

**APMAS
Mahila Abhivruddhi Society
Andhra Pradesh**

HYDERABAD

**InWent
Internationale Weiterbildung und
Entwicklung eGmbH
(Capacity Building International, Germany)
BERLIN**

**APMAS: Ensuring Quality in Self-Help Banking
An assessment**

**By
Prof. (em.) Dr. Hans Dieter Seibel
seibel@uni-koeln.de**

3 July 2006

Table of Contents

Executive summary	iii
1. The organization, the task and its limitations	
1.1 Presenting APMAS	1
1.2 Request for an assessment and limitations of an impact assessment	5
2. SHGs and SHG federations in India and Andhra Pradesh	
2.1 Microfinance innovations in India: SHG banking	8
2.2 The challenge of sustainability in SHG banking: developing a sustainable system of self-managed cooperative SHG federations	
2.2.1 Federations: an evolving option of sustainable self-help banking	14
2.2.2 Federations nationwide	15
2.2.3 Federations in Andhra Pradesh	16
2.2.4 Types and functions of federations	16
2.2.5 The contradictory role of government in the promotion of federations and the potential role of APMAS	18
3. Accomplishments of APMAS	
3.1 Quality assessment	20
3.2 Quality enhancement	24
3.3 Livelihoods	33
3.4 Research and advocacy (R&A)	35
4. The impact of APMAS: mission initiated	
4.1 The departure point: poor quality of groups at baseline	38
4.2 At the level of assessment instruments: contingent impact	39
4.3 At federation level: (preliminary) conclusive evidence of no impact	42
4.4 At regional level: inconclusive evidence of some impact	44
4.5 Potential future impact: from exclusive to inclusive finance	46
5. Lessons learned, challenges and options	
5.1 The role of APMAS: ensuring quality in self-help banking	47
5.2 Lessons (to be) learned	48
5.3 Challenges in self-help banking	50
5.4 Opportunities and options for APMAS	52
5.5 Remaining issues and suggestions	54
6. Concluding recommendations	57
Annexes:	
1 Organogram	
2 LogFrame and performance indicators (<i>to be revised and updated</i>)	
3 Assessment of federations	
4 Abstracts of studies conducted by APMAS	

EXECUTIVE SUMMARY

APMAS: Ensuring Quality in Self-Help Banking – An Assessment By Prof. (em.) Dr. Hans Dieter Seibel

After five years in existence and at the turning point between two generations of external support, APMAS has requested an assessment of its performance in terms of its own objectives, particularly of its impact on SHGs and SHG federations and on related policies of financial deepening and expansion; and a contribution to a participatory process involving APMAS and key stakeholders in determining its future strategy.”

1. SHG banking in India: the developing world’s largest microfinance program

SHGs and SHG federations in India: Linking banks and self-help groups in India, involving private and public partners, is the largest and fastest-growing microfinance program in the developing world. Within the first ten years of national implementation, 1996-2005, it has reached 2.6m SHGs with bank savings accounts, covering nearly 40m members and a rural population of over 200m. As of 31 March 2005, 1.4m SHGs, with close to 20m members covering 120m family members, had bank loans outstanding amounting to \$935m and approximately the same amount in savings. This is the first time in the history of India that large numbers of the lowest-income groups in rural areas have access to financial services. The movement has now started to expand into urban areas. Yet, their quality and sustainability have been in question. Over the past ten years federations of SHGs have evolved as a self-managed instrument of the SHGs to attain legal status and sustainability. State governments have created a new legal status for financial cooperative federations, *Mutually Aided Cooperative Societies (MACS)* – “based on thrift, self-help and mutual aid and owned, managed and controlled by members for their economic and social betterment”. The total number of federations in India of various legal status is estimated at 66,000.

SHGs and SHG federations in Andhra Pradesh (AP): AP, where the SHG movement started, has served as a model to the nationwide movement. Remarkable progress has been achieved. It is estimated that there are around 600,000 SHGs in AP, 500,000 of them ever credit-linked to banks. At village level, there are approximately 27,000 federations, plus close to 3,000 federations at sub-district, cluster and district level. At each level the federations are owned by the federations at the next-lowest level and run by their representatives: district-level federations by sub-district federations and sub-district federations by village federations. The village federations in turn are owned by the SHGs in a given village and managed by their representatives. The next step in the evolution of a comprehensive state-wide self-help banking sector in AP is now under discussion: the establishment of a state-level federation. Governmental and nongovernmental organizations, in that order, have contributed to the development of the SHGs and their federations. With emergence of federations at various levels, these in turn contribute to the further expansion and development of SHGs and lower-level federations, laying the foundation for an ultimately self-managed and self-promoted sector in which at present GOs and NGOs still play a dominant promotional role. Three important steps have been taken in AP towards to the development of a self-help banking system: (i) building 30,000 federations at village, subdistrict and district level on a foundation of some 600,000 SHGs; (ii) passing the first law in India for *Mutually Aided Cooperative Societies (MACS)* to assure their independence from government interference; (iii) incipient recognition of the federations as intermediaries of support to SHGs.

Challenges: Yet, the overall process of institutional development of a self-help banking sector is still at the beginning. Despite its enormous success, the movement faces tremendous challenges. The two most important ones are expansion of outreach into underserved areas and institutional sustainability. The enforcement of standards through

auditing and supervision will be of crucial importance. It might greatly benefit from the experience of the German Raiffeisen and cooperative movement and its history of association and federation formation, including an array of apex organizations at national and regional level for training & capacity building, liquidity exchange & refinancing, auditing & supervision, and advocacy.

Risks: The government of AP has played a crucial role in the development of SHG banking and SHG federations: through a legal framework for federations (as MACS) and massive support to SHGs and federations. At the same time the good intentions of government are at risk of perverting the autonomy of the supposedly *mutually*, rather than *governmentally*, aided cooperatives by using the federations as lending channels and of interfering in their autonomy. There are two potentially negative aspects of government support to federations and SHGs, which endanger the sustainability prospects of self-help banking. One is the provision of loanable funds, which is at risk of replacing internal savings and bank borrowings. These tend to grow dynamically, while government funds not only fail to grow but invariably stop some day, after having created a culture of dependency and subsidy. The second negative aspect lies in the interference with the groups' and federations' internal loan terms, risk management, profits and growth prospects. There are two conclusions: a radical one, to stop any government intervention including grants and subsidies; and a more conciliatory one, to regulate and supervise federations and, indirectly, government interventions in support of prudentially regulated federations. APMAS may have an important role to play in reorienting the policymakers behind the government projects, moving from the federation establishment phase to the advanced stage of prudential regulation and supervision. Without such reorientation, APMAS's own impact is bound to be limited. Given the fact that federations are promoted in ten states with World Bank support and that state governments are being asked to look at AP as a model state of federation promotion, APMAS may have a very important role to play in the transition to a sustainable system of self-help banking.

2. APMAS, an institution that ensures quality in self-help banking

A support organization of implementing institutions and federations: Andhra Pradesh Mahila Abhivruddhi Society (APMAS), with its head office in Hyderabad, has been registered in 2001 as a non-governmental public society as an institution for strengthening the SHG movement. The 21 members of its board represent government, banks, MFIs, NGOs and SHG federations. APMAS is a support institution aiming to meet the needs of various stakeholders who are involved in the promotion of member-owned and member-managed microfinance institutions. Its main focus is on quality assurance in self-help banking, focusing on rating and on capacity building of federation and project staff. It works in 11 districts and 96 subdistricts of AP and has expanded into five other states. It strives for its own viability by offering its services on a fee-paying basis; about half its resources are derived from fees, the other half from grants.

APMAS has developed instruments of quality assessment and quality enhancement of the federations, which are thereby enabled to provide essential guiding, book-keeping and auditing services to the SHGs. As a support organization APMAS's core business is the building of the capacity of the governmental and nongovernmental implementing institutions to apply the quality assessment and quality enhancement instruments. The overall qualitative and quantitative impact of APMAS is substantial. APMAS has built a reputation as an institution that ensures quality and quality-based progress in self-help banking, and is widely respected as such. The total number of participants directly trained by APMAS up to March 2006 is 31,177, including 2,686 staff members of government institutions; the total number of trainees reached indirectly through institutions and facilitators trained by APMAS is 293,560.

Quality assessment (QA): APMAS has set for itself an ambitious goal: sector-wide use of QA for SMFIs, comprising 600,000 SHGs and 30,000 federations. APMAS has been propagating the importance of rating through its trainings and publicity organs. This has raised the awareness of banks and SHPIs, particularly government agencies. With regard to QA of SHGs, APMAS has participated in the development of a rating instrument by NABARD, the Critical Rating Index (CRI). This has been widely embraced by banks and government institutions. Velugu/IKP reported in September 2004 that 81% of the 450,000 SHGs under its coverage have been rated; and rating of SHGs by banks is widespread, though sometimes undermined under targeting pressure. With regard to federations, which are its main concern, APMAS has developed its own rating instrument, GRADES, together with a rapid assessment tool, RAT. APMAS has rated 333 federations; less than 1000 federations have been rated by partner institutions.

The banks have made little use of the federation rating tools. Financial intermediation through village federations of SHGs was envisaged in AP in 2003; but most of the federations were not registered, and the banks felt that few of them functioned well. Hence further progress has stagnated. Crucial issues are thus registration (as MACS) and quality enhancement as prerequisites of bank linkages. The response of government has been different. Government loans and grants are now generally channelled through the federation system. Eg, the Velugu/IKP project provides grants to the district federations, which in turn lend to lower-level federations all the way down to the SHGs and members as end-users. This would require serious rating and fund allocation based on the results of the rating, the existence of GRADES being well known. However, the government projects are placed under disbursement rather than rating pressure. Thus, APMAS has provided rating tools and training; but they are yet to be used on a broader scale, both by banks and government agencies.

Quality enhancement (QE): Enhancing the quality and sustainability of the SHG movement is the key objective of APMAS. Quality assessment, capacity building and research & advocacy are its key, interrelated, inputs. APMAS reports that capacity building is highly complex and must be process-oriented. To impact the quality of SHGs and federations, the staff of SHPIs has to be trained, exposed to successful promotional processes and provided handholding support. This task becomes more complicated if the dominant SHPI happens to be the Government. To be effective in capacity building, APMAS has placed teams at the field level, with each regional team covering 2-3 districts. In addition to conducting high quality training of trainers, these teams provide on-the-job support and participate in review and planning meetings and in problem-solving processes.

The outreach of APMAS has been expanded to 19 clusters covering 96 subdistricts in 11 districts. Partnership agreements exist with Government of AP (IKP, APUSP and APRLP), NABARD, CARE (CASHE), NGOs and CBOs. Its main partner is the Government of AP through agreements with SERP (Society for Elimination of Rural Poverty) with its Velugu/IKP project. Most of APMAS's staff time is invested in the support of this project. APMAS also supports the Rural Livelihoods Project (APRLP) in the Anathapur region, strengthening 50 village federations as models in APRLP watershed villages. At the state level the APMAS supports APRLP in their staff induction. Another major project that APMAS has started to support is the Andhra Pradesh Urban Services for the Poor Project (APUSP), with the objective of strengthening the SHGs and SHG networks in APUSP towns through building the capacities of the staff and the support structure. As of 2006-07 APMAS will support a new phase: promoting ward and town level federations in three selected towns, as a model for a total of 42 towns in which the project is working.

The quality enhancement initiatives of APMAS focus on facilitating SMFIs to become sustainable member-owned and member-managed institutions. In quantitative terms the accomplishments of APMAS are overwhelming. In five years it trained 31,177 participants directly: its crucial input into the quality enhancement process. Its indirect outreach, through

trainers and staff who had received their training from APMAS is to 293,560 participants. The main focus of the training is on federations: 67.5% of the direct training and 74% of the indirect training. 5,227 people have participated in APMAS' direct training in bookkeeping and financial management; this includes 2,709 participants from NGOs who were trained in accounting and bookkeeping, financial analysis, delinquency management & interest rate setting. The APMAS trainees have in turn trained another 40,450 participants. Another outreach instrument of APMAS is field visits of federations for group or federation maintenance. APMAS reports that in FY 2005-06 its staff paid 1,211 visits to SHGs, 834 visits to village federations, 458 visits to subdistrict federations and 45 visits to district federations, totaling 2,548 visits. APMAS participates in all the monthly meetings of the district and subdistrict level federations in 96 subdistricts.

Livelihoods: Since inception APMAS considered the promotion of livelihoods a critical area in rural development, but decided to focus first on the quality of SHGs and federations as financial institutions as its core competence. In 2004-05 APMAS carried out a study of livelihood promotion, which has laid the foundation for its engagement supported by the Aga Khan Foundation (AKF). Responding to demands by a federations involved in marketing, bulk purchasing, production and processing, APMAS thus expanded its institutional purpose to strengthening *sustainable institutions for sustainable livelihoods*.

In Adilabad and Cuddapah districts multilateral partnerships have been formed with the District Water Management Agency, the AP Academy of Rural Development, the Commissioner of Rural Development, anchoring the District Livelihood Resource Centers on a pilot basis, with the aim of developing them into independent institutions. APMAS also works with the Center for Environmental Concerns to develop innovative approaches in land development through SHGs. With WASSAN and the Indian School of Livelihood Promotion it develops customized training modules.

APMAS has plans for *mainstreaming livelihoods* in its work. While it is tempting to promote federations both as financial and commercial value-adding business organizations, hoping to create a virtuous cycle of viable financial services and viable income-generating activities, the international experience of doing both rather than specializing on one has not been positive, despite all the hype for *Credit-Plus*. APMAS would be well advised to have the feasibility of the two *joint or separate* organizational models carefully analyzed.

Research and Advocacy (R&A): In APMAS's organizational structure research and advocacy are intertwined, with research serving as a tool to identify issues for advocacy. The results of the studies shape APMAS's own work in the field and are disseminated to government officials, NGOs, bankers and other stakeholders. Main instruments of dissemination are publications, a website and the newsletter *Sadhikarata* in Telugu, the state language. APMAS actively participates in policy dialogue organized by other institutions at national and state level.

The research wing of the R&A unit has produced 16 studies on the quality of federations and their impact, SHGs, SHG-bank linkages, defaulting and government interventions like the Community Investment Fund and the Rice Credit Line for Food Security. Most recently, in the context of a publicly discussed *MFI Crisis*, APMAS has carried out a study of MFI lending practices and participated in a policy meeting at RBI. Learning from five years of experience, the unit plans in the future to focus more on short-term action research on relevant topics to influence policymakers and implementing agencies. Dissemination of the results of field experience and structured research is in the hands of a communication wing and resource center in the R&A unit, which produces a broad range of printed research studies, tools and handbooks, videos and e-learning material in English and Telugu.

Advocacy, geared to the enhancement of the sector of self-managed MFIs such as SHGs and their federations, is carried out by APMAS in three ways: through workshops, regular

advocacy discussions, and personal contacts with policy- and decision-makers. Here APMAS faces a major challenge: that the required good practices, propagated by APMAS, of promoting viable and sustainable federations are not backed by policies and the political will to enforce them from the top. During its five years in existence APMAS has focused mainly on practices and tools to be applied at the field level, realizing at the end, through its own impact studies, that it has not been able to effectively contribute to the development of healthy and self-reliant federations and appropriate support practices of government institutions. APMAS's work at the bottom has been important and certainly effective in many small ways, but now needs to be complemented by systematic interventions at the top, ie, the policy level, thus carrying the lessons learned and recommendations *bottom-up* to the top of policymakers and then contributing to their implementation *top-down*. This requires a refocusing of APMAS's advocacy function: contributing to a conducive policy environment for a healthy and self-reliant self-help banking sector in the state, and to the effective adoption, supervision and enforcement of conducive policies at the local level by implementing institutions, particularly government projects and interventions. The refocusing will create the policy environment for an effective engagement of APMAS promoting self-help banking in the field.

3. The impact of APMAS: mission initiated

Impact studies in complex development situations face three interrelated problems: impact requires a vast amount of inputs, many of which are beyond the control of the intervening agency; it may take an extended period of time until all the required inputs are in place and the effects of interventions show; and attribution – discerning between the many intervening forces – may be difficult. APMAS has developed tools of quality assessments and quality enhancement and has trained implementing institutions in their use. In that respect there is impact. But this is not what funding agencies normally accept as impact; they want to see impact on institutions, in our case SHGs and federations, if not on the end-users, or beneficiaries (the poor and the poorest). Their question would be: has APMAS helped building sustainable federations of SHGs, which in turn build viable SHGs, which in turn build sustainable livelihoods of the poor? At least APMAS is intervening at the right level: that of institutions. However, that may not be sufficient if stringent policies and their enforcement are lacking. Building an *inclusive* sector of strong financial institutions with financial services to all segments of the population *including* the lower strata should be seen as an end in itself, regardless of whether there is an immediate impact on development, or poverty, or not. Building financial institutions and comprehensive systems takes a long time. Their existence is a necessary condition for development and poverty alleviation. But it is not sufficient: the markets have to be functioning before financial institutions can show their full impact. Without functioning markets, financial institutions may do some good, securing the livelihood of the poor; but this will not catapult the poor out of poverty and lead to sustainable development. But if the markets are ready and the financial institutions are not there, then the opportunity of sustainable poverty alleviation and development will be wasted. Thus, we have to help build institutions, and do so at low transaction costs – therefore the emphasis of APMAS on self-managed, self-reliant local institutions, to be ready when the markets are.

Poor quality of groups at baseline...: APMAS is probably the most persistent researcher and promoter of emerging federations, based on quantitative and qualitative assessments. The departure point for APMAS's intervention was the poor quality of groups and the recognition that the rapid expansion of the SHG movement had taken place at the expense of quality. Book-keeping was not standardized and in fact frequently hand-made; there were no balance sheets; and there was no mandatory monitoring and auditing of SHGs. APMAS reports that in 2002 it carried out a baseline study in three districts of AP, comprising groups with and without bank linkages as well as dormant groups, and found that less than 20% of the sample SHGs were of good quality. For the state as a whole APMAS estimated that less than one-third of the SHGs were of good quality.

...rapidly improving: Two years later, in 2004, Velugu rated 361,180 SHGs: 86% with an A or B grade, which is close to the results of APMAS's own study during the same year. It is not clear, and would require further study, whether and to what extent these good marks are due to the influence of Velugu and indirectly of APMAS as a trainer of Velugu staff. Such an impact study would have to take into account (a) the varying dates of entry of Velugu, calculating the impact of Velugu per annum; and (b) the data of entry of APMAS as a support organization and the geographically varying intensity of its involvement with Velugu.

At the level of assessment instruments – contingent impact: APMAS decided on a systematic approach of first developing the required tools, then training SHPIs in their use, and finally using these tools in evaluating its own impact. Within a five-year period, the two most important contributions of APMAS in the field of tool development, together with quality enhancement based on their transmission and use, have been a standardized simple accounting system for SHGs which includes a balance sheet, the latter essential for transparency and supervision; and GRADES, a rating instrument for federations, with a customized version for village federations and an abbreviated version, RAT. The impact of the usage of the instruments pertains to several levels, contingent upon their adoption by stakeholders and implementing institutions: the rating of 333 + 297 federations and 1000 SHGs, which has involved the staff of these institutions as participants and initiated spontaneous processes of quality improvement to varying degrees; detailed assessment-based analyses and recommendations for improvement; implementation of recommendations through trainings; adoption of rating instruments by a variety of promoting institutions and projects; refinancing by banks and other institutions (particularly GO) based on results of rating.

The greatest shortcomings, or challenges, lie in the latter: refinancing by banks and other institutions on the basis of the rating results; this is the crucial contingency factor. Apart from a few exceptions the banks still lend directly to SHGs, ignoring federations; while government projects like Velugu/IKP lend through federations, but under disbursement pressure disregard rating. The main challenges to the effective utilization of the federation rating instruments, and thus to the potential impact of AP, are at the level of policy: the political will of NABARD and promoting government agencies in AP to make rating mandatory.

At federation level – no evidence of impact: To study the impact of APMAS on federations, major studies would be required, cross-sectional and longitudinal. Such systematic studies do not exist. We only have a sample study by APMAS of 14 federations, which does not differentiate between areas and federations with and without APMAS intervention. The results are at best indicative, if not anecdotal. Over a one-year period, the ratings went up from 50% to 61%, or from C+ to B in terms of grades. However, this covers a wide range of changes in performance, negative and positive. The most striking finding pertains to type of promoting agency: NGO-promoted federations improved by an average of 18 percentage points, government-promoted federations by a mere 3%. NGO-promoted federations had responded positively to recommendations given by APMAS after the initial assessment and improved in all dimensions of the GRADES scoring system. The most spectacular differences are found in human and financial resources, where NGO-promoted federations improved by 17%, while those promoted by government declined by -3%; and in asset quality, where the former improved by 12% and the latter declined by -12%. If confirmed by representative studies, this finding would present a huge challenge to APMAS, which has worked mainly through government agencies as the main promoters of federations in AP.

At regional level – inconclusive evidence of some impact: In cooperation with Velugu/IKP APMAS proceeded in the Chittur region in three phases. In phase I, starting in December 2001, it took direct responsibility for ten subdistricts, focusing on SHGs in the absence of federations. It provided intensive support to subdistrict coordinators, animators

and SHGs, with hand-holding support and monthly reviews, problem-solving and assistance in setting up accounting systems. In the remaining 44 subdistricts it provided extensive building of the Velugu staff and trained 525 animators. Phase II started in 2003, with a focus on the promotion of SHGs and SHG village federations. APMAS developed a Participatory Training Methodology (PTM) and helped Velugu with staff recruitment, selection and induction and capacity building. One subdistrict, from the poorest area, was selected to be developed as a model, with a view of replicating this in the other areas. APMAS helped setting up a system of SHGs, village federations and subdistrict federations, with savings at group and federation levels, bookkeeping and norm-setting at all three levels, capacity building of federation board members, five-year business planning. In Phase III Velugu/IKP decentralized its approach, regrouped the 44 subdistricts into ten clusters, each under an area coordinator. APMAS focused on one demonstration cluster and provided district level capacity building to the staff of IKP and DLRC. APMAS reports that in phase I it had a direct impact on 10,000 SHGs, and in phase II on 11,430 SHGs and 573 village federations, bringing its total outreach to over 20,000 SHGs and 573 federations in the Chittur region. In terms of impact dimensions, it lists a number of qualitative approach and input variables, which revolve around the establishment of a system of external support. APMAS also gives some quantitative indicators of impact. Repayment rates in bank linkages in APMAS clusters are 98-100%, in other clusters 90-100%. After APMAS intervened in one subdistrict the repayment rate of CIF seed capital increased in 9 months from 3% to 40%. In another subdistrict where banks had lent without any appraisal 34 SHGs defaulted; APMAS formed a recovery team together with project and bank staff, and over a period of 6 months all SHGs started repaying. At the policy level APMAS also initiated a move from equal loan disbursement to differentiated, so-called need-based, lending. There is thus anecdotal evidence of a significant impact of APMAS; but this has not been submitted to any rigorous systematic study. If APMAS wants to have quantitative evidence of its impact on institutional variables of SHGs and federations, it would have to select a number of quantitative indicators such as growth of internal funds and external borrowings, mean loan sizes and periods, and repayment rates. It would then design separate studies of SHGs, village federations and subdistrict federations and compare areas of intensive, extensive and non-existing APMAS support, taking into consideration the number of years of support.

