
SHG Federation Development and Sector-own Control and Stabilisation

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Contribution to Session 2:

Community based models: Looking beyond SHGs

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Strategic Visions of SHG-banking

1. SHG linkage banking
 2. SHG federation structure (multi-tier, channeling external funds)
 3. SHG federation structure like integrated cooperative financial system (multi-tier, full-fledged retail banking services)
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Characteristics of Cooperative Financial Systems

- ❑ Community-based member orientation, member commitment,
 - ❑ Legally independent, economical self-responsible grass-root institutions
 - ❑ Full-fledged retail banking for members (and non-members)
 - ❑ Secondary structures, owned and controlled by the primary cooperatives for support services
 - ❑ Primary and secondary institutions linked together by law, by-laws or contract, integrated system
 - ❑ Sector-own control and stabilization, interaction with State/Nationalbank regulation and surveillance
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Sector-own Control and Stabilisation (SOCS)

Definition:

- Control and stabilisation system of cooperative financial structures, established and operated by themselves
- Based on the cooperative principles of self-administration, self-control and self-responsibility
- Supplemented by interaction with the financial authority

... SOCS purposes

- ❑ Enabling SHG members and their representatives to execute their control rights and obligations
- ❑ Developing transparency and mutual trust within the sector, needed for integration building in a multi-tier cooperative system
- ❑ Promoting SHG-federation institution building and economic development and protecting the SHG federation structure against crisis situations
- ❑ Providing transparency among stakeholders und linked financial institutions as well as the broad public
- ❑ Enabling the Regulator/Financial authority to regulate and supervise properly

Important Elements of a SOCS System

1. Adequate norms and standards (external and internal)
2. Approved common bookkeeping and accounting standards
3. Effective internal control of management and risks
4. Sector-wide reporting, monitoring, rating (off-site control)
5. Compulsory cooperative audit
6. Follow-up activities (response and consequences) on observed deficiencies
7. Institutional protection, deposit insurance
8. Linkage to the Regulator/Financial authority for regulatory and supervisory duties (“Interaction”)

Requirements for effective SOCS system-building

- ❑ Willingness to participate, SHG structure accepts ownership and is willing to develop and implement SOCS effectively
- ❑ Appropriate institution building, taking care of strict separation of SOCS management and organisation from business duties of the SHG structure
- ❑ Exchange know-how and experiences with other cooperative financial systems
- ❑ Principally, SOCS will be typically financed by the SHG sector itself ensuring independence and avoid external interference; external financial support only as start-up
- ❑ SOCS is operating in the frame of legal and regulatory conditions
- ❑ SOCS development corresponds with the development of SHG banking and related control challenges