

REACHING THE HARD TO REACH:

Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas

CASE STUDY

Self-Help Groups (SHG) and Mutually Aided Cooperative Societies (MACS): Does Federating Enable Remote Outreach?

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Abbreviations

AP	Andhra Pradesh
APMACS	Andhra Pradesh Mutually Aided Cooperative Societies Act
APMAS	Andhra Pradesh Mahila Abhivruddhi Society
ASP	Ankuram Sangamam Poram
FGD	Focus group discussion
IKP	Indira Kranthi Patham Program
MACS	Mutually Aided Cooperative Societies
MIS	Monthly Income Scheme
NGO	Non-governmental organization
PACS	Primary Agriculture Credit Society
SAPAP	South Asia Poverty Alleviation Program
SC	Scheduled Caste
SHG	Self-Help Group
SIDBI	Small Industries Development Bank of India
ST	Scheduled Tribe

Self-Help Groups (SHG) and Mutually Aided Cooperative Societies (MACS): Does Federating Enable Remote Outreach?

Executive Summary

Member-owned institutions that grow out of social movements have strong potential to expand remote financial services outreach. They are, by origin, member-driven and struggle for the rights of their members. This case examines a sub-district level federation of Self-Help Groups (SHGs) that grew out of a local trade union and *Dalit* ('Dappu' Dalitbahujan) movement. It is a three-tier system, Ankuram Sangamam Poram (ASP), a federation of SHG federations with nearly 6,000 SHG groups at its base.

The Self-Help Group movement in India is one of the fastest growing microfinance programs in the world. There are two ways for SHGs to achieve broader economies of scale: Linkages or federations, a form of networking. Linkages with commercial banks and other financial institutions have been well-documented. Many of these linkages have emerged through the promotional efforts of NGOs and other social organizations. Federating is an alternative to a linkage where every tier within the system is owned directly by its members and member groups.

While federating may be better for ownership and leadership development, there are governance and cost challenges to this model. The apex serves as a wholesale financier and supervisor for the system. The aim is to for the apex to centralize and standardize human resource management, capacity building, operational management and internal controls. Decision-making and governance, however, remain relatively decentralized to allow flexibility at the group levels. In practice, it is difficult to balance member-ownership and decentralization with the demands of running an efficient organization at scale, especially in remote areas.

Its strength is its weakness. Managed and supervised by its own members, there is inconsistent reporting, supervision, and management capacities. This leads to services that lack timeliness and quality. SHG members themselves claim only a loose affiliation with second and third tiers. This is also demonstrated by the fall in voluntary deposits by members. Members comment on the ability to gain skills and confidence through leadership in the groups as well as the ability to work their way up through the federation. *Dalit* women, in fact, are disproportionately represented in leadership positions. However, members demand competitive terms even from a federation that provides them with important opportunities individually and as a historically disadvantaged group.

The case demonstrates ASP's ability to reach the unreached in large numbers. The federation absorbs the initial risks and costs associated with outreach in remote areas and to marginalized communities. However, now that they are facing competition from new entrants, they will thrive only if their systems and governance successfully meet the challenges of being a 'business first' and demonstrate clear gains for member-owners. The case shows that member-ownership is not enough to ensure loyalty from the lowest-tier clients, mandal, Mutually Aided Cooperative Societies (MACS) and SHGs, if inputs and services are not adequate.

Context and Case Selection

SHG Federations in the Rural Financial Landscape in Andhra Pradesh, India

Cooperatives are primarily legislated at the state rather than central government level in India. Over their century long history, cooperatives have seen a number of state controls on their governance and management. The dependence of cooperative societies on state governments led to the changes in, or parallel enactments to, state cooperative laws. Under these enactments, government capital is prohibited, the management of the societies is vested in the Board of Directors, and policies are decided by the General Body subject to limited regulatory powers exercised by the Registrar (registration of society, registration of by-laws, etc.). The Andhra Pradesh Mutually Aided Cooperative Societies Act (APMACS) in 1995, was the first example of such legislation in India.

Andhra Pradesh (AP) occupies a special place in India's microfinance map for this and many other reasons. With nearly 25% of the country's 2.2 million SHGs (every village now has SHGs in AP) and most of its successful microfinance institutions, AP has long been considered the hub of a number of institutional and product innovations in microfinance. Efforts to scale up the SHG federation model have been significant, supported in the past through programs such as UNDP SAPAP¹ and CARE, and now by the state government, actively promoted through the US\$260 million World Bank funded Indira Kranthi Patham (IKP) Program. With a mandate to reach the poorest of the poor in AP and its last village, the program covers over 45,000 SHGs, households through SHGs, and SHG federations. IKP has reached out to 500,000 poor members in 14,200 remote habitations in the 6 districts. It has strengthened 47,150 SHGs but often with limited success (see EDA & APMAS, 2006).

A federation is a network of primary or first-tier organizations such as self-help groups or other informal associations. Primary organizations may federate to realize economies of scale or to gain strength as an interest group (Nair, 2005). In many cases, SHGs are promoted under a government program or by an NGO to cluster into federations including a number of villages in the same area, typically in a 10-25 km radius. These cluster federations can also be registered under the Societies APMACS Act, 1995. Each member of the SHGs must individually become a member of the federal body, or MAC, since the APMACS Act of 1995 at present does not allow for membership by SHGs.

Federations evolved initially as a 'withdrawal' strategy for external agencies such as NGOs to enable SHGs to have sustained access to financial and technical services without being dependent on these agencies for inputs. Most SHG federations differ from classic credit unions in that they lend largely using external commercial liabilities rather than member deposits. Member deposits are retained at the base tier level or placed with banks directly by SHGs. With base tier clients having little stake in the form of deposits, apex federations become one of many financial linkages, along with banks and even MFIs, for base tier clients. SHGs which are part of one federation system may well have loans from multiple sources at any given point of time and even be members of more than one federation.

