

RURAL FINANCE PROGRAMME INDIA

Good Practices in SHG Book Keeping

Case 1: The Munshi System of Ibtada

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Background

Towards Best Practices in Book Keeping in SHGs

The SHG Bank Linkage Programme in India today is the largest and fastest growing micro finance programme in the world. As of March 2005, more than 1.6 million SHGs accessed credit from banks. The SHG Bank Linkage Programme has managed to involve participation of diverse stakeholders consisting of 48 Commercial banks, 196 Regional rural banks and 316 Cooperative banks. It has partnered with over 3,000 NGOs from different parts of India. As the Programme is continuously expanding its outreach, which is a very desirable feature, the expanding outreach has thrown up certain critical challenges. **Quality book keeping** in the SHGs is one important challenge.

Quality would mean different things to different individuals. Based on discussions with the diverse stakeholders, the parameters identified which contribute to Quality book keeping in SHGs are *completeness of information, accuracy, up-to-date information and transparency.*

GTZ-NABARD Rural Finance Programme therefore attempted to document the good practices in book keeping in SHGs as a move towards identifying challenges involved in promoting quality in the book keeping of the SHGs. Three case experiences have been documented as good practices. These are

- **The Munshi System of Ibtada (Case 1)**
- The Book Keeping System in the Mahakalasangam SHGs (Case 2)
- The Computer Munshi Project of PRADAN (Case 3)

These cases are among the many good practices that could be found among the many stakeholders involved in the SHG Bank Linkage Programme. These are not in any way exclusive and the only ones that can be called good.

Having identified the good practices, the next step would be to draw lessons from these cases and to locate missing links leading to the challenges to quality book keeping. It would also be important to disseminate the lessons learnt to a diverse stakeholder group with a view to integrate lessons learnt in subsequent actions of either promoting new SHGs or working with existing groups.

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List of Abbreviations

BIRD	Bankers' Institute for Rural Development
BoA	Books of Account
BS	Balance Sheet
CBO	Community Based Organisation
DCB	District Cooperative Bank
DDM	District Development Manager
e.g.	<i>the abbreviation e.g. comes from Latin 'exempli gratia': for example</i>
Etc.	<i>Et cetera</i>
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH
HO	Head office
i.e.	<i>the abbreviation i.e. comes from Latin 'id est': that is</i>
ICDS	Integrated Child Development Services
mCID	MicroCredit Innovation Department
Mahila Sabha	Cluster name
MIS	Management Information System
NABARD	National Bank for Agriculture and Rural Development
NBSC	National Bank Staff College
NGO	Non Government Organisation
RBI	Reserve Bank of India
RRB	Regional Rural Bank
Rs.	Indian Rupees (1 Euro ≈ 55.08 Indian Rupees as on 14.12.05)
SHG	Self Help Group
SHPI	Self Help Promoting Institution
TB	Trial Balance

1. Introduction

1.1. The SHG–Bank Linkage Programme in India

The Self-Help Group (SHG) – Bank linkage programme in India today is the largest micro finance programme in the world. As of March 2005, the programme covered more than 1.6 million SHGs that were bank linked. The linkage programme has managed to involve participation of diverse stakeholders consisting of all 48 commercial banks, all 196 Regional rural banks and mostly all 316 Cooperative banks. It has partnered with over 3,000 NGOs from different parts of India. As the programme is continuously expanding its outreach, which is a very desirable feature, the expanding outreach has thrown up certain critical challenges. Quality in the record keeping (books of accounts) of the SHGs is one important challenge.

1.2. Why quality book keeping is important?

The programme has motivated thousands of poor women and men to save and access credit. In any financial programme, accurate recording and reporting of financial information is of paramount importance. The linkage programme is no exception to this principle. More importantly, the programme has mobilised substantial savings from women members over the years. It is therefore important that the *micro and the macro* management of the financial information of the programme are of good quality.

Several stakeholders have different details of information. For example, NABARD mCID has the macro picture of the programme that monitors the progress and the performance of the linkage programme at the national level every year. Likewise, participating banks would have similar information. All this information is based on the most critical *micro level* information that is the books of accounts (BoA) of individual SHGs.

The SHG books of accounts are the foundation on which subsequent information and analysis of the programme is based. Given the diversity in the programme, it is important that certain *minimum standards of accounting practices* are followed. There is also a need to link these accounting practices to the *MIS of the programme* so that accounting records generate information that is useful in decision making. Hence it is essential that the Micro level information recording namely the book keeping in SHGs be of appropriate quality.

