

The cooperative self-help movement in rural India

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The most impressive path to financial inclusion of women has been the cooperative self-help movement in rural India. The vision behind this movement is to contribute to improving the livelihood of the rural poor, in particular Dalits, scheduled tribes, and other backward groups. Setting-up self-help groups (SHGs) of women following cooperative values and principles, aims at improving the economic and social situation of rural households, alleviating poverty, and strengthening the empowerment of women.

In fact, the founding of SHGs as informal (non-registered) small grass root cooperatives had already started earlier during the 1980s, initiated and supported by numerous small and large NGOs or international and government agencies. However, the actual impulse was given to the self-help movement in 1992. At that time, the National Bank for Agricultural and Rural Development (NABARD), authorised by the Reserve Bank of India, launched a pilot project of a Bank-linkage program together with MYRADA, an Indian NGO supporting SHG development from the early beginning. In 1996 the pilot project was rolled out nationwide.

Ground breaking for the Bank-linkage program were new RBI/NABARD regulations allowing banks the following: First, opening bank accounts for informal groups, second, granting bulk loans

to SHGs leaving the decision on how to use these for their own lending activities to them, and third, lending to SHGs without physical collaterals. The Bank-linkage-program and the massive support by SHG Promotion Institutions through dissemination, capacity building, training exercises, and exposure visits enabled the up-scaling of the SHG movement to today's vibrant women-centric financial inclusion and livelihood improvement.

SHGs are based on self-initiative, self-administration, self-control, and mutual support – the well-known cooperative principles of Friedrich Wilhelm Raiffeisen. Each grass root group comprises 15 members on average, with leaders elected from the circle of members. Typical for cooperative institutions, the members are both owners and users of their SHG. As informal financial cooperatives, SHGs collect savings from their members and provide micro-credits to members for consumption, business, and social purposes. If they meet certain accounting and documentation standards required by the Bank-linkage program, SHGs will get access to financial services provided by the formal banking system. This allows the groups to invest their savings safely and to borrow from banks, strengthening their funding base for own lending activities. All these issues make SHG membership attractive and promote the further extension of the SHG movement.

Originally designed primarily as small micro-finance institutions, SHGs have evolved to a basic cooperative structure of small multipurpose groups applying self-help. SHG turned out to offer an adequate institutional framework for providing non-financial services and enabling mutual support. Depending on the respective local conditions, specific needs, and initiatives of their members, SHGs supplemented their financial services with organising collaboration in farming, craft, and other entrepreneurial activities, including input supply and marketing, as well as social services. Emerging to such multi-purpose SHGs has been typical already for rural cooperatives initiated in the mid-19th century by Friedrich Wilhelm Raiffeisen. Larger business and broader service diversity contribute to improving effectiveness and efficiency of the individual SHG enhancing the livelihood of their members.

The self-help movement shows a dynamic development. Hardly anyone had expected such a success. Today, 8 to 10 million rural SHGs exist in the Indian Union, covering an estimate of more than 100 million member households. 90 % of the SHGs are women SHGs. If assumed that each member represents a household of 5 persons on average, SHGs impact 500 million people belonging to the poor part of the rural population – a vast reach, considering India's 1,3 billion inhabitants with around 60 % living in rural areas. Such large coverage is due to SHG's potential for outreach and for mobilising self-help capacities, their low-cost approach, and flexibility towards meeting different needs of group members. Adding to the direct economic benefits SHGs have an enormous positive impact on social cohesion among their members, on the improved ability to solve social conflicts, and on the empowerment and strengthening of the social position of women within their families and in their communities.

Despite the tremendous positive impact on the economic and social situation of the poor, especially in rural areas, SHGs as a structure of informal, small, basically stand-alone women groups face many constraints and challenges limiting their service capacity, bargaining power, and even hindering and/or endangering their sustainability.

Therefore, following good cooperative practices, in the late 1990s SHGs began uniting themselves into networks of member-owned, bottom-up structured multilevel federation systems on village-, mandal- (sub-district), and district-level. This process was initiated and accompanied by external support through the SHG Promotion Institutions.

