

Issues in Financial Intermediation through SHGs Federation

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Abstract: "SHGs have become the vehicle of Change for the Poor and Marginalized". Following the success of the Grameen Bank in Bangladesh, many developing countries decided to tap into their respective micro-credit potentials. India was no exception to this micro-credit frenzy and she too began investing in micro-finance and its allied activities. However, unlike Bangladesh, India did not have a financial institution dedicated for the provision of micro-credit across various poverty-stricken households. As a result, traditional institutions, in the form of banks, NBFCs, NGOs and in some cases, even the State Governments, rose to the occasion. This, naturally, led to several repercussions, some good and some bad. Hence, the results are not at all consistent across India, with regard to microfinance and its allied programmes. India saw the need for micro-credit as the entire primary sector was dominated by informal creditors in the form of moneylenders and pawnbrokers, who charged exorbitantly high interest rates. This discouraged the poor from availing credit in the first place and those who did avail credit from these sources, were bound to lose their possessions (land/house) as collateral, since they would be in no position to repay, owing to the high interest rates. The Government of India understood that if poverty was to be alleviated from the country and the social status of the poor was to be uplifted, the availability of 'small and low-interest/interest-free credit was very important. As a result, NABARD along with a chain of SHGs, MFIs, banks and NBFCs were tasked with making credit available to each and every rural household. This report is going to deal with SHGs and SHG Federations, which been at the forefront of Micro-finance revolution in the country.

Keywords: SHG, Financial Inclusion, NGOs, Financial Institutions, IKP

1. Introduction

Self Help Group (SHG) Movement has grown at a phenomenal rate during last quarter century. It has proved to be an effective tool for poverty alleviation and women empowerment in India.

SHG is a small group of rural poor, who have voluntarily come forward to form a group for improvement of the social and economic status of the members. It can be formal and informal. Members of the SHGs agree to save regularly and contribute to common fund. The members agree to use this common fund and other funds like grants and loans from banks, which they may receive has a group, to give small loans to needy members as for the decisions of the group. This concept underlines Thrift, Credit and Self Help.

This Programme has impacted the lives of poor women in many ways, both on the economic and social front. Numerous studies on the impact on SHGs have point out several positive benefits to SHG members and their families and the community as a whole. However, the predominant economic benefits as follows,

- Members and their families dependence on moneylenders has declined significantly.
- Members had developed a habit of saving.
- SHG members are able to invest in Income Generating Activities (IGA) and Asset Creation compared to non-members.
- Members had increased expenditure on food, children education and health needs.
- Members risk bearing capacity had increased.
- Members and their families' income levels had increased after joining in SHGs.
- More SHG members are taking part in decision taking at family level as compared to non-members.

- Through banking program, the poor and marginal sections are able to access banking and other financial services.

Why SHGs are so important in India:

- To alleviate poverty
- To increase employment opportunities
- To accelerate economic growth
- To raise status in society is the prime reason for members joining the SHG
- To promote income generating activities

Shortcomings of SHGs in India:

- Challenge of take-off
- Problems of fund allocation and mobilization
- Credit mobilization
- Challenge to target the rural poor and vulnerable sections
- Low survival rate of promoted micro enterprises
- Low realized incremental income from income generating activities

SHG Federation- A WAY Forward

To address the above problems and challenges, many SHPI are come up with different models for promoting and sustaining the SHGs and it can be done in a cost effective sustainable manner. The benefits of SHG federations are ability to,

- Take up common marketing
- Reach, interact with and strengthen a large number of SHGs
- Promote leadership qualities in women
- Mobilize a large number of women to obtain a "just order" in the society
- Promote new SHGs in remote and in inaccessible areas and communities
- It helps SHGs become institutionally and financially sustainable because they provide the economies of scale that

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reduce transaction costs and make the provision of these services viable.

2. Role -Need for Study of SHG Federation

A large number of organizations/institutions are promoting SHG groups and they are providing basic services and capacity building trainings for the members to benefit at a large scale.

This study is conducted, to know how these federations are helping the SHGs in the financial intermediation and to know, what the issues are facing by the federation in the process of financial intermediation of SHGs.