1.3. What is quality in book keeping in SHGs?

Quality would mean different things to different individuals hence it is essential that a common understanding is reached. We propose the following parameters in defining quality in book keeping in SHG Bank linkage programme:

- All the **primary books of accounts are maintained**. (Primary records include cash book, ledgers, members' passbooks, individual members' ledger, receipt book, vouchers, etc.)
- The trial balance, income and expense statement as also the **balance sheet is prepared** for all the SHGs.
- In defining quality, it is also important that the **record keeping is done accurately**, without mistakes. The records should clearly state each member's savings, loans outstanding, interest and principle paid and such other relevant information.
- It is also essential that the **accounts are kept up-to-date** and these are not pending beyond one week after the transactions are over. (SHG meetings, bank loan disbursements).
- The **financial information should be easily accessible** either to the member of the group or to an outsider such as an auditor or a banker. The principle of transparency is important in this context. Another aspect of accessibility is also the facility to *retrieve* any data at any point of time. The accounting system should allow the data to be consolidated around any parameter as required and made available to any user at any point of time.

Thus, the key words in Quality book keeping are *completeness, accuracy, up-to-date information and transparency*.

1.4. Provision for Financial Health Indicators for SHGs

There is a growing feeling among bankers that monitoring the loan repayment alone is not sufficient. A major disadvantage of tracking loan repayment is that it only looks into the past. Excellent loan repayment in the past is not a guarantee for excellent loan repayment in the future. For a number of reasons, good clients can turn into bad clients, e.g. if there are internal problems within groups etc. While it is difficult to look into the future, some events can be predicted if the indicators are interpreted rightly. For example, SHGs that stop collecting savings are more likely to default bank loans at a later stage. Banks are interested in knowing the overall health of the group.

Therefore a good book keeping system is a prerequisite to provide information about the **five Financial Health Indicators for SHGs** mentioned below:

- **Regular savings**
- **Internal and bank loan repayment**
- **Regularity in meetings and attendance**
- **Proper book keeping**
- **Participation of group members and unity**

2. Practices in SHGs promoted by Ibtada, Alwar, Rajasthan¹

2.1. Overview of Ibtada, the SHPI and its SHG Programme in July 2005

Ibtada was established in 1997 with a non-profit motive to build and strengthen people's institutions and enable these to address the issues of their concern. The NGO is currently operating in the Mewat region of Rajasthan. The inspiration to start the initiative called Ibtada, an Urdu word meaning the beginning, came from the existing backwardness of women in this region.

Ibtada envisions a society where poor and deprived social groups are economically, socially and politically empowered to take part in development processes and have equal rights and access to resources, the abridges poverty, deprivation and discrimination. In order to achieve this vision, Ibtada's mission is to capacitate communities especially women to play a stronger role to reduce social and economic poverty and inequality.

The core strategies adopted by Ibtada are:

- Augment community capacity and promote self-reliant community institutions
- Put women and girl child in forefront.
- Collaborations with Government agencies for effective outreach
- Build alliances with civil society and CBOs on issues of common concern.

In terms of concrete activities, Ibtada promotes Women's institutions around issues of micro finance. Such institutions are self help groups, cluster level Mahila Sabha and block level federations. Apart from micro credit these institutions engage in village level issues, female children education and women's health. The overall approach leads towards women empowerment. Promoting girl child education is a major initiative of Ibtada. This involves running alternative schools called Taleem Shalas. This is significant in the context of working with the Meo community. Enhancing livelihoods through existing resource of land and livestock is another intervention.

According to its published annual report for 2003-04, Ibtada had staff of 19 comprising of 12 male and 7 female members. Its income for the year 2003-04 was Rs. 5.2 million. Expenses for microfinance and livelihood were Rs. 1.2 million and Rs. 3.3 million for the education programme. Grants from Indian and foreign agencies were Rs. 2.6 million and Rs. 2.3 million respectively.

