

**Project Report  
Of  
Research study on  
Loan default by SHGs**

**Supported by**



**Bankers Institute of Rural Development,  
Lucknow**

**Conducted by**



**Centre for microFinance,  
Jaipur**

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We sincerely hope that findings of the report will be useful in making necessary decision to minimize SHG default in future.

**Jaipal Singh**  
**Anil Kumar Singh**

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## **Abbreviations**

AERDS	Arnold Educational and Rural Development Society
AP	Andhra Pradesh
APL	Above Poverty Line
APMAS	Andhra Pradesh Mahila Abhivrudhi Society
AWW	Angan Wadi Worker
AYVS	Anusuchit Yuva Vikas Sansthan
BCT	Bharuka Charitable Trust
BIRD	Bankers Institute of Rural Development
BPL	Below Poverty Line
CB	Co-operative Bank
CCB	Central Co-operative Bank
CDPO	Child Development Programme Officer
CMF	Centre for microFinance
COOPS	Co-operative
DCCB	District Credit Co-operative Bank
DDM	District Development Manager
DRD	Department of Rural Development
DRDA	District Rural Development Agency
DWCRA	Development of Women and Child in Rural Areas
FAO	Food and Agriculture Organization
FGD	Focus Group Discussion
GKY	Ganga Kalyan Yojan
GSSS	Gram Seva Sahakari Samiti
GSVS	Grameen Evam Samajik Vikas Sansthan
HDI	Human Development Index
HSC	Higher Secondary Certificate
i.e.	That Is

ICDS	Integrated Child Development Scheme
IRDP	Integrated Rural Development Programme
JLG	Joint Liability Group
MFI	Micro Finance Institution
MWS	Million Wells Scheme
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organization
NPA	Non-Performing Assets
NYMS	Nav Yuvak Mandal Sansthan
OBC	Oriental Bank of Commerce
OBC	Other Backward Cast
PAC	Primary Agriculture Co-operative
PEDO	People Education and Development Organization
PSB	Public sector schedule commercial Bank
RRB	Regional Rural Bank
SBBJ	State Bank of Bikaner and Jaipur
SBI	State Bank of India
SBLP	Self-Help Group-Bank Linkage Programme
SC	Schedule Cast
SGSY	Swarn Jayanti Gram Swarozgar Yojana
SHG	Self-Help Group
SHPI	Self-Help Promoting Institution
SITRA	Supply of Improved Tool Kits to Rural Artisans
SPSS	Software Package for Social Scientist
ST	Schedule Tribe
TRYSEM	Training of Rural Youth for Self Employment
UP	Utter Pradesh
WCD	Women and Child Development

## **Executive Summary**

Self Help Groups have become proven and time-tested vehicles for promoting savings and credit among poor. Self Help Group development evolves through phases of coming together, learning to work together, developing norms of engagement and finally being able to work together in an interdependent and flexible manner. The repayment rate of Self Help Groups to banks is usually perceived as good compared to other priority sector lending and it is more than 95percent. But for the last few years, the repayments of SHGs are slowly coming down. As per NABARD's status of Microfinance in India, 2008-09, 8.6 percent of the total loan outstanding under SHG was classified as NPA in Rajasthan as on March 31, 2009. One of the major reasons cited by bankers for their hesitation in lending to SHGs is the increasing default among SHGs. The aggregate data suggests that RRBs and cooperatives have huge NPA under general and SGSY categories respectively. Almost a third of SHG loans of RRBs and close to 50 percent of SGSY loans of cooperatives turned NPA by March 2009.

In the above mentioned backdrop, Centre for microFinance, Jaipur had conducted a study to assess the reasons for SHG default. Bankers Institute of Rural Development (BIRD) had supported this study. The objectives of the study are to understand the reasons underlying the phenomenon and develop an early warning system so that timely action can be taken to avoid defaults. To study SHGs with 100 percent repayment is also one of the features of the study.