Potential future impact: from exclusive to inclusive finance: In AP the focus in self-help banking is shifting from informal SHGs to federations which are part of the formal financial sector. Federations are being recognized as financial intermediaries for a variety of purposes, and may eventually take over many of the functions of SHGs. APMAS has rightly positioned itself as a support institution focusing on the development of sustainable federations, placing itself at the vanguard of a transition to sustainable self-help banking. It now has to enter into a policy dialogue with NABARD and the Government of AP on the future role of SHGs and federations as part of a self-help banking system; and on the transition from an exclusive poverty lending approach, which is unsustainable in the long run, to inclusive sustainable local financial institutions in rural as well as urban areas.

4. Options and recommendations

Since 2001 APMAS has gained wide recognition in Andhra Pradesh as the prime support institution of implementing agencies, with the objective of ensuring quality in self-help banking, focusing on rating and on capacity building of federation and project staff. In a state with some 600,000 SHGs and 30,000 federations which has served as a model in India, APMAS now faces a number of opportunities and options: promoting federations only vs. building a comprehensive self-help banking sector; focusing on rural areas only vs. expanding into urban areas; focusing on Andhra Pradesh vs. the nation; focusing on financial institution building only vs. an integrated approach including livelihoods promotion. During its five years in existence APMAS has increasingly supported the emergence of a comprehensive self-help banking sector, comprising federations up to state-level. In its

session on 19 April 2006 the Board has therefore tentatively re-examined the role of APMAS as follows:

- APMAS is a support organization (not an MFI) which supports a development process, in AP and beyond, with the objective of contributing to the building of a healthy and sustainable self-help banking sector in both rural and urban areas
- Working with, and mediating between, major implementing stakeholders including GO, NGO and banks, to-date with a major (but not exclusive) focus on government organizations as implementing agencies and coordinators of stakeholders
- Supporting in particular the process of building federations at various levels as viable and sustainable institutions which are vertically interlinked
- Combining the promotion of financial products and institutions with the promotion of livelihoods, thus promoting a virtuous circle of viable microenterprise activities and viable institutions
- Acting as a catalyst in policy advocacy, building an advocacy process, with three major elements: viable and sustainable self-help banking development as a goal; a bottom-up process that is demand-driven by the SHGs and federations, built on a strong presence in the field; combined with a top-level approach addressed to policymakers, utilizing the potential of the APMAS board which represents all major stakeholders
- Taking a long-term perspective of developing a self-reliant system of self-help banking:
 - Supporting the transformation of SHG banking into a comprehensive system of self-help banking
 - Transforming reliance on external support organizations into a self-reliant system, which is self-managed and self-financed
 - Supporting the process of establishing an apex structure as part of the overall self-help banking system, institutionalizing the various support functions of external agencies into apex organizations of the self-help sector itself, including apexes for self-regulation, capacity assessment, capacity building, auditing & supervision, and liquidity exchange & refinancing.

Yet, whatever APMAS ultimately decides in terms of future strategy, a number of fundamental challenges remain, which have undermined the effectiveness of the federations, the government projects and APMAS's impact:

- The vast majority of federations are not registered as MACS.
- Therefore banks have continued lending to SHGs, bypassing SHG federations.
- Government projects have used the federations as channels for targeted subsidized lending with little regard for quality.
- This has led to government interference which has undermined the autonomy of federations and SHGs and disrupted the credit culture.
- There is an overall lack of standards and enforcement of prudential practices in federations and projects.
- All this has resulted in a lack of quality, self-reliance and sustainability of the emerging self-help banking sector.

The core problem is a lack of prudential regulation and effective supervision in self-help banking. I therefore recommend to APMAS to expand and refocus its purpose to policy advocacy with a focus on regulation and supervision, along the following lines:

- Supporting the building of a self-reliant sustainable self-help banking sector of SHGs and federations, with a major emphasis on prudential regulation and effective supervision on the basis of the MACS law
- Enforcing the registration of federations under the MACS law and their rating as prerequisites of external support

- Submitting governmental and nongovernmental promoting agencies to strict observation of prudential standards
- Continuing its support to quality assessment and quality enhancement of promoting and implementing institutions
- Carrying out a feasibility study in cooperation with major stakeholders to work out a master plan of building a comprehensive sustainable self-help banking sector with its own apex structure
- Continuing the ongoing expansion of outreach to rural and urban areas, women and men, marginal as well as high-potential areas, the poor and poorest and the non-poor
- Spinning off capacity building support for the commercial activities of federations such as bulk purchasing, production, value-addition and marketing as well as microenterprise development of SHG members to a separate organization
- Cooperating with an experienced external agency, such as the German Raiffeisen and Cooperative Confederation (DGRV).

1. The organization, the task and its limitations

1.1 Presenting APMAS

Origin and legal status

Andhra Pradesh Mahila Abhivruddhi Society (APMAS), with its head office in Hyderabad, Andhra Pradesh (AP), was formed in 2001 as an institution for strengthening the SHG movement, with active support from Government, Banks, NGOs and Community Based Organizations (CBOs).¹ A major emphasis has been placed on capacity building of SERP/Velugu/IKP² in 11 districts, a large and comprehensive government project in support of the SHG movement in all 22 districts of AP, with funding from the World Bank since 2002, with an outreach in 2004 to 444,530 SHGs. As the government in AP decided to expand the SHG movement into urban areas, APMAS has also included AP Urban Services for the Poor (APUSP) in its capacity building program, a project funded by DFID, supporting the promotion of SHG federations in three towns out of 42 where APUSP is currently active.

APMAS has been registered in 2001 as a non-governmental public society (# 3800/2001) and subsequently under FCRA³. The Board has a total strength of 21 members representing government, banks, MFIs, NGOs and SHG federations. APMAS became fully operational on 1 July 2001 under the chairmanship of Dr. P. Kotaiah, former Chairman of NABARD, and Mr. C.S. Reddy as the founding CEO, former director of CARE Andhra Pradesh.

Objectives

APMAS works for poverty reduction by supporting people's organizations through quality assessment (or rating), capacity building, livelihood promotion and research & advocacy. It provides its services to self-managed financial institutions (SMFIs), self-help promoting institutions (SHPIs), government agencies and civil society organizations. APMAS is a support institution aiming to meet the needs of various stakeholders who are involved in the promotion of member-owned and member-managed microfinance institutions. It works in 11 districts and 96 subdistricts in AP, with an emphasis on building 19 resource clusters, has expanded into five other states and considers to further expand its services with a potentially nationwide outreach. It strives for its own viability by offering its services on a fee-paying basis. Presently about half its resources are derived from fees, the other half from grants. APMAS has defined its vision and purpose as follows:

Vision: Emergence of high quality and financially viable, member-managed & member-owned savings and credit institutions (SMFIs⁴) of women

Purpose : To enhance the self-management of SMFIs to provide responsive services to their members on a sustainable basis

The **core business** of APMAS comprises (see box 1):

- the assessment (rating) of over 300 SHG federations/MACS
- capacity building of SHG federations as financial intermediaries
- indirectly the assessment and enhancement of SHGs

¹ This was based on a study by Basix, Care and Mahila Vikasa in 1998-89, which recommended to enhance the capacities of self-help promoting institutions as a prerequisite of building a strong SHG sector in the state.

² The Society for Elimination of Rural Poverty (SERP) is the implementation agency of the Velugu project, recently renamed Indira Kranthi Patham (IKP).

³ Foreign Contribution Regulation Act, 1976

⁴ SMFIs = Self-managed microfinance institutions, such as SHGs, SHG federations at various levels and other forms of member-owned and -managed savings and credit associations.

- capacity building of governmental and non-governmental self-help promoting institutions (SHPIs)
- livelihood promotion
- research, advocacy and policy dialogue.

Box 1: Services provided by APMAS

Quality Assessment(QA) – Rating: Working towards Sector Wide Use of Quality Assessment Processes for SMFIs, APMAS has developed a quality assessment system, GRADES, Rapid Assessment tool for SMFIs, CoopRATE for thrift and credit cooperatives, and Self Assessment Tool for SMFIs. The services provided under QA are

- a) Assessment of SMFIs, MACS, SHGs, VO, CBOs.
- b) ToT on Rapid Assessment Tool/GRADES
- c) Training on Financial Management, Accounting and Book keeping, Delinquency Management and Interest Rate Setting.

Quality Enhancement: APMAS provides capacity building services to enhance the quality of the SHGs and SHG federations. The capacity building inputs includes mentoring, on the job support, field visits to give feed back to field level staff and to the senior project officials. APMAS is specialized in conducting trainings using participatory methodologies. APMAS provides PTM trainings, SHGs promotion, Federation promotion, VO and MS book keeping trainings, training on MACS act, trainings for MACS office bearers, vision building, MIS and PTM on SHG federations. APMAS also involved in designing of MIS, book keeping for client specific models and innovations.

Livelihoods: APMAS has been an outreach partner of Aga Khan Foundation (AKF) for Sustainable Community-based Approaches to Livelihoods Enhancement (SCALE) since April 2004. This year APMAS has partnered with CRD, DWMA , APARD for anchoring the district livelihood resource centers in Aliabad and Cuddapah. APMAS is promoting good practices in livelihood promotion through the following services:

- a) Documentation of good practices through studies, workshops and action research
- b) Model building in DLRCs and livelihood clusters
- c) Piloting
- d) Trainings and mentoring support to LPOs
- e) Training material development for livelihood promotion

Research & Advocacy is a strategic component of APMAS. Under this component APMAS tries to promote convergence, best practice dissemination, advocacy events at national, state and districts level in Andhra Pradesh, conducting research studies on various aspects in the sector.

The services provided under this component are

- a) Research studies on SHGs and SHG federations.
- b) Research studies on livelihoods
- c) Exposure visits to AP microfinance models

Donor support:

DFID has been supporting APMAS for five years, 2001–2007, through Credit and Savings for Household Enterprise (CASHE) Project implemented by CARE India. APMAS signed an MoU with CARE India in October 2001 for funding support for five years. Aga Khan Foundation and Ford Foundation also provide funding support. APMAS is now entering into a Public Private Partnership (PPP) with InWEnt – Internationale Weiterbildung und Entwicklung (Capacity Building International, Germany), possibly in cooperation with the German Cooperative and Raiffeisen Associations (DGRV), with the objective of building the capacity of APMAS and cooperating institutions involved in the promotion of self-help banking.

An overview of the role and activities of APMAS

Over the past four years, APMAS has established its pivotal role in the SHG microfinance sector in AP, recognized by both the government and by non-governmental organizations as a promoter of a system of healthy SHG federations. Under a strong board and CEO and with highly motivated staff APMAS has been able to tangibly strive towards the vision and purpose of the institution. During the process APMAS has built strategic relationships and accessed expertise from national level agencies. APMAS also developed strong partnership with the Department of Women Empowerment & Self Employment, SERP, APRLP, APUSP, PRIA, NABARD, Andhra Bank and other state level institutions. Key events in the evolution of its capacity building activities are given in the box below.

APMAS has created phenomenal goodwill for itself within the government, with banks and other micro finance institutions and NGOs. The primary stakeholders are able to identify APMAS as the institution which facilitates their capacity building. Based on a midterm review after 18 months, undertaken by DFID appointed consultants and in response to changes in the external environment, APMAS has evolved its strategy to respond to the demanding needs in the sector. As a part of its new strategy APMAS expanded its operations to 96 subdistricts (mandals) in 12 districts in partnership with SERP, with a major focus on capacity building of implementing institutions.

Box 2: Key events in the evolution of CB activities by APMAS	
2000	Preliminary study of SHGs by BASIX with support from GoAP and DFID identifying the need for massive capacity building
July 2001	Start of APMAS operations
Dec. 2001	APMAS baseline study of SHGs in 3 districts revealing poor quality of SHGs
Jan. 2002	APMAS requested by GoAP to support three DRDAs in developing a CB strategy; MoU with 3 DRDAs (Adilabad, Cuddapah and Prakasham Districts)
2002	Start of training programs for DRDA staff
	Support to introduction of animator system; training of DRDA & NGO staff
	NGO staff in 3 districts trained in group formation and book keeping system
June 2002	Velugu/IKP expanded to all districts
	Support to IKP in staff recruitment and induction
2003	Expansion of APMAS into newer districts
	Capacity Building of IKP staff
	Publications and manuals on federations and federation CB
2004	Start of affiliate system (training private capacity building service providers)
	Conducting training programs for APUSP
	Development of book keeping system for APUSP
	Plan for the development of model subdistricts (mandals)
	Development and publication of PTM training module
2005	Visioning exercise for 6 subdistrict federations
	Agreement with SERP for providing intensive support to 19 clusters in 11 districts
	Initiation of national training on SHG federations
	Start of support to SHGs, SHG federations and their staff
	Support in development of module on Microcredit Plan
March 2006	Development of CRP and MS Operational Manual
April 2006	MoU with APUSP on supporting the promotion of federations in urban areas

APMAS has developed a variety of tools to take up quality assessment (rating), capacity building and livelihood services. During the process APMAS has built the capacities of over 30,000 participants on different contents related to self-help banking; these in turn have trained another 300,000 participants. The CB teams both at head office and regional offices are in the process of providing other CB services like mentoring, handholding support, exposure visits, quality assurance for CB and vision building for strengthening of SHPIs and CBOs. The quality assessment team has conducted quality assessments of 333 SHG

federations/ MACSs promoted by various organizations like SERP, DRDA, NGOs, CARE and FWWB. Ratings have also been undertaken in the states of Orissa, Tamil Nadu and Maharashtra. The quality assessment team developed various tools to perform assessments based on the emerging needs of the sector. Focusing on the institutional and financial performance of the SMFIs, APMAS conducted various flagship programs on financial management, accounting and bookkeeping, delinquency management and interest rate setting, and promotion of SHG federations.

In collaboration with Aga Khan Foundation (AKF), APMAS is positioning itself as a promoting institution in the area of sustainable livelihoods, particularly in marginal and semi-arid areas of the AP. Its livelihood team conducted a research study on AP livelihoods. The study identified the areas and the role for APMAS and other actors in strengthening livelihood initiatives in the semi-arid areas of AP. In addition to the livelihoods study, several state and district level workshops were facilitated by APMAS. The forums were used to discuss issues of promoting livelihoods and disseminating good practices in livelihoods promotion and strategy building. In collaboration with the Commissioner of Rural Development (CRD) and other key players APMAS facilitated an NGO empanelling for watershed in 12 districts. APMAS is providing support to CRD in piloting and operationalizing District Livelihood Resource Centers (DLRC) in two districts to offering demand driven capacity building services to the watershed implementing agencies operating in the respective districts.

The Research & Advocacy team conducted studies on critical issues and disseminates the findings through publications, workshops and seminars, thereby creating a base for informed advocacy. APMAS has published technical and livelihood information series for providing conceptual clarity on issues related to the microfinance sector. Documents, videocassettes and CDs, relevant to the microfinance sector, which highlight successful methodologies. Along with publications, APMAS circulates a monthly Telugu newsletter, Mahila Sadhikaratha, across the state, which provides information on women empowerment, quality enhancement of SMFIs and livelihoods. APMAS facilitated state and national level events by involving various stakeholders of the development field in AP and other states. It has been providing continual strategic support to SERP, CRD, other state government and national-level institutions in policy design and promotion. To increase its outreach, APMAS has selected several affiliates and trained them to provide capacity building services to CBOs and SMFIs.

Towards achieving organizational excellence through human resources, APMAS has developed individual staff development plans including in-house technical and behavioral trainings, exposure visits and sponsored programs. Each staff member is enrolled in about four to five programs per year. APMAS has also introduced a peer mentoring system to help the staff achieve their personal development plans.

1.2 Request for an assessment and limitations of an impact assessment

Terms of reference

After five years in existence and at the turning point of a first and second generation of external support, APMAS has approached this consultant⁵ for an assessment of its performance and impact and a proposal for its future strategy, originally in cooperation with a national consultant and a team of 3-4 APMAS senior staff members. In response, I summarized the more elaborate terms of reference:

“In a nutshell, the consultants are expected:

- (a) to present an assessment of APMAS in terms of its own objectives, particularly of its impact on SHGs and SHG federations and on related state-level and national policies of financial deepening and expansion (including semi-arid areas);
- (b) to contribute to a participatory process involving APMAS and key stakeholders in determining its future strategy.”

I estimated that an assessment would require “an initial stay in India of anything between 20 and 30 days” (Email correspondence, 30 January 2006); a deeper scholarly study would be out of the question. The actual stay in Andhra Pradesh was reduced to ten days during April 10-19, 2006, with a tightly packed schedule organized by APMAS, comprising five days in Hyderabad and five days in the field. This was followed by two days in Delhi, together with the CEO, on behalf of Inwent, on April 20-21.

In search for truth in impact

Impact is an elusive phenomenon. Dale Adams, the grand old man of agricultural finance (*Undermining Rural Development with Cheap Credit*, 1984) discards the search for truth in impact by summarily referring to “silly impact studies.” With more solid evidence supplied, Richard Rosenberg, author of a CGAP peer review of the UNDP microfinance portfolio, notes that, “It is notoriously difficult and expensive to quantify household benefits resulting from financial services and to demonstrate causality, so it is not practical for most projects to produce such impact studies.” Impact studies also bear a great risk, as evidenced by the results of the CGAP peer review of UNDP’s projects: out of 66 graded projects, 14 projects (21%) were rated ‘Good’ and 28 projects (42%) ‘Unacceptable’.⁶ When I joined IFAD as rural finance adviser, I was asked to first review its rural finance portfolio, then prepare a draft rural finance policy. I did the latter (approved by the Board in May 2000) but declined on the former, arguing that IFAD would greatly diminish its prospects at replenishment (pending at the time), if the review was to find out what demonstrable impact its rural finance projects had. Am I capitulating in the face of insurmountable methodological problems, or trying to avoid transparency and truth?

Impact studies in highly complex development situations face three interrelated problems or challenges: one is that impact requires a vast amount of inputs, many of which are completely beyond the control of the intervening agency. The second is the time perspective – it may take a considerable period of time until the effects of (hopefully coordinated) interventions show. The third is that of attribution: how could we discern between the many intervening forces? An organization has to be brave to voluntarily ask for an impact assessment. In the case of APMAS, in existence for five years and actively involved for about three, it is audacious. However, if we assume that this includes a search for factors

⁵ Originally this was meant to be a joint assessment by an international and a national consultant, aided by a team of four staff members of APMAS.

⁶ Quoted in: Tom Dichter, Hype and Hope: The Worrisome State of the Microcredit Movement. http://www.microlinks.org/file_download.php/Hype+and+Hope.pdf?URL_ID=11229&filename=11480708011Hype_and_Hope.pdf&filetype=application%2Fpdf&filesize=62115&name=Hype+and+Hope.pdf&location=user-S/

precluding effective impact, then this assessment may come up with directions for future strategies for APMAS and the State of Andhra Pradesh.

There are two deeper reasons why I objected against an impact study of APMAS. The first one lies in the organization's indirect involvement. As a support organization, rather than implementing agency, APMAS builds the capacity of self-help promoting institutions (SHPIs), which in turn are expected to build the capacity of federations and SHGs. Whether the SHPIs implement what they have been taught is beyond the control of APMAS, and a good deal may in fact be beyond their control, particularly in the case of APMAS's main partners, government organizations, which operate under political constraints. Indeed we will see that under disbursement pressures there is little scope for implementing the good practices conveyed by APMAS. This will carry us to a different **conclusion**:

- the lack of impact at the policy level; and
- the resulting need for a much-strengthened advocacy function to intervene at the policy level and build the capacity of policymakers, namely their capacity to build a sustainable *system* of self-help banking.

APMAS has developed tools of quality assessments and quality enhancement, or capacity building, and has trained people in implementing institutions in their use. In that respect there is impact. But this is not what funding agencies normally accept as impact; they want to see impact on institutions, in our case SHGs and federations, if not on the end-users, or beneficiaries (the poor and the poorest). Their question would be: has APMAS helped building sustainable federations of SHGs, which in turn build sustainable SHGs, which in turn build sustainable livelihoods of the poor? At least APMAS is intervening at the right level: that of institutions. However, while it is necessary to intervene at that level, it is not sufficient. What is lacking is the policy level.

This takes us to the second, the root cause of objection against premature impact studies that emphasize end-user benefits as the yardstick (*cutting poverty into half by the year 2015*). Building an *inclusive* sector of strong financial institutions with financial services to all segments of the population *including* the lower strata should be seen as an end in itself, regardless of whether there is an immediate impact on development, or poverty, or not. Building financial institutions and comprehensive systems takes a long time. Their existence is a necessary condition for development and poverty alleviation. But it is not sufficient: the markets have to be functioning before financial institutions can show their full impact. Without functioning markets, financial institutions may do some good, securing the livelihood of the poor; but this will not catapult the poor (*the woman with the cow financed through microcredit*) out of poverty and lead to sustainable development. But if the markets are ready and the financial institutions are not there, then the opportunity of sustainable poverty alleviation and development will be wasted. Thus, we have to help build institutions, and do so at low transaction costs – therefore the emphasis on self-managed, self-reliant local institutions! – to be ready when the markets are.

AMPAS has drawn a courageous conclusion from this recognition. Instead of passively waiting until the markets are ready, it has expanded its agenda to encompass interventions in the real sector: promoting federations in production, processing, bulk-purchasing and supply, value-addition, and marketing. APMAS certainly has a sharp diagnostic eye, recognizing the shortcomings of the sector and of the interventions of its partner organizations. In various instances it has shown a tendency of taking responsibility for remedial action as if it were an implementing institution. But it cannot do all and everything, despite the many requests from the field (eg, to intervene in such fields as health or education). So where shall it place its emphasis, where would it be most effective in terms of impact on the emergence of a sustainable self-help banking sector?