The 2003-04 annual report described the philosophy of Ibtada's Community based Microfinance as under:

- *Ibtada's microfinance programme is driven by the principle of social justice. Women in Mewat regional face high discrimination in terms of opportunity to education, access to healthcare service, participation in social, economic and political decision making processes. They are heavily burdened with domestic, agricultural and animal husbandry work. Still their contribution to the welfare of the family goes unnoticed and unrecognized. They don't have any claim on respect and pride within their family and society. The programme aims at building sustainable women managed financial institutions, which would provide women to share, participate, raise issues of their concerns and take decisions. The programme envisages giving an identity to women in Mewat region.*

The SHG programme in July 2005 covered 3,690 households in 69 villages in two blocks of Alwar district of Rajasthan. Till date, Ibtada has promoted 202 SHGs. The SHGs are linked to about 10 clusters and then to the federations. About 100 SHGs are linked to two federations. The SHG-Cluster and the federation structure are presented in a diagram in Annex 1.

¹ This note is based on the field interactions the GTZ Team had with the SHGs promoted by Ibtada in the Alwar region of Rajasthan. The field visit to the SHGs was made during July 13~15, 2005 by a team consisting of Dr. Ajit Kanitkar, Consultant, Delhi and Ms. Hemlata Sharma. The team visited 10 SHGs in 5 villages in addition to interacting with a branch manager of the Bharatpur Alwar Gramin bank, the RRB in Alwar and a SHPI in a village who had promoted an unregistered informal saving and credit group consisting of 45 members and another SHG that was linked to the RRB branch in the village.

2.2. Highlights of the functioning of the SHGs promoted by Ibtada

Following are the highlights of the SHGs promoted by Ibtada.

- During the formation stage (first 3 months), the SHGs meet every week. Towards the end of the third month, meetings are held every fortnight. In all the groups, the initial savings are fixed at Rs. 10/- every week and later increased to Rs. 20 per meeting and subsequently to Rs. 40 per month after discussion with members.
- All the SHGs meet every fortnight on a predetermined date and time. The group membership varies from 10 to 15 women. Ibtada in principle does not encourage groups having membership with more than 15 women.
- The meetings are held in the morning hours, in a community place or in an individual house.
- Matured groups have increased savings amount to Rs. 50/- per meeting. (Rs 100 per month)
- All the SHGs are linked to the branches of a Commercial bank or the Regional Rural Bank. Alwar Bharatpur Gramin Bank is the RRB in this region in addition to the State Bank of Bikaner and Jaipur and the Punjab National Bank.
- Two members represent the SHGs in the cluster and two members represent the cluster at the federation meeting. Every 2nd and 3rd day of the month, federation meetings are held in Alwar town and in the village.
- In all the SHGs, a book keeper (Munshi) starts writing the Books of Accounts (BoA) from the fourth to fifth month, after the group formation. This work is done by the Ibtada staff during the group formation stage.
- In July 2005, Ibtada had *eight munshis*, one of them is female.

Table 1: Highlights of Ibtada

Organisation²	Ibtada (a word in Urdu meaning: beginning), established 1997
Legal Form	Society
Geographical Coverage	69 villages in two blocks of Alwar district, Rajasthan
Outreach	202 SHGs, 3690 households
<i>Out of all SHGs in states³</i>	33,856 in Rajasthan, 2,810 in Alwar district
Staff	19 (12 male, 7 female)
Income (2003-2004)	Rs 5.2 million, of which grants: <ul style="list-style-type: none"> ▪ Rs 2.6 million from Indian agencies, ▪ Rs 2.3 million from foreign agencies
Expenses	<ul style="list-style-type: none"> ▪ Microfinance and livelihood: Rs 1.2 million ▪ Education programme: Rs 3.3 million
Partner Banks	<ul style="list-style-type: none"> ▪ Commercial banks: State Bank of Bikaner and Jaipur, Punjab National Bank ▪ RRB: Bharatpur Alwar Gramin Bank
SHG-concept	Cluster-Federation
Core fields of action	<ul style="list-style-type: none"> ▪ women empowerment ▪ promoting girl child education ▪ microfinance and livelihood

² Ibtada (2004): 2003-04 annual report

³ NABARD (2004): Progress of SHG – Bank Linkage in India 2003-2004

3. The SHG accounting system of Ibtada

3.1. The Design of the Books of Accounts (BoA)

Ibtada has maintained a uniform set of BoA for its new as well as matured groups.

These are:

1. Cash Book cum Attendance Sheet cum Minutes Book cum Loan usage cum Trial Balance.
2. Individual member's Savings and Credit Ledger and different Income and Expense Ledgers
3. Member's Pass Books containing information both on their savings and loans.
4. A DCB Register for every month.
5. Loan Receipts Voucher
6. Payment and (Saving, Interest, Principal etc.) Receipt Book.