The study used a stratified sampling methodology, the strata being district, block, SHG and members. Five districts were selected to give geographical representation of the state; Alwar (in east), Jodhpur (in west), Churu (in north) Dungarpur (in south) and Ajmer (in central) regions of the state. One block per district (except Alwar, where two blocks were taken for study) was selected for the study. Block(s) selection was based on the consultation with the Lead District Managers, DDMs and Self Help Promoting Institutions working in the selected districts. The study covers 213 default SHGs and 691 SHG members spread across five districts along with 20 best qualities SHGs with 100 percent repayment. The Self Help Promoting Institutions (SHPIs) featured in the study include Department of Women & Child Development (DWCD), Watershed department, NGOs, panchyat and banks. 69 percent of the sample groups were from DWCD department and on scheme basis almost same percentage i.e. 69 percentages were from SGSY. 11 schedule commercial banks, 3 regional rural banks and 5 district central cooperative banks were part of this study.

The study highlights several reasons for default. Improper process of group formation is the foremost reason of default as accepted norms like area selection, proper selection of members, concept seeding etc., has not been followed in any sample groups while the other set of samples of 20 groups with 100 percent repayment have gone through some localized established process. The SHG movement in the country started with savings lead model with objectives that community will come together, save and fulfill their immediate need. Saving first and credit later has been the success mantra of quality groups across the country. But the study revealed that prime objective of 66 percent of members were to get bank credit only and 13 percent said that subsidy was the main driving force. Data from

sample was quite revealing in terms of capacity building input as only 16 percent leaders and 13 percent members have undergone any training on group concept.

The progressive erosion in quality is visible in records which have not been updated for years together. During the study, it was found that even though 74 percent groups maintain attendance register, only 28 percent out of that 74 percent update it regularly. The scenario with cash book and ledger is more worrisome as only 30 percent and 62 percent groups possessed these books out of which updated record was available with 34 percent and 32 percent respectively. Transparency in groups which is maintained through proper records existed nowhere due to lack of proper record keeping and hence members stopped repaying. Interestingly the crucial activity i.e. Interloaning was found only in 46.5 percent of the SHGs surveyed. The proportion of members who have availed the services of interloaning was even low i.e. 34.9 percent of all the members about whom information was collected through the survey. Only 18 percent of group fund is being used by members and rests were lying idle in bank account.

It was also seen that small NGOs that work on a project mode find it difficult to carry on with group strengthening work as they are not financially supported beyond the initial phase. A large majority of SHGs promoted by one NGO in the northern district of the state (Churu) became defaulters after the organization withdrew from the villages at the end of one year 'project' of SHG promotion. The NGO said that it was forced to get out of the villages due to paucity of funds and personnel. At the same time, large NGOs with integrated activities were found to be doing well in terms of SHG activity as they use the groups to channelize multiple activities. Many groups suffered because of their dependence on what can be called "a single individual support system". The relocation and transfer of the key individual resulted in degeneration of many such groups.

It has been observed that financing targets are pushed through the banks by the DRDAs in case of BPL groups. The pressure on the banks to disburse subsidized loans seems to have disturbed the normal process of growth and maturation of SHGs in many cases. Many BPL SHGs were directly given second loans (activity based loan) i.e. without first loan (revolving fund). In the case of SGSY loans, it was reported that the amount of loan is generally decided after the SHG promoter or the Bank manager informs that a specific loan can be applied for rather than how much credit is actually required. In many SHGs, there is manipulative intermediation by the President or Secretary, who takes the lion's share of the loan and distributes the rest among the members. This is further aggravated by multiple group membership of leaders. Permanent leaders, often the ones with power and resources, form convenient groups and use it to source bank loans for themselves. Lack of knowledge on the part of the members about the rules and structure of leadership further deteriorates the situation. The leadership in many cases stayed with the same women since the formation of groups.

Findings of the study clearly shows that all the stakeholders i.e. SHG, SHPI, Banks and improper implementation of concerned schemes with system of financing have stake in making a group defaulter.

