

National Workshop on SHG Federations - A Report

June 20-21, 2003
Hotel Taj Residency, Hyderabad

Organised By:



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Mr S Ray IAS, Special Chief Secretary, PR & RD, Govt. of AP, who has been the Chief Guest at the workshop, has also been a great source of strength to us. Our special thanks are due to him. The valuable presence of Mr. Balakrishnan, Executive Director, Andhra Bank, Mr. T Vijay Kumar IAS, CEO of SERP and Mrs. CS Ramalakshmi IFS, Commissioner, WE & SE, at the inaugural session of the workshop reiterated their commitment to strengthen the SHG movement. It has been of great benefit to us.

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Abbreviations and Acronyms

AB	Andhra Bank
APMAS	Mahila Abhivruddhi Society, Andhra Pradesh
CARE	Coperative for Relief and Assistance Everywhere
CASHE	Credit and Savings for Household Enterprises
CBI	Capacity Building Institution
CDS	Community Development Society
CEO	Chief Executive Officer
GMSS	Grameen Mahila Swayamsiddha Sangha
HR	Human Resource
MAVIM	Mahila Arthik Vikas Mahamandal
MBT	Mutual Benefit Trust
MFI	Micro Finance Institution
MIS	Management Information Systems
MS	Mandal Samakhya
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Finance Corporation
NGO	Nan-Governmental Organisation
SERP	Society for Elimination of Rural Poverty
SHG	Self Help Group
SHPI	Self Help Promotion Institute
US	United States of America
VO	Village Organisation
WE & SE	Women Empowerment & Self Employment



1. Brief introduction to the workshop

Mahila Abhivruddhi Society, Andhra Pradesh, a state level institution based in Hyderabad, supports the women's self-help movement and promotes sustainable livelihoods for the rural poor in Andhra Pradesh. Its business focuses on quality assessment, quality enhancement, informed advocacy and business development services, in the context of the women's self-help movement.

1.1. Need for workshop

APMAS has keenly been observing the emergence of federations of SHGs. Several designs are being tried out for these member-owned secondary institutions, whether at village or mandal/district levels. Several studies have been carried out to review the working of these institutions.

APMAS has felt encouraged by the diversity in the objectives, structuring and services of these institutions. At the same time, it has felt that it is time to take into cognisance the learnings from various experiences, and to offer SHPIs a clear direction on the way forward, given the variety of experiences and experimentation on the subject.

1.2. Supporting Organisations

With the above in mind, and in order to arrive at best practices for the designing and promotion of federations, APMAS and its key collaborators in Andhra Pradesh, Society for Elimination of Rural Poverty (SERP), National Bank for Agriculture and Rural Development (NABARD), Andhra Bank (AB), and CARE-India, jointly conducted a national workshop on 20-21 June 2003, at Taj Residency, in Hyderabad.

1.3. Objectives of workshop

The main objectives of the workshop were:

- (i) To engage practitioners and promoters/supporters in a critical review of experiences in promoting SHG federations across India; and
- (ii) To draw conclusions and make recommendations ("Best practice") to promote sustainable member-designed, member-owned, and member-managed SHG federations.



1.4. Participants

In all, over 120 participants, from 82 organisations, from 13 states, participated in the workshop. Organisations represented included SHG federations, self-help promoting institutions (SHPIs), capacity building institutions (CBIs), donors, credit providing agencies, and the state government (A list of participants is given as Annexure 8).

2. The design of the workshop

The workshop was designed by the organisers to explore through working groups

- (a) Process of formation of SHG federations
- (b) Resource mobilisation and sustainability of federations, and
- (c) Governance in federations.

As an aid to the exploration, a discussion paper on the designing of secondary institutions of SHGs engaged in savings and credit was commissioned by APMAS, and the paper presented to the participants (see the ppt. of the paper at Annexure 5). The paper was not based on fresh field research, but rather, on desk research of the literature available on the subject, and discussions with some key players in the field in Andhra Pradesh. APMAS sent the paper in advance to most participants so that they could come prepared for the discussions. Feedback received, too, was circulated to participants. The paper was translated into Telugu (vernacular language) to help facilitate the SHG Federation representatives participate actively in the workshop and the discussion.

