, the organisation is a women’s organisation, and most of the federation staff is male, is it likely that the chief executive

will feel accountable to the Board, and not play the benefactor card? How should recruitment in federations take place? What about wage setting – what should guide it?

2.6 Finance, accounts and accountability

Monitoring: In much of the federation literature available, monitoring of the financial performance of member-SHG is mentioned, but the systems for monitoring these are not reported. Some federations do appear to be receiving regular financial statements from member-organisations, and these are consolidated and possibly reviewed at the federation and even SHPI level. For a federation to analyse financial statements of members and to advise them on the basis of such analysis, the member units need first to prepare such data, and present it to the Board/general body for consideration. When then such data is presented to the federation, it can be taken as authenticated data – data which those responsible for the primary cannot deny at a later stage.

A banker on a visit to an SHPI, asks for information on the numbers of SHGs, total savings, loans outstanding, default, etc. The SHPI gives a pamphlet with some figures. The banker asks for some more details, area-wise, and is told that the SHPI does not believe in keeping track of all the information in all the SHGs. The banker is confused about the basis on which the figures in the pamphlet were arrived at.

Few savings and credit groups and/or their federations appear to be preparing their financial statements of accounts on a regular basis for internal use, and presenting financial statements to members annually. Where primaries prepare these, respective federations (where these exist) receive these statements, and can work on them, if trained in the analysis of such

statements. In the absence of such statements originating from the primaries, it becomes nigh impossible for federations or SHPIs to know the correct financial situation of the primaries. Without such knowledge, most of the statements on the status of savings or loans becomes rhetoric, not backed by correct information.

Accounting: The preliminary findings of a recent study of SHG federations undertaken by a network indicates that while 27 federations were covered by the study, only 7 could be looked at for financial analysis. The reason cited at a meeting to share these findings was that with the rest, the information was not easily available. Even of the 7, some needed to have their books updated by the study team, before the analysis could be carried out.

While bank pass books of member SHGs do appear to be well kept in more cases than not, the actual books of accounts of SHGs have far too many instances of backlog in writing entries, overwriting, pencil entries, and other indicators of poorly kept books of accounts. There is a deafening silence in much of the literature on actual financial statements of SHGs or of federations.

At Kothapalli federation, 4 sets of cash book and ledgers are maintained, one for each source of fund, earmarked for a particular activity. On closer look, it is discovered that the total cash balance on the day was Rs 65,000. This amount was in fact not available in the office of the federation. Some cash and several bills were available, but they did not add up to Rs 65,000.

A federation is dependent on its member units for survival, if it is to be a true federation. Badly kept books of accounts at SHG level cannot possibly contribute to the survival of the SHG, and, therefore, must affect the survival of the federation. Bad books of accounts at the

federation level only add to the confusion of who the real beneficiaries are in such a situation. Few SHPIs have, and fewer publish data on the primary or secondary organisations that they promote. Again, in the absence of such data, it becomes difficult to assess the true quality of financial management at each level.

In this context it needs to be mentioned that while designing books of accounts for SHGs, the design of financial statements is not always taken into consideration. At least one set of books and records reviewed had the income and expenditure statement missing, as those who designed the formats felt that "a high profit might attract vultures". The lack of the statement might and probably does result in funds mismanagement.

"Common/group" funds: A practice used by well established cooperatives across the world is to ensure that as much of the funds as possible are identified with members, or with specific uses. Unallocated profits (that is, profits pooled over the years into a general fund) and general reserves are kept low, because these are expected to increase arrogance in those in management – after all, the organisation can survive on the earnings on these "free" funds, whether or not members use the services of the organisation. The APMACS Act in fact requires cooperatives to fully allocate surpluses (and deficit, for that matter) arising in a year, in the following year, precisely to prevent the organisation from having an existence outside of its members. The non-payment of interest on savings at SHG and federations levels, result in huge unallocated profits, which make the organisation and its members vulnerable to misappropriation of funds by those in management and in the SHPIs.