Table 1

SNo.	Name of the Federation	Mandal/Dist.	Promoted by
1.	Pothireddypalle VO	Sanga Reddy/Medak	IKP-SERP
2.	Sanga Reddy MS	Sanga Reddy/Medak	IKP-SERP
3.	Medak ZS	Medak	IKP-SERP
4.	Samagra Mahila MACs	Mulugu/Medak	TREES
5.	Samatha Mahila MACs	Kukoonoorpalle/Medak	ASSMA

Defining SHG Federation:

The term 'Federation' has been defined in various ways by different organizations. Some definitions are quoted below. The dictionary meaning of federation is "an association of autonomous bodies uniting for common perceived benefits" (FWWB, 1998).

A Cluster Level Federation is a network of several SHGs and a structure or body evolved by SHGs themselves consisting of representatives from all member SHGs, with a motive of supporting member-SHG to attain the goals of economic and social empowerment of women members and their capacity building. (TNCDW,1999).

3. Need for Federation

The literature suggests that SHG federations have been promoted over the past 15 years in India. The Academics (Ajay Nair, 2005, Malcom Harper, 2002), NGOs (MYRADA, (1999), and their net-works (Sa-dhan, 2006), and the developmental professionals (CS Reddy, 2004, Shashirajagopalan, 2006) have pointed out the rationale behind the promotion of federations:

- 1) To strengthen existing SHGs
- 2) To promote new SHGs of the poor
- 3) To access various services to the member SHGs
- 4) To provide a sense of solidarity among members of different SHGs in an area
- 5) For sustainability of SHGs
- 6) To facilitate linkages and
- 7) To empower women. Besides, federations play an important part in SHG capacity building and conflict resolution - both internally and externally.

There are a variety of reasons for promoting the federation of SHGs, some of which assist the promoting institutions and others that are for the direct benefit of the members. The

concept of federation emerged from the felt need of the SHGs that have been functioning well and were keen to come together for sharing and learning. Each promoter has different reason(s) for federating SHGs at different levels. The reasons include

- 1) Scaling up,
- 2) Withdrawal strategy
- 3) Issue based
- 4) Collective bargaining power, and
- 5) Principle of subsidiary.

According to a study conducted by EDA Rural Systems & APMAS (2006)12, a substantial proportion of SHGs in the sample (66% in the south, 54% in the north) are members of SHG networks or federations, formed at the village, village cluster, or higher level.

Mr. Ajay Nair (2005) has described five predominant benefits in a paper, "Sustainability of Microfinance Self Help Groups in India: Would Federating Help?" they are as follows:

- 1) Creating Economies of scale
- 2) Reduce transactional costs of financial institutions
- 3) Reduce default rates at all levels
- 4) Provides value added services
- 5) Reduce the cost of promoting new SHGs

Finally, federating enhances the empowerment of the poor by developing local human capital.

Opinion of Federation Promoters on the Need of Federations

"Strengthening primary institutions so that they become socially and economically independent" (DWCD & CIDA, 2000). Federations assume a critical role in the development of income generation programs by 'cushioning the adverse effects that market mechanisms and other institutions would have on small producers' (Rajasekhar.). MYRADA believes that federations should not be built for external reasons (such as taking over the NGO's role after withdrawal from a project) but that they should grow in response to a push or need from the primary groups (MYRADA, 2001). The primary condition for sustainability of a Cluster Level Federation is that it should have evolved based on a felt need of its members. Artificially propped-up structures will not last' (TNCDW, 1999). The DHAN Foundation's annual report cites the breaking up of rigid caste barriers as an example of social development. It mentions that Kalanjiam clusters are coming together to celebrate festivals etc. However, this appears to be more of a social outcome of the SHG process rather than a direct social intervention on part of the cluster (DHAN Foundation).

Objectives of SHG Federations:

- 1) To facilitate linkages between SHGs and Banks/Govt. agencies/local institutions
- 2) To have better access to development infrastructure and marketing linkages
- 3) To help in achieving in sustainability of SHGs
- 4) To strengthen (through training, Information. Dissemination, on-site support, etc.) the capacity of members-SHG in one or more of variety of fields (book-keeping, accounting, marketing, financial management, advocacy, bank-linkage, accessing Govt. schemes)

- 5) To provide credit, especially multiple credit lines
- 6) To provide saving facility, especially voluntary savings
- 7) To undertake marketing of the produce of the members of SHGs
- 8) To provide life/loan insurance services
- 9) To create the political and social space, that women need to live their lives as fully as desire to.