In addition to the above six books, there are passbooks (savings and loan) issued by the bank after the SHG is linked to the bank. All the above books (except three) are kept in the box along with cash in hand. This box is locked and the key is kept with another member (woman) other than the one who is holding the box.

One complete set of formats (blank and the filled in) is enclosed as Annex 2 and 3 indicating the type of information provided.

3.2. The book keeper (Munshi) in the SHG system of Ibtada

One interesting aspect of the SHG Book Keeping in Ibtada is that this work is entirely done by the book keeper/s called as *Munshi/s*. Ibtada identifies possible candidates who could take up this work on behalf of the SHG. These are village youths in the age group of 20 to 25 and who have passed the school leaving examination or appeared for college examinations. Most of the book keepers come from the neighbouring villages in the Mewat region. As a policy, Ibtada does not assign the accounting work of SHGs to the person of the same village. Each book keeper generally travels about 10 km on bicycle/foot every day to neighbouring villages. Since the work involves moving from one village to another, women are not coming forward to take up this vocation. Ibtada has experienced that it is useful to recruit younger persons rather than mobilizing middle age or experienced persons. There is always a risk that group dynamics are influenced by them. At the same time, there are not many qualified men and women in the villages who could take up this responsibility. Retaining book keepers is another challenge for Ibtada. Those who have stay have probably not found an alternative job. The daily wage rate in Alwar industrial area is 70 to 80 Rs and some youth prefer to work in the town. The Munshis are trained mostly on the job. They travel with Ibtada's field executive for the first few meetings, observe the work and after some time are given the responsibility. In the design, all the record keeping and accounting function is to be performed by the paid book keepers (Munshi), often the "moral responsibility" to ensure that it happens still seems to be with Ibtada.

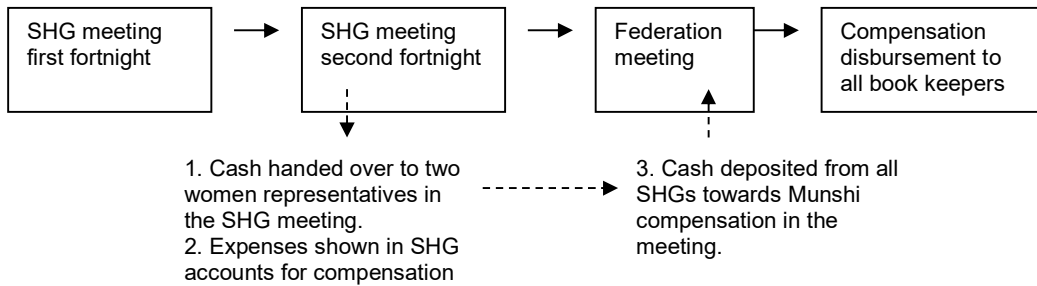
Following are some additional facts about the book keepers:

- There are eight book keepers; seven men and one woman.
- The average work load is about 20 to 25 SHGs per book keeper. One Munshi has the highest workload (27 SHGs) the women book keeper has responsibility of one cluster (nine SHGs).
- Among the existing book keepers, 3 have stayed for more than 4 years.
- Ibtada does not pay salaries to the book keepers from its budget. 100% compensation expenses are shared by SHGs through their own contribution.
- All the book keepers are paid compensation according to the following table.

New Group- first year	Rs. 30 per month
Second year	Rs. 50 per month
Third Year	Rs. 70 per month

- The yearly increase of Rs. 20/- per month is based on the assumption that older groups would have higher financial volumes to handle (accumulated savings, internal lending, banks linkage and lending etc.) and hence more accounting related work.
- The proceedings for the compensation of book keepers are shown in the following diagram:

Case 1: The Munshi System of Ibtada



- The book keepers present the trial balance of the groups at every federation meeting. Ibtada is then preparing a summary from the presented information.
- Currently, the highest compensation a groups pays to a book keeper is Rs. 130/- per month. However the monthly compensation ranges from Rs. 1000 to Rs. 1950/-. Ibtada mentioned that there is a cross-subsidisation involved. Old/matured groups contribute more to the book keepers' compensation than new groups.
- Generally, training of the book keeper is an on-the-job training, first along with the Ibtada field staff and later under its supervision.