AP has a relatively mature and large MACS industry. However AP also provides a unique challenge for member-owned institutions (MOIs) where pockets of isolation exist in remote areas or where, despite the multiple financial service providers, many remote areas are still to be reached with adequate technical support, supervision and guidance.

¹ South Asia Poverty Alleviation Program was one of the first to introduce village level federations in Andhra Pradesh.

Remoteness in the Financial Services Landscape

The case study to be selected was to be member-owned, providing significant remote outreach in the local context, and at least an average performer in remote areas. The sample universe to gauge breadth of outreach was the district, sub-region or cluster of MOIs according to second-tier organizations, political boundaries or regulatory areas. Depending on the size of the MOI the same could range from 10 groups/small associations to one village-level association or even the apex cooperative. See Appendix B for research definitions and general case methodology.

The challenge was finding all these attributes in an organization operating in a remote area. Remoteness may be path dependent (historical), caused by geographical isolation, extreme ecologies such as mountains, low potential such as lack of water, social political exclusion or conflict. A state like AP, despite the unique potential it offers to study innovative and relatively mature, scaled member-owned systems, would at first look not offer the potential to study remote ones. A number of regions in AP, however, still remain underserved by financial services. These include the northern parts of AP, coastal areas with large tribal populations which are also conflict affected (Naxalism), and districts like Mahbubnagar, which have historically suffered from lack of water and irrigation facilities and are generally underdeveloped. These areas stand out in stark contrast to the proliferation of financial service providers in other parts of AP—showing that islands of remoteness and lack of financial access can exist even in ‘saturated’ areas. The financial services frontier still has to be pushed to include these areas not just with nominal extension of services, but ensuring sustainable access through well suited products and services.

To identify the case, we adopted a process of consultations with a regional rating agency, the Andhra Pradesh Mahila Abhivruddhi Society (APMAS), and staff of Ankuram Sangamam Poram (ASP). Mehbubnagar District in the Telangana region of Andhra Pradesh (one of the most backward regions) was identified as the poorest and most rural district of Andhra Pradesh (with over 89% of the population living in rural areas).

Agriculture is the mainstay of the local economy in Mehbubnagar, but having faced consecutive drought until recently it has been one of the districts in AP linked with over-indebtedness and farmer suicides (Sainath, 2006). This is also a region of high migration, with estimates that 600,000-700,000 of the 3.5 million population has out-migrated for work elsewhere in the country (Palamoor NRI Forum, 2007). Our case organization operates near the western border of this district (with Karnataka state) in a particularly backward, land locked and arid area. Possibly the largest system of such a kind it comprises 108 cluster level federations—further federated to form a state level MACS, ASP—the massive combination of a trade union movement, a *Dalit* movement, and an NGO.

The term Dalit has generally been used interchangeably with ‘untouchables’ or the lowest, scheduled castes, and more recently refers to any person/community exploited by social and economic traditions. The Constitution of India recognizes certain tribes and castes in India as Scheduled Castes and Tribes (SC & ST), considered to have historically been deprived of economic and social opportunities. Dalit identity has become a nationwide phenomenon and is widely used by all untouchables irrespective of traditional and parochial caste distinctions (Ram, 1995). It is an identity that has been constructed fairly recently in Indian social history and integrates groups from other religions, such as Dalit Christians.

The mandal MACS at the sub-district level is the key intermediary for negotiating credit, livelihood and managerial skills for its members. A mandal is an administrative sub-division in AP, consisting of roughly 20 villages. A mandal MACS provides linkages with government bodies, financial institutions and other local organizations. The State MACS is a wholesaler of financial services and provides technical and administrative support to member mandal MACS.

Two weeks of field research were conducted with the ASP federation, the Utkoor Mandal MACS and its SHGs. Outreach was measured in terms of Schreiner's (1998) six aspects: breadth, depth, cost, worth, length, scope. Financial and breadth of outreach data covered the district second-tier federation level using researcher assessment based on self-reported data. Eleven of the most remote SHGs were selected for more in-depth focus group discussions and mapping exercises particularly worth/demand of alternative financial services and ownership. Key informant interviews were held with MACS staff, regulators and the second-tier cooperative structure.

Figure 1: Mahbubnagar, Andhra Pradesh



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Member-Owned Institution Remote Outreach

The intention of the research was to help answer some questions about different types of MOIs, what potential they have for outreach and how outreach was affected by (innovation in) governance and networking etc.

Breadth and Depth of Outreach

As of March 2006, ASP's loan outstanding had increased to over US\$2 million (more than 50% of growth in one year) and its membership had crossed 150,000. However, portfolio quality suffered and according to staff fast growth has led to a temporary fall in portfolio quality from a PAR>1 day of 4.84% to 10.24% and a PAR >60 days increase to 4.48% compared to 3.93% in the previous year.

Figure 2: Growth in ASP

Portfolio Quality Indicators	March 2003	March 2004	March 2005	March 2006	Trend
Members	58320	64080	65520	NA	Increasing
Loan Outstanding (US\$)	206,624	492,578	812,062	2,003,811	Increasing
No. of Outstanding Loans	113	100	213	261	Increasing
PAR > 1 Day	37.74%	14.57%	4.84%	10.24%	Fluctuating
PAR > 30 Days	29.15%	7.01%	4.30%	9.15%	Fluctuating
PAR > 60 Days	19.35%	7.01%	3.93%	4.48%	Fluctuating

ASP Business Plan (2006)

The major challenge to ASP's sustainability seems to be high expenses. Each mandal level MACS has an office with 3-4 staff. In addition, there are 30 staff at the district level for all 12 districts. Overall there are nearly 500 staff, including teams for the Financial Services Group, and Support Services Group at the apex level. The infrastructure and staff is largely subsidized by the apex MACS which, through a business planning process, is attempting to wean member MACS away from subsidies. However significant levels of grant support are still required in the system (see later sections).