In order to feed in direct field research findings, the report of a recently conducted study on SHG federations, commissioned by Sa-Dhan, was also presented at the workshop (See Annexure 6). Apart from this, each of the three working sessions was preceded by presentations from the field, by various participants, on the related theme. A presentation followed by discussion on legal forms available to SHG federations was also built in. All the presentations made by the Resource Persons are provided as attachments under the heading 'Presentations by Resource Persons', Annexure 7.

These thematic presentations were followed by open discussion, before participants broke into working groups to explore in greater detail current status of SHG federations in relation to each of the themes, and design elements, which could contribute to vibrant and sustainable federations. Working Group reports were presented at the plenary for each of the 3 main



working sessions, and these were followed by discussion and debate. See the copies of the presentations under the heading 'Presentations of Working Group Discussions' at Annexure 3, for the issues discussed at each of the three working sessions.

Leaders of well established SHG federations also participated in the workshop. The Telugu discussion paper has been sent in advance to them. Federations' leaders together formed a working group and their significant presence and participation ensured that the workshop was not just about the perceptions and experiences of the external agents.

On the first day, an attempt was made for translations from English to Telugu, and vice versa, in order to ensure full participation from federation leaders. However, this proved frustrating for all, as translations were inevitably more concise than an intervention in its original form. Therefore, federation leaders and the organisers opted on the second day, to have simultaneous working sessions in Telugu for the federation leaders at the office of APMAS, with joint sessions for the group reports. This proved much more fulfilling for all, and some simultaneous translation from English to Telugu was organised at the joint sessions.

APMAS expected to glean from the discussions, as well as from its own experiences in the field, key learnings on good designing of federations, and to present these to participants and others interested, within a few months of the workshop, as a way forward.

3. The sessions

A brief account of the sessions follows. (See Annexure 1 for the Agenda of the workshop.)

3.1. The inaugural

The workshop began with Mr CS Reddy, CEO, APMAS welcoming all the participants and presenting before them the need for the workshop, its objectives, and its design.

This was followed by the presentation of the discussion paper "Designing Secondary Institutions for Self Help Groups (engaged in savings and credit)" by Ms Shashi Rajagopalan. She argued that just as no individual was self-sufficient and, therefore, needed to collaborate with others, so, too, groups of individuals needed to collaborate with others. Such collaboration among SHGs, in the form of a federation was useful if the SHGs were expected to have a long life, if the savings of their members had to be protected, and if



the federations provided such services as added value and could not be undertaken by the SHGs themselves. If such a federation competed with its member-SHG, or had a life outside of its member SHGs, then this could be self-defeating. The presentation then went on to the designing of federations (a) for an effective and sustainable servicing of member core needs; (b) for vibrant and responsible membership; and (c) for competent and accountable leadership.

Dr P Kotaiah, Chairperson, APMAS (and former Chairman, NABARD), then spoke of the urgent need to address the many issues that lay before the house on the designing of SHG federations. He emphasised that APMAS was not committed to any one design in the field of savings and credit, but that it did hope that some principles would emerge which could help in better designing of federations. Financial services required management and monitoring of a more strict order than non-financial interventions, he said.

Mr Balakrishnan, Executive Director of Andhra Bank outlined the involvement of Andhra Bank in the financing of SHGs. He stressed on the need for separation of commercial and developmental activities undertaken by a federation, and on the establishment of sound financial and management systems in the organisation.

The chief guest Mr Smarajit Ray, Special Chief Secretary, Government of Andhra Pradesh, provided participants with a historical perspective of the emergence of the SHG movement in the state. He questioned the assumption that federations were inevitable and necessary. He felt that they might indeed be necessary, but only if what they offered fulfilled a felt need.

Ms. CS Ramalakshmi, Commissioner, Women Empowerment and Self Employment (WE&SE) spoke of the strengths of the SHG movement in the state, and hoped that the workshop would critically examine its weaknesses, and the implications of duplication of efforts in the field.