Would regular addition of interest to savings result in members thinking of their savings as long term assets, and not just as collateral for external borrowing? Would that help promote better borrower behaviour? Will the consequent decrease in free funds improve staff and leader behaviour?

Can a federation expect to be sustainable, if its own accounts, or the accounts of its member organisations are badly maintained? Is more training a sufficient response? Even if the best of systems were in place, is one reason for non availability of data at the primary level a result of the sheer numbers of the primaries associated with any SHPI or federation? Ought there to be some mergers taking place in the primaries, at least in matters of financial services, for greater transparency and accountability?

Member control and mix of services: The study on SHG federations categorises the 27 federations studied as (a) high promoter control, only financial services, (b) high promoter control, financial services plus, (c) high member control, only financial services, and (d) high member control, financial services plus. Of the 7 federations studied, those in (a) had just a little over 50% of the total assets outstanding as loans to members. Operating cost ratio was as high as 50%, with a "lot of diverse activities and ... new products ... introduced every now and then" with "huge costs associated with this". Loans overdue for more than a year were being written off.

Those in (b) (high promoter control, financial services plus) had over 50% of the loan portfolio at risk, with the loan portfolio shrinking in absolute terms as well as relative to total assets, with significant presence of staff and subsidies from the promoter, even though member equity and savings constituted two-thirds of the portfolio.

The federation/s in (c) (high member control, only financial services) had the loans outstanding optimised with more than 95% of the total assets in loans. The annual growth of the loans portfolio is incremental “ commensurate with administrative capacity to manage that portfolio”. The organisation structure was “lean” and loans overdue were within manageable limits, with indisciplined borrowers being weeded out on a regular basis. Around 90% of the income came from interest earnings.

The federation in (d) needed high loan loss provisions, as the age of loans overdue was very high, though management was conscious of the default rate and taking steps to address it. Around 70% of the total assets were in loans outstanding with members. Loan sizes were very high and “such that perhaps peer pressure does not work well”. The draft does not indicate clearly the ratio of internal funds to external borrowings, and it is possible, that peer pressure also does not work because of significant external funds.

These cases, as well as some of the assessment ratings conducted by APMAS appear to indicate that where data is available or constructed and studied carefully, idle funds, loans at risk, and high costs are more common than we are willing to admit. The study indicated that federations in category (c) (high member control and only financial services) reported good financial performance and member financial behaviour, unlike the others which had problems on the financial front.

If financial performance is getting the beating that it appears to be getting, ought it to be combined with other services in the same federation (or for that matter, in the primary)? If SHPI controls do not add to better financial management, where will the federations get their training in financial management from?

Accountability: Ajay Nair, in his paper on federations suggests that annual reports and accounts be presented each year to members. It is important to take cognisance of the fact that to be on the Board of a federation is, more often than not, to hold a position of privilege – especially, when the federation has multiple agendas. Meetings of large gatherings of members are, more often than not, political meetings – not business meetings, not meetings where the Board gives an account to members of its management of the affairs of the federation, and where members have the right to challenge the actions of the Board. Where a general meeting of an organisation (such as a welfare organisation, or a trade union) can benefit from the presence of well wishers, supporters and mentors, the general meeting of an organisation engaged in business (financial or commodity) must necessarily report to the members on the use of organisational resources, and the consequent benefit to the organisation and the members, without the distraction of speeches by eminent persons.

The distinction in levels of financial accountability required between the Board of an organisation which raises grant and other subsidies for reaching benefits to members, and one which is committed to business services to its members, needs to be made urgently. The literature on SHGs and federations is, by and large, silent on the accountability of Boards to their members, for the use of organisational resources.

How can the members of the Boards of federations be helped to see their positions as positions of responsibility, and not that of privilege or authority? Do the federations need to be restructured for this purpose? What skill/discipline is required of SHPIs and other support organisations in matters relating to internal accountability?