Each level of the cooperative federation is envisaged to be financially, administratively and legally autonomous. The ASP's state level federation or apex works as a wholesaler and its relationship with member MACS remains essentially loosely defined, a relationship captured in the strategic plan of the organisation which states, "The standardisation of systems and procedures that are required for taking advantage of economies of scale will be realised through processes of consensus building."

Quantitative data is not readily available on the comparative breadth and depth of outreach of SHG federations and other models. There are approximately 8,000 thrift societies (not all but most are SHG federations) registered under the MACS Act. Approximately 53% of members in SHGs in Andhra Pradesh are poor while 63% belong to Scheduled Caste or Scheduled Tribe categories (EDA and APMAS, 2006). Of the sample of 60 SHGs across 28 villages in three districts in AP, as many as 97% SHG members were in fact linked to a cluster or federation. Figures could not be specified for different models however because of the difficulty in separating bank or government linked groups from NGO or MFI promoted groups.

Utkoor, an administrative division in Mehbubnagar has an outstanding per client balance of US\$ 65 compared to US\$111 for the overall system. The Jeevan MACS in Utkoor is a larger than average MACS in the ASP system with 91 SHGs and 1,020 members. There are 8,879 households in the Utkoor Mandal (Maavooru, 2007) and the Jeevan MACS reaches approximately 11% of these. The MACS has 59 active borrower groups and 64 active saver groups (i.e. 64% of the groups are borrowers and 70% are savers in the MACS). Savings, in this case, are compulsory savings used as a requirement for security deposits.

Jeevan MACS is a unique example in the ASP system of a cluster MACS born from a local movement aimed at alleviating the oppression of *Devadasis* or *Joginis*—women dedicated into the service of god. Dev(God) Dasi (slave) means girls married to gods and goddesses. Devdasis existed right from the age of ancient Veda time to help in temple rituals. For this practice poor families 'donated' their younger girl child to the temple. Initially the status of a Devdasi was high in society, but as time passed, the system deteriorated and they were used as prostitutes by dominant elites in

the village. According to the National Commission on Women, 50% of Devdasis go into prostitution and 40% join the flesh trade in cities. The overwhelming majority of Devdasis (95%) earn less than US\$23 per month. The movement—strengthened by the presence of a savings and credit organization, finally led to the abolition of the Devdasi system in the area. This SHG network offer insights on leadership, and how competition level or placement of tiers may influence ownership, member control and governance in remote areas.

Figure 3: Jeevan Mutually Aided Cooperative Society Portfolio (US\$)

	March 2006	March 2005	Growth	
Loans				
No. of Active Borrowers	148	109	35%	↑
No. of Active Groups (Savings and Loans)	68	20	240%	↑
Percentage of female borrowers	100	100		
Value of Total Loans Outstanding	19886	6387	211%	↑
Savings				
No. of Active Savers	59	69	14%	↓
No. of Active Savings Accounts (SHGs)	63	74	14%	↓
Percentage of Female Savers	100%	100%		
Total Deposit Balances (voluntary)	105	220	52%	↓
Total Deposit Balances (compulsory)	1989	639	211%	↑
Client retention rate	95%	98%	3%	↓

During wealth ranking in the remote villages of Mahbubnagar District, people drew a direct relationship between economic and social status—caste was the main way of distinguishing between the rich and the poor. In Peddaparla Village, 500 households are divided into 8 to 9 different castes and other social groups (eg. Muslims). The high caste *Reddy* and *Kuruma* groups form the rich and middle class of the village, and they control the local water pipeline, critical in times of drought. For the village, this control over water forms the main distinguishing factor of a ‘rich powerful’ household compared to a poor one. Of the 20 groups in the village, approximately 25% belong to the very poor households, 40% to the poor, 25% are middle class and 10% are rich (only one of the groups was mixed). Of these, seven are Jeevan MACS groups. Approximately 30% of the seven are very poor, and similar percentages are poor and middle class while approximately 10% of the outreach is rich (only one of the groups was mixed). Compared to the depth of outreach of all SHGs in the village, Jeevan MACS’s depth of outreach is only marginally better. In two other villages, Mallipalli and Nidgurthi, Jeevan’s depth of outreach varied from only 2 of 15 groups being poor in the former to all 15 groups being very poor and poor in the latter. Only some members in these groups were actually Devdasis.

Scope and Worth of Outreach

Interest rates charged by Jeevan MACS are 24% per annum for loans with a term of 15 months compared to the local Primary Agriculture Credit Society (PACS) and landlords who charge 18% and 60% (APR) respectively for 6 month loans. An interesting discussion with two groups highlighted the lack of trust between the commercial banks and SHGs in the area. In the case of the Devi and Srilakshmi groups, the SHG suspected that the bank official was miscalculating the interest rate, collecting loan amounts at one time instead of on a monthly basis and was confusing terms deliberately. In Mallipalli village, the bank branch refused to lend to SHGs due to (by staff

accounts) an increase in default on crop loans. The SHGs appreciated that the commercial bank charged a lower interest rate but still largely opted for the MACS in most of the SHGs we interviewed due to these kinds of issues.