Mr Vijay Kumar, Chief Executive Officer of SERP, hoped that the workshop would address the issues raised effectively, and result in conclusions that all agencies concerned could then consider, in their own work with SHGs and their federations. The inaugural session ended with a vote of thanks by Mr. Vijay Kumar.

3.2. The Sa-Dhan study presentation

Ms Achala Savyasaachi of Sa-Dhan presented the findings of the recent study on SHG federations, initiated by Sa-Dhan, in which 27 SHG federations across the country, at different stages of evolution, were looked at. The



federations were at least 3 years old and had at least 50 SHGs as members. Some of the key findings shared were:

- (i) SHPIs combine financial and social intermediation, initially with more emphasis on the one over the other, and later opting for just the one.
- (ii) Financial intermediation requires strict norms.
- (iii) Focus on social aspects can jeopardise financial discipline and, thus, the entire programme.
- (iv) Success of the federation is dependent on how effectively it serves the purpose central to its members.
- (v) Federations at cluster level evolve organically with some external facilitation.
- (vi) Federations focussing on finance with external locus of control were able to have a large micro-finance coverage. Over time, however, the direct bank linkage with SHGs was on the decline.
- (vii) Federations offering finance plus services with external locus of control had a medium sized micro-finance coverage, often with a 3-tier structure, with the middle and bottom tiers vibrant.
- (viii) Those focussing on finance with internal locus of control had a small micro-finance coverage, with the middle tier not strong.
- (ix) Those offering finance plus services with internal locus of controls had all the tiers vibrant, medium sized micro-finance coverage, with greater focus on social issues. These needed intensive processes for leader/member education.
- (x) Sustainable federations deployed the bulk of their funds in lending operations, had a manageable growth rate, fewer loan amounts at risk, adopted a manageable budget, had sound management information systems.

While 27 federations were studied in all, financial analysis was undertaken for 7.

3.3. The process of formation of SHG federations (the why, what, when, and where of federations, and the role of the SHPI)

Session chair: Ms Vijayalakshmi Das and Mr Sankar Datta

Three presentations were made during the session. The first was by Mr Vengal Reddy, Project Director, Velugu, RR Dt. on Society for Elimination of Rural Poverty (SERP). SERP is a society promoted by the Government of Andhra Pradesh for the elimination of poverty in the state. Through its project Velugu, it helps create self-managed grass roots institutions of the poor and builds capacities of established local institutions to operate in a manner more



inclusive of the poor. The strengths of the project lay in that strong SHGs, Village level Organisations (VOs), and Mandal Samakhya (MSs) that had emerged and people from the area managed these. Continuous capacity building had been built in and banks had been linked effectively to the SHGs. The challenges included rapid upscaling, weak Boards at federations, dependence on the promoter institution.

The second presentation was by Ms Sudha Kothari of Chaitanya, Pune. Chaitanya, an SHPI had promoted the Grameen Mahila Swayamsiddha Sangha (GMSS), for the empowerment of rural women, in a sustainable way, making optimal use of local resources. The GMSS structure has 3383 members from 203 SHGs in 18 clusters with total savings of Rs 1.1 crores. From a 2-tier structure, it had transformed to a 3-tier structure. The structure dealt with savings and credit services for the women, with credit offered as a multiple of the savings of the member. Loans were made available for all purposes. Insurance services were offered through linkages with insurance companies. Non-financial services included legal aid, legal awareness, and organic farming promotion. Chaitanya facilitated the design of systems, procedures, bank linkages and training. A strong cadre of local resource persons has emerged, with a strong mix of financial and non-financial services.

The 3rd presentation was by Mr Sowmithri Sarvodaya Nano Finance Limited, Chennai. SNFL is a tax paying, non-banking finance company (NBFC), which aims at facilitating easy and timely access to credit and other financial services for the rural population, especially poor women and rural artisans, through local Mutual Benefit Trusts (MBTs). Its operations in Tamil Nadu, which began in mid 2001, assisted 34285 borrowers of 2975 SHGs with loans of over Rs 18 crores. While the NBFC itself has 37 staff members, staff employed by the MBTs numbered 191. The groups had savings of Rs 9 crores and interest earned from lending of own funds amounted to over Rs 3 crores.