Benefits to Members: if the SHG is federated its members have following benefits,

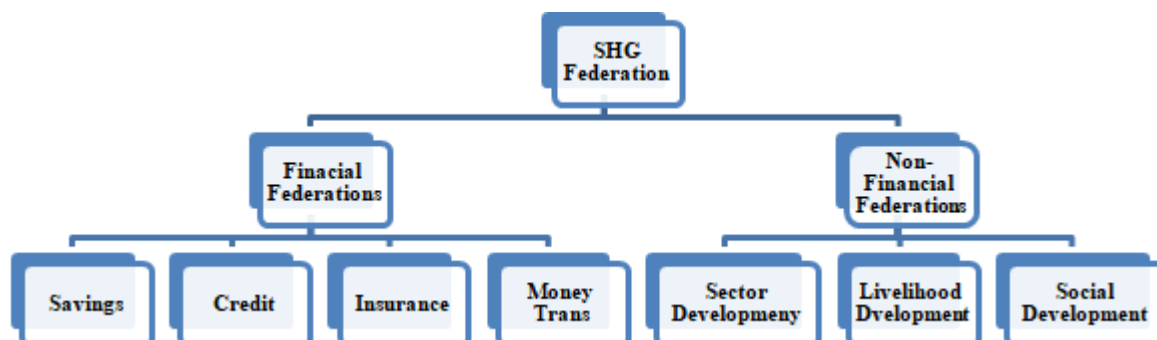
- The trust is completely owned by trust members
- Democratic and equal participation
- Loan disbursement without delay
- Systematic investment plans
- Opportunities in different investment plans
- Opportunities in getting units of the company

- More opportunity for the leadership

4. Types of SHG Federation

SHG federations in India have evolved quite differently and are known by various names throughout the country making it difficult to generalize when discussing them. Federations can be classified according to,

- 1) Geographical coverage
- 2) Functions
- 3) Legal status
- 4) Structure and modes of functioning
- 5) Source of funds
- 6) Size and
- 7) Promoter



Major promoters of SHG federations- Government and NGOs

Government-

- 1) Panchyat Rai and Rural Development(P&RD)
- 2) Women and Child Development Department(WCD)
- 3) Women Development Corporation (WDC)
- 4) Tamil Nadu Corporation for Development of Women (TNCDW)
- 5) Poverty Reduction Programs like Kudumbashree (Kerala) and Indira Kranti Patham (Telangana and Andhra Pradesh)

NGOs as Promoters

- 1) MYRADA has promoted unregistered federations of 15-25 SHGs, which focus primarily on solidarity building, delinquency management and dealing with social issues. MYRADA also promoted CMRCs to offer services for the overall development of the SHG members. MYRADA conducted a three day workshop in 1999 on the subject of federations or 'Apex Bodies'16.
- 2) PRADAN in 1992 promoted the Sri Padmavathi Mahila Abhyudaya Sangham (SPMS) In Tirupathi (AP). PRADAN also started forming SHG federations in Rajasthan and Madhya Pradesh.
- 3) DHAN Foundation-The SHG federations promoted by DHAN are nested institutions with SHGs at the village level, cluster of SHGs covering a few villages and federation (called Kalanjium) at the apex level. These are registered under the Public Societies Act.'

5. Analysis and Findings

a) Promoters of the Federations

S No.	Name of the Federation	Mandal/Dist.	Promoter	Associated Bank
1.	Pothireddypalle VO	Sanga Reddy	IKP-SERP	SBI
2.	Samatha mahila MACS	Kukoonoorpalle	ASSMA	APGVB
3.	Samagra Mahila MACS	Mulugu	TREES	APGVB

b) Services provided by the Clusters:

- To promote new SHGs and also maintain the quality of existing SHGs
 - To ensure proper recovery of loans
 - To facilitate the conflict resolution and etc.
 - Services provided by Federation:
 - To make SHGs self sustainable in all aspects i.e., financial, operational and governance and etc.
 - It acts as a peer pressure for the loan repayments
 - There were some issues (such as livelihoods, availing govt. facilities in some area etc.) which are common in all the
- Clusters and hence have to be addressed from a single platform for better results and that's why promotion of Federations was necessary.
- To diversify the activities of groups/clusters i.e. to provide the other services like livelihoods, health, insurance, education, etc