However the link between Jeevan MACS and SHGs is facing new challenges. The historical link of SHGs with the Jeevan MACS was to provide alternative employment opportunities and access to credit for an economically deprived community, predominantly Devadasis. Over time the Indira Kranthi Patham (IKP) came in with a new village based MACS model and state policies supported (and targeted) SHG bank linkage. SHGs sometimes found reasons to discontinue with the MACS. The SHGs that continued found different reasons—the perception of lower interest rates, larger loans, and approachable staff for their membership with Jeevan MACS.

Due to the complexity of AP's rural financial sector, SHG members often have loans from more than one MACS—specifically Jeevan MACS, and IKP MACS. Discussions with one SHG in the village of Aminpet revealed as many as three sources in their SHG level external loan fund. This is significantly more diversified at the household level with members having many sources outside SHGs. A rural household may enter into a new financial contract every two weeks (Basu, 2006). This was banks, IKP and Jeevan. The different MACS (village based) model under IKP, and the reputation of IKP as a government program, means SHGs sometimes delinked from Jeevan to join the village organizations.

Figure 4: Alternative Financial Services in Mahbubnagar District

Provider	Client/s	Loan Product	Savings	Accessibility as reported by members	Others
ASP Apex	Jeevan MACS	Term loans: 18% plus 10% nominal; refundable security deposit. Term: 15 months; Monthly	Compulsory deposit: 5% Fixed deposit: 7.5% Voluntary deposit: 0%		LIC and ICICI Life Insurance, loan linked (Annual premium Rs 100 cover for natural and accidental death)
Jeevan MACS	SHGs	Term Loan: 24%, nominal plus 10% refundable security deposit Term: 15 months, monthly installment	Compulsory deposit: 5% Voluntary deposit: 0%	Physically accessible	NA
Money-lender	Individual	Consumption & working capital loans: 60%. No fixed term, one time payment		Very accessible but not for those without collateral	
Primary Agriculture Credit Society	Individual	Agriculture loan: 18%, nominal Term: 6 months, one time payment		Physically accessible in one village but meant only for men who own land.	
Sangha-meshwar Grameen Bank (RRB)	IKP Village Organisation (VO)	Bulk loan: 7%, nominal, monthly installments Term: 40 months		Physically accessible in one village. Not currently providing loans due to mounting NPAs in that village.	
VO	SHG	Term loan: 15%, nominal Term: 20 months, monthly installment		Physically accessible	
State Bank of Hyderabad	SHG	Term Loan: 10.80%, nominal Term: 6 to 10 months, one time payment	Savings accounts for SHGs, no interest – savings ranged from Rs 20-50 in the sample	Not physically accessible in sample villages. Dependent on contact made by bank officer.	
SHG	Members	Varies across SHGs Flexible loan 24%-36% Term: 6-12 months		Physically accessible	

For many SHGs the timely disbursement of loans was a key factor in choice of financial service provider. It is difficult to come to a definite definition of drop out SHGs in the context of

federations as SHG members almost never claim back their share capital. We have simply taken those SHGs as drop out which have taken loans from other sources similar to Jeevan MACS for at least two years. While Jeevan MACS was preferred by 50% of the SHGs interviewed because of the timely disbursement of loans, the drop out SHGs (3 out of the sample of 11) reported they had stopped taking loans from Jeevan MACs if their demand was not fulfilled in time or because IKP loans were cheaper. One VO member of Saraswati Mahila Samiti, Mallipalli Village drop out SHG explained, “IKP is a government program, we can access all kinds of benefits (community infrastructure fund) and the interest rate is cheaper. The sangham is in the village itself so we are in touch constantly and get loans on time.” The SHG has not formally deregistered from the Jeevan MACS, but they are no longer interested in Jeevan loans. In discussions with one SHG, this relationship had an opportunistic character, with members feeling it is a government program which will lead to short term benefits for them.

The only real challenge to Jeevan in remote areas is another kind of MOI. People in remote markets appreciate the value of MOIs over commercial banks and seem to prefer them as trusted sources which bring added benefits of leadership development and control over savings. Though MOIs seem to be the institutions making inroads in remote rural areas even in states like AP, is it possible that in the context of SHG federations the relationship between SHG members and MACS is becoming increasingly mechanistic, only for credit linkages rather than for the sake of social collaboration or wider economic gains? Does this in turn indicate that MOIs need to design products and services which can compete most effectively with any commercial provider—bank or microfinance finance institution—rather than banking (sic) on their own social mobilization skills and governance structure?

Length of Outreach

No ‘official’ rating system exists for the MACS. However the ASP system had its MACS last rated in 2002 (through APMAS) at which time the Jeevan MACS had a rating of B in a four point scale, which includes more than just financial parameters. APMAS has developed a quality assessment system called GRADES in collaboration with M-CRIL, a New Delhi based organization that is one of the premiere rating institutions in South Asia. GRADES is an acronym for the key focus areas that APMAS assesses: Governance, Resources, Asset Quality, Design of Systems & Implementation, Efficiency & Profitability, Services to SHGs and SHG performance.

External commercial capital constituted as much as 46% of the average total assets of the Jeevan MACS in 2005. This has a direct bearing on the sense of ownership on the MACS as we shall see in the next section. ASP has the largest share in the commercial liabilities. ASP’s portfolio in turn is financed by Syndicate Bank, ICICI, Canara Bank, and the State Bank of Hyderabad. The MACS therefore depends much less on member savings and more on external borrowings for its on-lending funds.

