

DO WE REALLY NEED SHG FEDERATIONS?

Malcolm Harper

I am presenting below ten statements, all of which are designed to question whether SHG federations are really needed. I am sure that some of the statements, maybe all of them, are wrong in some particular circumstances but I am equally sure that some of them are right some of the time.

In principle I am against adding any new layer of middlemen (or middlewomen) to any transaction, unless it can be clearly shown that the new intermediary adds value. I believe strongly that the burden of proof is on anyone who proposes a new intermediary; they must show that it serves a purpose whose value outweighs its cost. These statements are intended to elicit such proofs or, perhaps, to show that SHG federations are not always needed.

The statements all relate to SHG federations which engage in financial intermediation; many federations do not take their SHG members' savings or lend to them but do other things. This note is not about them.

1. SHG federations were a necessary but temporary measure when very few branch banks were willing to deal with SHGs and it was necessary to mobilise more pressure than a single group could muster. That is no longer necessary except in a small and rapidly decreasing number of locations.
2. The initial savings deposit of an SHG, perhaps Rs 2000, and the initial loan, of possibly Rs 8000-10000, are reasonable first transaction amounts for a bank branch, similar to what they can expect with their usual customers. After a year or so, SHG deposits of Rs 10000 and SHG loans of Rs 50000 are not uncommon. The SHG itself achieves the necessary bulking-up function for the individual members, but these are profitable accounts, there is no need for a federation to bulk them up further.
3. India has the largest network of bank branches in the world, and most villages are within quite easy distance of a branch of some sort; there is no need to have a federation in order to provide a more accessible place at which to make deposits or take loans.
4. Some federations are themselves federating and aim to create quite new financial institutions. India already has commercial banks, regional rural banks, Primary Agricultural Credit Societies (PACS) and District Central Cooperative Bank branches; some are not functioning properly but the way to improve matters is to reform them, not to create yet another set of institutions.
5. The existing financial institutions are not properly regulated or supervised and there are frequent failures and frauds. There is no way by which the authorities can take on yet another type of institution; SHG federations will need supervision but will not receive it.
6. Loans and other benefits of SHG membership already flow away from the poorest to the most powerful and least needy of the members, as happens in all institutions. This process of marginalisation will also happen within federations, so that whole groups will be marginalized, not just individual members within groups.

7. The process of promoting an SHG is not easy but bankers and new SHG members themselves are increasingly taking over the task, thus reducing the need for dependence on NGOs and subsidy. Promoting a federation is much more difficult and a federation requires much longer 'hand-holding'. This may suit NGOs which need a reason to exist, but it perpetuates dependence on external assistance.
8. A single SHG does not contain enough voters to be worth 'hijacking' by political interests but a federation is a very attractive target.
9. The day-to-day operations of a federation cost money. This may come in the form of contributions or interest spreads paid by member SHGs or from individual members' voluntary work. SHG members already complain, rightly, about the amount of time that their membership demands and about the interest rates they have to pay. Federations will make these burdens worse.
10. One of the most 'empowering' aspects of SHG membership is the way it allows members to pick and chose between financial service providers. At last, banks, PACS and MFIs are obliged to compete for SHG members' business. Federations can demand 'loyalty', which is essentially a loss of freedom.

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