## Chapter 1: Background, Objectives & Methodology of the study

### 1.1 Background:

Self Help Groups (SHG)<sup>1</sup> are at the centre of the microfinance revolution that India has been witnessing over the past two decades. The Self Help Group-Bank Linkage Programme (SBLP) introduced in the beginning of the 1990s under the aegis of the National Bank for Agriculture and Rural Development, mainstreamed the institution of SHG as an innovative system based on the principles of trust and mutual help that can effectively deliver affordable financial services to households with low net worth. The use of peer pressure within the group as collateral substitute helps in avoiding the usual risks associated with such lending. As on 31 March 2009, 45 lakh groups have been linked to banks across the country under the SBLP. Another 15 lakh SHGs have been promoted under the Swarnjayanti Gram Swarozgar Yojana (SGSY), the umbrella programme of centrally sponsored rural development schemes introduced in April 1999. The number of groups with credit outstanding stood at 42 lakh at the end of the financial 2008-09. The collective savings of the groups with the formal banking system amounted to Rs. 554,561 lakh<sup>2</sup>, while the cumulative loan outstanding stood at Rs. 2,267,984 lakh<sup>3</sup> (NABARD, 2008-09). SGSY accounted for 28 percent of the savings and 26 percent of outstanding loans<sup>4</sup>.

The growth rate of loans disbursed per year grew at very high rates in the 1990s – in excess of 100 percent in most of the years, because of the push to expand the scheme to newer and newer regions mostly within the southern part of India. The rate remained high – between 80 and 90 percent – even in the early years of the 2000s. Since then there has been a steady decline in the rate of growth. Between 2002 and 2008, the annual growth rate dropped from 90 percent to 34 percent. Also noticeable is the rise in loan default by SHGs over the years<sup>5</sup>.

As per the latest available figures from NABARD's *Status of Microfinance Report* (2008-09) as on 31 March 2009, close to 3 percent of the total SHG loan outstanding of Rs. 2,156,104 lakh in the whole country was classified as non-performing assets (NPAs). The gross NPA of the country in SHG portfolio as on March 2009 was Rs. 62587 lakhs<sup>6</sup>. By definition any amount due to a bank under any credit facility becomes 'overdue' if it is not paid by the due date fixed by the bank. An asset is classified as non-performing asset (NPA) if due in the form of principal and interest are not paid by the borrower for a stipulated period of time. In the bid to move towards international best practices and to ensure greater transparency from the year ended March 31, 2004, 90 days' overdue norms have been made applicable for Indian banks for identification of non-performance assets<sup>end notes</sup>. With respect to the SHGs formed under the centrally sponsored scheme, Swarnjayanti Gram Swarozgar Yojana (SGSY) the percentage of NPA accounts stood at 5 percent. It may be noted that as

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<sup>1</sup> In this report SHG and groups have been used interchangeably

<sup>2</sup> NABARD, Status of Micro Finance in India, 2008-09

<sup>3</sup> NABARD, Status of Micro Finance in India, 2008-09

<sup>4</sup> NABARD, Status of Micro Finance in India, 2008-09

<sup>5</sup> Bhatia, Navin , Reserve Bank of India Occasional Papers, 2007; Kumar, Pankaj & Golait, Ramesh, Bank Penetration and SHG-Bank Linkage Programme: A Critique

<sup>6</sup> NABARD, Status of Micro Finance in India, 2008-09

per NABARD guidelines, “even one installment unpaid without authorization by the group is treated as dues not recovered and thus a default”

## 1.2 The Context of the Study:

A glance on data of NABARD & SLBC for the four consecutive years has revealed a shift of focus away from SHG bank linkages in Rajasthan. The number of SHGs that were credit linked with banks in 2009-10 came down to 26,647 vis-à-vis 2006-07 figure of 39,666. One of the major reasons cited by bankers for decrease in SHGs bank linkages is the increasing default among SHGs. Agriculture loan waiver scheme implemented in 2007-08 has also sent confusing signals in this regard. Dipstick survey by CmF & observations from field reflects that many SHG who were repaying regularly against their agriculture based loan stopped doing so with the hope that their outstanding amount will also be waived off in coming years. A key premise of the entire microfinance movement has been that the ‘poor are bankable’. High repayment rates by the poor – whether the MFI clients or SHGs linked with banks have been the major factor in the rapid growth of both modes of delivery.