Table 2: Overview of the book keeping (Munshi) system of Ibtada

Name		Ibtada Munshi System
Record Keeping		BoA written by external Munshi
Book keeper		Full-time Munshi (fee based income): village youths in the age of 20 to 25; who have passed the school leaving examination or appeared for college examinations (not same village)
Trial Balance (TB) & Balance Sheet (BS)		TB at the end of each month Profit and Loss Statement and BS is prepared once a year in the system
BoA & Cash Keeping		BoA with book keeper, except members' passbooks; Cash box with SHG
Training of book keeper		On the job for 3 months by NGO staff, Occasional classroom training by Ibtada and exposure visit in one/two years
Who pays all costs incurred?	Book keeper	By SHGs via federation (by cross-subsidisation)
	Training of book keeper	NGO
	Audit & Supervision	No external audit is done currently. Federation
Replicated already?		Not yet
Information on Financial Health Indicators		Available
Auditing & Supervision		No random or systematic way of checking or auditing

4. Observations

4.1. Overview of the SHG accounting system based on field observations

Table 3: Summary of 10 SHGs

No.	Record Keeping			Book & Cash Keeping			Quality Dimension				Financial Health Check
	BoA	Who wrote the BoAs		Books with	Cash		Complete set available	Record complete and updated	Accuracy	Transparency	Financial Health Indicators fulfilled
		Munshi	SHPI		box with group	other method					
1	1,2,3,4,5**		√ ⁽¹⁾	SHPI	√		X ⁽¹⁾	√	√	√	partly
2	1,2,3,4,5,6		√ ⁽¹⁾	SHPI	√		√	√	√	√	yes
3	1,2,3,4,5,6	√		Book keeper	√		√	√	√	√	yes
4	1,2,3,4,5,6		√	SHPI		√ ⁽¹⁾	√	√	√	√	yes
5	1,2,3,4,5,6		√	SHPI	√		X	X ⁽¹⁾	√	√	no
6	1,2,3,4,5,6	√		Book keeper	√		√	√	√	√	yes
7	1,2,3,4,5,6	√		Book keeper	√		√	X ⁽²⁾	√	√	partly
8	1,2,3,4,5,6	√		Book keeper	√		√	√	√	√	yes
9	1,2,3,4,5,6	√		Book keeper	√		√	√	√	√	yes
10*	4,2		√	Group	n/a		X	X	√	X	no
*: not Ibtada	**: Loan Recovery register not available		(1): Munshi on leave (apologised)			(1): cash kept in a cloth bag	(1): Loan Recovery register not available		(1): No receipts after 10/04, entries in member's passbooks (2): Records up to date till 2003		

√ = fully verified X = not verified

4.2. Observation of challenges in ensuring the quality of SHG book keeping

SHGs, SHPIs and bankers are facing a number of challenges in ensuring SHG Quality Book Keeping.

- The socio-economic situation of the region is influencing the formation and sustenance of the SHGs. Ibtada works in Mewat Region with Meo community. While the economic indicators are comparatively better for the Mewat region, in terms of education of the girl-child and women, the region offers a massive challenge. This is reflected in the functioning of the SHGs.
- Ibtada is faced with a difficulty of recruiting and later retaining “good” book keepers (see Box below).

A book keeper gets roughly Rs. 2000 every month and is responsible for about 40 meetings (20 SHGs meetings twice) in a month. The wage rate available in nearby towns/ factories is Rs. 70 to Rs. 80/- per day. Ibtada has observed that many book keepers don't stay longer. Those who stay tend to develop vested interest. Ibtada asked a book keeper to leave as he was found asking bribe from women members after sanctioning loans. Some of them were found influencing repayment behaviour of the members.

- While it is important and necessary that SHPIs should slowly and clearly withdraw and the SHGs should become independent, this may not happen immediately in contexts such as Mewat. (see Box below)

Sometimes group facilitation is required. There are decisions to be made on cash management, whether to fully repay the bank loan first or make partial payment etc. In one particular situation, the SHG's application for the fourth linkage loan of Rs. 75,000 was held back by a branch manager because one member had a personal outstanding of about Rs. 40,000/-. The group found it difficult to resolve this issue. When the size and volume of financial transactions increase, there is a stronger need of not only good accounting but also skilful facilitation. Can the book keeper or the leadership within the SHG handle these challenges without the intervention of the SHPI?

