

Assessing Preparedness of Area-Level Federation (ALF) to Extend Financial Lending Support for SHG Empowerment

Insights from Gujarat, Odisha, Tamil Nadu, and Chhattisgarh

October 2025

Prepared by
Urban Management Centre



Executive Summary

Area-Level Federations (ALFs) constitute the second-tier community institutions under DAY-NULM (Deendayal Antyodaya Yojana-National Urban Livelihoods Mission) and are envisioned to evolve into robust platforms that strengthen Self-Help Groups (SHGs) by improving access to finance, supporting livelihood and enterprise initiatives, and fostering women's socio-economic empowerment. DAY-NULM has achieved significant scale: 9.91 lakh SHGs have been formed, of which 3.5 lakh (40%) are federated under 29,000 ALFs (as of March 2025). As the Mission transitions into its next phase, the institutional maturity of federations and their preparedness to function as financial intermediaries has emerged as a critical policy priority.



Figure 01. SHG-led Waste Processing, Ambikapur

Research Question

Are ALFs institutionally and financially prepared to transition into community-level lending institutions capable of managing public funds and supporting SHG credit requirements?

Need for Study

To advance financial inclusion for the urban poor and workers in vulnerable occupations, the Mission aims to expand the supply of accessible and affordable credit by leveraging community institutions as trusted intermediaries and addressing persistent barriers to participation in the formal financial systems.

With the introduction of the Community Investment Fund (CIF) and Enterprise Development Fund (EDF) under the new phase of the Mission, ALFs are expected to play a direct role in mobilizing and managing credit for SHGs. However, limited evidence exists on their current operational capacity, financial governance, and institutional readiness to undertake lending functions. This study was undertaken to generate actionable insights for strengthening ALF systems before expanding their financial responsibilities.

Methodology

The study applied a mixed-method design covering 38 ALFs and 34 SHGs across Gujarat, Odisha, Tamil Nadu, and Chhattisgarh. A 26-parameter assessment framework was used to evaluate ALF performance across three domains:

1. **Operations & Governance**
2. **Financial Management**
3. **Support to SHGs**

Data were collected through structured interviews, FGDs with federation and SHG members, interactions with ULB officials, field observations, and review of available federation records. Findings reflect self-reported data and variable documentation quality at the federation level.

Performance Summary

Significant inter-state variation was observed. Chhattisgarh ALFs demonstrated higher maturity across governance, financial management, and SHG support – anchored in long-term municipal contracts and occupational cohesion. Tamil Nadu federations functioned as strong platforms for SHG networking and credit facilitation but played a limited role in collective livelihood activities. Odisha federations benefitted from convergence-driven government initiatives but remained dependent on publicly provided livelihood roles. Gujarat ALFs showed the weakest institutional performance, marked by diminished lending systems, weak financial discipline, and instances of fraudulent influences undermining trust.

Across states, SHGs were consistently found to be more mature as financial collectives compared to their federations – demonstrating better corpus management, repayment discipline, and lending practices. Thus, while ALFs have emerged as strong social platforms, they remain structurally under-prepared to manage larger capital flows or function as lending institutions.

Critical Summary of Findings

ALFs demonstrate strong social value as platforms for collective action. They offer accessible peer support, enable community mobilization, and institutionalize practices aligned with the Panchsutra, i.e., regular savings, regular meetings, regular book-keeping and accounting, regular repayments, and adherence to rules and regulations of the SHGs.

However, despite their social capital and grassroots legitimacy, ALFs are presently not equipped to undertake the responsibilities associated with lending institutions. The assessment highlights several institutional gaps that must be addressed before they can assume expanded financial responsibilities:

Critical Summary of Findings

AALFs demonstrate strong social value as platforms for collective action. They offer accessible peer support, enable community mobilization, and institutionalize practices aligned with the Panchsutra, i.e., regular savings, regular meetings, regular book-keeping and accounting, regular repayments, and adherence to rules and regulations of the SHGs.

However, despite their social capital and grassroots legitimacy, ALFs are presently not equipped to undertake the responsibilities associated with lending institutions. The assessment highlights several institutional gaps that must be addressed before they can assume expanded financial responsibilities:

- 1. Weak institutional governance and concentrated leadership:** Leadership within ALFs remains individual-driven, with no evidence of rotational leadership or structured succession planning. Decision-making authority is concentrated among a few individuals, creating institutional fragility and limiting accountability. None of the ALFs assessed reported having conducted leadership elections, highlighting the absence of democratic governance practices.
- 2. Inadequate financial systems and statutory compliance:** Fundamental financial management systems are underdeveloped. Fewer than one-third of ALFs reported undertaking statutory annual audits, indicating limited readiness to manage larger funds or adhere to formal financial norms. Several ALFs also expressed unawareness of audit requirements. These responses (which reflect self-reported information from ALFs and could not be independently verified) underscore weak compliance awareness and systems.
- 3. Undiversified income base:** Most ALFs lack diversified and sustainable revenue streams. Approximately one-third have been able to diversify their income by leveraging government service delivery contracts and operating small enterprises alongside federation activities. The remainder rely predominantly on government contracts, which are subject to annual renewal and are often allocated to newly formed federations. This reliance on limited and uncertain funding avenues increases institutional vulnerability and significantly constrains the ability of ALFs to manage, sustain, or expand their financial portfolios.