**Table 1.1: Year wise credit linked SHGs**

Year	No. of credit linked SHGs in the state
2006-07	39,666
2007-08	37,220
2008-09	29,687
2009-10	26,674

*Source: NABARD, Status of Micro Finance in India, 2007-10 & SLBC agenda*

As evident from Table 1.2 given below, 8.6 percent of the total loan outstanding under SHG was classified as NPA in the state as on 31 March 2009. The NPAs under SGSY was about 3.9 percent. The aggregate data suggests that RRBs and cooperatives have huge NPAs under general and SGSY categories respectively. Almost of a third of SHG loans of RRBs and close to 50 percent of SGSY loans of cooperatives turned NPAs by March 2009.

**Table 1.2: Percentage of NPA in SHG Loan Accounts: March 2009**

	Rajasthan		All India	
	All SHGs	SGSY	All SHGs	SGSY
Public Sector CBs	2.81	2.82	1.73	0.66
Private Sector CBs	0.42	0.41	2.41	4.47
Cooperative banks	7.9	**49.22	4.23	6.61
Regional Rural Banks	*28.87	3.64	6.82	6.72
<b>Total</b>	<b>8.61</b>	<b>3.88</b>	<b>2.90</b>	<b>4.99</b>
* 83.5 percent of this is accounted for by Rajasthan Gramin Bank.				
**94.4 percent of this is accounted for by Udaipur DCCB.				

*Source: NABARD, Status of Microfinance in India, 2008-09*

Above table 1.2 also reflects that percentage of NPA in Rajasthan is quite high (8.61 percent) as compared to all India figure (2.9 percent) but it is opposite for SGSY groups. At national level, close to 5 percent of total loan outstanding is in NPA category while in Rajasthan the

figure stands at 3.9 percent. On delving deeper in to the issue of RGB, it was found that the high percentage of NPA is accounted in one district only i.e. Alwar and it goes back to the year 2005-2006. Adverse selection of groups for financing without proper evaluation in terms of grading, over financing, financing to dummy groups are some of the main reasons for high NPA.

However, a closer analysis shows that single bank has contributed for much of those NPAs. Thus, 83.5 percent of the overall NPAs of RRBs is accounted for by the Rajasthan Gramin Bank alone. The sizeable credit linkage of this one bank has resulted in RRBs accounting for close to 60 percent of overall NPAs in the state with a share in outstanding of just 18 percent (Table 1.3). The high percentage of SGSY NPAs in the cooperative bank sector in the state, similarly is constituted almost entirely by the Udaipur DCCB, which makes up for as high as 94 percent of the overall NPA registered by the cooperative sector. Since the SGSY credit linkage with the cooperatives in absolute terms is comparatively modest, this has not translated into as high an NPA incidence as in the case of RRBs. But the NPA incidence is significant considering the gap in shares – the NPA share of the cooperative sector is 28 percent while they have only 2 percent share in loan outstanding under SGSY. Though the performance of public sector commercial banks is relatively better in general, 50 percent of the loans they extended to SGSY groups remained NPA by March 2009.

***Table 1.3: Shares in NPAs by type of Banks: Rajasthan, March 2009***

	All SHGs		SGSY SHGs	
	Percentage share in loan outstanding amount	Percentage share in NPA Amount	Share in loan outstanding amount	Share in NPA Amount
Public Sector CBs	56.76	18.55	68.47	49.74
Cooperative banks	23.44	21.53	2.20	27.88
Regional Rural Banks	17.84	59.82	23.17	21.74
Private Sector CBs	1.96	0.10	6.17	0.65
Total	100.00	100 (8.61percent)	0.02	24.76

*Source: NABARD, Status of Microfinance in India, 2008-09.*

### **1.3 Purpose of the Study:**

This study aims to address the issue of loan default by SHGs in the state of Rajasthan with the help of systematic research. The main objective of the study is to understand the factors that lead to loan default by SHGs and to explore whether it is possible to identify any signals early enough to avoid such default. This is done by mapping in detail a select sample of SHGs who have defaulted repayment of installments and comparing them with a few SHGs that are performing well on this count. Generally, loan default by SHGs is observed to occur at two stages – (i) from members to SHGs that includes repayment of loans taken from inter-lending as also and repayment of credit availed through bank linkage; and (ii) from SHGs to banks. This study attempts to examine whether there is any necessary relationship between these two stages, i.e., does SHGs defaulting bank loan would necessarily indicate members' non-repayment of loans to SHGs.