Donors have subsidized all levels of the ASP system, apex, cluster and SHG. In 2005, operational sustainability for ASP at the apex level was only 25% and Financial Sustainability 24%, whereas in 2006 the operational sustainability had improved in a small way to 29% (2006 BDP). The apex was absorbing many of the costs that should ideally be allocated to the cluster MACS level. As a result the Jeevan MACS operational sustainability looks high at 112% and its financial sustainability (95%) does not reflect the systemic costs (internal control, reporting, training etc.) that ASP apex absorbs on its behalf. Its operating expenses (OER at 7.8%) again are one of the key reasons allowing it to reach remote SHG members.

Within the ASP system, on-lending funds due to reliance on external loans and subsidy are the two major determinants of the relationship. In the design of the MACS, the mandal level MACS are meant to be autonomous, self-managed and self-governed entities. Therefore, the apex should aim to emerge as an option for them rather than an on-lending monopolist (which is what in fact the ASP apex well recognizes). MACS close to Hyderabad have experienced this type of graduation where mandal MACS have strengthened and are now accessing funds from banks at rates lower than the MACS provides. This is presumably partly because the suppliers (largely commercial banks) are able to monitor the direct linkages more effectively if they are in less remote areas. For more remote areas they still prefer to go through ASP apex.

Box 1: Apex and Mandal MACS Staff Interactions

“ASP is our main support, without them we would not exist. We are becoming sustainable but slowly. We talk to the ASP staff at the time of making a loan application or getting training. They keep asking us to go for more and more training. What is the use of that? We already know what is being taught. Main thing is they need to address our requirement for timely loans otherwise our members question us and ask us why we are being late.”

“We understand that there is this problem—however the issue is also not getting good reports on time, even the loan applications are not always made properly so we have to go through a lot of effort to make sure everything is in order. Only then we can release the loan. Our partners, commercial banks, also want to see good reports and not just consolidated reports, some of them go right down to the SHG level indicators. We are accountable to them so we feel with training maybe the reporting will also improve. Things keep changing and training is a must but we feel it is resisted even though we are offering it free of cost to the MACS.”

The mandal federations are a link to the SHGs for the state MACS which simply cannot manage the SHGs from Hyderabad. Thinking from the bottom up and how these mandal level financial intermediaries can best access the inputs they require could possibly enable the system to move towards greater sustainability. The design of the financial linkages between tiers is one area where this may help if it were based on a structured understanding of demand. Building reporting and capacity building systems from the bottom up may also improve reporting for the system as a whole or in the very least in a shared and systematic manner highlight areas where improvement is required.

Some indicators of movement from subsidy dependence to market-oriented approaches are observed in SHGs being able to pay market-based fees for their bookkeepers. Also, they are able to cover the costs of the other tiers with their fees. However, the market-orientation must work on both sides. If the mandals are covering costs of upper tiers, the upper tiers must provide them with liquidity and market-oriented product concepts—which is the main perceived gap in inputs. Currently, liquidity exchange is only available at the apex level where the mandal MACS can make deposits and access on-lending funds.

In multi-tiered systems with extensions into remote areas, the main challenge to address is the relative lack of communication between the remote branch or member and the apex which can lead to certain tensions within the system as a whole. Overall, the graduation away from the apex needs to be carefully managed and can possibly benefit from the demand driven design of financial linkages capacity building and reporting.

What Has Enabled This Member-Owned Institution to Achieve Remote Outreach?

Member-Ownership in SHG Federations

The first important step towards greater control of members over the SHG network was the enactment of the APMACS Act in 1995. This laid the foundation for autonomous decision-making and governance in the federated system which may not have been possible in the context of the state cooperative law the way it existed before 1995. The SHG networks present a tiered and pyramidal governance and ownership structure where base tier members own MACS at all levels. In the case of the MACS the relative non interference of the state government as stipulated in the law itself, tiered representation and elections at multiple levels, has allowed for real leadership to emerge among women members and has acquainted women with the processes of decision-making. ASP board members have mostly risen from the ranks of SHGs and now interact with confidence and negotiate with senior government officials, banks and donors and have a highly qualified management team accountable to them.

SHG leaders form the general assembly of the second tier MACS. In turn the second tier MACS representatives comprise the general assembly of the state MACS. SHG leaders are elected by SHG members, SHG leaders are elected to local MACS boards, and local MACS boards in turn send elected representatives to the state level board of ASP. The general assembly at each level is formally the highest decision-making body. For the Jeevan MACS representative leaders of the SHGs form the general body of the MACS and an 11-15 member governing board is elected from among them. ASP in turn has a 12 member Board of Directors.

It can be argued that many MACS have in fact succeeded in ensuring a similar degree of member-ownership. What stands out for the ASP system in general and Jeevan MACS in particular is the development and social composition of its leadership. The Jeevan MACS represents the development of a new kind of elite in rural Andhra Pradesh. These are traditionally marginalized women who for the first time have been given an opportunity to elect, be elected, make policies, and take decisions. The very fact that women SHGs and federations exist indicates a success in challenging the more discriminatory traditional power structures. In addition the ASP system, by policy, recruits Dalit members, allowing membership and leadership to represent these backward castes and classes. This provides an opportunity to cut across caste lines. For example, a Reddy (higher caste) women's group in one of the villages we visited had never sent representation to the general assembly possibly due to restrictions on female mobility for meetings where many lower caste members attended. This is not typical. Reddy dominance of leadership has been noted in other thrift cooperatives in literature (Stuart & Kanneganti, 2003). As ASP's staff point out more than 90% of our members and leaders (SHG and federation) are Dalits.

Box 2: An FGD in Pedaporla village in Utkoor Mandal

Reddy (high caste) woman group leader, “I keep away from the sangham meetings because of lack of time. My only interest is to access loans, if someone gives, that’s fine.” Her husband standing nearby says in Hindi and English “The very poor take most of the benefits. We are neither here nor there (implying that they are neither poor enough to get benefits nor rich enough to have a really good standard of life). If we can get large loans at low interest rates our SHGs ladies will definitely attend the meetings. Will you give us cheap loans?”