Like so-called secondary institutions of other cooperative organizations, the SHG Federations' mission is to help their local SHG constituents through supportive and complementary services. They support local SHGs in performing their duties to their members and promote the further extension and advancement of the SHG network. As such, the multilevel structured federation system follows the principle of subsidiarity, which is the basic rule of any bottom-up structured cooperative system. This means that the upper-level federation supports and supplements lower-level SHG institutions taking over functions and services, which cannot be (economically) performed by the latter.

Depending on the legal, regulatory, and taxation conditions of the respective Indian state, federations are not always registered under a cooperative law. But even then, their internal governance structure and mission remain usually cooperative-oriented. In some states, federations on village level and sometimes also on sub-district level chose to retain their informal status, often to prevent inadequate state supervision and state contradictions potentially linked to registration. Mostly, however, federations above the village level strive to obtain a formal legal status as cooperatives or in any other suitable legal form in the respective state available.

The development of federations varies across the country. Slightly more than 50% are located in South India and about 40% in East India. Federations are providing several services to their constituents, which can be grouped in institutional development, financial intermediation, livelihood enhancement, business support services, and social intermediation. In general, the federation structures are still more or less in a building phase. But federating has already proven to bring

many benefits to SHGs and their members including: mobilising economies of scale, extending value chains, broadening and deepening of SHGs' service packages, and enabling capacity building among primary members, managers and professionals etc..

However, to realise the full benefits of SHGs and to ensure sustainability of the multi-level SHG structures, SHG members have to develop and maintain awareness of ownership. They have to care for a member-based governance and sector-own control (SOC), comparable to the Indian terminology of "self-regulation". This comprises important tools such as active participation of SHG members in governance and control, transparent accountancy, sector-wide internal control, and regular (compulsory) external audit on all institutional levels. Implementing such a member-based and properly institutionalised SOC concept has been and may always be a challenge for every cooperative structure and applies, therefore, to the SHG movement as well.

In the Nizamabad District of the southern Telen-gana State, a cluster of five Mandal SHG structures (so called Kamareddy cluster) has successfully piloted the development and implementation of such a common SOC model. The pilot process was bottom-up structured, starting with the members and their SHGs, followed by the next-level SHG institutions of the cluster. Almost as the cornerstone of the pilot system and as the beginning of mainstreaming SOC among the SHG movement, a supervision federation of the Kamareddy cluster, the Paryavekshana Samakhya, has been established. The federation institutionalises member-based sector own control and development (consultancy-) services. The Paryavekshana Samakhya is in charge of auditing the governance structures and the financial results, of providing capacity building, development services to cluster institutions, as well as institutional support and advisory services for SHG structures in other regions. It is equipped with trained management and staff, recruited among the SHG membership, comprising auditors, accountants, trainers, resource persons etc.. As such, it followed a century-old proven German cooperative tradition and good practice

of conducting SOC services, strictly separated from business activities, through a network of member-owned supervisory federations.

The pilot phase has been completed for some time. Substantial external financial and intensive consultancy support had been provided by the government-promoted Society for Elimination of Rural Poverty (SERP) and the Indian non-governmental organisation Mahila Abhivruddhi Society (MAS) and the German Cooperative and Raiffeisen Confederation (DGRV) within the framework of its cooperative development activities. However, it is to emphasise that for conducting the SOC pilot as well as its scaling-up at any time the SHG cluster itself had been in charge. Currently, the concept is in a scaling-up phase. With continued support and cooperation of all relevant stakeholders, other SHG structures are in the process of adopting the SOC concept in whole or in part.

In the meantime, based on the positive experience with women SHGs, the cooperative self-help model is being extended to other self-help movements. Particularly, small farmers are establishing a network of farmer producer groups and farmer producer companies as their secondary institutions. Furthermore, the SHG-Model is also being used for improving the livelihood of sub-urban and urban poor, particularly slum dwellers. The Indian experiences and insights from the SHG movement – modified according to local conditions and needs – could prove to be an adequate institutional frame to properly organise collaboration structures with similar objectives in other countries. From the point of view of IRU, the positive results of collaboration between DGRV and MAS conducting the SOC pilot confirm the importance and mutual benefit of exchanging experiences and knowledge about good practises between cooperative systems.