After the presentations, participants moved into 5 working groups to discuss the process of formation of federations. The focus was on:

- a. Objectives of federations
- b. Agenda of federations
- c. Competing agenda of SHGs and their federations
- d. Process of actual formation of federations
- e. Roles and responsibilities of federations
- f. Management of federations
- g. Role of SHPI and federation.

Groups presented their reports at the plenary, and discussions followed. **Some key points on which there appeared to be some consensus were:**



1. Federations are needed, but ought to be designed carefully. They definitely ought not to do for the SHGs what the SHGs can do for themselves, and ought not to infringe on their autonomy.
2. Federations ought not to have individuals as members. Their main objective should be to protect and promote the interests of member-SHGs.
3. If the SHGs and their federation are to have a life of their own with or without the SHPI, it might be best to wait till each tier in a structure is strong before promoting the next tier.
4. The more distant a tier from the individual members, the less owned it is, unless each tier is dependent for its own survival on the use of and payment for its services by the earlier tier. The numbers of tiers and the level at which the tiers are to be formed depend on the services being offered and local conditions.
5. A federation ought to have its constituents drawn from a contiguous area. Governance and management for a small cluster could be merged.
6. Federations can be useful for strengthening and monitoring of SHGs, for initiation of new SHGs, for helping SHG-bank linkages, for establishment of good MIS, for capacity building in SHGs, for inter-SHG transfers of idle funds, for conflict resolution, for providing market intelligence, etc.
7. Where engaged in social empowerment, they should promote functional literacy; engage on informed advocacy, health and other social issues.
8. The SHPI should facilitate initial mobilisation, vision building, rating, auditing, and capacity building. The SHPI's role must change with growth of the movement in any given area. While initially support for even routine tasks such as conduct of meetings and payment of wages is necessary, once the federations are well established, the role changes to an advisory one.

Issues which were left untouched or unresolved included

1. Whether or not a federation should take up financial and social intermediation
2. How much of a role a federation could have in the promotion of new SHGs, especially when this is at the cost of existing members
3. Whether there was an optimum number of tiers
4. How savings of members could be protected.



3.4. Legal forms for SHG federations

Mr V Nagarajan, Chartered Accountant, New Delhi, presented the legal options available to federations at the time of registration. Federations were being registered as cooperatives under the more liberal laws available in several states, as charitable trusts, as mutual benefit trusts, as societies, as NBFCs in combination with cooperatives, as not-for-profit companies under Section 25 of the Companies Act. In order to ensure maximum flow of resources to rural women, SHPIs needed more understanding of legal aspects.

Even though this session was an optional one, and conducted at the end of a long day, most participants attended it.

3.5. Resource mobilisation and sustainability of federations

Session chair: Mr Vijay Mahajan and Mr Kishan Jindal

The second working session was on resource mobilisation (finance, human, and technology) and sustainability (financial and institutional) of federations. To aid discussion, two presentations were made at the start of the session. The first was by Mr Ramanunni on Kudumbashree in Kerala. With a view to eradicating poverty in some of the less developed areas of the state, the project was started by the state government of Kerala. The basic unit is the neighbourhood group, with women from poor families coming together for self-help, mutual savings and credit, joint planning and implementation of other common interest tasks. These groups (over 60,000) have formed 10,500 area development societies, which have played a key role in the formation and monitoring of over 55,000 micro-enterprises in the state. The Community Development Society is formed as a registered society at the local body level. It prepares the anti-poverty sub-plan for the local government. There are 1048 CDSs.

The second presentation was by Mr Sitaramachandra of NABARD, on the recommendations of the working group on the financing of SHG federations. The Working Group had been formed by the Government of Andhra Pradesh, with NABARD as convenor and bankers, NGOs, Government, and APMAS as members. The report published in May 2003, recommends that the SHG remain the building block, that SHG federations seeking bank linkages be primarily engaged in financial activity, have a 2-year track record of good performance, be registered. Model bylaws have been drafted for these federations, which are to be registered as cooperatives. The State Level Bankers' Committee has already issued guidelines in the matter, and a government order, too, is awaited. At any rate, as all key stakeholders were



involved in the exercise, it is expected that more and more federations which fulfil the recommended requirements (at initial and subsequent stages) will be financed by banks.