The answers are not going to be given by this consultant. APMAS has excellent staff, a powerful board and strongly committed stakeholder-partners. They will have to decide on the answer in a participatory process⁷. Hopefully, this consultant, together with staff from DGRV and INWENT, will have given some inputs into this process: with a critical look at the joint venture of APMAS with its governmental and non-governmental partners, and an analysis of the opportunities and options of both the self-help movement and APMAS as a support organization. In the eyes of this consultant, the overall conclusion emerging from this assessment is clear, turning up time and again in various parts of the paper, eg, in part (1) of chapter 4.4 on opportunities and options. If this would be adopted, the next step would be:

- Generating the political will in APMAS and the State of Andhra Pradesh of going beyond quality assessment and quality enhancement, moving forward into the development of self-help banking as a system, at the same time a prerequisite of truly effective quality assessment and quality enhancement.

Hopefully, DGRV and INWENT will have the opportunity of being long-term partners of APMAS in building this system.

⁷ This process should not be left to brainstorming, but be moderated by a professional moderator.

2. SHGs and SHG Federations in India and Andhra Pradesh

The objective of APMAS is to contribute to the building of a sustainable self-help banking sector India, placing its own main capacity building focus on federations of SHGs, starting in Andhra Pradesh. The task that APMAS has set for itself can only be fully appreciated if seen in relationship to the volume and quality of SHG banking in India and, more narrowly, in Andhra Pradesh. In this chapter we first present the evolution of SHG banking in India, in which this consultant has been involved since the mid-1980s, and then the experience of SHG federations as an institutional innovation towards sustainability – with particular emphasis on Andhra Pradesh, which has been at the vanguard of the SHG movement in India.

2.1 Microfinance innovations in India: SHG banking

In search of a new development finance paradigm

In India the slow pace of rural development has been attributed, since the 1950s, to a lack of production assets and credit. The Government of India took major policy measures: the nationalization of private banks in 1969, the expansion of their rural branch network, priority sector lending and the introduction of Regional Rural Banks in 1975, plus large amounts of donor funding, substantially increased outreach to better-off farmers. Yet, all this failed to reach the vast numbers of landless people, agricultural laborers, illiterate women and microentrepreneurs, as substantiated by a survey of the Reserve Bank of India (RBI) in 1981. Subsidized credit directed by government agencies had in fact undermined rural finance and development. In the search for a new paradigm in development finance, 1983 was a turning year. A new paradigm evolved, focussed on bringing together governmental and private agencies, adopting a savings-led approach, and searching for grassroots organizations as financial intermediaries such as self-help groups (SHGs).

Linking formal and informal finance, or banks and self-help groups: a financial innovation

In this climate of a paradigm change in rural finance, the newly established National Bank for Agriculture and Rural Development (NABARD) and some leading NGOs in India experimented with *credit management groups*, a pre-cursor to savings-based SHGs. At the same time GTZ developed the concept of *linking banks and SHGs*. The decisive event which brought the linkage approach to the attention of policymakers and banks in Asia including India was the APRACA regional workshop in Nanjing, China, in May 1986. The linkage approach was subsequently adopted by APRACA as its priority program and supported by a GTZ regional project⁸, followed by several bilateral projects including Indonesia and India. Key elements were: building on the existing formal and nonformal financial infrastructure comprising banks as formal and SHGs as informal financial intermediaries; savings-based credit linkages with banks; facilitation by self-help promoting institutions (SHPIs) including NGOs and MFIs; flexible models of cooperation between SHGs, NGOs and banks (public and private) as business partners, each with its own existing resources and autonomy in terms of interest rates and financial conditions.

SHG banking in India: from pilot project to national program

Inspired by the APRACA-GTZ regional project and the bilateral project in Indonesia, NABARD carried out its own pilot project, 1992-96. On that basis of an assessment, NABARD initiated mainstreaming of SHG banking, setting up a Credit and Financial Services Fund in 1996 for extensive capacity-building and a Micro Credit Innovations Department (MCID) in 1998, with MCI cells in every state. The number of SHGs credit-linked to banks

⁸ The main proponents of the linkage banking approach were E. Kropp (GTZ), B. Quinones (APRACA) and H.D. Seibel (University of Cologne).

grew to 33,000 in 1999 and 115,000 in 2000 and during the following years surged to 1.6 million as of March 2005, surpassing the goal of one million SHGs originally set for 2008.

Box 3: Origins of SHG Banking in India

In 1981 the Reserve Bank of India (RBI) carried out the All-India Debt and Investment Survey, published in 1983. After years of massive branch expansion, policies of directing credit to the rural areas, massive self-employment programs, and large numbers of donor credit lines – among them over \$1 billion from the World Bank with the requirement that at least 60% went to small farmers –, a total of 14 million small loans had been provided by banks, yet some 250 million of the rural poor had no access to formal finance, and 39% of rural indebtedness stemmed from informal sources. This led NABARD to start its own research, including an action research project with NGOs on what was called at the time *credit management groups*. One of the startling conclusions was that programs with the poor have to be savings-led and not credit-driven; and that the poor have to have a say in their design.

Around the middle of the 1980s, in India as in the international development community, there were thus notable beginnings of a paradigm change in rural finance. This was preceded in India as in many other countries by the promotion of self-help groups by NGOs during the 1970s as an alternative to development banking and directed credit, which had failed to live up to the expectations of their promoters. The emerging paradigm had two major aspects: financially, bringing together savings and credit as the two sides of any dynamic financial intermediation process; organizationally, bringing together government agencies, including government banks, with the private sector, particularly NGOs as facilitators and SHGs as grassroots organizations. In that way, the ground was prepared for a major rural finance innovation in which self-help groups would first mobilize their own resources through equity contributions and savings, transform these funds into loans to their members at self-determined terms and conditions and then, on the basis of their track record, get access to banks or other financial institutions, particularly for credit but also for other financial services including deposits. This new paradigm was presented in 1986 by GTZ at a workshop in Nanjing by the Asian Pacific Regional Agricultural Credit Association (APRACA) and culminated in a regional program of *Linking Banks and Self-Help Groups*. In NABARD's view, this had a trigger effect on the adoption of *SHG Banking* in India.

In cooperation with NGOs, NABARD organized a study of SHGs. Almost all the groups were of recent origin, emphasized self-help, were largely homogeneous in terms of caste and activity, built a common fund from very small regular savings and interest income, and lent to their members for periods of 1-3 months at 2-3% interest per month. Recovery of these loans was excellent, and an impact, however small, was felt, reaching from emergency assistance to release from bonded labor. Access to formal credit was virtually nonexistent. NGOs reportedly had "played a commendable role in organising the rural poor into self-help groups and thereafter promoting their proper functioning." The team thought it "desirable to consider development of flexible models of linkages"⁹.

Reviewing the situation of rural finance in India again in 1989, it was observed that most of the 196 Regional Rural Banks (RRBs) were loss-making and did not present a viable solution. This led to a discussion in parliament about the feasibility of a Grameen Bank, following the model of Bangladesh, as a new national banking structure. On the basis of its own studies, NABARD instead argued for a different approach with the following elements: using the existing infrastructure of banks and social organizations; it should be savings- rather than credit-led; and using bank rather than donor resources in the provision of credit.

Between 1989 and 1991, NABARD entered into a policy dialogue with the Reserve Bank of India (RBI) to make preparations for a pilot project linking informal groups to banks.¹⁰ On 24 July 1991 RBI issued a circular to commercial banks recommending to actively participate in the pilot project, refinanced by NABARD, linking SHGs with banks. The groups may be registered or unregistered, have 10-20 members, and should have actively promoted savings for at least six months. On 26 February 1992, the start of the pilot project was officially announced. Given its overwhelming success stated at a mid-term review in 1994, nation-wide implementation started in 1996.¹¹

⁹ NABARD, Studies on Self-Help Groups of the Rural Poor. 1989: 53-58

¹⁰ NABARD, Annual Report 1990-91, chapter on: *Credit Needs of the Rural Poor – Role of Self Help Groups and their Linkages with Formal Credit Institutions*.

¹¹ H. D. Seibel, The Evolution of SHG Banking in India. WP 2005-9, www.uni-koeln.de/ew-fak/ae/f/.

The developing world's largest and fastest-growing microfinance program

Linking banks and self-help groups in India, involving private and public partners, is the largest and fastest-growing microfinance program in the developing world. Within ten years of national implementation, 1996-2005, it has reached vast numbers of savings-based self-help groups, formed mostly from the lowest strata of the rural population (*March 2005 data, GTZ 2006-4*):

- 2.6m SHGs with bank savings accounts
- 1.4m SHGs with bank loans outstanding
- 2.0m SHGs credit-linked to banks (*cumulative figure; the GTZ figure inexplicably differs from that reported in NABARD statistics as in the table below*)
- 0.4m SHGs with repeat loans.

The 2.6m SHGs with bank savings accounts have nearly 40m members, covering a rural population of over 200m. The 1.4m SHGs with bank loans outstanding have close to 20m members and cover a rural population of 120m. The SHGs have deposited or received, respectively, the following funds (in US\$):

Savings deposit balances	\$531m
Bank loans outstanding	\$935m
Cumulative bank loans	\$1,588m
Repeat loans	\$348m

Bankers have increasingly gained confidence in SHG banking as a market segment and an important source of profit, given their excellent repayment performance. Thus they have substantially stepped up their own resources as source of funds, self-financing the growth of outreach. The share of NABARD's refinancing of the banks has thus dropped from 91% in 1999 to 83% in 2001, 69% in 2003 and 45% in 2005.

Table 1: Mainstreaming SHG banking in India, 1996-2005 (as of March, end of fiscal year)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
SHGs credit-linked ¹²	4,757			32,995	114,775	263,825	461,478	717,360	1,079,091	1,618,456*
% women's groups	74			84	85	90	90	90	90	90
Members in millions	0.08			0.56	1.9	4.5	7.8	11.6	16.7	24
Banks	95			202	266	314	444	505	560	560
Banking units							17,085	30,942	35,294	41,630
SHPI partners	127				718	1,030	2,155	2,800	3,024	3,024
Bank loans disbursed (Rs bn) ¹³				0.57	1.93	4.81	10.26	20.49	39.04	69.0
NABARD refinance to banks (Rs billion)				0.52	1.50	4.01	7.97	14.19	21.25	30.9

Source: MCID, NABARD

*Differs from the figures of 2.0m SHGs reported by GTZ.

Remarkable is the amount of bank savings, which are generally not compulsory, comprising 57% of bank loans outstanding. No overall information is available on the amounts of internal savings in the groups, comprised mainly of initial (equity) savings, regular savings and profits. These may be substantial, as evidence from a small sample study seems to indicate, with loans to members from internal resources exceeding the volume of bank loans

¹² Cumulative data; there is no information on groups that may have dropped out of credit linkages, either because of self-reliance on their own resources or because of dissolution.

¹³ No information is available on the amount of loans outstanding. There is also no information on average loans to members, which are financed from own SHG resources and bank loans. In a small sample study in 2004, SHGs with an average age between three and four years had an average portfolio of loans outstanding to members of Rs 100,800, 53% of which was financed from internal resources and 47% from bank resources. Two thirds (64%) of the internal resources were generated from savings and one-third (36%) from retained earnings. (S. Karduck & H. D. Seibel, Transaction Costs of Self-Help Groups in NABARD's SHG-Bank Linkage Programme: a Study in Karnataka State. NABARD & GTZ, 2004)

outstanding.¹⁴ If this is of general validity, then the total amount of SHG resources may exceed the volume of bank loans outstanding. There is no overall information available on other sources of loanable funds (eg, from government projects).

GTZ¹⁵, using data provided by NABARD, also reports that 41,630 banking units have been involved in lending to SHGs: 53% public sector commercial banks, 28% Regional Rural Banks and 19% cooperative credit institutions (banks and PACS). Overall repayment performance is excellent, with a ratio of non-performing assets (NPA, overdue >3 months) in the SHG portfolio of <2%. Commercial banks perform best at 0.9%, compared to 2.3% among the Regional Rural Banks and 2.1% among the cooperative credit institutions.

SHG Banking in Andhra Pradesh

Andhra Pradesh, as of March 2005 (*using NABARD data*), accounted for 30% cumulative number of groups and 18% of the volume of bank refinance to SHGs. According to the NABARD office in Hyderabad the AP State Level Bankers Committee estimates that as of 31 January 2006 there were 456,000 SHGs in AP with bank loans outstanding. The total number of SHGs in AP promoted by government and NGOs, including those with bank savings accounts but no bank loans, is estimated at around 600,000. For March 2005 APMAS reports a total figure of 549,000 SHGs in AP, of which 492,900 have been linked to banks under the SHG Banking program. Bank loans to SHGs in FY 2004-05 amounted to Rs 12,384.2m or \$282.81m.

Table 2: SHG Banking in India and Andhra Pradesh, 2001/02-2005/06:
Cumulative and annual no. of SHGs credit-linked to banks and amount of bank loans to SHGs*

Year	India (NABARD data)		Andhra Pradesh		
	SHGs (cum.)	Million US\$	SHGs (p.a.)**	SHGs (cum.)	Million US\$
2001-02	461,478	209.92	117,352		54.63
2002-03	717,360	429.95	165,429	281,338	95.31
2003-04	1,079,091	884.76	231,336	385,576	170.65
2004-05	1,618,456	1575.36	289,238	492,927	282.81
2005-06	2,000,000		324,311	587,238	

*Exchange rates as of end of each fiscal year, 31 March

**New and repeat linkages

The enormous growth in outreach has been made possible by drawing on a wide array of institutional resources as India's *social capital*: the National Bank for Agriculture and Rural Development (Nabard) as the prime mover and refinancing agency; some 42,000 commercial and regional rural bank branches as well as savings and credit cooperatives providing deposit services and credit; some 3,100 governmental and non-governmental agencies with experience in group development as facilitators of previously existing or newly established SHGs; the National Reserve Bank of India which has adjusted the policy framework for banking relations with informal groups; and the political leadership at various state and union levels, prominently providing legitimacy in the annual union budget speech as an unequivocal expression of the political will.¹⁶

¹⁴ In a sample of 78 SHGs in Karnataka State, average internal resources amounted to Rs 53,647 (US\$ 1,187) per group: 64% derived from regular savings and 36% from retained earnings (from interest earned and fines). Average loans outstanding per group amounted to Rs 100,800 (US\$ 2,230): 53% derived from internal funds and 47% from bank loans. (Karduck & Seibel 2004)

¹⁵ GTZ, Management Information System (MIS) SHG Bank Linkage Programme. New Delhi, GTZ-NABARD Rural Finance Programme India, April 2006

¹⁶ E. Kropp & B.S. Suran, Linking Banks and Self Help Groups in India—An Assessment. Nabard 2002. M. Harper, Promotion of Self Help Groups under the SHG Bank Linkage Programme in India—An Assessment. Nabard 2002

H.D. Seibel & S. Khadka, SHG Banking... in India. Savings and Development 26/2 (2002):132-149.

At the same time the program has drawn on India's *human capital*: on the one hand the competence and enthusiasm of the staff in all participating agencies, many of which select their staff through competitive exams; and on the other hand the willingness and ability of people from the lowest classes (*scheduled castes*) to form a group, meet regularly, pool their miniscule savings, lend to members, and establish a documented track record of financial intermediation within the group. On that basis, the groups are then permitted as informal entities to open savings accounts and obtain bank loans, which they onlend to their members on terms and conditions autonomously decided by each group. In India, as in some neighbouring countries, small groups with financial activities attract predominantly women, even if no such bias is built into the program design: 90% of the group members are women, through self-selection.

Neither social nor human capital would suffice were it not for the *financial capital* created by the program: steadily increasing internal resources of the groups, generated through savings and profits from interest income; and high profitability of SHG banking as a financial product of the banks (higher than any other rural financial product), due to high repayment rates and low transaction costs of both banks¹⁷ and SHGs¹⁸. SHG banking is viable: for SHGs and banks.

Representative national studies are absent; but there is strong indicative evidence that *impact* is deeply felt by the women, the majority of them illiterate: they save, borrow, invest and repay; manage their own SHG affairs, albeit with assistance in bookkeeping; enter banks for financial transactions; contribute to the household economy and improve their standing in the family; send their children to school (almost all reportedly do, previously only few did); and for the first time in their life take a positive view of the future.¹⁹ However, to many investments in microenterprise or other income-generating activities remains a major challenge.

Impact at the institutional level includes the formation of SHG federations and associations, some of them registered as *Mutually Aided Cooperative Societies* (MACS), a new legal status for financial cooperatives free from government dominance – “based on thrift, self-help and mutual aid and owned, managed and controlled by members for their economic and social betterment”²⁰. **Impact at the policy level** includes central bank authorization of financial transactions by banks with informal groups of the lowest economic standing.

Challenges to the self-help movement in India

All this is just a beginning. Enormous challenges remain, the two most important ones being sustainability of SHG banking and expansion of outreach to the remaining 150 million rural poor in India, particularly in states where coverage is still minimal, and expansion into the informal sector of the vast cities in India. This may be summarized in the challenge of sustainable access to a full range of financial services by all segments of the population. Major instrumental challenges include providing demand-driven capacity-building services; assuring adequate financial accounting, reporting and supervision at SHG and federation levels as an indispensable basis of financial deepening; and finding profitable microenterprise investment opportunities. The role of APMAS and the challenges it faces

¹⁷ H. D. Seibel & H. R. Dave, Commercial Aspects of SHG Banking in India. Nabard 2002.

¹⁸ S. Karduck & H.D. Seibel, Transaction Costs of Self-Help Groups in NABARD's SHG Banking Programme: a Study in Karnataka State. Nabard/GTZ 2004

¹⁹ W. Hannover, Summary of Major Results from Existing Studies on the Impact of the Microfinance Linkage Banking Program in India on the Millennium Development Goals.. GTZ, Eschborn, Jan. 2005. V. Puhazhendi & K.C. Badatya, Self Help Group Bank Linkage Programme for Rural Poor in India—An Assessment. Nabard 2002

²⁰ Andhra Pradesh, Mutually Aided Cooperative Societies (MACS) Act, 1995. From Andhra Pradesh, the act has been spreading to other states.

must be seen in the context of the overall challenges faced by the self-help banking movement in India. In more detail, these challenges include:

- Building a sustainable, self-reliant community-based self-help banking sector, with integrated apex services
- Building a comprehensive self-help banking sector for all segments of the population:
 - women and men;
 - the poor, near-poor and non-poor
 - rural and urban areas
 - marginal, dry, and tribal areas
- Expanding community-based self-help banking nationwide, eliminating the wide disparities between states
- Quality assurance, and building a consensus on the importance of quality in self-help banking among all major stakeholders (including the banks!)
- Self-regulation, effective (delegated) supervision and enforcement of standards in self-help banking
- Sound borrowing, based on creditworthiness, project viability and repayment capacity of the members, testified by the SHGs and their federations
- Conducive policies and legal framework conditions at national and state levels, responsive to the needs and demands of the self-help sector
- Transforming 66,000 federations nationwide into viable and sustainable institutions, with access to bank refinance
- Coordinating self-help banking with livelihoods development (microenterprise development, bulk-purchasing, adding value throughout the value chain, marketing) and wider development measures
- Progressing from financial sector development to broad-based rural development.

2.2 The challenge of sustainability in SHG banking: developing a sustainable system of self-managed cooperative SHG federations

2.2.1 Federations: an evolving option of sustainable self-help banking

Sustainability of SHG banking in the long run still is an unresolved issue. Given the flexibility of SHG banking in India, there may be different routes to the sustainability of access to formal financial services:

- One is direct access of individuals to bank services, based on the growth of their microenterprise activities and the track record provided by their SHGs. For a transitional period, small-size loans from group funds and opportunities for graduation to larger-size individual bank loans may exist side by side.
- Another option, presently developing in Andhra Pradesh and neighboring states on a growing scale, is the formation of federations²¹, some with and others without financial intermediation functions, indirectly giving legitimacy to the member-SHG.
- A third option presently under discussion may lie in the full integration of credit NGOs and MFIs, with their SHG clientele, into the formal financial sector.
- The least promising option of sustainability in the long run is the continued existence of informal groups (limited by law to 20 members) with full access to bank services – unless the lawmaker, impressed by their social cohesion and determination to stay together, decides on a new legal status for such groups; or such groups decide to grow to a larger size and separately register as MACS. In this case there would still be a need for the groups of federating in larger units with service functions to their corporate members.

Federations have been pioneered by NGOs since the early 1990s, starting with Myrada and Pradan followed by Dhan Foundation as an outgrowth of Pradan. One of the earliest federations is the Sri Padmavathi Mahila Abhyudaya Sangham in Tirupathi. In 1994 UNDP started its Asia Poverty Alleviation Project in three districts of AP, promoting SHGs and establishing a three-tier structure of SHGs, village-level and sub-district-level federations, the latter registered under the MACS Act. Under the World Bank-funded Poverty Reduction Program in AP, this model has been scaled up covering all rural areas in the state. Care-India started its microfinance support in the Rangareddy district of AP and established a three-tier structure of SHGs, village federations and cluster federations. Based on this experience Care expanded its activities during the 2000's through its CASHE project, promoting SHGs and SHG federations in AP, Orissa and West Bengal through some 25 NGO partners, which in turn promote large number of federations at several levels.

Federation formation is an ongoing process which this consultant first observed in Andhra Pradesh in February 2000 and regarded as a giant step towards self-reliance and sustainability, based on initiatives *from below*.^{22 23} They may register under various legal forms, particularly *Mutually Aided Cooperative Societies* (MACS), a new legal status for autonomous cooperatives which is being enacted in an increasing number of states.²⁴ There

²¹ Ajai Nair, Sustainability of microfinance self help groups in India: would federating help? World Bank Policy Research Working Paper No. 3516, Feb. 2005

²² H. D. Seibel & Shyam Khadka, SHG Banking: A Financial Technology for Reaching Marginal Areas and the Very Poor: NABARD's program of promoting local financial intermediaries owned and managed by the rural poor in India. IFAD Rural Finance Working Paper A-9, 2001; published in: *Savings and Development* (Milan) 26/2 (2002): 132-149.

²³ Others were equally impressed; and some donors, among them the World Bank, have promoted federations *from above*. This has raised fears that this may pervert the process of development from below.

²⁴ Cooperative Development Foundation (CDF), an NGO based in Hyderabad, played a pivotal role in the introduction of the MACS Act in AP. Note should be taken that the ACT permits only individual membership, which means that legally the members of the SHGs are members of the federation, while

are now some 30,000 federations in Andhra Pradesh alone, 2,000 of them reportedly registered as MACS. In a number of states throughout India they are expanding rapidly.