2.7 Viability, sustainability and replicability

Viability: Most SHGs are reported as being viable. The real costs of promoting and sustaining SHGs is not taken into account by most SHPIs, and only the small costs of a bookkeeper who maintains some accounts, some stationery and other meeting expenses are booked to the SHG.

In early seventies, the viability of a primary agricultural cooperative society was being equated with its ability to meet the costs of the chief executive, who was a person belonging to a common cadre of trained secretaries. The result was that all the earnings of the cooperative kept going to the chief executive's pay, even as much of the revenues of the union and state governments go to meet the costs of a large bureaucracy. Loan portfolio of SHGs and their federations are being increased with a similar intention of helping meet the costs of maintaining relatively well paid staff.

Even if an SHG is viable today, can members trust their savings with it for lengths of time? Are federations viable today? If not, what can be done to make them viable? What is the impact of donor grants on the accountability to members of democratically elected committees? What are the links that can be made between accountability and viability?

Sustainability: Every viable organisation is not necessary a sustainable one. SHGs and their federations need to be sustainable if they are going to give importance to savings of members. After all, these savings are long term savings, and unless the structure is likely to be sustainable, it would be best if the savings were merely thought of as collateral for loans.

The SHPI was under the impression that SHGs regularly repaid the loans that they took from their federation. A casual glance at the loan ledger of the federation revealed that of the first 60 loan accounts in the ledger, 42 were overdue for several months. Default had simply not been taken cognisance of. The President of the federation was the President of an SHG which had been in default for several months.

There is a general assumption that loan repayment rates in the SHG structure are fairly high. As some of the APMAS reports and other studies indicate, default is not being reported on and monitored adequately. APMAS reports that where loans are repaid in bulk the repayment rates tend to be lower than where they are paid in monthly instalments. The study on SHG federations also indicates that the interest not collected is a problem in its

own right. When members pay overdue instalments and interest, the penalties due are often not collected. The effect that this has on a good borrower and on the group's behaviour on loan repayment have yet to be studied.

If mechanisms to track loan default are not in place, and if overdue loans and interest are adjusted against fresh loans, can the institution survive if there is a sudden break in external credit?

Can it be termed a "sustainable" organisation? With the current state of accounting at the SHG and federation levels, can they be sustainable? Should the SHGs and their federations be loaded with given costs, and then be asked to step up their business to meet those costs – or, ought they to recruit persons of the levels that they can manage, at rates that they can afford to give, thereby ensuring viability all along? What needs to be done to make them financially sustainable over lengths of time? What needs to be done to make them sustainable in terms of skills, vision development, leadership?

Replicability: A couple of VDOs publish their own annual reports with detailed statements of accounts, and also publish a summary of the financial position of the savings and credit movement that they have helped to promote. In the 2001-02 annual report of one, around Rs 3.15 crores was reported as having been spent on the community banking programme by the VDO. Against this expenditure, Rs 43 crores was the loans outstanding with the members of the savings and credit movement. This amounts to a little over 7% of total loans outstanding being spent by the SHPI. The annual report does not indicate whether the federations or SHGs receive other subsidies and grants. The 7% is lower than what most organisations spend, because of the clustering strategy adopted by the VDO.

In another case, the amount spent annually by the organisation on its savings and credit work has been less than 2.5% of the loans outstanding, for over a decade now. In 2001-02, it was around 2.5%. The lower cost is because it promotes village level financial institutions and not SHGs, and has to help the village Institution and not several SHGs in the village maintain accounts and be accountable. The primary and secondary tiers of the groups promoted by the institution, do not receive any subsidies towards

In one federation, the primaries pay a percentage of the interest earned by them each month, as fee to the federation. In another, they pay a per-member fee to the federation each month. In the former, with growth in the business of the primaries, the federation's income, too, grows, and new services are constantly added. The percentage of interest, too, is lowered from time to time, with the increase in business of the primaries. In the latter case, the federations constantly go back to the primaries to renegotiate the fee payable by them. All staff in the federation are women recruited by the federations locally.

management from any other sources, and they are fully dependent on interest margins and internally raised fee for survival. That is, the total cost of subsidy for promotion, training, etc, is less than 2% of the combined business of the movement, and, therefore, easily replicable. The less an SHPI spends (directly or indirectly), the more likely it is to invest in effective training. The larger its budget, the more the people on its payroll (directly and indirectly), and the less the internalisation of management skills in the primaries and their federations.