- 4. Discretionary and informal lending processes:** Internal lending practices across ALFs are inconsistent, informal, and weakly institutionalized. Only about 38% of ALFs reported engaging in internal lending to SHGs. Among those that did, lending processes were largely discretionary, with no standardized procedures, documented eligibility criteria, or transparent decision-making mechanisms. This ad-hoc approach has contributed to perceptions of bias and unfairness among SHG members, undermining trust and limiting the credibility of ALFs as potential lending institutions.
- 5. Weak loan recovery mechanisms:** ALFs lack formal mechanisms for loan recovery. In Gujarat, internal lending diminished significantly due to defaults, including cases where loans could not be recovered due to borrower deaths. ALFs in Odisha and Tamil Nadu also lacked the structures needed to enforce loan recovery effectively. In contrast, Chhattisgarh demonstrated a more structured system for recovery, with a clear process in place for handling repayment, indicating the importance of supportive institutional arrangements in sustaining financial discipline.
- 6. Limited affordability despite accessible credit:** While ALFs provide more accessible credit than formal financial institutions, the interest rates are often high. In Odisha, ALFs charge up to 2% monthly (24% annually), while in Tamil Nadu, the rates are slightly lower at 1% monthly (12% annually). These rates are still higher than those offered by government schemes and create affordability barriers for SHGs. The high cost of credit undermines the objective of providing affordable financial services to low-income women.
- 7. Political affiliation influencing institutional functions:** About 38% of ALFs reported some form of political linkage among leadership. While such linkages can facilitate access to local systems in some contexts, they also raise concerns of biased decision-making and potential misuse of public funds when formal credit operations are introduced.
- 8. Instances of exploitative financial activities:** In some states, ALFs have been misused for dubious financial schemes, including Ponzi and pyramid-like schemes promoted by individual leaders. Reports from Gujarat indicate instances where SHG members were encouraged to invest in these schemes, promising returns if they recruited others. These exploitative practices erode trust and threaten the reputation and integrity of ALFs, making them vulnerable to becoming tools for personal gain rather than community empowerment. They also exert undue influence on members, resembling “office-for-profit” behaviour. This exposes vulnerable women to financial coercion and reputational risk.

Overall, while ALFs excel as social institutions and platforms for solidarity and collective representation, their current governance, financial, and regulatory systems fall significantly short of the the governance, financial, and regulatory standards required to serve as lending intermediaries. Strengthening institutional systems, building financial literacy, and ensuring accountability frameworks are imperative before transitioning ALFs into financially responsible entities within the urban poverty alleviation architecture.

Preliminary Findings of Study Conducted to Assess Preparedness of ALFs to Support SHG and Become Lending Institutions

1. Background

Area Level Federations (ALFs), also referred to as SHG Federations in several states, were established under DAY-NULM as second-tier community institutions to support Self-Help Groups (SHGs). Their mandate includes enhancing SHG capacity, facilitating access to finance, meeting credit needs, and promoting enterprise development – thereby contributing to the economic empowerment of women. As outlined in DAY-NULM guidelines, ALFs function as peer support institutions, providing operational guidance, building networks, and enabling SHGs to implement income-generating initiatives.

Since the launch of DAY-NULM in 2014, 9.91 lakh SHGs have been formed, of which 3.5 lakh (40%) have been federated under 29,000 ALFs. Approximately 64% of these federations (18,000 ALFs) have received **revolving fund support** (DAY-NULM MIS, March 2025).

Despite their critical role in advancing financial inclusion, enterprise development, and SHG support systems, ALFs' full potential remains underutilized. Some federations have engaged in service delivery partnerships with local governments and developed enterprise activities, demonstrating their institutional capacity; however, such initiatives remain limited. Under the new phase of the urban poverty alleviation mission, ALFs are expected to assume a more prominent role, supported by dedicated resources such as the Community Investment Fund (CIF) and the Enterprise Development Fund (EDF) to strengthen SHG capacities through credit, livelihood, and enterprise support.

Recognizing this expanded mandate and the need for robust community-level financial intermediaries, the Urban Management Centre (UMC), as part of its technical support to the Mission, conducted a study to assess ALFs' operational readiness and institutional capacity. The study examined governance structures, financial management systems, and the nature of support extended to SHGs. This mixed-method study included key informant interviews with 38 ALFs across Gujarat, Odisha, Chhattisgarh, and Tamil Nadu, engaging over 80 women who were ALF office bearer and more than 200 women from 34 SHGs federated under these ALFs.