Such federations, if registered as financial cooperatives with the status of MACS, may eventually either replace banks by establishing direct linkages between themselves and their member SHGs, or become a new link in the chain between SHGs and banks. SHG banking is not only a banking product; it also has become a mass movement with its own dynamics. With sustainability in mind, Nabard considers its own role as well as the role of NGOs as temporary. Ultimately, SHGs as grassroots financial intermediaries will have to decide for themselves whether to link up with banks or continue establishing their own federations as formal financial intermediaries. Nabard considers the latter as an act of SHG empowerment. This would permit NGOs to withdraw from group maintenance and focus on capacity building and the spreading of outreach of the program to new areas. In fact, some policymakers realize that the MACS as autonomous institutions might eventually play a similar role in rural India as the Raiffeisen banks do in Germany, which in turn have grown to their present-day strength by forming associations and federations with apex services, including delegated supervision over the member banks through *auditing federations*. Assistance is invited in the following fields:

- Assessments of SHG federations as business associations or financial intermediaries, including a focus on the issue of individual vs. SHG membership in MACS or other types of federations;
- Setting up a training system for federation staff, focussing on the training of trainers in institutions with multiplication and dissemination functions;
- Examining the feasibility of expanding the operations of federations into areas such as SHG purchasing, production, processing and marketing structures and skill upgrading programs for SHG members;
- Building a comprehensive self-help banking sector comprising an integrated system of sustainable federations from the village-level to the state level and apex organizations for guidance & consultancy services, training & capacity building, liquidity exchange & refinancing, standards & self-regulation, auditing & supervision, public representation & policy advocacy.

2.2.2 Federations nation-wide

Even though the federating process is still in an incipient stage in India, the overall number has already reached impressive dimensions. Rapid expansion started in the late 1990s, particularly in South India as a result of interventions by the District Rural Development Agencies (DRDAs) through some large externally funded government projects such as Swashakti and Swayamsiddha. NABARD, which has promoted the SHG banking movement in India, has continued to push bank linkages of SHGs, but to-date has not played a prominent role in the development and refinancing of federations. Through telephone contacts and the examination of websites APMAS has arrived at a total number of 66,572 federations in ten states: 44% of them in AP, 23% in Kerala and 21% in Tamilnadu. Given the absence of any systematic reporting, the actual number is likely to be substantially higher. There are some states where the process of forming SHGs and SHG federations has barely started. APMAS estimates that there is a potential for at least 200,000 SHG federations within the next 5-10 years.

for all practical reasons the federations consider themselves associations of SHGs represented by two members each.

Table 3: SHG federations and promoting agencies by state, 2005

S. No.	State	Major promoters	No. of SHGs federations
1	Andhra Pradesh	SERP (Govt.), UNDP, NGO partners of CASHE project of CARE India, ASP, GRAM, CEED, COVA, MYRADA, Dhan Foundation, YIP, Outreach etc..	29265
2	Tamil Nadu	TNCDW (Govt.), PRADAN, Outreach, DHAN, MYRADA.	14104
3	Karnataka	MYRADA, Outreach	220
4	Maharashtra	MAVIM, NGO network support by Chaitanya	120
5	Kerala	Kudumbasree (Govt.)	15153
6	Orissa	Mission Shakti, BISWA, Swayam Sree, Gramodbhav, FARR	5429
7	West Bengal	CARE, Rural Development Consortium	300
8	Gujrat	Gujrat Rajya Rachanatmak Karyakar Sangh Janani, International Centre for Entrepreneurship and Career Development	63
9	Uttar Pradesh	PANI, NEED	92
10	Other federations under Swa-shakti and Swayamsidha projects (Govt.)		1826
Total			66572

- SERP - Society for Elimination of Rural Poverty, Government of Andhra Pradesh
ASP - Ankuram Sangamam Porutm – an NGO in Andhra Pradesh
PRADAN - Professional Assistance for Development Action, an NGO working in several Indian States
DHAN - Development of Humane Action, an NGO working in South India
COVA - Confederation of Voluntary Association
GRAM - Gramaabhudaya Mandali, an NGO in AP
CEAD - Centre for Education and Agriculture Development, an NGO in AP
YIP - Young India Project, an NGO in Andhra Pradesh
TNCWDC - Tamilnadu child and Women Development Corporation
PANI - People's Action for National Integration
MAVIM - Mahila Arthik Vikas Mahamandali, Maharastra Government
TNCDW - Tamilnadu Corporation for Development of Women, Tamilnadu Government
BISWA - Bharat Integrated Social Welfare Association
NEED - Network of Entrepreneurship and Economic Development
FARR - Friends Association for Rural Reconstruction

2.2.3 Federations in Andhra Pradesh

AP has by far the largest number of federations and also the largest number of promoting institutions. Most important among the promoters has been the Government of AP through its Society for Eliminating of Rural Poverty (SERP) project, renamed as Velugu and recently still renamed again as Indira Kranthi Patham (IKP). The project is funded by the World Bank and covers 820 sub-districts out of 1100. The project planned to cover 253,500 SHGs, 23,000 village-level federations and 800 subdistrict-level federations, but as of 2004 reported 444,530 SHGs under its coverage. It refinances SHGs through grants given to district-level federations, which are on-lent through subdistrict and village-level federations to SHGs at an interest rate fixed at 12%. Contrary to the practice of SHGs of acting as autonomous financial intermediaries fixing their own interest rates, the SHGs are usually required to on-lend at an end-user interest rate of 12%, without any margin to cover risks.

As of April 2006 APMAS estimates that there are approximately 30,000 federations in AP:

- 27,000 at village level
- 1,000 at cluster level
- 2,000 at subdistrict and district level.

It is not clear how many of the estimated 600,000 SHGs in AP, and how many of the 460,000 SHGs with bank loans outstanding, are members in a federation.

Bank linkages of SHG federations are still relatively rare, and not systematically monitored. The Nabard branch office in Hyderabad has records of 30 bank linkages. Apmas, through a telephone inquiry in April 2006, found a tenfold number: as of March 2006, 297 federations in AP were credit-linked to banks. The volume of loans disbursed was \$3.14m²⁵, averaging \$10,588 per federation. Only seven out of the 21 districts of AP reported bank linkages, the majority of linkages (80%), 79 on average, in just three districts: Cuddapah, NZBD and Nellore. Yet one of the districts, Rangareddy, reports only 7 linkages, but the volume is \$128,400 per federation.

Box 4: Federation terminology in AP

Village-level federation:	Village Organization	(VO)
Subdistrict-level federation:	Mandal Samakhya	(MS)
District-level federation:	Zilla Samakhya	(ZS)

2.2.4 Types and functions of federations

There are three major types of federations: financial, non-financial (eg, marketing, bulk-purchasing) and multi-purpose with financial and non-financial functions. In addition there are issue-based federations, organized around community action concerns such as child labor, female infanticide, domestic violence, illicit liquor and local political representation of women. There are no statistics on the various types of federations. APMAS has identified five major functions of federations:

(1) *Strengthening SHGs:*

- 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)
- To resolve any conflicts that may arise within member SHGs
- To assist in strengthening the performance of member SHGs
- To help in achieving sustainability of SHG

²⁵ Converted at an exchange rate of Rs 44.5 to the US\$ as of 31 March 2006.

- to provide staff support to member-SHGs
- to write and/or audit the accounts of member-SHGs
- to review/regulate/supervise the functioning of member-SHGs

(2) *Providing Value-Added Services:*

- to provide credit, especially multiple credit lines
- to provide savings facilities, especially voluntary savings
- to undertake marketing of the produce of the members of the SHGs
- to provide life/loan insurance services

(3) *Expansion and Up-Scaling:*

- to promote new SHGs

(4) *Facilitating Linkages:*

- To get access to policy making bodies through political empowerment and social mobility
- To facilitate linkages between SHGs and banks/govt. agencies/local institutions
- To have better access to development information and marketing linkages

(5) *Facilitating Women Empowerment:*

- to create the political/social space that women need to live their lives as fully as they desire to
- to be the window to the outside world, in replacement of the promoter organisation
- to undertake all that the external facilitator was undertaking, after its departure.

2.2.5 The contradictory role of government in the promotion of federations and the potential role of APMAS

The government of AP has played a crucial role in the development of SHG banking and SHG federations. Its greatest contribution is perhaps in the field of legal framework: by passing a law in 1995 for a new type of autonomous *Mutually Aided Cooperative Societies* (MACS) under which federations may register; and subsequently recognizing and supporting federations as the organizational form providing legal status and sustainability to informal SHGs.

At the same time the good intentions of government are at risk of perverting the autonomy of the supposedly *mutually*, rather than governmentally, aided cooperatives by using the federations as lending channels, and of interfering in their autonomy. This in turn limits the potential impact of APMAS, which works closely with the main promoters of federations, particularly Velugu/IKP. There are two potentially negative aspects of government support to federations and SHGs, which endanger the sustainability prospects of self-help banking:

- One is the provision of loanable funds as such. This is at risk of replacing internal funds and bank funds and, as government money, of not being taken seriously by the beneficiaries as well as the government staff when it comes to repayment. This would have a very negative impact on the future growth of funds. While internal funds and bank borrowings tend to grow dynamically without limitations (except those set by investment and repayment capacities), government funds not only fail to grow, but invariably stop some day, after having created a culture of dependency and subsidy.
- The second negative aspect lies in the interference with the groups' and federations' internal loan terms and conditions. SHGs receive bank loans at market rates of interest between 8 and 9% eff. p.a. (down from 12-14%). They lend to members at interest rates around 24% eff. p.a. (ranging from 18-36%, and falling), using their

internal funds as well as bank borrowings. The margin is used by the SHGs to cover risks and to generate retained earnings; this is a major source of growth of internal funds. Government projects interfere with these good practices. Velugu/IKP, which started in 2000 and expanded, with World Bank support, to all districts of AP in 2002, provides grants to district federations which are then lent to federations, SHGs and members at 12%. The Community Investment Funds (CIF) project provides grants to subdistrict federations, which are onlent to village federations at 3%, to SHGs at 6% and members at 12%. Rice Credit Line, a food security program for families below the poverty line, is handled through the federations which receive a margin. The loans are interest-free and are to be repaid in 1-3 months depending on the family situation. The government of AP also provides a subsidy scheme: SHGs who repay their bank loans on time get a refund of 6%, which reduces the actual interest rate paid to banks to 2-3% (below the inflation rate). In all these cases – and there will be more! – the projects interfere negatively with the groups' and federations' risk management, profits and growth prospects.

Additional risks are associated with these practices. Three examples may suffice: (i) Velugu/IKP now places staff in federations to handle funds, known to microfinance practitioners as a *worst practice*, as it means placing project priorities and disbursement targets over quality facilitation. (ii) Bookkeepers would need at least ten fee-paying SHG clients (at Rs 30-50 each) to make a living; yet Velugu/IKP restricts their number at 5-6. The result is that large numbers of bookkeepers have been dropping out. This greatly diminishes the effectiveness and impact of APMAS, which had trained the master bookkeepers who in turn had trained the bookkeepers. (iii) In Guntur District APMAS studied the Rice Credit Line Program, a government loan-in-kind program for the poorest, channelled through the federations. Its impact is negative: the beneficiaries pay a higher price for a better-quality rice, which they do not need; rice traders find their sales of rice diminished by 40%; farmers used to pay laborers in paddy, who are now requesting cash payments, when gets the farmers into a predicament. The end result is that, SHGs are indebted to the federations; members are indebted to SHGs; the cycle of disbursement stops as they cannot get another loan; and the poor are coming out of the program poorer than before, while their SHGs are at risk of being destroyed. There are two conclusions:

- a radical one, to stop any government intervention including grants and subsidies (a stance taken by many founders of cooperative and other microfinance movements in Europe during the 19th century); and
- a more conciliatory one, to regulate and supervise federations and, indirectly, government interventions in support of prudentially regulated federations.

APMAS may have an important role to play in reorienting the policymakers behind the government projects, moving from the federation establishment phase to the advanced stage of regulation and supervision. Without such reorientation, APMAS's own impact is bound to be limited. Given the fact that federations are promoted in ten states with World Bank support and that state governments are being asked to look at Andhra Pradesh as a model state of federation promotion, APMAS may indeed have a very important role to play in the transition to a sustainable system of self-help banking. Without such a transition, the inputs of APMAS as well as those those of the implementing agencies will remain of very limited effectiveness. However, if APMAS, with technical support from DGRV, succeeds at the policy level, its impact would be manifold if shared with the other nine states in which the World Bank support the Rural Development Department.

As important as its role as a capacity builder may be, APMAS's role as a watchdog may be at least as important: making sure that the government is doing no harm.

3. Accomplishments of APMAS

3.1 Quality assessment: sector-wide use of quality assessment processes for SMFIs²⁶

Sector-wide use of quality assessments for SMFIs is an ambitious goal APMAS has set for itself, given the large number of self-managed MFIs in AP comprising some 600,000 SHGs as of April 2006 or 549,000 SHGs as of March 2005 of which 492,900 were reportedly credit-linked to banks, plus some 30,000 federations.

APMAS has been propagating the importance of rating through its trainings and publicity organs. This has raised the awareness of banks and SHPIs, particularly government institutions. Banks together with NABARD and government institutions have responded quite differently. Ratings are predominantly applied in two spheres: SHGs and federations. How seriously ratings are taken depends of course on the extent to which banks and other institutions, governmental and non-governmental, continue financing SHGs directly or use federations as intermediaries.

With regard to SHGs, goal attainment seems to be in reach. As of September 2004 the Velugu/IKP project reports a figure of 444,530 under its program, of which 361,180, or 81%, have been rated; that would be 60% of the estimated total number of SHGs in the state. At this time APMAS was just three years in operation. APMAS has trained large numbers of people in the use of the SHG Critical Rating Index (CRI). But no evidence was accessible about the extent to which APMAS contributed to the ratings under Velugu, either through the tools it helped develop or through specific capacity building measures. Outreach of Velugu/IKP and coverage in terms of rated SHGs might have increased since, to which APMAS may have contributed more than in the previous phase.

Banks in AP have continued to lend directly to SHGs. Rating of SHGs by banks is widespread, due to the influence of NABARD; but in a number of cases, under targeting pressure, the banks have interpreted the results quite loosely, lending to B and even to C groups. This may also undermine the public notion of the importance, or lack of importance, of SHG rating. The lenient attitude of banks may also be due to the tendency of using of a single grade, which mixes financial indicators together with other, social and organizational indicators and lacks a clear rating of financial performance only. Eg, it is of little relevance to a bank whether a group meets monthly or weekly (which makes a difference in terms of rating) as long as it repays its loans on time.

With regard to federations, on which APMAS has placed its focus, a beginning has been made, but not more. Out of 30,000 federations state-wide, APMAS has rated 333, comprising 266 village federations and 67 subdistrict federations. Affiliates have rated another 297 village federations, 197 with GRADES and 100 with RAT. The total number of ratings, including those by agencies trained by APMAS, probably does not exceed 1000. Here we are just at the beginning of a long process. The most important contribution APMAS has made here is the development of the required tools, their testing and their dissemination, and of the awareness of the importance of rating

APMAS has started to train partner institutions in the use of GRADES: GRAM of Nizamabad, CEAD of Adilabad and APRLP in Kurnool. The first organization, in November 2003, was APRLP-Kurnool, which subsequently carried out 161 assessments of village federations. 50 village federations were assessed in Cuddapah district with the use of the Rapid Rating Instrument. Another 56 people have been trained in two districts for the purpose of rating 150 village federations.

²⁶ This chapter follows the LogFrame of APMAS's business plan. The subject of quality assessment is dealt with more systematically, but from a different perspective, in chapter 4.

To-date the banks have made little use of the federation rating tools. The lack of widespread use of quality assessment, or rating, of federations is due to delays by NABARD and the banks in the adoption of refinancing federations. NABARD has been hesitant to give full recognition to *Linking Federations and Self-Help Groups*, as a complement to *Linking Banks and Self-Help Groups*. Financial intermediation through village federations of SHGs was envisaged in AP in 2003. A working group under the guidance of NABARD was established, which prepared guidelines and circulated them among the banks. In October 2005 a circular was circulated by SLBC among the banks regarding financing village-level federations. However, most of the federations were not registered, and the banks felt that the functioning of most of the federations was not satisfactory. Hence further progress has stagnated. Crucial issues are thus registration (as MACS) and quality enhancement of federations as prerequisites of bank linkages of federations.

The response of government has been quite different. Government loans and grants are now generally channelled through the federation system. Eg, the Velugu/IKP project provides grants to the district federations, which in turn lend to lower-level federations all the way down to the SHGs which lend to the members as end-users. This would require serious rating and fund allocation rigidly based on the results of the rating. The existence of GRADES as a federation rating tool is well known. However, for an estimate of its actual use quantitative data would be needed:

- a) on the extent to which Velugu/IKP has in fact been practicing rating of federations (either with the elaborate or the rapid assessment tool); and
- b) on the extent to which fund allocations are contingent upon the results of the rating.

APMAS has defined **seven indicators** of the sector-wide use of quality assessment processes to guide its inputs and measure its accomplishments.

- (1) APMAS planned to instil the art of assessment in at least ten organizations to be certified by APMAS, referred to as *Affiliate Quality Assessment Agencies (AQAA)*s. It contacted seven, but had little success, despite considerable effort. These organizations were interested in strengthening their own program, but not in providing services to other organizations. In April 2005 APMAS therefore changed its strategy towards training individual affiliates as service providers. However, this has not been effective either. Within a one-year period it succeeded in training a mere five individual affiliates in the use of RAT, who to-date rated 36 village federations, 15 cluster federations and 13 subdistrict federations. New opportunities may arise from a recent circular of the Reserve Bank of India(RBI) on the Use of *Business Facilitators and Correspondents* and closer cooperation with NABARD and the banking sector – a field as yet rather unexplored by APMAS, despite its good relations with the NABARD office in Hyderabad.
- (2) APMAS took it upon itself to see to it that at least 50% of SMFIs use self-assessment tools – a truly gigantic task for a single organization given the number of institutions to be self-assessed in AP; a more careful wording of this indicator would have saved APMAS the trouble of being measured against an objective beyond its control and capacity. As the key approach of building the assessment capacity of NGOs and motivating them to build the assessment capacity of other organizations didn't work, it would have been little surprising if little progress had been made in this respect, too. APMAS states first of all that it has helped increasing an awareness of the importance of self-assessment among SHGs and their federations. APMAS trained 22 District Resource Persons (DRPs) in Cuddapan in 2004 on the use of the CRI, which had previously been developed by NABARD in cooperation with APMAS; they trained 479 animators who assessed over 8,000 of the 13,000 SHGs in the district. It

has also developed a draft self-assessment tool for leaders and members of SHG federations and organized a number of workshops with this objective, which resulted in the preparation of a tool with 8 indicators and 32 subindicators to be shared with various SHPIs; finalization is expected in May 2006.

- (3) Having at least 75% of the SMFIs in the state assessed by AQAAAs, APMAS or other organizations is yet another overambitious goal because this is largely beyond the control of APMAS. SHG rating using CRI is based on a government order in AP, with the result that over 50% of the bank-linked SHGs are reportedly rated by animators and other community-based organizers. Velugu reports that as of 2004, 361,180 out of 444,540 SHGs under it had been rated, 55% at grade A. However, APMAS did contribute, presumably substantially, to the attainment of the indicator. It trained more than 2,000 staff of Velugu, DRDA, banks and NGOs on using CRI, who in turned trained the animators and other frontline staff. In collaboration with NABARD APMAS also trained 900 master bookkeepers in seven districts on the standard accounting package (SAP), which includes training on the CRI. In the other districts of AP 1200 master bookkeepers were trained by other institutions. Reportedly, these rated at least 30,000 SHGs within the first month after the training. As explained elsewhere, assessment of federations to-date has taken place on a very limited scale: 333 rated by APMAS directly, and perhaps another 500 by other institutions – out of a total of 30,000.
- (4) At least 75% of the bank-linked SHGs were to be appraised by banks and promoters using the SRI – another indicator of an attainment beyond the control of APMAS. What is lacking is a monitoring system of rating-based linkages, which would lie in the responsibility of NABARD. APMAS estimates that due to targeting pressures little more than 50% of bank linkages of SHGs are based on ratings; and that Regional Rural Banks are more conscientious than the commercial banks, which handle the bulk of linkages. APMAS correctly observes that collaboration with NABARD is needed in developing and implementing a monitoring system on the usage of CRI as a prerequisite of linkages, though this should be applied only to first linkages; subsequent linkages would of course not require a new assessment as long as performance of the previous loan was satisfactory.
- (5) APMAS expected that at least 50% of its assessments of federations would be paid for by banks, other financial institutions or promoters. In fact, all the 333 assessments of federations carried out by APMAS have been paid for, surpassing its overall expectations by far. Attempting to build a self-sustaining and self-reliant system of federation assessments, APMAS expected that banks would be the main financiers; but this did not materialize as long as only very few federations are financed by banks. This might change in the future. APMAS is now changing its policy in two directions. First, it tries to have the federations pay APMAS directly, which has in fact been done by seven federations. Second, it is discussing with the government the proposition of establishing internal teams at district level to carry out the ratings financed by the Velugu/IKP project. APMAS will be building the capacities of these teams to undertake such ratings on their own, while a sample of the federations will be rated by APMAS for quality control and validation.
- (6) APMAS expected that 75% of the federations assessed as well-performing (A or B) would be refinanced. This indicator has lost its significance as banks have barely started to refinance federations. Instead APMAS lists some cases where federations promoted by NGOs were assessed by APMAS and received substantial loans up to almost \$280,000 from banks as indicated below; but the exact percentage, which is not stated, seems to be rather low. APMAS also reports that it conducted assessments of 28 SHG federations promoted by NGOs which are partners of the

CASHE project in Andhra Pradesh.; and that the rating reports are being used to seek loans from State Bank of India and ICICI.

Table 4: Loans received by selected federations promoted by NGOs and assessed by APMAS

Federation	Rs.	US\$*
DF Adilabad	13,500,000.00	300,000
DF Adilabad	3,900,000.00	86,667
Nizambad F	400,000.00	8,889
Maklur F	200,000.00	4,444
Nandipet F	1,350,000.00	30,000
Pitalam F	500,000.00	11,111
Madnoor F	300,000.00	6,667
Sneha MACS	12,500,000.00	277,778
Total	32,650,000.00	725,556

*As the exact date of borrowing is not stated, an average exchange rate of Rs 45 to the US\$ has been applied in the conversion.