Later a low caste SHG members tells us, “She is Reddy. She cannot even talk in front of her husband. They (implying the Reddy society in general), will not even let her come to a meeting where Dalits and Devadasis are present. The cheap loans are just an excuse, they do not participate in any of our festivals. In other villages I have seen the better castes help the poor, especially during festivals there is community feeding, etc. But in our village they never help—not even a single sweet during the festivals let alone when the drought was there.”

Caste lines, as noted by the MACS staff, were particularly sharp in remote areas. SHG leader in four ‘Madigram’ (relatively low caste and very poor) groups were fully aware of and participated in the general assembly. They were more vocal and knowledgeable about the processes of the second tier institution than Reddy group leaders and members. This has possibly led to greater leadership development and control over institutions by lower castes by default.

At the SHG level, members accept that the combination of leadership qualities and literacy in rural, especially in remote areas, is not found in everyone. Even if leaders are not rotated and take operational decisions unilaterally they can be more closely monitored at the SHG level where the number of members is around 15-20 and the members live in the same village. This helps to contain if not completely remove, some of the risks related to domination that this kind of leadership may foster including for example, decisions on loans and repayments.

But new elites can fall into old habits. At the second tier level issues relating to elite domination do arise. In the case of the Jeevan MACS general assemblies, new elites can dominate the agenda, decide which entitlements and schemes to opt for, which members to pull up for non repayment and which loans to sanction without any form of active engagement even with the SHG leaders. A Srilakshmi group leader in Peddaporla Village, Mehbubnagar, complained, “I am not really needed for decision making in the general assembly, I don’t know why I go at all. All they (the board) do is read out names of defaulters. I don’t say anything because I don’t want to make a fuss. Nobody says anything.”

In focus-group discussions with ordinary clients of the MACS, the real member-owner emerges at the SHG level. SHG members take decisions together, can challenge leaders and choose jointly who to link with. In our sample, there was no incidence of SHG leaders or larger borrowers dominating other members. This is not to say this never happens but it is rare, and when it does, it occurs mostly in the form of larger loans being taken by group leaders. This is not necessarily viewed as being exploitative by other members who see decisions on loan size being linked to repayment capacity and use of loan (see also EDA and APMAS, 2006).

Only in one case was it felt that the SHG leader made the decision on choice of service provider without active consultation. This was, however, the drop out group and we cannot be certain that the member was not saying this on account of our being viewed as working with Jeevan MACS as the complainant came into the middle of the conversation after our introduction was over. The SHG leader in turn said, “It is not as though you and your husband were not keen for loans from IKP when you learned of the lower interest rate.” Members felt a complete sense of ownership over the capital of the SHG and are interested in knowing how to best use it to give them long term gains. They will not easily opt for another source of finance even if it offers relatively lower interest rates, because they understand that in the SHG, “The interest rate ultimately comes back to us as profit.”

At the second tier level members may not necessarily value member-ownership more than they value the lower cost, higher quality or greater convenience of competitors’ services. This was despite the fact that members had full voting rights and the MACS itself was deeply rooted in a local social movement. Members also attribute greater preference for SHGs on savings in SHGs, which they see as higher than from banks, and more immediate than from MACS.

Relevance of MACS for Financial Linkages

The second tier is critical in the respect that MACS enable both broad and remote outreach in remote areas because of their local roots and staff. As some SHG members recalled, the Jeevan MACS was lending to them at a time when no one else was. Despite there being a bank branch in the areas that the MACS serviced, and the tremendous impetus to lend via the bank linkage route, the initial steps towards providing liquidity support to base SHGs was not taken by banks. Jeevan MACS did the same, and while it had the social capital of the Devadasi system to build on, it contributed significantly also in building systems and processes for financial management and even new SHGs. MACS are trusted in this role because of their local roots. The Jeevan MACS manager said, “It cost us sometimes six times more to make a loan in a remote area compared to nearby connected areas, not only because of the lack of a bus and bad roads but also initially the thin dispersion of SHGs in remote areas which meant we were not really getting the economies of scale. But we did it because that was our mandate. Now other service providers are coming and lending to SHGs we promoted and linked.”

The case reflects that the assurance of repeat linkages is key to ensure continued membership. One SHG in Mallipalli village rated the SHG services and bank services lower than the local moneylender who provided loans on time even though the interest rate was high. The main issue they felt was banks gave a loan once. When the bank loan stopped, the SHG members felt aggravated with the leader and stopped attending meetings. This illustrates that consistent linkage is important for continued interest in both SHGs and other service providers. When asked if they felt the MACS could provide consistent linkage they said yes, but that their SHG rating was low and they could probably not access a loan until it improved.

An SHG can drop out when the financial linkage (its term, amount, price, procedure, accessibility, etc.) does not address the needs of members. The MACS case illustrates this. Data on drop-outs is not readily available for the MACS as a system, as groups do not necessarily de-register from the MACS or even stop paying share capital and annual fee. However even in the limited sample of eleven SHGs that we met, discussions revealed that three groups were dissatisfied and looking for other sources due to the slow release of loans from the MACS, and the MACS had already lost one group to overpricing and two to delays in loan release.

Upon further probing with staff of upper tiers we found that the real mismatch existed between MACS and SHGs, and MACS and bank linkage structure. Any slow release by the refinancier for the MACS would result in the risk of losing clients. By and large upper tiers, especially where their reliance on external funds is high, found it difficult to match liquidity needs, tenures, and repayment schedules at every level. Since there were multiple financiers (ASP—the state apex, SIDBI, etc.) managing multiple credit lines and their schedules was found to be a challenge especially due to limited staff capacity to manage liquidity.