Figure 02. ALF i guess, Ambikapur



Figure 03. Data collection, Ahmedabad

2. Study Methodology

The study employed a mixed-method approach, integrating qualitative and quantitative techniques to assess the functioning, governance, financial practices, and support provided by ALFs to SHGs. It focused on three thematic areas: **operations and governance, financial management practices, and support to SHGs**. Both functioning and a few defunct ALFs were included to understand the factors influencing their operational status.

Data collection involved key informant interviews with ALF office bearers; focus group discussions with SHG members; and interactions with ULB staff such as COs, CRPs, and CMMs. The study was conducted across four states – Gujarat, Odisha, Tamil Nadu, and Chhattisgarh – covering a total of 38 ALFs and 34 SHGs, engaging about 300 women. Sample selection considered ALF age (preferably over five years), livelihood and enterprise activity, and operational status. Data were collected using structured interview templates aligned with model bye-laws, field notes, photographs, and review of available ALF records. Limitations included reliance on self-reported information, potential recall bias, and varying levels of documentation across ALFs.

Key Thematic Areas	Operations and Governance	2. Financial Management	3. Support to SHGs
Method	Mixed Method- Qualitative and Quantitative Study Functioning & Defunct ALFs (Why did they become defunct)		1. Key Interviews with ALF office bearers 2. FGD with SHG members of the ALFs (mix of office bearers and non- office bearers) 3. Interaction with ULB staff- CO/CS/CRPs/CMMs
Geographical Scope	The study will be undertaken in 4 states; Gujarat, Odisha, Andhra Pradesh/Telangana, Tamil Nadu, Uttar Pradesh/Chhattisgarh		
Sample Size	Total Sample = 38 ALFs and 34 SHGs under the ALF		
Criteria for Sample Selection	1. Age of the ALF (preferably older than 5 years)	2. Livelihood and Enterprise activity	3. Status of Activity of the ALF
Data Collection Methods	1. Structured interview template (aligned with Model Bye-Laws)	2. Field notes and photographs	3. Assessment of ALF documents/records (Subject to availability)
Limitations	Self-reported, Recall bias, Varying level of documentation and its availability at ALF level, Limited access of stakeholders for triangulation		

Figure 04. Study Methodology and Scope

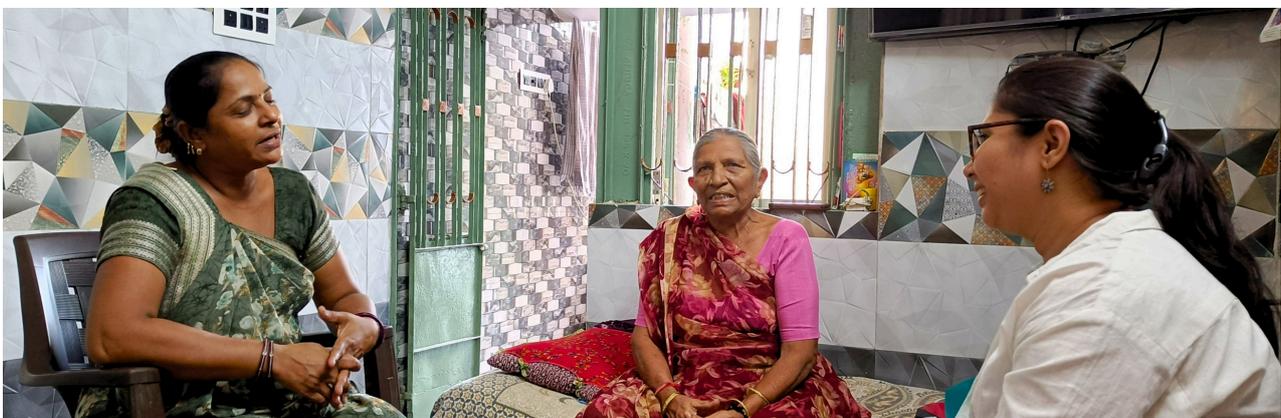


Figure 05. Data collection, Ahmedabad

3. Assessment Framework of the Study

The assessment framework of this study is organized into three broad thematic areas: Operations and Governance (11 parameters), Financial Management of ALFs (6 parameters), and Provision of Active Support to SHGs (9 parameters), totaling 26 equally weighted parameters as below:

- 1. Operations and governance (11 parameters):** This assesses the institutional functioning of ALFs, including the proportion of active SHGs under each federation, regularity of meetings, and maintenance of at least 50% quorum. It also examines record-keeping practices, conduct of annual audits, internal elections for leadership rotation, and the presence of grievance redressal mechanisms and subcommittees to ensure effective and transparent operations. Additionally, ALFs are envisioned as platforms that amplify SHGs' voices on civic issues and enable their participation and representation at ULB-level forums; these functions are also included in the assessment parameters.
- 2. Financial Management (6 parameters):** This theme assesses the financial health and sustainability of ALFs through several parameters: procurement and execution of formal contractual works, procurement and execution of non-contractual services or enterprise activities, access to bank loans, receipt of grants or donations, collection of periodic membership fees from SHGs, and accumulation of corpus funds (at least more than 1 lakh, double the revolving fund support). These indicators provide insights into how effectively ALFs mobilize, manage, and grow their financial resources.
- 3. Provision of active support to SHGs (9 parameters):** This theme evaluates the extent to which ALFs provide active support to their member SHGs across multiple dimensions, including business planning, skill development, access to external finance, market linkages, and internal lending in the past year. It also considers facilitation of finance and bookkeeping, digital literacy support, conflict resolution, and assistance in accessing government entitlements. Together, these parameters reflect the ALFs' role in strengthening SHG capacity, livelihoods, and overall institutional resilience.

Each ALF was scored against these 26 parameters, enabling comparisons across states for ALF's performance and their preparedness to deliver future financial support to SHGs.

4. Summary of Findings

4.1. Profile of ALFs

The ALFs included in this assessment demonstrated a diverse profile in terms of age, operational status, and livelihood focus. All 38 ALFs were over five years old and were initially formed with 10 SHGs each, except in Ambikapur, Chhattisgarh, where federations comprised 5 SHGs in line with NULM provisions for vulnerable occupational groups such as sanitation workers.

Livelihood activities under ALFs varied widely, ranging from municipal service delivery contracts – such as water supply, solid waste management, shelter and facility maintenance, parking management, parks, and community kitchens – to small-scale enterprises, including food production, tailoring, ready-made garment

sales, grocery shops, and street vending. Only a few ALFs were actively engaged in both service delivery and running their own enterprises. Interactions with ALFs and their SHGs indicated a preference for waged employment over self-employment, with individual livelihood activities more common than group-based ventures. Across all states, ALFs were recognized as influential institutions, well-connected with communities, SHGs, and local governments – effectively representing the voice and agency of their members.



Figure 06. Small scale craft enterprise



Figure 07. Waste Management Service Delivery

4.2. Overall Performance of ALFs

Overall, ALFs demonstrate stronger performance in supporting SHGs through day-to-day operations, capacity building, facilitating entitlement delivery, networking and sharing information on livelihood opportunities. However, institutional governance remains weak, with limited rotation of leadership, inadequate annual audit practices, and insufficient grievance redressal mechanisms. Financial management is also constrained, reflected in limited livelihood activities at the group level, minimal facilitation of internal and external credit, and poor diversification of livelihoods, with dependence on municipal service delivery contracts. Membership engagement, meeting regularity, and quorum are generally strong across states.

4.3. State-wise ALF's Score and Performance

Based on the above assessment framework, ALF performance across states is summarized as below. Chhattisgarh demonstrated the most consistent performance across governance, financial management, and SHG support, followed by Odisha and Tamil Nadu, while Gujarat showed the weakest overall performance.

State/Assessment theme	Operation and Governance	Financial Management	Providing active support to SHGs	Total Score
Gujarat	33%	26%	29%	30%
Odisha	55%	55%	48%	53%
Tamil Nadu	65%	23%	58%	49%
Chhattisgarh	71%	65%	68%	69%

Figure 08. Combined state-wise ALF scores across three broad assessment themes

ALFs in Chhattisgarh were formed with smaller clusters of five SHGs, usually from the same vulnerable occupation, such as sanitation workers, with collective work as their unifying factor. Their long-term involvement as service delivery partners in solid waste management through extended contracts, rather than annual renewals, helped them build stronger institutional capacity, reflected in improved operations, governance, financial management, and active support to SHG livelihoods and corpus building. Beyond these primary roles, Chhattisgarh ALFs diversified into livelihood activities, establishing federation-level enterprises that leveraged members' existing skills to produce art and craft items, food products, and run initiatives such as utensil banks. Local governments supported these efforts by providing working spaces, which reduced the need for large initial capital, as space within members' homes and settlements was limited and made challenging to hold regular meetings or carry out enterprise activities.



Figure 09. Utensil Bank, Chhattisgarh



Figure 10. Livelihood support, Chhattisgarh



Figure 11 & 12. Solid Waste Management, Chhattisgarh



Figure 13 & 14. Livelihood Support, Gujarat

ALFs in Odisha performed comparably in terms of livelihoods, but their engagement was largely driven by government-led convergence initiatives, providing livelihoods through community partnership roles in water, sanitation and other municipal services such as Swachh Saathi, Jal Saathi and others. Diversification of livelihoods was limited, with dependence on government-provided service delivery opportunities.