- (7) APMAS expected that SHGs, federations and MACS would use self-assessment tools, prototypes of which were to be ready by March 2003. Implementation has been delayed. As of April 2006 APMAS reports to have initiated the task of developing a Self Assessment Tool (SAT) for self-rating of SHG federations, with the objective of reaching the majority of federations and improving performance. The SAT is felt critical not just for the institutional growth towards self-reliance, but also to empower federation representatives and demystify the performance monitoring process. However, the draft tool is only now ready for pilot testing; and no mechanism for reaching 30,000 federations, or a fraction thereof, has been established. In the short run Velugu/IKP appears to be the only likely candidate for establishing a mechanism for introducing self-assessment among the federations; APMAS would have to train its staff preparing them for the task. In the longer run, banks once they refinance federations might motivate federations to use self-assessment tools and verify the results.

The indicators would have to be expanded to include loans and grants from government projects. However, here APMAS states that through large-scale projects like Velugu/IKP, significant funds are available to SHG Federations & MACS, even if they are not rated as good; no overall statistics are available on this. Since April 2003 APMAS rated 35 federations promoted by Velugu and UNDP. 20 federations promoted by APRLP in Kurnool and Anantapur were rated by APMAS – only after they had been funded by APRLP. Velugu and APRLP used the assessment reports more for performance monitoring and the identification of gaps in performance and capacity building requirements.

3.2 Quality Enhancement: Increasing number of SMFIs with quality and sustainable microfinance practices and a higher level of self-management

Enhancing the quality and sustainability of the SHG movement is the key objective of APMAS. Quality assessment, capacity building and research & advocacy are its key, interrelated, inputs. APMAS reports that capacity building is highly complex and must be process-oriented. To impact the quality of SHGs, the staff of SHPIs has to be trained, exposed to successful promotional processes and provided handholding support. This task becomes more complicated if the dominant SHPI happens to be the Government. To be effective in its capacity building efforts, APMAS has placed teams at the field level, with each regional team covering 2-3 districts. In addition to conducting high quality training of trainers, these teams provide on-the-job support, participating in review and planning meetings and in problem-solving processes. With major SHPIs like SERP, APMAS concludes MoUs for at least one year; some of the districts have been supported for almost three years, which seems to be the minimum required to attain institutional sustainability.

Box 5: Support by to Velugu/IKP in one district (Cuddapah), 2002-2006

- Activities initiated in 2002
- Study on status of SHGs in collaboration with DRDA/NGOs and CRD
- Placed one Regional Manager, Two Capacity Building Officers
- Supported in development of CB strategy for the district in collaboration with all stakeholders of SHGs (DRDA/NGOs/Bankers)
- Supported in establishment of Mandal Coordinator and Animator System
- On the job support to Mandal Coordinators in selection of Animators
- Placed 9 Mandal Coordinators and placed in nine identified Mandals honorarium paid by APMAS for one year
- Train all Mandal Coordinators on Participatory Training Methodologies, concept of SHGs, book keeping
- Support DRDA in designing book keeping system
- Train 500 Animators in 17 batches on concept of SHG, book keeping, bank linkage etc.
- Supported DRDA/IKP in establishment of DRP system (about 12 DRPs) (identification, recruitment and placement)
- Train all the DRPs on various aspects concept of SHGs, Bank Linkages, Book Keeping, PTM, problem solving etc.
- Support IKP in recruitment of Community Coordinators (120), 120 MBKs, and 4) MTCs
- Induction program for all Community Coordinators and support in village immersion program
- Capacity building programs for the CCs on Concept of SHGs, Book Keeping, VO formation, MS formation, PTM
- Provided on the job support to CCs in SHG formation, VO formation, MS formation
- Supported IKP/DRDA in conducting district level bankers meeting on SHGs and use of CRI
- Provided support to CCs in conducting Mandal Samakya meetings
- Capacity building programs for the MTCs on Concept of SHGs, PTM
- Train all 120 MBKs on SAP
- Building the capacities of CFs (Community Facilitators) on concept of SHGs, PTM.
- Provided on the job support to MBKs in book keeping system
- Provided intensive support to Ramapuram mandal to build it as model mandalam.
- MS-OB were trained budgeting and human resource management in collaboration with Akshara
- Designing VO-subcommittee training programs –Social action committee, Social audit committee and Bank Linkage committee and supported in training 1553 VO-EC members in 54 batches
- Supports to the LR Palli Cluster as resource cluster since as of June 2006.

Partnerships

The outreach of APMAS's quality enhancement services has been expanded to 11 districts in partnership with Government of AP (IKP, APUSP and APRLP), NABARD, CARE (CASHE), NGOs and CBOs. Its main partner is the Government of AP through agreements

with SERP (Society for Elimination of Rural Poverty) with its Velugu/IKP project. Most of APMAS's staff time is invested in the support of this project. As an example support to Velugu/IKP in Cuddapah District is listed in the box below. In May 2005 a new agreement was concluded for providing intensive support to 19 clusters, comprising 96 subdistrict federations, 2300 village federations and about 50,000 SHGs. The agreement also indicates that APMAS has to play a key role in district level convergence among various players in strengthening the SHG movement and livelihoods activities.

APMAS also supports the Rural Livelihoods Project (APRLP) in the Anathapur region, strengthening 50 village federations as models in APRLP watershed villages. At the state level the APMAS supports APRLP in their staff induction.

Another major project that APMAS has started to support is the Andhra Pradesh Urban Services for the Poor Project (APUSP), with the objective of strengthening the SHGs and SHG networks in APUSP towns through building the capacities of the staff and the support structure. In 2006-07 APMAS is now entering into a new phase of support, and APUSP into a new phase of development: promoting ward and town level federations in three selected towns of Andhra Pradesh, as models for a total of 42 towns in which the project is working. APMAS places its staff in the selected towns and facilitates the establishment of federations. APUSP is expected to provide all required resources APMAS and replicate the experience in all the towns of AP.

Training and visits

The quality enhancement initiatives of APMAS focus on facilitating SMFIs to become sustainable member-owned and member-managed institutions. In quantitative terms the accomplishments of APMAS are overwhelming. In five years it trained 31,177 participants directly: its crucial input into the quality enhancement process. Its indirect outreach, through trainers and staff who had received their training from APMAS is to 293,560 participants. At a ratio of direct to indirect training of 1:9.4, the number of indirect training participants is almost tenfold. Details are given below.

Table 5: Training programs and number of participants since inception up to March 2006			
	Training program	Directly trained participants	Indirectly trained participants
1	Introduction to sub-district federations to community coordinators	1,114	22,280
2	Training to sub-district federation board members and staff on functioning of federations, human resource management, financial management, sub-committees	4,684	34,616
3	Introduction to SHG and Village Federations	275	41,250
4	Training to Village Federation Board Members and their staff on functioning of VF, meetings, sub-committees roles and responsibilities etc	7,052	10,894
5	Training to District Federation Board Members on introduction to District Federation, roles and responsibilities	32	-
6	SHG Book Keeping to staff of Village Federations	1,945	19,450
7	Introduction to SHG, formation and development	2,276	-
8	Training of Trainers on village and sub-district federations	2,972	59,440
9	Training on Bank Linkages	60	1,800
10	Training on Village Federation (VO) formation and strengthening	2,248	-
11	Capacity Building Needs Assessment	58	-

12	CB for NGOs-accounting and book keeping, financial analysis, delinquency management & interest rate setting	2,709	-
13	Community Facilitators Training	372	74,400
14	Financial Management	31	-
15	Flagship Programmes- SHG Federation promotion, Financial Management	232	-
16	Training on Grades Tool	56	-
17	Training to Government Staff – Institution-building, Induction on Micro-Finance, various models, advantages and disadvantages, Livelihoods	2,686	-
18	Institutional Building and Micro Finance for Sub-District Federation staff	281	8,430
19	Book Keeping sub-district federation	130	15,600
20	Introduction on Village and Sub-district federations to board members	134	-
21	Bookkeeping for village federations	180	5,400
22	Other Trainings	1,650	-
	Total	31,177	293,560

Note: One member might have participated in more than one training program

The main focus of the training is on federations: 67.5% of the direct training and 74% of the indirect training. The total number of participants directly trained on federations by APMAS is 21,047; the total number of indirectly trained participants is 217,360. The ratio is 1:10, which means that every training participants has trained on average ten others on federations.

Within the federation training, APMAS's direct training in terms of training participants is focused on village federations: 55.6% on village federations only and another 14.8% on village together with subdistrict federations, together 70.4%. 29.5% of the training is directed at subdistrict federations only; and 0.2% at the small number of newly emerging district federations. By comparison, indirect training is tilted more towards subdistrict federations.

Table 6: Direct and indirect federation-related training by APMAS

Training subject	Direct		Indirect	
	Number	Percent	Number	Percent
Village federations	11700	55.6	76994	35.4
Subdistrict federations	6209	29.5	80926	37.2
Vill. & subdistr. fed's	3106	14.8	59440	27.3
District federations	32	0.2		0.0
Total federations	21047	100.0	217360	100.0
Total training participants	31177		293560	

5,227 people have participated in APMAS' direct training in bookkeeping and financial management; this includes 2,709 participants from NGOs who were trained in accounting and bookkeeping, financial analysis, delinquency management & interest rate setting. The APMAS trainees have in turn trained another 40,450 participants; the ratio is 1:8.

APMAS has trained the staff of three organizations in the use of GRADES: GRAM of Nizamabad, CEAD of Adilabad and APRLP in Kurnool.

The number of people directly trained during FY 2005-2006 is 17,034; these trained in turn 45,510 others. 69% of the directly trained participants were federation staff or committee members, 12.5% government staff and 15.5% NGO staff.

S. No	Participant	Directly Trained	Indirect
1	SHG members	494	
2	Village federations: Executive Committee members and their staff	7,052	10,894
3	Subdistrict federations: Executive Committee members and their staff	4,684	34,616
4	District federations: Executive Committee members and their staff	32	
5	Government staff	2,131	
6	NGO staff	2,641	
Total :		17,034	45,510

Another outreach instrument of APMAS, besides training, is field visits of federations for group or federation guidance and maintenance. The functions of the field visits as explained by APMAS are given in the box below.

<ul style="list-style-type: none"> • On-the-job training the staff of federations by demonstrating how the meeting could be facilitated, problem solving could be supported and how the Executive Committee (EC) could contribute to decisions without leaving them completely to the staff. • Observing the conduct of the meetings and providing feedback on what went well and what requires improvement. • Mentoring the leaders of the federations to ask appropriate questions, ensuring participation by all, and ensuring the bookkeeping is done accurately and only during the meeting. • Guidance and advice – the federation EC would seek the advise of the APMAS representative where necessary to make progress or solve problems. • Using federation meetings as forums for training and giving additional input for them to adopt a long-term approach. • Reminding the members of the rules that they have set up for themselves and how to follow those. • Being friend, philosopher and guide for the staff and the Executive Committee of the federation • Verifying the books of accounts and providing feedback on any inadequacies. • Raising issues, asking questions, making them think collectively and ensuring that the meetings do not become rituals.

APMAS reports that in FY 2005-06 its staff paid 1,211 visits to SHGs, 834 visits to village federations (VO), 458 visits to subdistrict federations (MS) and 45 visits to district federations (ZS) – totaling 2,548 visits. In fact, it has been a policy that APMAS participates in all the monthly meetings of the district and subdistrict level federations in 19 clusters covering 96 subdistricts in 11 APMAS-supported districts. Eg, this means that a subdistrict federation (mandal samakhya), which meets monthly, might receive six visits in a six months period.

Table 8: Field Visits by APMAS staff, April 2005- March 2006

No.	Regions	No. of Visits*							
		SHGs Visited	Total SHGs	VOs visited	Total VOs	MS visited	Total MS	ZS visited	Total ZS
1	Vijawada	78	9,513	45	427	17	15	3	3
2	Nizamabad	108	9,391	167	489	100	19	15	2
3	Chitoor	491	11,643	236	576	192	24	16	2
4	Ananthapur	299	8,670	225	597	101	19	6	2
5	Ranga Reddy	235	9,851	161	591	48	19	5	2
Total		1,211	49,068	834	2,680	458	96	45	11

APMAS has defined **five indicators** of enhanced quality:

(1) APMAS expected that at least 50% of the assessed federations requiring QE support would in fact seek support from QE affiliates, other providers and APMAS: an indicator largely beyond its control. No quantitative data are available. Progress has not been satisfactory, partly due to a lack of affiliates as reported elsewhere, partly because of a lack of concern about quality as a prerequisite of external funding by government projects. APMAS reports that this has been discussed at IKP review meetings. APMAS explains why there has been little progress, directing attention to the weaknesses of the system being in itself an important function of APMAS: Most of the SHG federations/MACS promoted by Government had serious problems in terms of governance, management, systems and design. A major problem lies in the practice among most SHG federations of individual lending to SHG members, bypassing the SHGs. This has resulted in significant defaults. To revive such institutions a strong leadership and willingness to overhaul the institutions is needed. This has been not forthcoming in many of the federations. The APMAS assessment team has made detailed presentations to the promoters as well as the federation board members on findings and necessary actions. However the interest of the promoters in providing technical services seems to be inadequate. The problem pertains mainly to districts where APMAS has done the assessments but is not directly involved in capacity building. APMAS seems to be willing to take responsibility to address the situation directly and provide the required technical support by repackaging its services in the following way:

- Integration of quality assessment & CB
- Follow-up of assessed federations for a period of one year (attending the review meetings to understand the progress made and to provide feedback)
- Monthly checklists of progress to be filled by the federations and posted to APMAS and the promoting institutions.

However, APMAS will not be able to solve all the problems of building healthy federations by direct intervention. The crucial issue at stake here is government policy, comprising:

- Appropriate regulation on standards of federations and appropriate forms of intervention;
- effective control of the interventions of government agencies,
- effective supervision of federations,
- and adherence and enforcement of standards among all agencies involved.

To be effective APMAS will have to shift its emphasis more to advocacy at the policy level, taking its observations and lessons learned at the bottom to the top.

(2) APMAS expects that at least 40% of the federations/MACS supported receive financial and technical support on an ongoing basis, again an indicator beyond its control. APMAS reports that a large number of federations assessed by APMAS have benefited from the follow-up of the promoters and the board members themselves taking the initiative. This has resulted in an increased flow of funds provided by externally aided projects like IKP and APRLP and also from the banks as mentioned before. Similarly these federations have focused on availing capacity building and technical services. But overall the problems described above impact also on this indicator.

(3) APMAS expected that at least 5 AQEAs would be functional under APMAS certification (2 agencies by 2004 and another 3 agencies by March 2005). APMAS reports having identified seven potential NGOs and Institutions including GRAM, CEAD, YIP, RDT, and SMELC and initiated the dialogue. However, the initial strategy of developing their capacity to meet the external demand for technical services was found to be of little interest to them. Instead they

preferred strengthening their own SHG federations before offering services to others. APMAS revised its strategy accordingly and discussed it with NGOs in a two-day workshop, hoping that the NGOs would develop into demonstration sites before becoming resource organizations for others. But overall APMAS tried to shift its strategy, though again with limited success, to individual affiliates and developed a pool of 30 resource persons in the state to deliver QE services.

(4) APMAS provides intensive capacity building support in 5 districts, where it plays the role of mentor and facilitator, developing one subdistrict in each into a model, and extensive support, first to 11 districts and now expanded to 14, in partnership with the GoAP, NABARD, CARE and NGOs. APMAS has developed, packaged and marketed a considerable number of CB products as listed below (Table). The key activities performed by quality enhancement include national and state level CB events, TOT, CB-related advocacy, establishment and use of quality assurance system, model building and pilot-testing, material development, and a visioning process in six selected subdistrict federations. APMAS has signed a MOU with SERP to provide intensive support to develop 19 clusters with 4-7 subdistrict federations per cluster as resource clusters to serve as models for the rest of the clusters in the state. As per understanding between APMAS and SERP, APMAS would provide support during 2005-09 in the following areas.

At cluster level: Continuous handholding and nurturing support to staff of CBOs, and Area Coordinators at cluster level in achieving the intended results in 19 clusters of 11 districts by conducting situational analysis, developing detailed short, medium and long term action plans, capacity building inputs to CBOs and their staff and supporting in promotion and development of livelihoods. APMAS placed one capacity building officer and one full time affiliate in each of the cluster who would be supported by respective Regional Manager and the head office staff. The two member team placed in the cluster would support the sub district federations, village organizations and SHGs in practicing good practices in IB, MF and Livelihoods. For this the APMAS team build the capacities of the federations and their staff through training, on the job support, coaching and mentoring. APMAS supports the cluster level team in developing the annual plans, budgets etc based up on local situation but the implementation of the plan would completely done by the Federations, their staff and project staff. Key activities done at Cluster Level include:

- Participatory Situational analysis to understand the status of the SHG movement in each of the mandal.
- Support in development of Annual Work and Financial Plan (AWFPs) for each of the sub district federations.
- Support the project staff and federations in implementation of AWFP
- Attend all sub-district federation meetings and provide critical feedback and support in developing action plan
- Conduct training programs for the staff and federation members
- Visit Village Originations and randomly selected SHGs
- Support in recruit and induction of required staff for the federations
- Attend staff review meetings and provide critical feedback
- Support in development of sub-committee training manuals, community activist training manuals etc.
- Development of MIS at sub district federation level on pilot basis
- Conducting special training events at Dachepalli and Anantapur on special request from the project staff.
- Attending JMLBC (Joint Manal Level Bankers Committee) meetings to solve problems in bank linkage and enhance in the same.
- Provide problem solving support at Village Organizations, and SHGs level.

Table 9: Capacity building products

Sl. No	CB Product	Details of content and target audience
1.	DRP Hand Book	Reference book for District Resource Persons on SHG Concept and PTM methods
2.	Micro Finance: Models	Models of Grameen, Cooperative and SHG model for field practitioners
3.	English –Telugu Dictionary	For field practitioners of micro finance
4.	Village Organization Board Meeting – MACS act 1995	Best practice in conduct of meetings of Board of Directors in Village federations of SHGs for the board and facilitators of promoting organizations
5.	VO GB meetings – MACS act 1995 (Telugu)	Best practice in conduct of General Body meetings of Village federations of SHGs for the board and facilitators of promoters
6.	VO Board Roles and Responsibilities – MACS act 1995	Reference materials of Roles and responsibilities of Board of directors of VO
7.	Pragathi Patham	SHG practical problems and Solutions for the SHGs and field level functionaries
8.	Susthiratha	Training module on VO – MACS act 1995 for the BOD of SHG federations and field functionaries
9.	Parishkaram	Problems and Solutions in Village organization for the BOD of SHG federations and field functionaries
10.	Poster on MACS annual event calendar	For the BOD of SHG federations registered under the APMACS Act
11.	Gamyam-Video-CD	Experience of three models of micro finance to the MF practitioners
12.	VO-Services: Audio CD	Songs on Services of Village organization of SHGs for VOs and Practitioners
13.	Plethora of Micro finance	Information CD on micro finance
14.	Report on National SHG federation Workshop	Issues on federation of SHGs for promoters within and outside of Andhra Pradesh
15.	Report on AP State level Livelihoods workshop	Compilation of best practices within and outside AP and strategies for Livelihood promotion
16.	Designing Secondary Institutions of SHGs	Paper on Issues and principles of Federation of SHG federations
17.	Paper on Status of SHG federations	Findings of the Quality assessments taken up by APMAS for promoters and SHG federations
18.	Training Module for CRPs	To trSHGgain the Community Resource Persons on group formation, strengthening, meeting process, VO formation, grading, revival of defunct groups, roles and responsibilities of CRPs
19.	MS Operational Manual	Useful for the Federation members in how to conduct meetings, provision of services to members, human and financial resource management.

At district level: Developing Training and Technology Development Center (TTDC)/District Livelihood Resource Center (DLRC) in to Livelihood and Social Mobilization Resource Centers for facilitating institution building and Livelihood promotion and provide need based support to DPMUs at district level in 11 Districts. At the request from the CB team of SERP and DPMUs APMAS staff provided required support in conducting MCP training programs in various districts. After conducting the ToTs on MCP the teams are planning to provide handholding support to the cluster teams in preparation of quality MCPs in all the selected clusters. Based up on the discussions between SERP and IKP district team APMAS has conducted trainings to district federation (ZS) members on ZS concept, Structure, how to conduct meetings etc along with the SERP team. The training needs assessment was done by intensively discussing with ZS members of the Kurnool districts and trainings were planned to conduct in the month of April 2006. APMAS team supported ZS members in developing action plan on implementation and monitoring of best practices formulated during the video conference. The ZS has developed an annual training calendar in Cuddapah district. APMAS district teams especially Regional Managers are participating in the district level review meetings. The team is providing inputs in planning for the district level activities. APMAS teams shared the field visit reporting formats with IKP staff for adoption. In Cuddapah the team supported the Project Director in developing staff review meeting formats by using the other district experiences which helped the PD in effective review of the staff.

At state level: Support SERP in Capacity Building and Nurturing of the Area Coordinators, developing required IB/CB/MF products, policies/guidelines, participate in planning and review meetings. The APMAS state level team supported SERP in developing a Micro Credit Plan manual and supported in conducting state level trainings to the selected District Project Managers, Community Resource Persons (CRPs) on Micro Credit Plan. The APMAS CB team has also supported the SERP IB team in developing and refining the CRP (Community Resource Persons) training module, which is useful for training the CRPs. The final draft of the module was ready and would be printed after receiving the feedback. The APMAS and SERP-IB team has developed an operational manual for Mandal Samakyas. The manual would be a good reference document for the Mandal samakyas and their staff in providing appropriate direction to the institution by taking the appropriate decisions. The manual explains about the importance of MS, structure, roles and responsibilities, services provided by MS, Meetings Resource management including financial, human resources. The manual would be finalized after taking feedback from all concerned people. APMAS supported SERP –IB team in developing Zilla Samakya module and developed one of its chapters as requested by the SERP-IB team. The CB team attended meetings conducted at SERP on developing session plan for conducting a four day program on IB/MF/CIF process and best practices which includes one day planning, one day video conference and two days workshop on best practices. APMAS team also supported SERP team in designing the training schedules on best practices which would be facilitated by the senior CRPs at the district level. APMAS has also signed a MOU Andhra Pradesh Urban Services for the Poor implemented by the State Government with the funding support from DFID. APMAS provides intensive support to APUSP in promotion of three SHG Federations in three towns of Andhra Pradesh and extensive support to all APUSP staff in formation of Federations in the remaining 39 towns.