The multiple tiers and networks provided by the MACS present an opportunity to address varied liquidity needs of different members and groups. While base tier organizations provide small emergency loans, second tiers and linkages bring in larger loans. It is a conundrum. A less tiered system would be more efficient and members feel more like owners due to the potential to centralize governance and reporting. However, it may not be as well positioned to manage linkages. Any simplistic approach to meeting varied needs at different levels may cause disruptions in the system causing it to become ineffective for members. If member-ownership is not a key determinant in the relationship, such as seems to be the case with the Jeevan MACS, then competitors can step in very quickly in a state like Andhra Pradesh.

Regulation and Supervision: Where do the risks lie?

Savings can play a key role in balancing liquidity in a system, with member and group savings contributing to the liquidity of the second tier. However, in remote areas where the MACS headquarters may be inaccessible for outlying villages and in the absence of effective supervision, would SHG savings (even in a limited form) be safe with upper tiers? Not in the immediate perception of SHGs who are keen to retain deposits at their level or with banks.

The MACS Act was a major step towards building a more member-owned, accountable institution. The MACS Act allowed federations to transform into regulated cooperatives graduating from subsidies. All registered second tier institutions such as mandal and cluster MACS maintain financial reports and file returns on an annual basis to the Registrar of Cooperatives. The reports have to be audited. Reports are prepared either by representatives of the promoting agencies or by auditors. In most cases we found at least a basic set of statements was prepared on a monthly basis and then consolidated and audited for the year as part of an off site system. To our knowledge these are not consolidated or published by the Registrar.

Small and remote organizations are expensive to supervise. In the case of SHG MACS, the enabling regulation and the development of an audit system through IKP has not kept pace qualitatively or quantitatively with growth in remote areas.

The ASP system has attempted a nascent stage model of self-supervision. The apex provides supervision and guidance for cluster MACS and cluster MACS undertakes rating of base tier SHGs. In practice however this is made difficult by a number of circumstances:

- The lack of an effective on-site supervision system
- The lack of stringent standards (a systemic rather than organization specific issue)
- Relatively weak staff capacity, especially in remote areas also affects compliance and reporting
- Lack of regular rating and good bookkeeping makes supervision difficult. On site supervision is loose.

- ASP's internal controls and risk management needs more work and more systematic devolution to Jeevan MACS through training and rating. However the MACS is not necessarily receptive to this training.
- High cost of on-site supervision, training staff of the cluster level SHG federations in compliance

In multi-tiered large systems such as ASP, self-supervision is therefore difficult without a foundation of strong management and record keeping. Where operations are in remote areas, the cost implications of capacity building and support in reporting are difficult to offset. There is also the issue of subsidiarity and the constant balance of interests that needs to be maintained between the apex and member federations. In such situations, in the absence of very strong operational control, apex institutions, even as refinanciers, are not always able to keep a strong regulatory and supervisory hold over lower tiers. It may seem therefore that for remote MOIs in general and multi-tiered ones in particular an alternative regulatory and supervisory structure may well be critical to building a healthy industry and a more accountable one.

Conclusion

Due to their low operational costs, MACS are a good opportunity for SHGs to get on lending funds in remote markets. They also provide an opportunity for autonomous self-governing organizations to emerge—no mean feat given the context of cooperation in India and the arbitrary nature of state control over such organizations. In states like Andhra Pradesh with relatively mature MACS, and a highly stratified society, the danger for domination of traditional elites in governance remains.

ASP stands out in this context. It builds on the strong base of a Dalit movement. It is highly committed to building leadership such that even managers are ultimately accountable to the board formed of SHG leaders. It stood by its members when no one else did and offered the promise of consistent financial linkages and technical support. This has allowed the MACS to sustain SHG linkages even while banks offer lower interest rates. However, the social base is diversifying as has been seen in the section on depth of outreach. New competitors have entered the market, such as the IKP program which offers the same front as ASP and is further devolved to the village level. Will ASP fall into the category of just another source of financial linkages for its remote members? Will the complexity of managing relationships between different tiers, mandal MACS and SHG members, overrun the advantages of social capital in the system? It remains to be seen whether ASP can maintain its efforts to emerge as a truly member-owned institution in the face of the need to prove commercial viability.

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Appendix A: Recommendations for ASP

ASP is in a process of consolidation—having identified better performing MACS on which to focus its support and refinance. Many of these are in remote areas and include the Utkoor mandal. Even for these relatively better performing MACS issues of liquidity management, operational management, and product development abound. Capacity building, though available, is not necessarily viewed as an important input and the demand and value for this service have to be studied before it is offered in a supply driven way to lower tiers. Subsidy and linkages the way they are structured seem not to be effective in tying the tiers together.

In this context we recommend that:

- 1) A comprehensive capacity building needs assessment be done participatorily with MACS staff. However subsequent training should be costed—either extended as a loan or on a fees basis to mandal MACS to ensure greater value for and application of the training. Delinking the training from the subsidy structure may help ASP be more focused in the way it utilises both the subsidy and the training.
- 2) A concentrated effort to build even a manual MIS again from the bottom up could in itself be a capacity building intervention where mandal MACS have buy in on nature and number of reports, and also a greater understanding of the relationship between different reports.
- 3) Linkages have to be redesigned with greater input on product development and liquidity management from the apex.
- 4) Overall greater focus on savings mobilization, and also on understanding what members demand as features of products and services is critical. The current linkage design seems to limit the lower tiers into offering only certain kinds of products and services. At the same time at least *vis a vis* remote areas there seems to be virtually no feedback loop to communicate what members are demanding into product development.
- 5) Member education on participation in governance especially at the mandal level, through an educational campaign, can improve the quality of participation in decision making processes.