In Tamil Nadu, ALFs primarily functioned as platforms for SHGs to network and access finance, rather than actively engaging in service delivery-based livelihoods. SHG members engaged in individual enterprises activity and were not dependent on ALFs for livelihood support. SHGs in Tamil Nadu relied on ALFs for external credit support, exploring networks for livelihood opportunities.

Gujarat ALFs primarily functioned as platforms supporting SHGs, with limited involvement in ALF-driven livelihood activities. While all ALFs interviewed had historically participated in service delivery roles – such as IEC on waste segregation, waste processing, shelter and facility management, and parking management – these roles were offered through annual contracts, often prioritizing newer ALFs during renewals. Enterprise activities at the ALF/SHG level were minimal, with a stronger preference for waged livelihoods. This has led to limited livelihood activity at the federation level and a perception of dependence on government-provided opportunities.

4.4 Current Internal Lending Role of ALFs: Enablers and Barriers

Internal lending by ALFs is a critical mechanism to support SHG livelihoods, since the credit needs of small SHG enterprises are typically modest but high-demand and recurring. SHGs often face challenges accessing formal credit: banks are reluctant to provide small loans, while offer them at high interest rates. Against this backdrop, ALFs have the potential to bridge this gap by providing affordable, community-based credit.

However, the findings of this study indicate that ALFs' preparedness to function as formal lending institutions appears uneven and generally limited, with significant gaps in key areas. Internal lending support is strong in some states like Chhattisgarh (100%), Odisha (64%) and Tamil Nadu (80%), but nearly absent in Gujarat (0%), indicating that many ALFs are not yet equipped to manage internal credit effectively. External credit facilitation is also weak across most states, with Gujarat (9%) and Chhattisgarh/Tamil Nadu (0%) showing minimal engagement, suggesting limited capacity to interface with banks or formal financial institutions.

In Chhattisgarh, ALFs have successfully leveraged regular livelihoods through service contracts or scaled enterprises to build substantial revenue and strengthen corpus. This has enabled them to extend internal loans and distribute profits among members. Such financial health and predictability, rooted in stable contracts and well-managed enterprises, were observed consistently across all ALFs in Chhattisgarh.

In Odisha and Tamil Nadu, internal lending was active where lending exists, but interest rates vary widely: ALFs in Odisha charge 2% monthly (24% annually), mirroring exploitative lending practices that government programs aim to eliminate, while Tamil Nadu ALFs charge 1% monthly (12% annually), which is relatively more accessible but still higher than government-supported schemes. High interest rates reduce the affordability of credit for SHG women, creating a gap between policy intent and on-ground reality.

In Gujarat, internal lending has largely ceased due to repayment defaults, including cases where borrowers passed away and loans could not be recovered. This points to systemic gaps in ALF capacity to prioritize loans, maintain proper accounting, and implement SOPs for lending based on available financial reserves and revenue. Without steady livelihood activities and relying mainly on one-time SHG membership fees, ALFs were unable to grow financially and sustain internal lending operations.

Credibility has also been affected by reports of fraudulent practices. Multiple cases from Gujarat point to ALF leaders promoting chit funds, pyramid, or Ponzi schemes, where SHG women were encouraged to "invest" money, recruit new members, and, in some instances, act as "branch managers" to meet targets. These schemes exploited women's trust, weakened community confidence, and threatened the institutional integrity of ALFs.

Overall, enabling factors for ALFs' internal lending include **stable, regular livelihoods; well-managed enterprises;** and **strong governance**, while barriers include **irregular income streams, weak financial management, high-risk or exploitative lending practices,** and **fraudulent schemes.**

4.5 Commentary: Can ALFs Evolve into Lending Institutions?

ALFs have matured alongside SHGs, functioning as trusted peer-support platforms rather than hierarchically superior institutions. While they have been effective in facilitating service delivery and creating wage-based employment for SHG members through government contracts, their capacity to establish and sustain group-based enterprises remains limited. Consequently, ALFs operate more as service-oriented entities dependent on contractual work rather than as self-sustaining economic institutions.

Political affiliation emerged as a notable feature of federation functioning in several states. Nearly half of the ALFs explicitly stated their affiliation with political parties, highlighting their role in mobilizing people for political rallies through ALF networks. This trend is particularly pronounced in Gujarat, where almost all ALFs openly acknowledged such affiliations. In Odisha, political links were mentioned more indirectly. These findings suggest the possibility that political networks may be shaping ALF activities. While such connections may offer short-term advantages, they also raise concerns about the safeguards needed to ensure non-partisan management of public funds. This becomes especially relevant as the Deendayal Jan Antyodaya Yojana–Shehri (DJAY-S) envisages a substantial Community Investment Fund (CIF) allocation of ₹2 crore per ALF. Without strong oversight systems, there is a risk that weak financial governance or external influence could compromise the intended use of these funds and they may be diverted for political purposes. It is noteworthy that none of the ALFs in Tamil Nadu indicated political affiliation, explicitly or implicitly.