(5) APMAS also aims at increasing the retention of members and their graduation to higher investment opportunities, but wisely without quantification of the indicator, as this is completely in the hands of the banks. The number of new bank loans has stagnated around 2003-2005 and in fact fallen in 2005-06, indicating that the establishment of new groups in AP has been nearing a saturation point. However, the total number of bank loans to SHGs disbursed p.a. has continued to increase substantially, from about 159,000 in 2003-04 to 261,000 in 2004-05 and 324,000 in 2005-06. The substantial increase is due to a surge in repeat loans: from about 55,000 in 2003-04 to 154,000 in 2004-05 and 230,000 in 2005-06. Apparently the availability of CIF and state revolving funds has not noticeably discouraged

groups from accessing bank loans. Reasonably good indicators of the retention rate are, though with some methodological reservation, the ratio of repeat loans to new loans in a given year and the ratio of repeat loans to the cumulative number of loans in the previous year. The former has increased over the three-year period from 1:0.5 to 1.4 and 2.4, the latter from 1:0.2 to 0.4 and 0.5. We may assume that the availability of increasing internal funds coupled with bank loans and government funds has created opportunities for members to graduate to bigger loans for bigger investments; but there is no quantitative information available. Besides, it is hard to see that retention rates and graduation to higher investment opportunities have much to do with the interventions of APMAS; all we can say is that APMAS has been contributing to a rapidly growing self-help banking movement in AP.

Table 10: Number of new and repeat bank loans to SHGs in AP, 2003-04 - 2005-06

<i>Year</i>	<i>New loans</i>	<i>Repeat loans</i>	<i>Total p.a.</i>	<i>Cumulative</i>
Up to 2003				281.338
2003-04	104.238	55.000	159.238	385.576
2004-05	107.351	153.903	261.254	492.927
2005-06	94.311	230.000	324.311	587.238

Affiliate system: To increase its outreach, APMAS has selected several development professionals and supported them to develop as IB/MF professionals through the APMAS affiliate system. The objective of the affiliate systems is to provide required capacity building services to CBOs and SMFIs with efficiency and cost effective. To date, APMAS has developed 30 individual affiliates who are supporting APMAS in all regions. One review and two CB events are conducted for individual affiliates in every quarter and APMAS provides quality assurance support to individual affiliates in the field. APMAS wants to facilitate the establishment of network for affiliates so that the system would be institutionalized. The by-laws for registration were prepared by the steering committee of affiliates and may be registered under society act. Some of the affiliates already started generating considerable income from other SHPIs, developmental agencies by providing services.

3.3 Livelihoods

Promoting livelihoods has been a controversial issue at APMAS from inception. APMAS reports to have put up considerable thought and discussion right from the beginning on a livelihoods component, considering it a critical area in rural development. Yet, the board, donors and other stakeholders felt that it must first focus on the quality of SHGs and SHG federations as financial institutions and develop this as its core competence; expanding to livelihood promotion might come later. During the first two or three years, APMAS actively observed the livelihood initiatives of its strategic partners such as Velugu, APRLP and BASIX. In 2004-05 APMAS carried out a study of livelihood promotion, which has laid the foundation for its engagement supported by the Aga Khan Foundation (AKF). APMAS thus expanded its institutional purpose to strengthening “sustainable institutions for sustainable livelihoods”. The decision might also have been inspired by the existence of a number of federations in AP which are primarily involved in marketing, bulk purchasing, production and processing; quantitative information on this was not available.

With its SCALE livelihoods project APMAS has started to provide livelihood support services to SHG federations and SHPIs, demonstrating good practices and establishing partnerships with different agencies, with the following purpose:

To demonstrate community-based approaches for poverty reduction through natural resources management and livelihood enhancement at the local, state and national level by facilitating wider outreach and a more conducive policy environment.

More concretely APMAS aims at enhancing the capacities of community-based organizations to develop as livelihood promotion agencies in the form of SHG federations, commodity cooperatives and producer companies. Whether or not it is in the process of building up a parallel organization for its livelihoods component remains to be seen. Expected outputs over a five-year period include the following; activities are summarized in the box below:

- (1) A significant number of SHG federations and commodity cooperatives would have accessed technical and financial services to successfully implement livelihood enhancement initiatives. SHG federations at the subdistrict level would be recognized as livelihood promoting organizations.
- (2) There is an increase in the number of financially sustainable commodity cooperatives.
- (3) APMAS is recognized as a rural livelihood resource organization in the state.

In Adilabad and Cuddapah districts multilateral partnerships have been formed with the District Water Management Agency, the AP Academy of Rural Development, the Commissioner of Rural Development, anchoring the District Livelihood Resource Centers on a pilot basis, with the aim of developing them into independent institutions. APMAS also works with the Center for Environmental Concerns to develop innovative approaches in land development through SHGs. With WASSAN and the Indian School of Livelihood Promotion it develops customized training modules.

APMAS will have to decide how much emphasis and resources it is going to devote to the SMFI and livelihoods component, and whether the livelihoods unit is kept under the same organizational roof or spun off as a subsidiary or separate organization. There seems to be a tendency of mainstreaming livelihoods and keeping all under one roof. APMAS reports that under the heading *Mainstreaming Livelihoods in the work of APMAS*, a common understanding workshop has been organized with representation of all the teams in APMAS as an initiative for mainstreaming the livelihoods work in APMAS.

Box 7: Activities of the livelihoods unit

- Intensive discussions on livelihoods strategy with board, key players and experts.
 - Publication of a report of the workshop on “AP Livelihoods strategy”
 - State-level workshop on SHGs: Managing Scale.
 - Regional workshop in Anantapur and a district workshop in Adilabad on “Sustainable Rural Livelihoods”.
 - Adaptation and translation into Telugu of the Livelihoods resource book of BASIX.
 - Collaboration with SERP for the livelihoods study and with CRD for rural livelihoods program formalized
 - MOU with APRLP in Anantapur to strengthen 50 Village organizations of SHGs in livelihoods promotion.
 - Separate unit for the livelihoods program established, staff and consultants recruited.
 - Livelihoods resource centre equipped with baseline studies of livelihoods in AP, resource books and journals.
 - A majority of the staff of APMAS have participated in workshops/exposure visits
 - District livelihood resource centers in Adilabad and Cuddapah established, MOUs signed with Department of Rural Development at state and district levels
 - National workshop on sustainable livelihoods: Emerging practices
 - District workshops on best practices in watersheds, NTFP & marketing, productivity enhancement in Kadapa and Adilabad
 - Training-of-trainers programs for the staff of district and cluster livelihood resource centers across the state.
 - NGO empanelling for watershed implementation in 12 districts in collaboration with Commissioner of Rural Development, APARD and WASSAN.
 - Partnership with SERP-IKP evolved, and 5 Livelihood resource clusters of mandals identified and staff positioned for intensive work on livelihoods
 - Support provided to the office of the Commissioner of Rural Development in designing the scheme and developing guidelines for the implementation of the AP Rural Employment Guarantee Scheme
 - Publications: AP livelihoods study report, poster on livelihoods promotion, ‘*Jeevanopadhi*’ Telugu version of Livelihood Resource Book developed by BASIX.
 - Dissemination of the findings of the AP livelihood study: at national, state and district level workshops.
 - National Immersion program on Livelihoods for participants from other states
 - Research: Situation analysis in watersheds in Adilabad and Cuddapah districts, Case study on NTFP collection and marketing, Soya subsector study, study of bulk milk cooling units in Chittoor, and a study of community investment fund for livelihoods
 - AP livelihood learning group: thematic discussions on livelihoods, livelihood finance and capacity building
 - Special issues of newsletter “Mahila Sadhikarata” on Watersheds, Organic farming etc.
- Formalized collaborations with AKSHARA, CEC and CRD-RLP and collaborative efforts with BASIX-ISLP, SERP and WASSAN

While it is very tempting to promote federations both as financial and commercial value-adding business organizations, hoping to create a virtuous cycle of viable financial services and viable income-generating activities, the international experience of doing both rather than specializing on one has not been positive, despite all the hype for Credit plus. APMAS would be well advised to have the feasibility of the two joint or separate organizational models carefully analyzed.

3.4 Research & Advocacy (R&A)

In APMAS's organizational structure research and advocacy are intertwined, with research serving as a tool to identify issues for advocacy. The results of the studies shape APMAS's own work in the field and are disseminated to government officials, NGOs, bankers and other stakeholders. Main instruments of dissemination by the R&A unit are publications, a website and the newsletter *Sadhikarata* in Telugu, the state language. At national and state level APMAS actively participates in events organized by other institutions, including Sa-Dhan, a national microfinance association and forum for national policy advocacy dialogue.

The research wing of the R&A unit has produced 16 studies on the quality of federations and their impact, SHGs, SHG-bank linkages, defaulting and government interventions like the Community Investment Fund and the Rice Credit Line for Food Security. Most recently, in the context of a publicly discussed *MFI Crisis*, APMAS has carried out a study of MFI lending practices and participated in a policy meeting at RBI. A list of studies is given below.

Box 8: Studies of the R&A unit, 2001-2006		
<u>Study</u>	<u>Year</u>	<u>Client</u>
A. In-house research studies		
1. The SHG Movement in Adilabad, Cuddapah & Vishakhapatnam Districts in AP	2001-02	APMAS
2. SHG-Bank Linkages in AP	2002-03	APMAS
3. Bank Linkages and Defaulting of SHGs Linked to Andhra Bank in AP	2004	Andhra Bank, APMAS
4. Financial Analysis of SHGs in India	2004	APMAS, CGAP
5. The Rice Credit Line Programme in Guntur District of AP	2004	Velugu Guntur District, APMAS
6. Quality of SHGs in Andhra Pradesh	2004	APMAS
7. Spandana's Microfinance Activities in Guntur D.	2005	IKP
8. The Community Investment Fund in AP	2005-06	APMAS
9. Voice of the People on Lending Practices of Microfinance Institutions in Krishna District	2006	IKP-Krishna, APMAS
B. Joint /collaborative studies		
1. Optimising SHGs	2004-06	GTZ/EDA
2. Quality Issues in the Microfinance Sector in Rajasthan	2006	CARE- India, CmF, APMAS
C. Studies Outsourced		
1. Base-line Study on APMAS	2004	Thinksoft, Hyderabad
D. Studies by interns		
1. SHG Bank linkage: A Study in Andhra Pradesh	2003	Roda Misra College of Social Work Hyderabad
2. The Animator System in Andhra Pradesh	2004	College of Social Work, Bhimavaram
3. Competition among the Micro-finance Institutions and its Implications	2004	IRMA, Anand, Gujarat
4. Village Federations-Bank Linkage: A case study in Kama Reddy Mandal of Nizambad District	2006	Xavier Institute of Management & Entrepreneurship Bangalore
5. Microfinance Institutions in Andhra Pradesh	2006	APMAS/

Dissemination of the results of field experience and structured research is in the hands of a communication wing and resource center in the R&A unit, which produces a broad range of printed research studies, tools and handbooks, videos and e-learning material, either in English or in Telugu. Future collaboration with other resource centers and with national and international agencies of knowledge generation and information exchange are considered major challenges.

Among the **strengths** of its R&A unit APMAS lists the following:

- APMAS has emerged as a quality research institute in the field of microfinance.
- Serves as a resource center on SHGs, federations and microfinance for academicians, researchers, policymakers and advocacy institutions those who are working.
- Findings are widely disseminated at district, state and national level and have influenced the thinking of various people engaged in microfinance.
- The unit has improved the research and advocacy skills by involving all the regional and head office teams in research and advocacy events.

Among its **weaknesses** are the following:

- Inadequate collaboration with universities, and research institutions and NGOs.
- Inadequate attention to the general literature on SHGs, federations and self-help banking
- There is a wealth of primary data not fully analyzed.
- Many research reports have not been transformed into publications.
- Many studies are not available on its website.
- Links between research and advocacy are still weak; advocacy is not effectively focused on policymakers.

Learning from five years of experience, the Unit plans in the future to focus more on short-term action research on relevant topics to influence policymakers and implementing agencies. It also plans to strengthen its cooperation with universities, research institutions and development professionals and involve them in advocacy events. At the same time it plans to update and maintain its data bases on SHGs, federations and NGOs; and to go more systematically about the review of the existing literature and produce and publish reports of high quality.

APMAS's aspiration to comprehensiveness and high academic standards is certainly laudable, but might exceed its capacity as well as its mandate. APMAS is not an academic research institute; its studies must remain subordinate to its purpose, enhancement of the sector of self-managed MFIs, comprising SHGs and their federations. As its primary role is not direct intervention in the sector but strengthening implementing institutions, among which governmental agencies are most prominent in AP, its *applied research* must be focused on:

- Improving the quality of the interventions of implementing institutions in the field

This ambitious program will indeed require a stronger collaboration with universities and research institutions, but not on an ad-hoc basis as commonly done which suffers from considerable communication problems between academics and practitioners, but on a long-standing basis. A balance will have to be found between long-term basic research, which belongs into the hands of academics, and short-term applied research, which is better managed by APMAS; both need to be coordinated. Through long-term relationships with academic institutions some of the problems APMAS has experienced with joint and outsourced studies may be avoided.

Advocacy, geared to the enhancement of the sector of self-managed MFIs such as SHGs and their federations, is carried out by APMAS in three ways: through workshops, regular advocacy discussions, and personal contacts with policy- and decision-makers. While the former two are structured in some way and reported on, the latter is unstructured and goes unreported, yet is not less important. APMAS reports the following advocacy events:

- A state-level workshop on QA rating tool for all SPHIs in AP, 2003
- A national workshop on SHG federations for SHPIs, SMFIs and banks, 2003
- Camp on Women's Issues for SHGs and federations, 2003
- 4 state and district consultations for government officials and NGOs, 2002-05
- State and district workshop on SHGs for banks, NGOs, SHPIs, SMFIs, GOs, 2004
- State-level workshop on livelihoods and APLLG for LHPIs, 2004

Regular advocacy discussions are held with the following organizations:

- Sa-Dhan, Share, Spandana, SKS and BASIX on healthy foundations of microfinance
- SLBC on bank linkages and ratings
- SERP/Velugu/IKP on institution-building, microfinance and livelihoods
- PRIA on PTM and panchayat raj
- The Rural Development Department of AP on livelihoods and SHG movement
- The Urban Development Department of AP on urban SHGs
- CASHE project partners, GRAM, CEAD on strengthening the SHG movement
- WASSAN network on rural livelihoods promotion

There is no information on the effectiveness and impact of these workshops and discussions. In fact this could only be determined by reversing the direction of analysis: listing in a temporal order changes in practices and policies at local or state level and describing in each case how APMAS has contributed to this change. This will not solve the attribution problem, but would provide some circumstantial evidence.

Refocusing advocacy

But attribution is only a secondary problem, compared to the **core problem**: that the required good practices, propagated by APMAS, of promoting viable and sustainable federations are not backed by policies and the political will to enforce them from the top. The strongest evidence of this failure is provided by the study (though based on a very small sample) APMAS has done on the impact of NGOs and government agencies (Velugu/IKP) on the quality of federations: none in the case of government-promoted federations! During its five years in existence APMAS has focused mainly on practices and tools to be applied at the field level, realizing at the end (through its own impact studies) that it has not been able to effectively contribute to the development of healthy and self-reliant federations and appropriate support practices of government institutions. APMAS's work at the bottom has been important and certainly effective in many small ways, but now needs to be complemented by systematic interventions at the top, ie, the policy level, thus carrying the lessons learned and recommendations *bottom-up* to the top of policymakers and then contributing to their implementation *top-down*. This requires a refocusing of APMAS's advocacy function:

- Contributing to a conducive policy environment for a healthy and self-reliant self-help banking sector in the state, and to the effective adoption, supervision and enforcement of conducive policies at the local level by implementing institutions, particularly government projects and interventions.

This refocusing will not substantially alter APMAS's work in the field, be it with the SHGs and federations or with the implementing institutions; this type of work needs to be continued, lest APMAS loses its experiential base and its credibility. The refocusing will create the policy environment for an effective engagement of APMAS promoting self-help banking in the field.

4. The impact of APMAS: mission initiated

4.1 The departure point: poor quality of groups at baseline

APMAS is probably the most persistent researcher and promoter of emerging federations, based on quantitative and qualitative assessments. This has first provided a basis for quality enhancement of federations and member SHGs; next it may provide a basis for the evolution of a comprehensive self-managed and self-reliant system of self-help banking, with SHGs and SHG federations as core elements. APMAS has done three major studies of federations which provide some raw material for APMAS's own assessment:

- Status of SHG Federations in AP: APMAS Assessment Findings, 2003
- Status of SHG Federations in AP: Quality Assessment, 2006
- Impact Study of Quality Assessment on SHG Federations in AP, 2006

The 2003 study includes data on 24, the 2006 study on 83 federations²⁷ assessed by APMAS. The third study is based on a sample of 14 federations and includes six case studies. Given a total number of 30,000 federations in AP (and close to 70,000 or more nationwide), in statistical terms the three studies can at best be considered as indicative. This chapter is largely based on the research by APMAS.

The departure point for APMAS's intervention was the poor quality of groups and the recognition that the rapid expansion of the SHG movement had taken place at the expense of quality. Book-keeping was not standardized and in fact frequently hand-made; there were no balance sheets; and there was no mandatory monitoring and auditing of SHGs. APMAS reports that in 2002 it carried out what it considers a baseline study in three districts of AP, comprising groups with and without bank linkages as well as dormant groups and found that less than 20% of the sample SHGs were of good quality (A or B grades). For the state as a whole APMAS estimated that less than one-third of the SHGs were of good quality.

Remarkably higher grades were reported in subsequent studies. In a study of 400 bank-linked SHGs in 8 districts of AP in 2003 APMAS found that 66% were A grade, reflecting the directive from NABARD that only groups graded A should be credit-linked to banks. Under targeting pressure banks in actual practice also lent to groups graded B and sometimes even C. The comparison of these two studies shows that general statements of good or poor group quality need a qualifier: whether the studies pertain to all SHGs or to those only which are credit-linked to banks.

In a study with CGAP of 150 SHGs in 5 states it was found that "SHGs are financially viable from the first year of operation" (though bookkeeping was found to be poor, and so was repayment of loans from internal funds). In 2004 APMAS studied 400 SHGs from all districts of AP and found that 41% were A grade and 42% B grade, totalling 83% with good grades (though surprisingly, regular savings were found in only 28% of the groups).

The largest number of SHGs were rated by the Velugu project in 2004: Out of 361,180 SHGs under the project, 55% were rated A and 31% B, totalling 86% with an A or B grade, which is very close to the results of APMAS's own study during the same year. It is not clear, and would require further study, whether and to what extent these good marks are due to the influence of Velugu and, more indirectly, of APMAS. Such an impact study would have to take into account (a) the varying dates of entry of Velugu, calculating the impact of Velugu per annum; and (b) the data of entry of APMAS as a support organization and the intensity of its involvement with Velugu.

²⁷ 3 federations at village level, 21 at cluster level, 59 at subdistrict level and 1 at district level. 45 were initiated by NGOs, 38 by GOs.

Table 11: SHGs rated by Velugu, 2004

Grade	Number	Percent
A	198,244	54.9
B	110,850	30.7
C	52,086	14.4
Total no. of rated SHGs	361,180	100.0
Total no. of SHGs in Velugu	444,530	

A second type of study would pertain to APMAS's impact on the staff of Velugu. All we have so far are data on APMAS's inputs (eg, in terms of training). Such a study would require rigorous tests of participants: (a) what have they learned; (b) what have they implemented; and (c) what differences has this made in the field. Of course it would be struggling with the attribution problem.

4.2 At the level of assessment instruments: contingent impact

APMAS decided on a systematic approach of first developing, together with partner organizations, the required tools, then training promoting and implementing institutions in their use, and finally using these tools in evaluating its own impact. There are three impact dimensions at the level of assessment instruments: (a) tool development; (b) their usage; and (c) their institutional impact on federations and SHGs. End-user impact (on microeconomic activities, income and livelihoods of SHG members) is not included. Policy impact is also not included, as this rather is a topic of the future.

APMAS developed the following tools:

- a standardized accounting system for SHGs
- a standardized balance sheet for SHGs as part of the accounting system
- the Critical Rating Index (CRI) under the lead of NABARD for the rating of SHGs
- Commitment Tool, for rating SHGs with disabled members
- SHG Rating, developed with MAVIM for assessing the performance of SHGs
- GRADES, a complex instrument for rating federations and other self-managed MFIs (SMFIs)
- GRADES II, a customized medium-length version
- Rapid Assessment Tool (RAT), a greatly abridged version of GRADES
- CoopRATE, a rating tool for cooperative federations without external borrowings
- Social Intermediation Tool (SIT), for assessing SMFIs engaged in social intermediation.

Within a five-year period, the two most important contributions of APMAS in the field of tool development, together with quality enhancement based on the transmission and use of these tools, have been (i) a standardized simple accounting system for SHGs which includes a balance sheet, the latter essential for transparency and supervision; and (ii) GRADES, a rating instrument for federations, with its abbreviated version, RAT. APMAS, in consultation with governmental and non-governmental promoting agencies as well as NABARD and banks, decided on a two-pronged approach: (a) quality assessment through rating of federations including rating of member SHGs as one of the indicators of federation quality, and (b) quality enhancement of the institutions involved. Quality enhancement is ultimately directed at the federations and SHGs as financial intermediaries. While APMAS is also directly involved in quality enhancement of SHGs and federations to test and improve its quality enhancement practice and instruments, its main approach is quality enhancement of governmental and non-governmental institutions as promoters of SHGs and federations. This has entailed the following steps:

- Developing and testing the rating instrument
- Revision of the instrument in 2004-05
- Rating 333 federations (comprising 266 village-level federations and 67 subdistrict- and district-level federations, thereby identifying their strengths and weaknesses
- Rating some 1000 SHGs as members of the rated federations
- Training affiliates in the use of rating instruments, who in turn rated 197 village federations using GRADES and another 100 village federations using the short instrument, RAT
- Training governmental and non-governmental organizations as promoters of SHGs and federations
- Initiating a process of quality enhancement among the rated institutions, mainly through governmental and non-governmental promoting organizations
- Developing a self-assessment tool for SHG federations (under preparation)
- Analyze assessment data and publish the results.

GRADES is based on standard rating instruments such as CAMEL, GIRAFE, PEARLS and MICROS used for the assessment of savings and credit cooperatives and (other types of) microfinance institutions. The instrument was developed by APMAS in collaboration with Microcredit Ratings International Ltd (M-CRIL), New Delhi. The initial research preparatory to GRADES was funded by the World Bank-supported Velugu/IPK project. The acronym stands for the six dimensions of the tool: Governance, Resources, Asset Quality, Design of systems and implementation, Efficiency & profitability, Service to SHGs and SHG performance. The instrument is available in three versions:

- a full version with 95 indicators, which requires a total input of 14 person-days at a cost of Rs 15,000 to 17,000
- a customized GRADES II version for village federations, requiring 6 person-days at a cost of Rs 2,000
- a short version with 20 indicators, *Rapid Assessment Tool (RAT)*, which can be applied in <1 day.