#### **1.4 Objectives of the Study:**

The specific objectives of the study are following:

- I. To assess and analyze the status and reasons of non repayment and default in SHG bank linkage;
  - From member to SHG
  - From SHG to Bank
- II. To develop a system which can signal the onset of loan default both for the banks and also for SHPIs;
- III. To study the best practices in repayment and document the mechanisms followed by banks and groups/SHPIs to ensure 100 percent on time repayment.

The study at the outset has identified some critical points of enquiry in order to keep the collation of data and analysis of information in focus.

#### **1.5 Issues in focus:**

- a) The pattern in SHG default by region, promoter and scheme;
- b) The reasons – both idiosyncratic and specific – for both default and regular repayment of loans by SHGs;
- c) The common characteristics of defaulter SHGs, the identification of which may help in developing ways of anticipating and avoiding eventual default;
- d) The relationship between size, purpose, timely availability, loan terms and loan default;
- e) The processes adopted by banks in linking with SHGs and their implications for defaults;
- f) The innovative strategies adopted by SHPIs, banks and SHGs to ensure timely repayment.

#### **1.6 Sampling Methodology:**

Being exploratory in nature, the study used a descriptive methodology. Both quantitative and qualitative methods were used for collection and analysis of data. The quantitative data collection instruments included structured and pre-coded schedules. These were mainly used to collect information relating to membership profile, savings and loans and maintenance of records of the SHGs. Qualitative methods like focus group discussions and in-depth face to face interviews were used to elicit information from SHG members, banks and SHPIs on their experience and for getting feedback. Step wise sampling process adopted for the study was as follows:

##### ***1.6.1 Selection of the study area (Districts):***

A consultation meeting was convened by CmF to present the idea of study on “**Loan defaults by SHGs**” and take the feedback on design, concept, methodology and outcomes. Important stakeholders like NABARD, State cooperative Bank, commercial banks like Punjab National Bank, Bank of Baroda and State bank of Bikaner & Jaipur were part of the meeting. Department of Women and Child

Development (DWCD), Govt of Rajasthan and Institute of Development Studies, Jaipur (IDS) were also participated in the meeting. Participants appreciated the concept of the study and expressed all necessary support for same. It was also decided that the area selection should be in a manner which give a glimpse of diversity of the state. Based on the brainstorming session; Jodhpur, Dungarpur, Churu, Ajmer, and Alwar were selected to geographically represent the east, west, north, south and the central region of the state.

### ***1.6.2 Selection of blocks:***

The next step after the district selection was the selection of block(s) in each of the five districts for data collection. Five blocks, one per district was selected for the study. The selection was based on the outcome of discussions and meetings with Lead District Managers (LDMs) & District Development Managers (DDMs) of the respective districts, interaction with prominent SHPIs in the district and review of literature. The blocks with comparatively higher default rate of SHGs in the district was selected. District wise list of block is as follows:

***Table 1.4: District wise block for study***

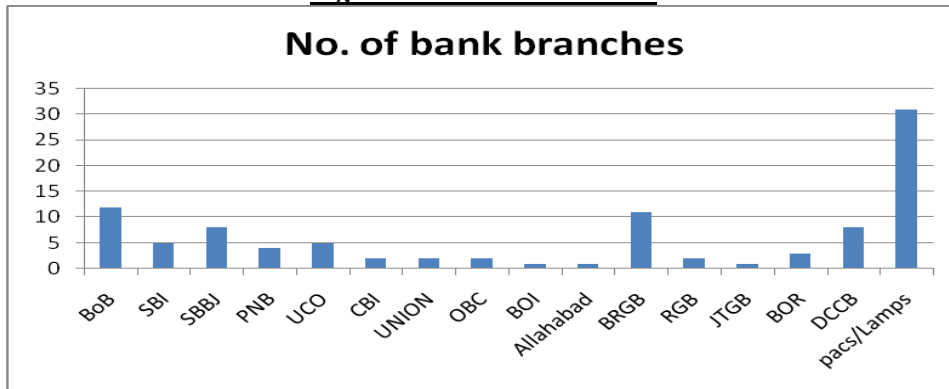
<b>District</b>	<b>Total number of blocks</b>	<b>Selected block</b>
Dungarpur	5	Simalwara
Alwar	14	Thanagazi & Umrain
Jodhpur	10	Balesar
Ajmer	8	Masuda
Churu	6	Churu