Across states, the leadership base of ALFs remains nascent. Many federation leaders continue to operate with an SHG-centric mindset rather than an institutional perspective. ALFs are typically federated within a year of SHG formation, giving little time for leadership to mature, build governance systems, or understand financial management at scale. Consequently, ALF leadership tends to be operational, with limited entrepreneurial orientation and strategic decision-making skills needed for managing credit, assessing financial risk, or diversifying income streams. The absence of structured leadership development and mentorship is a barrier to institutional evolution. **Given the current landscape, the proposition of ALFs functioning as lending institutions appears premature due to the following factors:**

- 1. Limited Financial Handling Experience:** ALFs have not previously managed funds at the scale required for on-lending; channeling INR 2 crore through them could pose significant operational and fiduciary risks.
- 2. Weak Financial Discipline:** Financial literacy among ALFs is low, with only a few meeting basic audit requirements and maintaining sound accounting practices.
- 3. Limited ALF Leadership:** ALF leaders often approach federation management with the mindset of SHG operations. The objectives of ALFs remain poorly understood, and limited capacity-building has prevented leaders from developing the governance and strategic skills needed to manage federations effectively.
- 4. Political Influence:** Many ALF leaders hold strong political affiliations, often leveraging these connections to secure service contracts. While such linkages enhance their visibility and access, entrusting politically connected entities with public lending functions carries risks of bias and misuse.

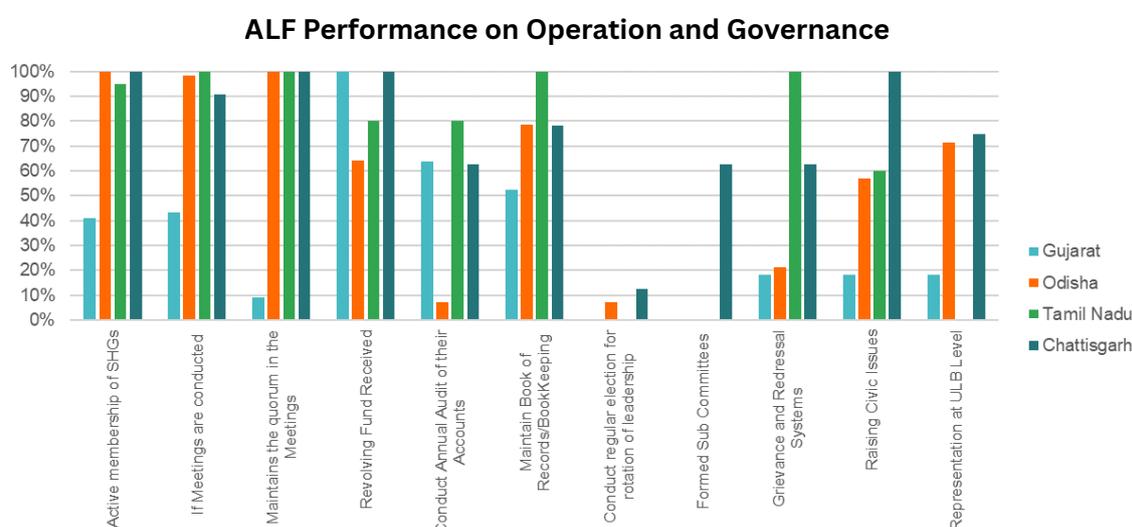
LFs possess strong community legitimacy and mobilization capacity, yet their transition into lending institutions demands deliberate investment in leadership development, financial literacy, and institutional governance. Building capable and visionary ALF leadership supported through long-term mentoring, exposure to cooperative models, and professional management systems is essential before entrusting them with significant financial functions.

5. Detailed Assessment of ALF’s Score and Performance

The assessment of ALFs performance based on the three thematic areas and covering 26 parameters is detailed below:

5.1 ALF’s Operations and Governance

- The operational aspects such as active SHG membership (10 and more), meetings, and maintaining quorum, were very strong, with over 90% of ALFs achieving this in Chhattisgarh, Tamil Nadu and Odisha states, except Gujarat. In Gujarat, less than half of the SHGs were active under ALFs, leading to irregular functioning.
- Odisha also depicted a backlog in RF disbursement with about 38% ALF (more than 3-4 years) had not received revolving fund.
- According to ALFs, record-keeping and bookkeeping were maintained in Tamil Nadu, Odisha, and Chhattisgarh as per Panchsutra, although this could not be independently verified and is reported as stated. Annual audits were weak overall except in Tamil Nadu. About 40% of ALFs in Gujarat and Chhattisgarh did not comply with audit requirements. Odisha performed the weakest, with only a few ALFs conducting audits and many unaware of the requirement. Tamil Nadu was an exception, with 100% of ALFs reporting regular annual audits.
- Internal governance mechanisms in ALFs were poorly established, with no regular elections and office bearers remaining in their positions since formation. Decision-making was mostly president driven and none of the ALFs had formed sub-committees, reflecting the limited support provided to SHGs. Regarding internal grievance mechanism, ALFs in Tamil Nadu (100%) and Chhattisgarh (65%) were exceptions, with internal grievance redressal mechanisms that enhanced fairness and transparency in their operations.
- ALFs in Odisha and Chhattisgarh engaged with representative local governments, exercising their voice and agency to influence civic improvements. This engagement was weak in Gujarat and absent in Tamil Nadu. In Odisha and Chhattisgarh, SHGs were actively involved as community partners in delivering municipal services, which likely contributed to and reinforced their voice and agency.



The formation of ALFs has been uneven and often not organic. Across states, SHGs are federated into ALFs within a year of their formation. While SHGs, as smaller groups, have had time to mature, ALF members (also SHG office bearers) tend to operate the federation with a SHG mindset rather than as leaders of a larger institution. As a result, leadership at the ALF level mirrors that of large SHG, and the objectives of ALFs are poorly understood, limiting their potential. Gaps in capacity-building have further reinforced this, leaving ALF office bearers unable to fully distinguish their roles from those of SHG.

5.2 Financial Management

- ALFs are not primarily seen as livelihood institutions; rather, they function largely as networking platforms. Their revenue comes mainly from SHG membership fees and municipal service delivery contracts facilitated by ULBs. However, these contracts provide limited income to ALFs themselves, serving more as livelihood support for individual members. Only a few ALFs are engaged in enterprise activities, while around 28% do not pursue any livelihood activity at all.
- In Gujarat, 100% of the ALFs relied heavily on municipal service contracts, with only 18% running their own enterprises, indicating limited diversification and narrow revenue sources. Women faced difficulties running enterprises, likely due to limited activity and weak mobilization of SHGs into the ALFs. In Chhattisgarh, about 80% of ALFs had diversified livelihoods, combining their own enterprises with municipal service delivery. In Odisha, dependence on municipal contracts was high (86%), while 56% engaged in additional enterprise activities. In Tamil Nadu, ALFs neither participated in municipal service delivery nor had enterprises; however, around 40% had accessed bank loans. Interactions revealed that SHGs in Tamil Nadu had strong independent enterprises and were not reliant on ALFs for livelihoods. Here, ALFs primarily serve as a medium to access finance, such as bank loans, to support SHGs' livelihood and enterprise needs.

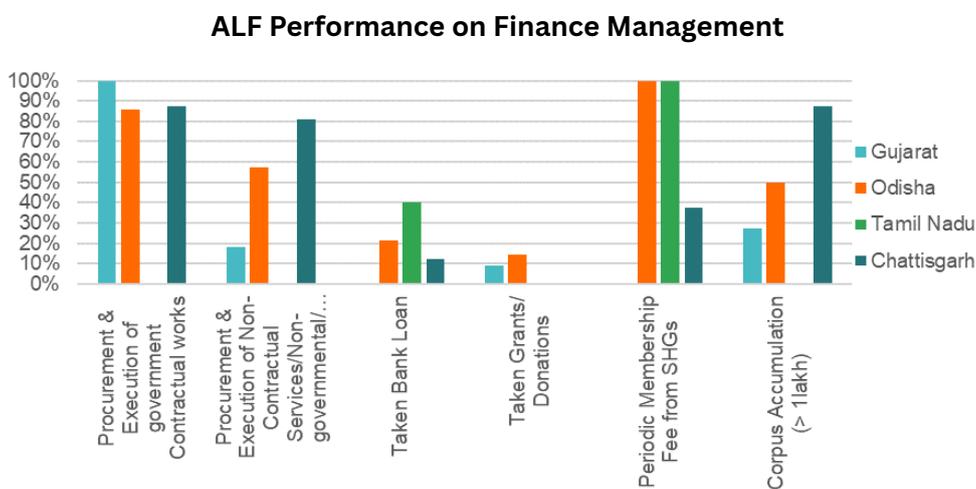


Figure 01. ALF Performance on Finance Management

Sole reliance on municipal service delivery contracts has proved unsustainable, as these contracts are irregular and subject to annual renewal policies. Government allotment is not guaranteed, and newer ALFs are often given priority, creating income instability among ALFs. This was particularly evident in Gujarat and Odisha. In contrast, Chhattisgarh ALFs maintained long-term engagement, partly because many were formed as CIGs, comprising sanitation workers (formed of less than five SHG).