The rating of federations includes the rating of a sample of SHGs in each federation. The SHG Rating Tool is based on NABARD's Critical Rating Index (CRI), in the development of which APMAS had also been involved. APMAS's *CRI+* comprises three major components: systems & self-management, social aspects and financial aspects.

In an analysis of 273 federations (out of 333) rated by APMAS 25 % were rated A or B+, 40% B or B-, and 35% C+ or C, the lowest grade given – leaving much room for improvement.

Table 12: Grades of 273 federations rated by APMAS, 2002-2006

<i>Grade</i>	<i>Number</i>	<i>Percent</i>
A	2	0.7
A-	32	11.7
B+	35	12.8
B	74	27.1
B-	34	12.5
C+	19	7.0
C	77	28.2
Total	273	100.0

An analysis of a smaller sample of 83 *comparable* federations rated by APMAS during 2003-05 yielded on average a moderate performance level of B-. 40% were rated A or B+, 29% B or B- and 31% C+ or C. Overall the federations performed well at resource mobilization, moderately in governance, design of systems, services to SHGs and SHG performance, and poorly in asset quality and efficiency & profitability. However, the assessment of poor

profitability must be seen in light of the benchmarks set by APMAS, return on assets (ROA) >6% and return on equity (ROE) >12%; this reviewer is still impressed by the actual values of 3.5% and 8.6%, respectively, given the young age of the federations. Recommendations to primary stakeholders derived from the analysis included the following:

- Federation formation to be based on a felt need of the members
- To be promoted through a process-oriented approach,
- legal registration,
- organizational separation of financial and non-financial purposes,
- employment of paid professionals,
- to be rated by a credible rating agency,
- monitoring of recovery performance.

Recommendations to secondary stakeholders included:

- improving the legal and regulatory framework,
- including a “Self-Regulation Organization (SRO) to regulate & supervise the SHG federations”,
- setting of performance standards,
- capacity building of large numbers of professional promoters of federations,
- improved accounting and internal control systems,
- development of policies and modules (pertaining to credit, human resources, accounting, training, organizational system, internal controls),
- improving the infrastructure for small payments and credit information,
- linkages with government, banks service providers and the private sector.

The impact of the usage of the instruments pertains to several levels, contingent upon their adoption by stakeholders and implementing institutions:

- The rating of 333 + 297 federations and 1000 SHGs, which has involved the staff of these institutions as participants and initiated spontaneous processes of quality improvement to varying degrees
- Detailed assessment-based analysis and recommendations for improvement (see *Annex*)
- Implementation of recommended improvements through trainings
- Availability of a rating instrument to any institution involved
- Actual adoption of the rating tool by a variety of promoting institutions and projects, among them:
 - Government organizations such as SERP/Velugu/IKP, DRDA, MAVIM, APRLP
 - International organizations such as CARE Intl., NOVIB
 - MFIs like FWWB, BASIX
 - Banks including SIDBI (SFMC), commercial banks. rural banks
 - NGOs like ASP, YIO, GRAM
- Refinancing by banks based on results of rating
- Refinancing by other institutions (particularly GO) based on results of rating.

The greatest shortcomings, or challenges, lie in the latter two impact dimensions: refinancing by banks and other institutions on the basis of the rating results; this is the focal contingency factor. Apart from a few exceptions the banks still lend directly to SHGs and do their own assessments of SHGs, ignoring federations. At the same time the AP State Bankers Committee has issued guidelines that federations must be rated, but has not given implementation recommendations. This has discouraged banks from lending to federations, restricted the demand for assessments and thus greatly reduced the potential impact of APMAS. Government projects like Velugu/IKP lend through federations, but partly for political reasons and partly due to the absence of ratings tend towards a standardized procedure.

There seems to be a limited awareness of the importance of rating among the government agencies in AP. In the words of a senior staff member of APMAS: “No one is really listening when we talk about the need for quality assessment; government and banks are not interested.” Rating has not yet become part of a standard procedure, for several reasons: federations are still relatively new; banks have barely started to lend to federations; the rating instrument is relatively new; the main rating tool is overly comprehensive and costly; and rating has not yet been made mandatory by the various authorities involved. The main challenges to the effective utilization of the instrument and thus the potential impact of AP are:

- Adopting and disseminating a greatly abbreviated rating tool (such as *RAT*), reduced to critical indicators for lending decisions
- Training large numbers of chartered accountants accredited by the banks in the use of a rating tool
- Reaching an agreement with NABARD to make rating mandatory
- Reaching an agreement with the government in AP to make rating mandatory.

4.3 At federation level: (preliminary) conclusive evidence of no impact

To study the impact of APMAS on federations, major studies would be required, longitudinal and cross-sectional. Such systematic studies do not exist. This chapter thus reports on findings from an existing study and has to be interpreted within these limitations.

To study the impact of its QA on federations, APMAS took a purposive sample of 14 federations from a total of 122 federations that had been assessed at least one year before the date of the study. The study does not differentiate between areas and federations with and without APMAS intervention. The sample includes second- and third-tier federations. Three of the larger third-tier federations on which data are given comprise a total of 861 SHGs altogether with 11,000 members.

Table 13: Repeat assessment of 14 federations in Andhra Pradesh by APMAS

MACS Visited	Promoter	Rating		Grade	
		Old	New	Old	New
Bharatha Matha MACS, SN Padu, Prakasham	DRDA	50%	50%	C	C
Jainoor Mandala Samakhya, Jainoor, Adilabad	TPMU	61%	57%	B	B-
Gadivemula Mandala podupulaxmi Samakya, Kurnool	UNDP	71%	71%	A-	A-
Navipet Intideepam Mahila MACS, Navipet Nizamab	GRAM	67%	70%	B+	A-
Sneha MACS, Kandukur, Ranga Reddy	DRDA	52%	56%	C+	B-
Chandrodaya Mandala Samakhya, Gudihathnoor, Ad	TPMU	50%	53%	C+	C+
AMMACTS, V Kota, Chittoor	ACTS	70%	72%	B+	A-
Spoorthi MACS, Kandukur, Prakasham	ASP	31%	51%	C	C+
Navajyoti, Dubbaka, Medak	Navajyothi	69%	76%	B+	A
Swarna Mukhi Mahila MACS, Srikalahasthi, Chittoor	YIP	43%	58%	C	B-
Cherukucherla Gramikya Sangham, Kurnool	APRLP	57%	66%	B-	B+
Yacharam Bahujan MACS, Yacharam, Ranga Reddy	ASP	34%	68%	C	B+
KMMS, Kosgi, Mahabub Nagar	UNDP	60%	69%	B-	B+
Kothachervu	YIP	38%	NA	C	NA
Overall		50%	61%	C+	B

About half each of the sample federations had been promoted by GOs and NGO. 3% had previously been rated A, 50% B and 47% C. Methodologically the ratings done in the framework of the new study were compared with the ratings of the previous assessment; new ratings are available on only 13 out of the 14 federations. APMAS points out that the results are constrained by:

- the small sample size which does not allow for generalizations; and
- the attribution problem which does not permit to explain differences found solely, or mainly, in terms of the influence of APMAS.

Again, as in virtually all small sample studies done on SHGs and federations, the results are at best indicative.²⁸ Overall the rating of the federations assessed in the sample study has gone up from 50% to 61%, the grade from C+ to B. However, this covers a wide range of changes in performance, negative and positive:

- In three of the federations the ratings have gone down or remained the same: two have remained constant at A- and C, respectively; one has declined from B to B-. All three are promoted by government agencies (DRDA, TPMU, Velugu/IKP). It is notable that all three have done down in asset quality and SHG performance.
- In four of the federations the improvements are slight so that the impact of interventions may be insignificant. These comprise both government- and NGO-promoted federations.
- In six federations improvements are substantial, averaging 17 percentage points. The largest improvement was by 34 percentage points

Poor impact of government promotion: Out of seven federations promoted by government three declined in scoring or remained the same, two improved only insignificantly, and only two improved markedly. In contrast NGO-promoted federations responded positively to recommendations given by APMAS after the initial assessment and improved in all dimensions of the GRADES scoring system. NGO-promoted federations improved by an average of 18 percentage points, government-promoted federations by a mere 3%. The most spectacular differences are found in human & financial resources, where NGO-promoted federations improved by 17%, while government-promoted federations declined by -3%; and in asset quality, where the former improved by 12% and the latter declined by -12%, namely from an already low 33% to 21%. In terms of efficiency and profitability the former improved by 12% (from 58% to 70% and the latter stayed the same (at a relatively high level of 71%).

Table14: Repeat assessment of federations in AP in terms of GRADES dimensions, by promoting agency (NGO vs GO)

	Over all Rating				NGO Rating			Govt Rating		
	Old	New	Change (% Points)	Trend	Old	New	Change (% Points)	Old	New	Change (% Points)
Governance	51%	61%	10%	↑	51%	64%	13%	51%	59%	8%
Resources	64%	71%	7%	↑	58%	75%	17%	70%	67%	-3%
Asset quality	37%	37%	0%	↔	43%	55%	12%	33%	21%	-11%
Development	48%	63%	15%	↑	39%	56%	17%	57%	70%	13%
Eff & Prof	65%	71%	6%	↑	58%	70%	12%	71%	71%	0%
Sys & Oper	43%	58%	15%	↑	42%	61%	19%	44%	54%	10%
SHG Perf	58%	61%	3%	↔	51%	57%	5%	63%	65%	2%
Overall	50%	61%	11%	↑	43%	61%	18%	57%	60%	3%

In terms of client feed back, both promoting institutions and federations agreed on the utility of the report (88% each), its beneficial nature (100% each), and the need for follow-up activities (100% each). Some discrepancies were found with regard to the felt need for additional training (67% vs 100%), interest in re-assessments (50% vs 92%) and the ability to

²⁸ As I have argued in small SHG studies of my own in India, strictly speaking the studies test and demonstrate a methodology that, if found promising, can be applied in larger representative studies.

pay for the assessment (33% vs 50%). Substantial differences in judgement were found in terms of understanding of the report (75% vs 9%), quality of the report (100% vs 45%) and the quality of recommendations (88% vs 67%). These major discrepancies in client feedback are due to the fact that assessment reports are delivered in English, which is generally understood by the staff in promoting institutions, but not by the staff or representatives of federations, which generally speak only Telugu, the state language in AP.

APMAS concludes that:

“The overall impact of quality assessments on the SHG federations is good for federations promoted by NGOs and there has been almost no impact on government promoted federations when considered on an overall basis.”

However, if we take into consideration the fear of many observers including some at NABARD that government interventions with grants and soft loans might destroy the SHGs and their federations, then the statistical finding of “no impact” might in fact indicate a real impact in the sense of damage prevention. This may be little consolation to an organization which works primarily through government organizations and the enhancement of their quality. Yet, at the same time this may also indicate that more work is required at the policy level, striving for a more conducive policy and project framework and more effective way of enforcing policies and standards. This means for APMAS that it may have to strengthen its advocacy role.

4.4. At regional level: inconclusive evidence of some impact

In cooperation with the Velugu/IKP project of DRDA APMAS proceeded in the Chittur region in three phases. In phase I, starting in December 2001, it took direct responsibility for ten subdistricts, focusing on SHGs in the absence of federations. It provided intensive support to subdistrict coordinators, animators and SHGs, with hand-holding support and monthly reviews, problem-solving and assistance in setting up accounting systems. In the remaining 44 subdistricts it provided extensive building of the Velugu staff and trained 525 animators. Phase II started in 2003, with a focus on the promotion of SHGs and SHG village federations. APMAS developed a Participatory Training Methodology (PTM) and helped Velugu with staff recruitment, selection and induction and capacity building. One subdistrict, from the poorest area, was selected to be developed as a testing ground and model, with a view of replicating this in the other areas. APMAS helped setting up a system of SHGs, village federations and subdistrict federations, with savings at group and federation levels, bookkeeping and norm-setting at all three levels, capacity building of federation board members, five-year business planning. In Phase III Velugu/IKP decentralized its approach, regrouped the 44 subdistricts into ten cluster, each under an area coordinator. APMAS focused on one demonstration cluster and provided district level capacity building to the staff of IKP and DLRC.

APMAS claims that in phase I it had a direct impact on 10,000 SHGs, and in phase II on 11,430 SHGs and 573 village federations, bringing its total outreach to over 20,000 SHGs and 573 federations in the Chittur region. In terms of impact dimensions, it lists a number of qualitative approach and input variables, which revolve around the establishment of a system of external support:

- Developing, testing and pilot-implementing the approach
- Giving direction to the strengthening of SHGs and federations, which in AP is under World Bank funding since 2000
- Disseminating the approach throughout the district through Velugu staff capacity building and follow-up
- Training and motivating previously untrained and unmotivated Velugu staff
- Providing planning support to subdistrict federations and supporting project staff

- Organizing monthly meetings, a reporting system
- Leadership of federations
- Enhancing the mutual accountability of project staff and federation boards
- Establishing subcommittees in federations for special tasks (eg, resource mobilization, bank linkages, livelihoods, social action)
- Improvements of accounting and book-keeping systems
- Introducing savings and capital formation mechanisms at all levels
- Preparation of annual work and financial plans
- Monthly review of plan implementation
- Supporting a repayment mechanism of internal and external funds

APMAS also gives some quantitative indicators of impact:

- Repayment rates in bank linkages in APMAS clusters are 98-100%, in other clusters 90-100%
- After APMAS intervened in Seadum subdistrict the repayment rate of CIF seed capital increased in 9 months from 3% to 40%
- In Chakreayeapetea subdistrict where banks had lent without doing any appraisal 34 SHGs defaulted to an extent of Rs 1.5m. APMAS formed a recovery team together with project and bank staff. After having visited each SHG 3-4 times over a period of 6 months, all SHGs started repaying.

At the policy level APMAS also initiated a move from equal disbursement of internal and external loanable SHG funds to differentiated so-called need-based lending.

There is thus anecdotal evidence of a significant impact of APMAS; but this has not been submitted to any rigorous systematic study. If APMAS wants to have quantitative evidence of its impact on institutional variables of SHGs and federations, it would have to select a number of easily available quantitative indicators such as growth of internal funds and external borrowings, mean loan sizes and periods together with standard deviations (as an indicator of need-based lending), and repayment rates. It would then design separate studies of SHGs, village federations and subdistrict federations and compare areas of intensive, extensive and non-existing APMAS support, taking into consideration the number of years of support.

This would still leave two major questions open: (i) To what extent is the impact due to APMAS's strengthening of the staff of implementing institutions (which it considers its purpose) vs its own intervention in the field as if it were an implementing institution itself (which has not been its purpose)? (ii) To what extent is the impact sustainable once APMAS leaves? The latter is not just a question to be answered in the future. Sustainability factors have to be built into the system, ie federations, which are permanent organizations, rather than project staff, which are temporary. This takes us back to our fundamental concern: the building of a sustainable self-help banking sector, which is still a long way off.

In sum, reporting of APMAS focuses on inputs, such as number of people trained. With regard to impact of QA and QE, there is a lack of evidence. APMAS has carried out a quasi-longitudinal impact study of 14 federations, promoted by governmental and non-governmental organizations. This has produced some indicative results, particularly on the ineffectiveness of government agencies, while NGOs performed better. But for methodological reasons their validity is doubtful because of the very small sample size. A much larger representative sample would be needed. Given the importance of Velugu/IKP as APMAS's main partner, this may be drawn from areas only where that project is active. If we want to find out the impact of (a) APMAS on Velugu/IKP and (b) Velugu/IKP on the federations, a comparative study would be needed of randomly chosen federations in areas of (a) APMAS's intensive involvement, (b) extensive involvement and (c) no involvement. A study of impact on SHGs organized in federations may be included as a proxy for impact on

federations. The study should be designed in cooperation with state-level policymakers responsible for IKP and federations and with bankers, to assure that their concerns are included and feedback is assured on policy and bank lending to federations. The study may be designed as a longitudinal study over a number of years to come:

- Carry out a representative longitudinal study of the impact of APMAS on Velugu/IKP and Velugu/IKP on federations comparing areas of APMAS's (a) intensive, (b) extensive and (c) no involvement.

4.5 Potential future impact: from exclusive to inclusive finance

In AP the focus in self-help banking is shifting from informal SHGs to federations which are part of the formal financial sector. This trend will continue, recognizing federations as financial intermediaries for a variety of purposes, eg, including the handling of pension payments, land purchase schemes for the landless and other government programs. Federations will gradually take over most of the functions of SHGs. This will require a re-examination of the role of SHGs, which will gradually turn into subunits of the federations. For the time being SHGs are still lenders of first resort, and are being strengthened as such; but this is likely to change in due course. Federations will eventually take the role of village banks, serving not only poor women but women and men, the poor and the non-poor. This will make them truly inclusive local financial institutions, which at present they are not. Not all promoters will agree with this shift in focus to federations; but they must not forget that SHGs are not an end in itself: the end purpose is access to a full range of financial services for all segments of the population including the poor; with the continual growth of funds, this purpose will eventually be better served by federations.

APMAS has rightly positioned itself as a support institution focusing on the development of sustainable federations, placing itself at the vanguard of a transition to sustainable self-help banking. It now has to enter into a policy dialogue with NABARD and the Government of AP on the future role of SHGs and federations as part of a self-help banking system; and on the transition from an exclusive poverty lending approach, which is unsustainable in the long run, to inclusive sustainable local financial institutions in rural as well as urban areas.

Given the focus of NABARD as the champion and prime mover of SHG banking in India on rural finance, the ongoing shift from exclusive rural self-help banking to inclusive rural and urban self-help banking raises a difficult question: does the movement need another champion? Not necessarily so, says the experience of Bank Rakyat Indonesia, the Agricultural Bank of Iran, the Banque Nationale Agricole of Tunisia, Rabobank in the Netherlands, cooperative banks in Germany and institutions in many other countries where cooperative banking has started exclusively in the rural sector and moved on to inclusively encompass rural and urban sectors across poverty thresholds.

5. Lessons learned, challenges and options²⁹

5.1 The role of APMAS: ensuring quality in self-help banking

A capacity-building support organization: APMAS understands itself as a support organization, building the capacity of promoting and implementing institutions in SHG banking in Andhra Pradesh and beyond; it is not itself an implementing organization or an MFI. It works with, and mediates between, major implementing stakeholders: government agencies, NGOs and banks, with a focus on government organizations as the main implementing agencies and coordinators of stakeholders in AP.

Targeting sustainable SHG federations: APMAS supports an evolutionary process of self-help banking, with the objective of contributing to the building of a self-reliant, sustainable self-help banking sector. It targets SHGs and SHG federations which are self-managed and, on principle, self-financed and supports in particular the process of building federations at village-, subdistrict-, district- and state-level as vertically interlinked sustainable institutions. Initially it focusing on SHG banking in rural areas, but is now expanding its services into urban areas.

Providing rating and capacity-building tools: APMAS provides tools of observation, assessment and capacity building to all stakeholders involved, including instruments of self-assessment for SHGs and federations, thereby making preparations for an expected massive move of the banks into federation refinancing:

- Bookkeeping and accounting formats (including balance sheets and income statements for SHGs and federations)
- Rating instruments (one long and intensive, one short and rapid)
- Self-assessment instruments for SHGs and federations
- Various capacity-building instruments
- Instruments for identifying livelihood opportunities, microenterprise and marketing development are under construction

Promoting livelihoods: APMAS has added to its agenda support to livelihood-promoting federations and other institutions that provide services to federations, SHGs and SHG members. The main emphasis is on specialized or multi-purpose federations involved in commercial activities such as marketing the produce of SHGs and SHG members, bulk purchasing and supplies, production, processing and value addition. The commercial activities may be the sole purpose of the federations or combined with financial services. APMAS thus combines the promotion of financial products and institutions with the promotion of livelihoods financed through these products and institutions, generating a virtuous circle of viable microenterprise activities and viable institutions.

Applied research: Through research and publication APMAS designs, tests, evaluates and disseminates practices and innovations in self-help banking, with a particular focus on institutional processes of innovation.

Advocacy for sustainable self-help banking: APMAS acts as a catalyst in advocacy, building an advocacy process, with three major elements:

- viable and sustainable self-help banking development as a goal,
- a bottom-up process that is demand-driven by the SHGs and federations, built on a strong presence in the field

²⁹ This chapter is based on a discussion with the Board of Directors of APMAS on 19 April 2006. It is understood that no final conclusions about the direction APMAS will take in the future have been reached at this point.

- combined with a top-level approach, utilizing the potential of the APMAS board which represents all major stakeholders

A learning organization: Overall APMAS takes a prudent, flexible, responsive approach and has invested heavily into capacity building of its staff, fostering systematically the building of a *learning organization*.

Recognized as an outstanding capacity-builder: APMAS has gained public recognition as the prime institution outside government and the banking sector to promote self-help banking in Andhra Pradesh. In a nutshell, APMAS is seen as the institution that ensures quality, and quality-based progress, in self-help banking.

5.2 Lessons (to be) learned³⁰

(1) Quality assessment

Rating of federations, with tools (GRADES) developed by APMAS, is not broadly adopted. In particular, there is a lack of demand for rating services from financial institutions. The credibility and acceptance of GRADES, its marketing and the payment of fees all present challenges. Partnerships would be needed with apex organizations like NABARD, SLBC and FWWB. APMAS has pondered a lesson to be learned: Rating does not suffice; even quality assessment together with quality enhancement is not enough. To have an impact, follow-up support must be packaged, and its implementation monitored; and APMAS must get involved directly in the whole process. Yet, this will not lead to the broad-based impact APMAS aspires to, as it ignores the deeper lessons to be learned. There are several reasons why rating is not widely adopted:

- a) Most federations are not registered and of poor quality; this is a major reason why banks have ignored federations as clients.
- b) Applying GRADES is an arduous and costly exercise, inspired by a perfectionist approach to rating propagated by CGAP. APMAS has learned from the experience and developed a short version, RAT; is this too short perhaps? A self-assessment tool is now being finalized; will that solve the problem? This takes us to the third and most important conclusion and lesson-to-be-learned:
- c) Rating at the present stage is done in terms of criteria and parameters which are not regulated and therefore not enforced. In the absence of regulation and the enforcement of standards, rating is seen by many as a luxury, not a necessity. Neither the promoting institutions such as Velugu/IKP nor the rated federations and SHGs are forced to adhere to the recommendations. There is no threat of sanctions, such as suspension and closure; government agencies, and sometimes banks, continue to provide credit despite poor performance. With an eye to the future, the yardstick for basic criteria and parameters to be included in the rating should lie in their relevance for regulation and enforcement of standards. What is needed is not a Basel II, but a Hyderabad I: introducing regulation, setting standards, supervising and enforcing their implementation – in the state which first introduced federations and brought the SHG movement to its largest outreach.