- For proper follow up of the processes like bank loan application, bank linkage, preparation of accounts.
- A forum which can take initiative by proper discussion for decisions relating to penalty for defaulters, identifying beneficiaries for any activities, etc.
- Federation acts as host organization for the SHG in terms of some outsourced grants/loans. Federations channelize the outsourced money as loan to the groups, which will meet the demand of larger loans
- The federation will do the planning, budgeting and monitoring of clusters and the SHGs.
- Sometimes issues have to be taken up at District level with District Magistrate / Govt. Department heads, controlling offices of Banks, etc. Federations have a better chance of getting heard at these levels as compared to SHGs / Cluster of SHGs.

c) Other important Observations:

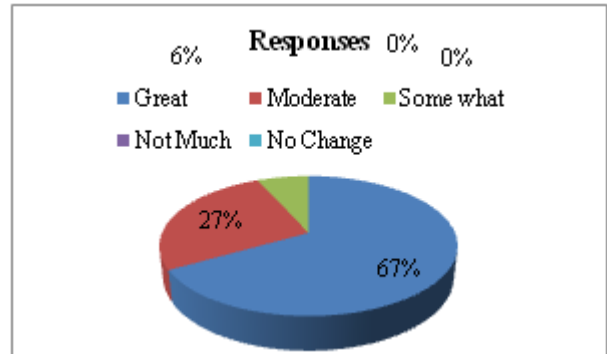
- 1) Promotion SHG-by organizing women from needy family in to a group of 10-20 women around saving – internal loaning as a primary function. It had started many SHGs.
- 2) Nurturing SHGs-extending nurturing support to SHGs through field handholding, educating SHG around saving – internal loaning, evolving norms and systems, etc. As on date supporting 40 SHGs with membership of around 400 women in Pothireddypalle Village.
- 3) Facilitating Credit Linkages- mobilizing credit to strong SHGs through developing credit linkages with banks and other financial institutions.
- 4) Organizing Annual Functions- to organize annual function once in a year, where all members from each SHG participate. It is a forum to bring together once in a year and share experiences across all SHGs. Guests from government departments, banks, etc also attend this event to create its goodwill among stake holders and develop linkages.
- 5) Promoting clusters
- 6) Maintaining Books of account
- 7) Extending amount on Credit- VO can give loans from Sri Nidhi account more than what they have taken from banks.
- 8) Veterinary Support- VOs can provide these services to the members.
- 9) Insurance- Every member of the SHG will be given insurance under the schemes such as- JSBY, Abhaya Hastham and etc. and it also provides insurance for crops and animals.
- 10) Training of Group members and VBK

d) Sources of Income to Federations:

- 1) Membership fee and services fee
- 2) Fines and Penalties
- 3) Interest incomes on corpus and loan funds
- 4) Personal grants and recurring grants from promoters

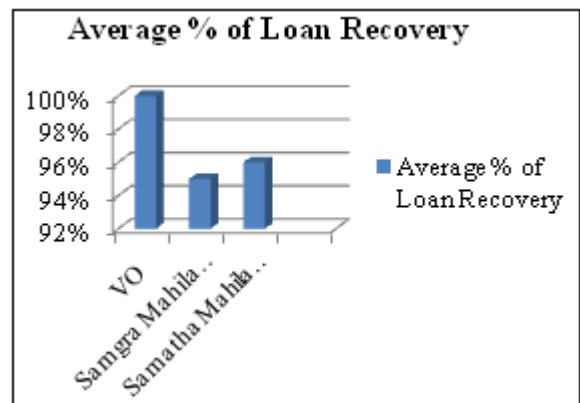
We can see how these Federations are working below-

1) “Ease of access to Credit”- through SHG Federation



67% of the members are said, they are having better access to credit with these Federation and one more thing is that every member is very much happy with this Federations in the areas of Ease of access to credit.

2) Percentage of Loan recovery:

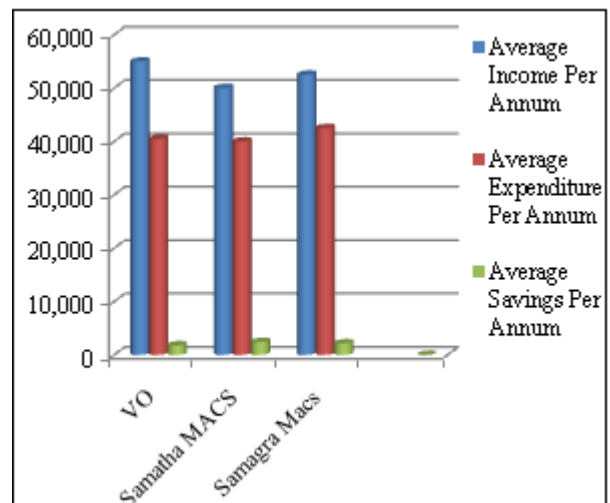


Above figure shows Loan Recovery levels of the members in different Federation. VO has 100% loan recovery but other Federations are about 95-97%. The reasons for less recovery are,