After the presentations, participants moved into 4 working groups to discuss resource mobilisation, and sustainability of federations. A fifth group consisting entirely of federation leaders met separately for this session, joining the other participants only at the time of group reporting. The focus of working group discussion was on:

- a. Bookkeeping, accounting and transparency in federations
- b. Monitoring systems required to understand the performance of federations
- c. Accessing by federation of loans and grants from various financial institutions
- d. Steps needed to protect the savings of members and to influence borrower behaviour
- e. Viability and sustainability of federations
- f. Role of federation and SHPI in resource mobilisation and utilisation.

Groups presented their reports at the plenary, and discussions followed.

Some key points on which there appeared to be some consensus were:

1. More funds can lead to financial indiscipline. Therefore, bookkeeping and accounting should be of standard, and responsibility for these should be given to members who are trained well. Accounting and monitoring software may need to be developed for use at various levels.
2. Among the facets to be monitored were loan types, and loan default.
3. Federations could help SHGs in vision building, in performance assessment, in credit planning and resource mapping for SHGs, and in monitoring and supervision of SHGs.
4. Regular internal and external auditing was necessary.
5. General meetings and Board meetings were to be held regularly to review accounts and reports.
6. Members' savings needed to be protected by ensuring that they lay with the groups, that loan eligibility be linked to member savings, that basic records were well maintained, that surplus be allocated and not kept as general reserve.
7. For the viability of federations, financial prudence was recommended, as was fee based service provision, fixing of appropriate interest margin, and the building of a corpus fund.



8. For sustainability, the maximising and deepening of outreach was recommended, as were lower operational costs, regular revisiting and redefinition of objectives, and setting of performance benchmarks.
9. The role of SHPIs in financial aspects could include vision building for federations, resource mobilisation for SHGs, policy framing on savings and credit, formulation of business plans, monitoring, audit, etc. Their role in human resource development could include help in framing of HR policies, and in capacity building at all levels.

Issues which were left untouched or unresolved included

1. What needs to be monitored was touched on but not by whom, when, and why.

3.6. Governance in federations

Session chair: Ms Sudha Kothari, Mr Narender Bedi

The session opened with 3 presentation on the subject of governance (accountability systems, Board, Management) in federations. The first was by Ms Thekkekara on MAVIM. MAVIM was a project of the Government of Maharashtra, which promoted SHGs, which then formed Village Level Committees, as also a Cluster Federation. Around 1.2 lakh women were members of over 10,100 SHGs, which had formed 122 cluster federations. Their savings are around Rs 6.5 crores. Federations have been formed for SHGs within 15-20 km radius. Federations are expected to promote new SHGs, monitor SHG functioning, act as a friendly credit institution, promote enterprises, and implement government programmes.

The second presentation was by Mr Nagendra Acharya, of CARE Orissa. The CASHE (Credit and Savings for Household Enterprises) project of CARE aimed at the creation of sustainable MFIs, quality service provision by these, and the creation of a favourable policy and regulatory environment in which these could flourish. The project worked with 18 SHPIs. Over 2 lakh clients of 15565 SHGs had been reached through the project. Member savings were around 3 million US dollars, and loans outstanding were 4.5 million US dollars. The SHGs had formed 354 clusters or village organisations, and 59 higher-tier federations. The need for appropriate legal entity, of building capacities, good governance, achieving sustainability and of a conducive environment remained key challenges.

The third presentation was by Mr LB Prakash on the work of APMAS in the field of Quality Assessment of SHGs and their federations. The parameters for



quality assessment were first shared, and then the findings from such assessment. APMAS uses the quality assessment intervention not just to provide a rating to interested financial agencies, but to help SHGs and their federations understand and value quality performance and desire to live up to high performance standards. Every assessment also indicates the capacity building needs of the institutions concerned. The assessments have indicated, among other concerns, that rotating leadership results in controls lying with external agencies; that Boards are unaware of their own bylaws and of legal requirements; that staff of federations feel more accountable to the promoter than they do to their own Boards, except where recruitment has been local; that bookkeeping and accounting standards are low; that data gathered through MIS is rarely analysed; that loan default is neither monitored nor managed adequately; and that multiple loans are taken by SHG members, and that leaders tend to corner more of the loans.