³⁰ This chapter is largely based on lessons learned as reported by APMAS, but greatly reduced to essentials, leaving out factual observations and specific technical recommendations. Where necessary I have carried the analysis and concomitant lesson a step further to its logical conclusion.

(2) Quality enhancement

Government agencies are the most active promoters of federations in AP; this is why APMAS is working with them as its principal partners. But under disbursement pressure they ignore quality; hence they have no demonstrable impact in that respect. Motivation and morale of IKP staff are found to be low. Perhaps an incentive scheme needed tied to staff performance is needed. But this will only work if staff performance is related to SHG and federation performance, which goes unregulated and unsupervised.

NGOs are no alternative to GOs as partners, as APMAS found out. They are occupied with their own target groups; they are disinclined to become corporate affiliates of APMAS and to turn into capacity builders of other promoting and implementing institutions. That might change once federations (including those under their own umbrella) are submitted to standards and effective supervision.

Similarly, APMAS's third approach to SHPI support has failed, building the capacity of individual commercially operating; a mere 30 have been found; and no network as been formed.

Contrary to its role as a support organization, APMAS has been more successful as an implementing institution, though this has not been its declared purpose. Given its limited success in working through SHPI, APMAS is now tempted to involve itself more directly in implementation, taking direct responsibility for impact on federations and SHGs, rather than leaving that responsibility to promoting institutions. There is no doubt that APMAS will be more successful than most SHPIs is has been trying to motivate. Yet this would mean giving up its ambition of effectively working at state, and in the future perhaps even national, level; and moreover, it will soon run against the same limitations as the others.

Despite its limited success in supporting SHPIs in AP, APMAS suggests to extend its support to other states "by exporting the AP experience". This would be the wrong lesson to be learned. This will have to wait until APMAS can proudly declare that it has effectively helped building a comprehensive self-reliant system of self-help banking in its state of origin.

(3) Research

Most of APMAS's studies have been of the *middle range*. It has not been able to do substantive basic research. It has also not been satisfied with the amount of action research done. APMAS concludes that its involvement in basic research would require long-term collaboration with universities and research institutes. With regard to the immediate relevance of its work, it plans first to put more emphasis on short-term action research studies, and second to translate action research results into advocacy focused on decision-makers. This would also require the monitoring of the results and the impact of advocacy activities, which has been largely lacking. Of course, to be fully effective the research has to fit into an overall endeavour of building a truly self-contained self-help banking sector.

(4) Livelihoods

This is a new component added to APMAS's support to federations as financial institutions. APMAS is still struggling to firmly establish this unit, facing challenges of finding quality staff, establishing partnerships with other stakeholders, establishing ownership of livelihood interventions by government agencies, and mainstreaming the livelihoods agenda. Given the already existing challenges in quality assessment and quality enhancement of federations as financial institutions, perhaps this is one challenge too many; but this is a lesson APMAS

may not be prepared to learn. In the case of self-help banking through SHGs and federations, APMAS masters the major technical quality assessment and enhancement inputs, but struggles with missing components of systems building. In the case of livelihoods, APMAS is still far from that mastery. Is it capable of advancing at both frontiers at the same time?

5.3 Challenges in self-help banking³¹

Expansion of outreach and sustainability of self-help banking are the two major challenges SHG banking is facing in India today. At national level these two challenges are interrelated: continual expansion will increase the pressure on the need for sustainability; while a strong and sustainable self-help banking sector is likely to expand on its own dynamics into marginal and remote areas, into states where coverage is still minimal, and into the informal sector of the vast cities in India. We have summarized this as *the challenge of sustainable access to a full range of financial services by all segments of the population*. In Andhra Pradesh where outreach of SHG banking has made tremendous progress the biggest challenge is now the efficiency and sustainability of the system, particularly SHGs and SHG federations. A third challenge lies outside the world of banking: the promotion of microenterprises and income-generating activities of SHG members to enable them to invest their savings and loans profitably; and the promotion of commercial activities of federations in support of member enterprises.

(1) Outreach:

Building a comprehensive member-based self-help banking sector for all segments of the population

In AP expansion of outreach into rural areas is in full swing. A major portion of the rural poor have been covered. Many of the poorest are not yet members; but as one of the APMAS board members reports, the movement includes 6,000 SHGs of Dalit in AP, with a total membership of 90,000, thus setting a precedent. Expansion into urban areas has started, covering to-date 42 cities. The members of rural SHGs are predominantly, if not exclusively, women; in urban areas, where members tend to be microentrepreneurs, many are men. In rural areas many men feel excluded. Should the movement open up more vigorously for men? Also, with the promotion of livelihoods through SHG federations in rural areas, a predominance of microentrepreneurs in urban SHGs and, hopefully, a continual increase in income and standard of living due to SHG membership, should the movement open up more vigorously for the non-poor? Surely no one will suggest to exclude members once they pass the poverty threshold! In sum,

- Should self-help banking be an *exclusive movement* limited to the poor;
- or should we promote a system of *inclusive finance* open to all segments of the population, male and female, poor and non-poor?
- Who should give the answer: the board of APMAS, policymakers, the people themselves?

(2) Sustainability:

Building a sustainable, self-reliant self-help banking sector, with integrated apex services and an appropriate policy environment

The most fundamental challenge is the sustainability and self-reliance of the system of self-help banking as a whole. At present it is not a system and not a sector in the real sense of the word. Least controversial would probably be the connotation of *SHG Banking* as a financial product of banks. But with the establishment of a hierarchy of SHG federations, the

³¹ In a different format these challenges are also listed at the end of chapter 2.1.

movement has gone beyond the product stage. We are observing the emergence of a potentially comprehensive sector of member-owned self-management and self-financed financial institutions. What is lacking is:

- (a) regulation together with the operational and performance standards defined through prudential regulation;
- (b) the enforcement of registration of federations under MACS law;
- (c) (delegated) supervision by a financial authority;
- (d) the enforcement of standards, which includes the authority to suspend or close non-performing SHGs and federations;
- (e) a set of apex institutions which provide all the essential services inherent to a self-help banking sector such as guidance & consultancy, training, liquidity exchange & refinancing, development & enforcement of standards, auditing & delegated supervision;
- (f) responsiveness to the needs and demands of the self-help sector, based on good communication between policymakers, support institutions and representatives of self-help institutions.

All this requires the political will to install an appropriate legal and policy environment as a foundation for a self-reliant institutional framework of self-help banking. In turn, all the institutions involved need capacity building: at the level of policymaking, financial authority, sectoral apex institutions and state- and district-level federations.

- Does APMAS want to sharpen its focus on policy advocacy?
- And is APMAS able and willing to develop the capacity within its own organization to provide this comprehensive capacity-building service to policymakers, financial authorities and apex organizations, perhaps with the assistance of organizations like Inwent, DGRV and others at international and national level?

(3) Livelihoods:

Coordinating self-help banking with livelihoods development – under one or two organizational roofs?

A third major challenge, though of a different nature, pertains to the combination of financial and non-financial promoting services to SHGs and SHG federations; and the combination of financial and non-financial services by federations to their member SHGs and their members. Such services or activities may include microenterprise development, bulk-purchasing, production, processing, adding value throughout the value chain, marketing and wider development measures.

- Does APMAS want to concentrate fully on the financial dimension, including support to the building of a self-reliant self-help banking sector, with much-strengthened advocacy and capacity-building services to policymakers?
- Does it want to add non-financial services, building the capacity-building of implementing institutions that provide livelihood-promoting services, progressing at the same time from financial sector development to broad-based rural development?
- Does it want to carry out both functions, each of which is gigantic, under one organizational roof or spin off the livelihoods component as a separate organization or a subsidiary?

5.4 Opportunities and options for APMAS

APMAS has accumulated an enormous social capital in AP and beyond. It now has to move forward, investing it and maximizing its effectiveness. Confronting the larger challenges of self-help banking in India, APMAS is now facing a number of opportunities and options. These were discussed with the board on 19 April 2006. Conclusions and decisions are expected to be reached in a participatory manner, involving the board and staff of APMAS and key stakeholders.

(1) Promoting federations only vs building a comprehensive self-help banking sector

During its first five years of existence APMAS has focused on SHG federations and governmental organizations as the main promoting agencies in AP, providing important quality assessment and capacity building inputs. However, according to impact studies by APMAS, despite its enormous capacity building efforts there is little evidence of actual effectiveness in terms of impact on the performance of federations promoted by government organizations. Banks have largely ignored the federations, while government projects have lent to them without due-diligence. This has been due to the absence of a comprehensive and sustainable system of self-help banking in AP, which would have to comprise in essence prudential regulation and effective supervision of (a) the federations, (b) the interventions of governmental as well as non-governmental promoting institutions and (c) the lending practices of banks. Under disbursement pressure, the promoting government organizations have failed to adhere to the good practices propagated by APMAS, particularly in the districts in which APMAS is not directly active. This may be an opportunity now for APMAS to move forward, taking a long-term perspective towards the development of a self-reliant system of self-help banking and expanding its capacity-building services to policymakers and the architects of a comprehensive self-help banking infrastructure including apex organizations. This will not only require a reorientation of capacity building to include policymakers and systems builders, but also a strengthening of the advocacy function to be directed at policymakers. The German Cooperative and Raiffeisen Association (DGRV), together with Inwent, may be an important partner:

- Supporting the transformation of SHG banking into a comprehensive system of self-help banking, prudentially regulated and effectively supervised
- Transforming reliance on external support organizations into a self-reliant system, which is self-managed and ultimately self-financed
- Enforcing, and facilitating, the registration of SHG federations under MACS law (a prerequisite for bank lending to federations)
- Enforcing, and facilitating, adherence to good practices and prudential regulation of governmental and non-governmental promoting agencies
- Supporting the process of establishing an apex structure as part of the overall self-help banking system, institutionalizing the various support functions of external agencies into apex organizations of the self-help sector itself, including apexes for self-regulation, auditing, (delegated) supervision and enforcement of standards.
- Identifying and harmonizing the demands of self-help organizations, government agencies, NGOs and banks as the major stakeholders
- Promoting the process of communication between the stakeholders at local level and government at state and national levels
- Assisting to arrive at conducive policies (to be revised or amended as need be)

Board:

The board considers a stronger role in advocacy and policymaking. In this case it would have to build a unit under the CEO and strengthen the role of the Board, in which major national-

level and state-level institutions are represented. Eg, the former chairman of NABARD (Dr. Kotaiah) is chairman of the APMAS Board.

(2) Focusing on rural areas only vs. expanding into urban areas

Board:

The Board is in favor of continuing APMAS's expansion of outreach into urban areas.

(3) Focusing on women's self-help banking vs overall self-help banking comprising women's, men's and mixed groups as an integrated system

Board:

The Board is in favor of focusing on women's self-help banking in rural areas, arguing that there is only limited scope for men's involvement in SHGs. In urban areas, there is a stronger emphasis on men's groups of microentrepreneurs. The Board expects that the overall emphasis of APMAS may change over time according to demand.

(4) Focusing on Andhra Pradesh vs. the nation, albeit to a limited extent

- Focusing on institution-building of 66,000 federations existing nation-wide?

Board:

The Board recognizes the need for capacity building nationwide. It is tentatively in favor of proceeding in two phases. In a first phase it will continue focusing on AP, and then gradually expand its services to selected states.

As the Board realizes that *APMAS is the first of its kind in a big way and should not lose this advantage*, the Board also considers *going national in a big way* during a second phase of expansion, providing services to capacity-building institutions in other states on a broad scale. The Board will discuss this further.

The Board also notes that NGOs see APMAS as the only hope of negotiating a place for, and funding of, NGOs in the SHG banking sector: *How to create space for civil society organizations*. APMAS had developed a rating instrument for NGOs and applied it to 600 NGOs.

(5) Focusing on financial institution building vs. livelihoods promotion vs. integrated approach:

- Unit institution vs. spinning off livelihoods promotion in a new institution or establishing a subsidiary (in close cooperation with the private sector) – *organizational model to be studied and determined*

Board:

The Board is in favor of an integrated approach, combining financial institution building with livelihoods promotion. The Board proposes to further strengthen the livelihoods component: *We should constantly be on the lookout for new livelihood opportunities, in a systematic way. Active knowledge management is the challenge, bringing our findings to the federations.*

The Board proposes to study organizational models of livelihoods promotion, perhaps with an emphasis on establishing a subsidiary.

(6) Acting as a support institution in self-help banking vs. a capacity-building and disseminating-institution with national and international outreach (retaining its field support operations in AP), with the following options for APMAS as institution-builder:

- Training, institutional capacity-building and consultancy institution
- Build-Operate-Transfer APMAS-like institutions (Xyz-MAS) in other states

- Franchising APMAS
- Establishing a *Self-Help Banking Learning Center*

Board:

APMAS may establish an SHG Learning Center, where participants learn SHG banking on the job.

Teams may also be formed that assist in other states to establish effective capacity building institutions for the self-help movement, depending on demand.

(7) Expansion of services to organizations with outreach to marginalized populations

Note by a board member on the case of the Dalit in AP, the poorest of the poor:

APMAS's outreach includes 90,000 SHG members of Dalit in AP, organized in 6000 SHGs. These in turn have formed 100 subdistrict-level MACS; almost all of them are credit-linked to banks. Each MACS has a 15-member board, thus comprising a total of 1500 women-board members. The total number of salaried staff members at subdistrict and state level is 350. APMAS has rated 82 of the 100 MACS.

(8) The role of DGRV as a cooperating partner

APMAS realizes that DGRV, with its current and historical experience in self-help banking and associated activities, could greatly contribute to the capacity building of APMAS as a support organization of the evolving self-help banking sector and, through APMAS, of major cooperating stakeholders, including state and district policymakers involved.

5.5 Some open issues

(1) Multiple sources of funds in SHGs: conflict vs complementarity

There are four major sources of funds of SHGs:

- (a) internal (mainly savings and retained earnings) resources,
- (b) bank borrowings,
- (c) government funds in the form of soft loans, either provided directly to the SHGs or as grants to federations which onlend them to SHGs on subsidized terms, and (
- d) borrowings from federations.

External funds may either be provided to SHGs directly or through federations as intermediaries. There is a tendency among banks, and a common practice among government funding agencies, to interfere with the on-lending terms and conditions of the SHGs, thus undermining their authority. Moreover, some federations lend directly to SHG members, thus competing with them and, due to poor repayment performance, undermining their own health in the process. Many SHGs therefore have to maintain several loan funds, which immensely complicates bookkeeping and financial management. In addition, this habit has disastrous indirect consequences: being accustomed to multiple borrowings, members may also borrow from independent MFIs. As a study by APMAS has shown, some of them are quite aggressive in their lending and recovery practices, resulting in good repayment to the MFI but poor repayment to their SHG, forcing some members even to revert back to moneylenders to cover their obligations towards the MFIs. This has led to the recent publicly discussed *MFI crisis* and done great damage to the image of MFIs in India. The whole issue is very complex and has not been systematically addressed at state level. Basic issues of policy, supervision, good practices and enforcement of standards are involved.

The following solutions may be discussed:

- portfolio refinancing, which means that external agencies provide funds to the SHGs and let them onlend them on their own terms and conditions, abstaining from interference;
- SHGs form credit committees in which one or two federation representatives participate and examine the creditworthiness, project feasibility, credit exposure and household repayment capacity of each credit applicant;
- adopting a rule that no SHG member borrows at its own directly from outside sources without consulting with the credit committee.

(2) Lending down the federation line

SERP, through Velugu/IKP, provides grants to district federations which are onlent down the federation line to SHGs and finally their members. On-lending interest rates are fixed at 12%, all the way down to the end-users, without a margin or risk premium to any of the intermediaries. Lending through the federation line adds transaction costs as well as risks and endangers the health of the SHGs as well as that of the lower-level federations. In the absence of a margin, SHGs cannot cover loan losses except from their own resources. The risk is aggravated by the fact that these loans are usually handled as separate funds and regarded as government money. This practice by government organizations and its impact on the health of SHGs and federations need carefully study.

- Study the impact of directed lending down the federation line on the health of federations and SHGs and the risks and transaction costs incurred to federations and SHGs along the line
- Enter into a dialogue with policymakers to eliminate directed lending and outside interference in the terms and conditions of financial contracts between SHGs and federations.

(3) Registration of federations as MACS

In October 2005 a circular was circulated by SLBC among the banks regarding financing village-level federations. However, most of the federations were not registered, and the banks felt that the functioning of most of the federations was not satisfactory. Hence further progress has stagnated. A crucial issue is thus registration as MACS, the most appropriate legal status for a federation, accompanied by quality enhancement measures. Without registration rating of federations is largely in vain. It is not clear why so many federations fail to register. APMAS may have a role to play in promoting registration:

- Study the reasons why large numbers of federations are not registered
- Build the capacity of governmental and nongovernmental promoting institutions to facilitate registration of federations as MACS
- Enter into a dialogue with policymakers to make registration of federations mandatory, with an emphasis on MACS as the preferred legal form.

(4) Focus on building the capacity of government agencies

Government agencies and projects like SERP/Velugu/IKP are the most important promoters and financiers of federations in AP; at the same time they are APMAS's most important client. This is not reflected in the business plan and the indicators of APMAS. Given the limited success of APMAS's intention of building the capacity of non-governmental sponsors of promoting agencies in terms of impact on their resource allocation practices and the health of federations promoted by them, APMAS may want to sharpen its attention to government agencies, with the following objectives:

- (a) preventing harm from unwise subsidization of federations;

- (b) building the capacity of the staff of the government projects;
- (c) building the capacity of the policymakers behind the projects and contributing to conducive policies of federation-promotion and -refinancing;
- (d) focusing on the building of a strong and sustainable self-help banking sector.

APMAS will not be able to solve all the problems of building healthy federations by direct intervention, as it sometimes proposes to do. The crucial issue at stake here is government policy, effective control of the interventions of government agencies, effective supervision of federations, and adherence and enforcement of standards among all agencies involved. To be effective APMAS will have to shift its emphasis more to advocacy at the policy level, taking its observations and lessons learned at the bottom to the top. Of crucial importance is **the political will** to build a sustainable, healthy self-help banking sector of SHGs and federations.

- Focus on those who are in the driver's seat in AP: the policymakers and government projects like SERP.

(5) Arduous rating instrument

GRADES in its present form is far too arduous an instrument to be applied on a broad basis. With its high costs, the considerable time period required for its administration and evaluation and the availability of the report in English only, it probably frightens potential users away. A short instrument, RAT, exists, which might perhaps be too short to be acceptable to banks. Deliberations should be held with stakeholders, particularly banks, to agree on a reasonably short instrument accepted by NABARD and the banks.

- The instrument should be designed in such a way that it puts the main emphasis on financial performance, can be administered in not more than 2-4 hours, and allows for instant computation (by hand, laptop or palmtop) – and thus immediate verbal communication – of rating results.

(6) Inappropriate indicators in APMAS's business plan

Many indicators in APMAS's business plan have been formulated in a rather idealistic way and are beyond the control of APMAS. A clear distinction should be made between indicators of results to be attained by other agencies such as SERP/IKP and those for which APMAS is directly responsible. The former may be included in an appropriate and carefully worded way as indicators of overall goal attainment to which APMAS makes a contribution, the latter, at output level, should be strictly confined to what APMAS can directly achieve with its own inputs.

- APMAS should define indicators for results only over which it has direct control.

(7) Overly complex APMAS's internal reporting

APMAS's reporting is extremely detailed, absorbing a considerable (unquantified) amount of manpower. It is proposed to harmonize and standardize reporting from the field in tabular form, based on the format of the logframe, which summarizes the business plan. This should leave room for additional reporting outside the standardized format. Both the logframe and the reporting format should be revised annually. The feasibility of computerizing the reporting, including a facility for automatic consolidation of data, eg, from various field locations, should be examined. Additional reporting which does not fit the standard format should also be reported in tabular form. Key data should be reported in tables with entries for several years.

- APMAS should simplify and standardize its internal reporting, mainly in tabular form.

6. Concluding recommendations

Three important steps have been taken in Andhra Pradesh towards to the development of a self-help banking system:

- (i) building 30,000 federations at village, subdistrict and district level on a foundation of some 600,000 SHGs;
- (ii) passing a special law for *Mutually Aided Cooperative Societies* (MACS) to assure their independence from government interference;
- (iii) incipient recognition of the federations as intermediaries of support to SHGs.

Since 2001 APMAS has gained wide recognition in Andhra Pradesh as the prime support institution of implementing agencies, with the objective of ensuring quality in self-help banking, focusing on rating and on capacity building of federation and project staff. Yet major problems and challenges remain, which have severely undermined the effectiveness of the federations, the government projects and APMAS's impact:

- The vast majority of federations are not registered as MACS.
- Therefore banks have continued lending to SHGs, bypassing village federations of SHGs
- Government projects have used the federations as channels for targeted subsidized lending with little regard for quality.
- This has led to government interference and, in some instances, to *worst practices* which have undermined the autonomy of federations and SHGs and endangered the credit culture.
- There is an overall lack of standards and enforcement of prudential practices in federations and projects
- All this has resulted in a lack of quality, self-reliance and sustainability of the emerging self-help banking sector.

The core problem is:

- A lack of prudential regulation and effective supervision.

I therefore recommend to APMAS to expand and refocus its purpose to policy advocacy along the following lines:

- Supporting the building of a self-reliant sustainable self-help banking sector of SHGs and federations, with a major emphasis on prudential regulation and effective supervision on the basis of the MACS law
- Enforcing the registration of federations under the MACS law and their rating as prerequisites of external support
- Submitting governmental and nongovernmental promoting agencies to strict observation of prudential standards
- Continuing its support to quality assessment and quality enhancement of promoting and implementing institutions
- Carrying out a feasibility study in cooperation with major stakeholders to work out a master plan of building a comprehensive sustainable self-help banking sector with its own apex structure
- Continuing the ongoing expansion of outreach to rural and urban areas, women and men, marginal as well as high-potential areas, the poor and poorest and the non-poor
- Spinning off capacity building support for the commercial activities of federations such as bulk purchasing, production, value-addition and marketing as well as microenterprise development of SHG members to a separate organization

- Cooperating with an experienced external agency, such as the German Raiffeisen and Cooperative Confederation (DGRV).