- Expire of the members
- Migration of the members

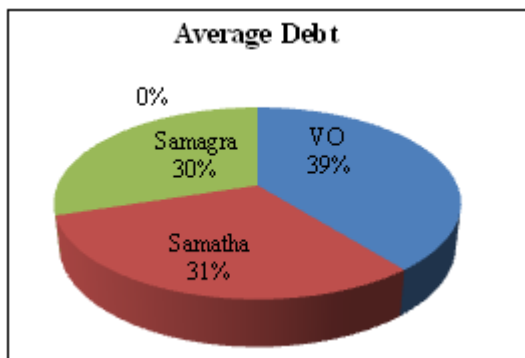
NOTE: This is based on the information obtained from the individual group members and not from the Banks.

- Average Income, Expenditure and Debts:



Above figure shows VO members are in better position as compared to other members in the areas of Income, Expenditure and Savings are concerned.

1) Average Debt of the Members:



From Above figure, it shows that VO members have more debts, it is because rest of the members are in dual membership in NGO and Government promoted Federations so, as compared to others VO members had more debts.

2) General Observations

- Many of the SHG members are doing Farming and Agricultural Labour and few of them have small Business shops
- All the members in SHGs are married and their age is between 25-55 years and all the groups studied are Women groups.
- Many of the SHG members have Aadhar Card, Voter ID Card, Ration Card, Job Card and every one had Bank Account.
- The reasons for joining SHGs are- promoting Savings and getting loan, and few members said they joined because of social status.
- Most of the members had taken loan for Agriculture, Personal, Business and medical purposes.
- SHGs meet monthly for collecting savings and pooling installments amounts
- Every SHG is maintaining regular, accurate and updated books
- Maintenance of books and recording is done by Literate person in the Group or by the leader.
- Organization capacity is good in IKP VO but where as in Other NGOs promoted Federations that is not good enough
- Rate of interest is fixed by the Group members and it is uniform to all the members in the SHG
- Most of the loans are used for the productive purposes
- Every member in the SHGs will vote
- Pothireddyaplle VO SHG members has started new enterprises where as others, which were studied, are in primary stages
- Many of the SHG members will attend community and social programmes like Cleaning Roads and etc.
- Every member have some power to influence their family decisions
- Most of them are feeling happy.
- Because of this SHG Federations, Savings Mobilization, Deposit Mobilization, Access to Credit, Insurance and

Standard of Living had increased drastically. NGO promoted Federations members are in double advantage because of their dual membership in both SHGs promoted by IKP and NGO.

- Federations can be self-sustaining by providing useful non-financial services to members for a fee. Many SHG federations are also recovering some of their operational costs through fees.
- Capacities of federations have not yet reached the extent required for the independent management of a financial intermediary role.
- There is near unanimity about the relevance of SHG federations. Both governmental and non-governmental agencies are actively promoting federations.
- Our field studies revealed that the major benefit of federations is that federations could become alternative source of credit to SHGs. Such an alternative is essential because, in several regions of the country, the banks' attitude towards SHGs is still not conducive for large scale delivery of credit to poor.

The constraints and challenges faced by the SHG Federation at all levels:

- 1) **Skills in financial management-** Needs to be capacitated. The federation Board largely dependent on the promoting agency for fund management besides the operating systems, procedures and practices, and the availability of support. Since even the promoting agencies had a social service background, most federations had low levels of managerial and technical understanding of banking and finance, leading to adoption of inappropriate accounting practices, insufficient information system, inadequate internal control, and ineffective risk management.
- 2) **Second- Line Leadership development** is not getting due emphasis, particularly at the Federation level, and promoters seem more comfortable to work through the staff, who are articulate and are more comfortable in —understandingl issues. This hampers knowledge development of the Board members, and also leads to staff domination at a later stage. It has been noticed that the Federation staff, while competent and efficient, see themselves as being accountable to the promoting organization, rather than to the Board.
- 3) **Poor and low capacities of human resources-** Federations do not have skilled human resource available for local level accounting and other management functions. Drop out rate of trained staff is also found to be very high.
- 4) **Low fund availability at federation level-** At present the federations do not have adequate funds available to cover their day to day expenditure.
- 5) **Information System** is a major concern in SHG federations. There is abundant information and data, all of which is scattered. It is a big challenge to process that data and get it into a form which can help the management in decision making. Two way flow of information in federations was the exception and not the rule. Inflows of information from constituents into federations were high, but outflow from federations to constituents was rare.