For the movement to be sustainable and replicable, should SHPIs set for themselves some parameters on their own costs related to this work? Higher ratios of cost to benefit can be expected in the first couple of years, in any new area, but what would be a good ratio to work towards, say from the 3rd or 4th year of support? The SHPI can separate its costs towards work related to financial services, and that related to non-financial services. For the latter, too, can the benefits be measured against the investments made?

3. A way forward

As its name suggests, this is a discussion paper. It has raised several issues that need to be urgently addressed by those engaged in the promotion of savings and credit organisations, among the disadvantaged. This is not a paper dwelling on the contributions of the SHGs and their federations to rural women's visibility and self-assertion. It is a paper that attempts to highlight the issues that urgently need to be addressed.

It is hoped that this paper will add to the debate in the rural women's savings and credit movement, that it will keep the rural woman and her growth as centre focus. APMAS is

keen to place upfront the concerns that must be dealt with, in order that there is an application of mind on these, and a way forward emerges that will ensure that rural women's organisations become leaders in rural financial markets. APMAS hopes to prepare a note on the learnings from the discussions on this paper and at the workshop, to facilitate growth in the movement.

Shashi Rajagopalan for APMAS
May 2003

Background papers

1. *South Asia Poverty Alleviation Programme - Outreach*
2. *Federating Processes in SHG Movement on India – draft report of study initiated by Sadhan*
3. *Financial Analysis of Federations – preliminary findings of Sadhan study*
4. *Micro-Credit and Women's Empowerment – draft reports of case studies commissioned by UNDP*
5. *Quality Assessment System – APMAS*
6. *Annual reports of Dhan Foundation, Cooperative Development Foundation; Sadguru Foundation[Ankuram-Sangamam-PoramThrift and Credit Groups in Andhra Pradesh and Karnataka – Meenakshi Nath for Oxfam (India) Trust*
7. *Status of SHG Federations in Andhra Pradesh – APMAS*
8. *Cooperative Development and Micro-Finance Strategy – CBED India*
9. *Sustainability of Micro-Finance Self Help Groups in India: Would Federating Help? – Ajay Nair*
10. *Annual statistical publication of thrift cooperatives in Warangal and Karimnagar districts – CDF*
11. *Beyond Micro-Credit Putting Development back into Micro-Finance – Thomas Fisher and MS Sriram*
12. *Alternate Development Financial Institutions – Shashi Rajagopalan for Aiamed*
13. *Making a Difference (approach paper) - Ankuram-Sangamam-Poram*
14. *Savings and Credit Movement of Andhra Pradesh: Lessons for the rest of India – Sankar Datta and Vijay Mahajan*
15. *Report of National Workshop on Strengthening Access to Financial Services for the Poor: Role of CBOs – Sadhan*
16. *Banking with the Poor – Nabard*
17. *The Poor and their Money – Stuart Rutherford*
18. *Women and Non-Formal Cooperatives – Shashi Rajagopalan*
19. *Women and Micro-finance – Shashi Rajagopalan*
20. *Statement of Best Practices in Self Help Groups – Nabard*
21. *Nabard and Micro Finance 2001-02 – Nabard*
22. *From Vicious to Virtuous Circles? Gender and Micro-Enterprise Development – UNRISD*
23. *Micro Finance and HIV/Aids – UNDP*
24. *Networking of SHGs: Concepts, Issues and Practices (Compendium of Reading Material) – NIPCCD and Sadhan*
25. *Other internal review documents made available by SERP, APMAS, CARE, CDF*