- In the current system, Ibtada *does not have* a systematic supervisory and auditing mechanism. During the field visits by the Ibtada SHG Programme coordinator, book keeping records are checked by him. But such visits are not systematically planned. They are working on a system that will ensure regular and on-going auditing.
- Monitoring accountability and performance of the accountants is a concern for Ibtada. Sometimes the group members are not capable and confident enough to raise questions on the performance of the accountants.

Some issues for improvement were observed:

- All the groups did not have an aluminium box to hold Books of Accounts and cash. Some were maintaining cash in a cloth bag.
- In two groups, old registers were not replenished with new sets. Hence accounting records were made on a separate sheet (till the time new registers were purchased by the SHGs).
- In one SHG meeting, loan receipt and repayment receipts were not given to members. The receipt books had run out of stock. The members thought that buying stationary (receipt books) was an unnecessary expense. They thought all transactions were done in good faith and trust!
- In another SHG, the individual saving ledgers were not updated.
- There was a different degree of completeness in the summary statements. Some SHGs had trial balance prepared till the last month (June 2005) while in some other groups, the same was done till 31st March 2005.
- Lastly, Ibtada had introduced a system of appointing book keepers described earlier. In four groups meetings, the Ibtada field staff recorded all the transactions as the appointed book keepers had left (in one instance) and another was on leave. Ibtada staff mentioned that retaining a book keeper was a major challenge for them. The filled in formats of SHG BoA are in the Annex 2.

5. Learning from the Ibtada promoted book Keeping and accounting practices – Some reflections

- **Design** – The SHG accounting system designed by Ibtada is comprehensive and can well connect to information requirements regarding the five financial health indicators. At the SHG level, a trial balance can be prepared for every month. The formats/ledger designed are simple, easy to understand and transparent.
- **Practice of book keeping** - The practice of book keeping and its quality varies from group to group. This was observed in ten groups. (out of the 200 SHGs promoted by Ibtada) This confirms again that the beauty of SHG Bank Linkage lies in its variety and any imposed standardisation would endanger the entire system.
- **Consistency** – The accounting records are consistent. Information from the BoA of one SHG for three different points in time was obtained. (November 2003, July 14, 2004, and July 15, 2005). This information is presented in the Annex 2. Such information is useful in not only knowing about the consistency of the BOA but also in tracing the movement of the SHGs in terms of its members' savings, loans, absorption capacity and capital formation process etc.
- **Viability** – During the last year, all the SHGs together mobilised a sum of Rs. 120,000 towards remuneration for the eight book keepers. This is a commendable practice especially in the context of a State like Rajasthan and a region like Mewat where on one hand there are massive subsidies being extended by the Government agencies and on the other hand there is a huge reluctance from the community and individuals to pay for the services they receive. This Ibtada promoted approach in the SHG Book Keeping System is a positive example.
- **Replicability**- Ibtada is invited as a resource agency in training programmes. Ibtada personnel are invited as “Master Trainers”. For instance, Ibtada was recently invited to share their experiences in a sensitization workshop organized by NABARD on 8th July 2005 in Alwar. About forty branch managers participated in this one-day workshop. Ibtada is in dialogue with the officials of the Government of Rajasthan where in the Government wants Ibtada to play a role of improving the quality of the SHGs promoted by the ICDS programme of the State Government.
- **Transparency**- This system has the possibility to offer information to various stakeholders. Individual SHG members can find out information on their cumulative savings, loan outstanding as also the overall financial position of their group. A bank manager can access performance of the SHG with respect to loan repayment from the accounting records. The SHPI can observe regularity in terms of attendance of members and savings in each meeting. A Trial Balance of a SHG for three to four consecutive years would indicate the direction of the growth of the group as also the indication of the accumulation of the group capital.

6. Recommendations

The following recommendations are proposed:

- Ibtada could take up a role of a resource organisation in Alwar and neighbouring districts. It could share its field experiences in training other SHPIs and possibly bankers in the Alwar region. This would be practical given the logistics related issues.
- Ibtada could provide inputs in the larger context of Rajasthan and specifically in policy interaction with the NABARD and the banking system in the State. Given the limited number of human resources within Ibtada, it might be useful for NABARD and other bankers in the State to draw on their expertise on strategic occasions.
- National training institutions such as NBSC and BIRD at Lucknow and State level training institutions in Rajasthan could utilize Ibtada's experience to disseminate the learning. Ibtada could contribute selectively in providing contents and insights for designing training and other related interventions to improve quality of the SHG accounting.