6. Suggestions

- 1) **Need for Support to Federations:** It is observed that Federations are engaged in undertaking socially meaningful tasks. They are essentially serving the unnerved and meeting the credit needs of some of the most vulnerable sections of population. Considering this facet of their work, their operations may need to be financially supported / subsidized in the short or even in the medium term. Hence the low level of financial sustainability brought out by this study need not be too much cause for worry. On the contrary, it is a case for every federation to achieve operating sustainability as quickly as possible. This essentially amounts to ensuring that all the direct expenses associated with the microfinance and other operations of a federation are met out of the revenue it generates.
- 2) **Bulk Loans to Federations** There are many regions in the country where Banks are still reluctant to give loans to SHGs and due to this, the SHG Bank Linkage programme is suffering. Typically, a Federation may offer following types of services;
 - **Financial Services-** this includes services related to the finance. That there should be a easy access to the credit available round the clock for their necessary needs. It includes small and medium loans and etc.
 - **Livelihood Services-** federations should provide loans to the members at a cheaper rate on loans taken for the purpose of livelihood services like purchasing of cows and goats, dairy and etc., which yield higher returns.
 - **Social Services-** federations should undertake social service programmes like cleaning the roads, painting the school walls, planting of Saplings and etc. for the betterment of the society and community at a large.
 - **SHG Federations as BC / BF** SHG federations need to be encouraged to act as either a Business Facilitator or Business Correspondent of a bank to provide last mile connectivity to banks to provide a full range of banking services. SHG Federations have strong potential for achieving the objectives of financial inclusion.
- 3) **Bank should** directly give loans to the federation for on-lending to SHGs- Banks should give loans to the Federation for on-lending purpose; it is because Federations acts as a convenient way for the members.
- 4) **Technical guidance** is needed for improve process, products and governance on an ongoing basis for a long-term
- 5) **Support expected from Government Financial Institutions by SHG Federations:**
 - **Capacity building support** - Training/ exposure of leaders of federation
 - Providing training to federation officials to act as Banking Correspondent (BC)/ Banking Facilitator (BF)
 - Government should undertake assessment of functioning of the federations.
 - Support for training of office bearers of federation and for staff of federation and Support for office automation / infrastructure
 - Marketing setting up of rural marts, Sponsoring for participation in exhibitions

- Loan under RIDF for infrastructure required for procurement of Paddy
- Skill up-gradation- development through MEDP, SDP, REDP
- Grant assistance for promotion of more groups (especially for poor people not covered under BPL).

7. Conclusion

In spite of the successful role played by some of the federations in offering inclusive financial services, recognition of the role of federations in financial inclusion has been limited even as the study shows the federations seem to reach out to vulnerable communities such as SC/ST and minorities. SHG Federations are doing great for the uplift of the Backward, Marginalized, less developed Rural Poor Women and their families. These Federations are providing not only Financial Support to the Members but they are also providing Non-Financial and Social Services for the Development of the Rural Poor Woman.

Federations as a concept have a lot to offer. Banks should be able to find comfort in well run federations functioning as financial intermediaries as they can lower costs of providing numerous loans by channelising it through a federation. The government could also rely on federations to reach a large number of grass root customers at low effective cost. The members of the federations benefit from having an institution of their own that has the size and competence to negotiate on their behalf and function in their interest. But all these are possible only when federations find their space through appropriate policies, bank support and member loyalty.

SHGs And SHG Federations are very important for the development and advancement of Rural, Backward and marginalized Women and their families. Once SHGs and federations grasp vertical Support (Financial and Non-Financial) from Government and Financial Institutions much of the Horizontal Cooperation & Coordination will automatically extend to the others in the Society, Thus it leads to Financial Inclusion and Development of the Society.

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