After the presentations, because of lack of time, discussions on issues of governance were held in the plenary. The SHG federation leaders, however, met separately and presented their group findings to the other participants. The focus of discussion was on:

- a. The process of framing bylaws
- b. Organisational accountability and accountability of the Board
- c. Statutory requirements and compliance
- d. Skills and discipline required for good governance
- e. Leadership development
- f. Role clarity between the staff of the SHPI and the office bearers of federations.

Some key points raised during discussions at the plenary, and by the SHG federation leaders in their group report were:

1. Boards are not empowered. They are able to perform neither as individuals on the Board, nor as a common Board.
2. Not enough is understood on governance by SHPIs, as the organisations (SHGs and federations) that they are promoting are unlike their own (the SHPIs), with the former being democratically structured, with user-owners needing to control the structure.
3. Accountability of the Board to the members has not been attended to.
4. Budgeting and planning, and subsequent accounting and reporting are necessary, in all, but especially in financial organisations.
5. Functional literacy is needed to perform Board functions.
6. Political interference needs to be managed by the Board.



7. Board members need to know fully their roles and responsibilities. Appropriate training is not being offered.
8. Members need to be taken as staff, so that the skills are developed within the structure.
9. Without regular audit, governance will suffer.

It was felt that not enough justice had been done to this subject, as working groups had not met to discuss the matter in detail.

3.7. The concluding session

At the concluding session, Mr CS Reddy presented a synthesis of the 2 days' proceedings (given as Annexure 2), focussing on such matters as directly touched the emergence and functioning of federations, and drawing attention to issues that had not been dealt with adequately. This synthesis was shared immediately after the workshop with all participants and other invitees and stakeholders. In particular, the presence of women leaders from the federations in Andhra Pradesh was highly appreciated by all.

The presentation was followed by an address by Mr Vijay Kumar, expressing the hope that the workshop would result in clear indicators for the future, on the promotion and strengthening of SHG federations.

4. Learnings and Follow-up

Even though divergent views had been expressed at the workshop, some of the lessons that emerged from the discussions were:

1. SHGs were too small, too scattered for any external agency to be of significant help in their long term sound functioning. Their own federations were best suited to service them.
2. A federation, by definition, was an agent of its members. Therefore, even if it did fulfil some objectives of an SHPI, it needed to do so on its terms, and only where such objectives matched with its own.
3. If an SHPI wished to set up a "federation" to take over its functions, such "federations", too, could be useful. However, the mixing of financial functions and social mobilisation usually resulted in poor financial management.
4. Staff on deputation from SHPIs, or paid for by SHPIs, felt more accountable to the SHPI than to the federation Board.
5. Registration appeared necessary for federations. Boards of federations needed to understand the laws available to them, to choose the law under which their federation was to be registered, and to live up to accountability standards expected of law, and of good governance.



6. Capacity building was required at all levels – at the SHPIs, the federations, and the SHGs, if the structure was to be vibrant.
7. Management information systems needed to be better designed. Even more important, they needed to be in place, in use, with analysis and feedback reaching those who were expected to bring about the actual change.
8. Loans at risk needed to be recognised, assessed correctly, and default managed more effectively.
9. Bookkeeping and accounts at both SHG and federation levels needed significant improvement, and appropriate training needed to be given at all levels.
10. Member savings needed to be protected, and loans needed to be monitored more carefully.
11. The more the numbers of tiers, the more difficult it became to reach sustainability. Federations had to be located as close as possible to the SHGs, for them to be truly member-led, and member-sensitive. Every additional tier had to be thought through carefully.
12. Federations needed to emerge, not to be set up by facilitating agencies.

These and other learnings from the workshop and from various studies and field experiences are being presented by APMAS in the form of a workbook on best practices for the use of federation leaders in the promotion and development of SHG federations. The draft of this document is under discussion at the time of despatching this workshop report, and will be ready for circulation by October 2003, so that federations can be helped to be more sustainable in every way.