General recommendations for SHG federations

Networked MOIs in remote rural areas hold out potential for both breadth and depth of outreach. They absorb the first entrant risks and costs of preparing rural remote markets—and they can offset these due to relatively low operational costs.

Competition can exist even in the most remote areas especially in regions such as Andhra Pradesh in India. MOIs need to be more adaptive and dynamic in meeting the challenges of competition. Trust, pricing and timeliness are the most problematic of these challenges as the MOI is already functioning with a tight margin.

Some limitations are presented in multi-tiered institutions which are entirely dependent on commercial sources for their liquidity—as this can create shortfalls down the line. The industry does

need to think of an optimal level at which commercial lending liabilities should be for each tier, without however creating the tension of excessive draws on SHG internal funds.

Savings are a big concern for base tiers and there is usually ambiguity in systems about the critical role of savings as a source of balancing liquidity in the system. Institutional policy focused on such a broader role of savings would go far in supporting the systems and member needs.

Also, it is critical to put into place an effective system of self-supervision which allows the healthy and balanced growth of the industry.

As has been stated in the above section, self-supervision is difficult for multi-tiered institutions which are not tied well together operationally. Since each level is autonomous in terms of governance and ownership, there is also a possibility of a perceived conflict of interest which in turn can impact the quality of supervision. Given the availability of grant funds in the sector, the presence of the Registrar of Cooperatives for MACS, and an upcoming Microfinance Act, there is the opportunity for the Registrars office to play a greater role in ensuring transparency and improving reporting capacity—through providing to the general members information on the audited accounts and to the sector consolidated information on the performance of the MACS. The additional use of subsidies at the level of ASP and other multi-tiered institutions is in supporting on site supervision and the development of a consistent rating system which ties in with reporting for the Registrar. While organizations like APMAS have already developed such a system, it is not applied in a regular way and will not be unless there is a systemic push for the same.

Appendix B: Methodology

Study Objective

To illustrate how varied member-owned models in different contexts have been able to achieve significant outreach in remote, rural areas.

Defining Member-owned

- Clients are both owners and users of the institution
- Member equity is tied to ownership and decision-making (shares; savings; rotating/internal capital)
- Member equity is a key source of funds
- Legal entity is based on member-owned (i.e. association)

In order to cut across models definition needs to account for a variety of forms of equity and decision-making. Even what legal entities are possible will vary from context to context.

Defining Remote

Unserved in its own market. This can be due to several factors:

- Geographical distance from nearest service or input provider
- Population density
- Socio-cultural aspects of access such as gender or ethnic background as in the case of lower castes in Asia or indigenous groups in Latin America

Study Methodology

The intention of the research is to help answer some questions about different types of member-owned institutions to determine what potential they have for depth, breadth, scope, length, worth and cost of remote outreach, using Schreiner's (1998) six aspects. In-depth institutional analysis of each MOI sample examines remote outreach and demand by remote members and member groups. The second level of analysis focuses on how remote outreach is influenced by three key drivers:

- Networking and linkages
- Governance and ownership
- Regulation and supervision

The perspective of analysis is from the lowest tier association, SACCO or set of groups and their members. Selection of case MOI(s) is based on the 20% most remote MOIs within their sample universe. Selection is based on remote members/groups that are representative and mostly strong. The sample universe would be the district, sub-region or cluster of MOIs according to second-tier organizations, political boundaries or regulatory areas. Depending on size of MOI and sample, range could be a number of self-help groups to one SACCO or village association.

Case-Selection Criteria

- Remote in terms of households is proxied by one or more of the following:
 - Location of access points (decentralized and centralized level if receiving different services at each point).
 - Distance of access points to local centre and nearest road (nature of road), availability of transportation.

- Depth of outreach (varies by context but broadly a factor of population density and infrastructure, poverty level, and other indicators of social exclusion).
- Member-owned (not managed externally; members involved in decision-making)
- Strong breadth of outreach relative to the context
- Informative in terms of one or more of our key research questions (governance and member-participation; external resources; regulation and supervision; type of MOI)
- Not so unique or idiosyncratic that it does not have lessons that can be applied to other contexts
- Relatively financially viable
- MOI is transparent, information is readily available or fairly easily collected and staff is willing to collaborate in collecting information.

Schreiner, M. (1998). Aspects of outreach: A framework for the discussion of the social benefits of microfinance. *Journal of International Development*, 14, 1-13.

Appendix C: Key Financial Indicators for Case MACS (2006)

	1 MACS - 68 groups ¹
Depth	
Avg. savings balance as % of PC GNI	5.72%
Avg. loan balance as a % of PC GNI	21.6%
Population density (persons per km ²)	190
No. of service providers in service area ³	7
% of clients who are female	100%
Length	
Operational self-sufficiency	113%
Financial self-sufficiency	95%
Portfolio at risk > 30 days	NA Repayment: 96%
Total operating expenses / avg. total assets	7.9%
Average staff remuneration / PC GNI	88%
Breadth	
Number of active borrowers	148
Number of active savers	59
Cost	
Effective interest rate ⁴	135%
Worth	
Retention rate	95%
Other	
Growth in total assets	52% ²
Net loans / total assets	72%

Notes: Except for the case of the LPDs, data is self-reported. PC GNI refers to per capita gross national income. NA indicates that data is not available.

¹ Assumes 21 members per group

² Includes only voluntary deposits

³ Formal or semi-formal

⁴ Based on average loan size