- About 34% of the ALFs were engaged in their own product-based enterprises, most of which were home-based. These enterprises faced significant challenges in scaling up due to the lack of adequate workspaces within slums and settlements. Women highlighted the need for community workspaces, noting that the absence of such spaces was a major barrier to expanding or diversifying ALF livelihood activities.
- Corpus accumulation among ALFs remains weak overall. The corpus accumulation with ALFs remained in the range of INR 1-2 Lakh (including initial revolving fund support of INR 50,000). Chhattisgarh ALF performed the strongest, with 88% of ALFs reporting a corpus above INR 1 lakh, followed by Odisha at 50%. Gujarat lagged with only 27% achieving this level, while Tamil Nadu showed no corpus growth beyond the initial revolving fund. Notably, 70% of the ALFs with a corpus between INR 1–2 lakh were engaged in both their own enterprises and in delivering municipal service contracts.

ALFs as livelihood or enterprise platforms require rethinking. Individual SHG-level livelihoods appear more viable, while sustaining livelihoods at the ALF level has proven difficult. The ALFs that function effectively (as seen in Chhattisgarh) are largely those linked to municipal service delivery through long-term contracts (at least five years). ALFs themselves struggle to manage and grow finances, maintain operations, and provide meaningful support to their member SHGs. In practice, SHGs remain stronger and more self-reliant institutions, highlighting that federating them does not automatically create a robust institutional structure at the ALF level.

5.3 Finding from SHG Grading Assessment

A parallel assessment of 30 SHGs in Odisha was conducted to understand their role as financial institutions and their expectations from ALFs. The study revealed that SHGs currently function as stronger and more reliable financial entities than ALFs, with limited dependence on federations for credit. The ticket sizes currently offered by ALFs are largely managed through SHG internal lending, while larger amounts are sought from banks, highlighting gaps in ALFs’ capacity to serve as effective credit providers.

Analysis of loan books and group passbooks showed that SHGs maintained an average corpus of approximately INR 2 lakh – about double that of ALFs – demonstrating stronger internal resource mobilization and financial capacity. SHGs also displayed robust borrowing practices, having collectively taken 81 bank loans over seven years: 53 were fully repaid and 28 were ongoing, reflecting high repayment discipline and reliable access to formal credit (based on the book of records from past 6 months)

SHGs actively engaged in internal lending, with around 150 active loans, 85% of which supported livelihood activities. This reinforces the role of SHGs as enablers of self-employment and income generation. Bookkeeping and financial record-keeping were strong, with 90% maintaining updated registers over the past six months, reflecting transparency, accountability, and effective fund management.

Overall, SHGs demonstrate greater institutional maturity, financial discipline, and lending experience than ALFs, positioning them as more capable institutions for community-level credit support, while ALFs currently lack the capacity to fulfil this role at scale.

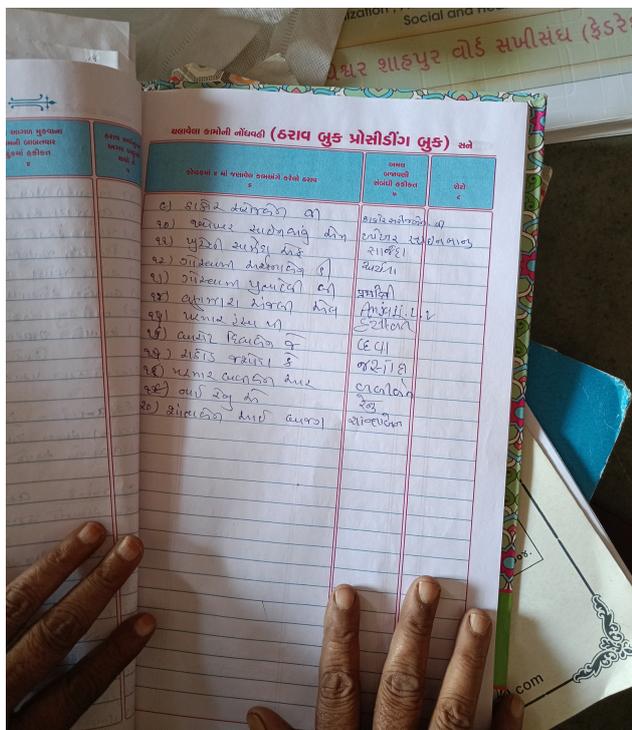


Figure 15. Financial Documentation, Gujarat



Figure 16. Segregation site, Chhattisgarh



Figure 17. Data Collection, Gujarat



Urban
Management
Centre

www.umcasia.org



Follow Us

Head Office:

A202, GCP Business Centre,
Opp. Navrangpura Fire Station,
Navrangpura, Ahmedabad
380009