### ***1.6.3 Selection of bank branches:***

After the block selection, all the bank branches in these blocks were approached for the detailed information about the SHGs linked to them. The list of bank branches was obtained from Lead Bank Offices of the district. The information thus sought included the names, location, scheme/ promoter, loan outstanding and repayment status of SHGs.

The graph below represents bank wise position of branches. There are 15 banks out of which 13 participated in the study:

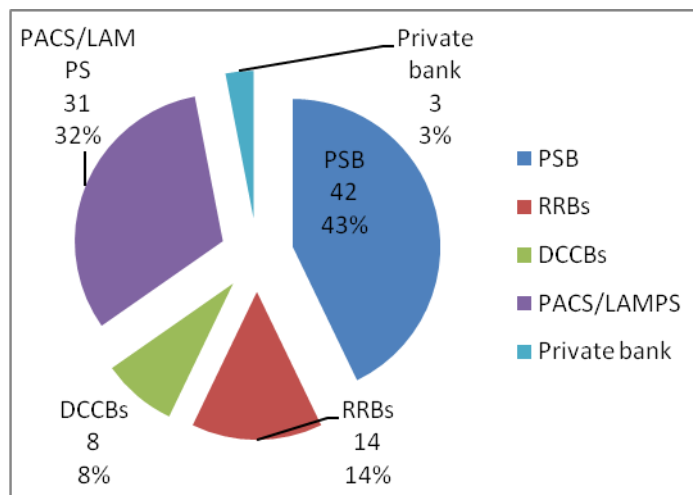
***Fig 1.1: Bank wise branches***



In terms of bank branches, Bank of Baroda (BoB) having highest number of branches i.e. 12 followed by Baroda Rajasthan Gramin Bank (BRGB) with 11 branches. In terms of banking outlet, Cooperative bank was leading as there were 8 bank branches and 31 PACS/LAMPS. A total 67 bank branches and 31 PACS/LAMPS were there under the preview of this study across five blocks.

The pie chart given below shows the percentage share in terms of number of branches of different types of banks. We have shown PACS/LAMPS and branches of cooperative banks as two different entity for better clarity and understanding.

***Fig 1.2: share of various types of banks in the study***



***1.6.4 Selection of SHGs:***

The lists of default SHGs were drawn branch-wise in each selected block and SHGs were selected in such a way that they represented different promoters and scheme in a proportionate manner.

## 1.7 Method of Data Collection:

Being exploratory in nature, the study uses a descriptive methodology. Both quantitative and qualitative methods were used for collection and analysis of data. The quantitative data collection instruments included structured and pre-coded schedules. Schedules were developed separately for SHGs and members. These were mainly used to collect information relating to membership profile, savings and loans, and maintenance of records of the SHGs. (See Annexure 1 and 2 for the questionnaires). Experienced and trained investigators attached with the senior researchers conducted the field survey.

Qualitative methods like focus group discussions and in-depth face to face interviews were used to elicit information from SHG members, banks and SHPIs as regards their experience and feedback. A set of discussion guidelines were prepared before hand for this purpose. (See Annexure 3 for the discussion guidelines)

Thus the study set out to cover 5 districts, 5 blocks and 225 SHGs (*i.e.*, 45 SHGs per district). It was also proposed that case studies of 25 SHGs with best practices will be documented as part of the study.

The study finally covered 213 SHGs linked to 45 bank branches. The total membership of all the groups came to 2337 women, of whom 691 women (*i.e.*, 29.5 percent) were personally met and interviewed by the team. Basic information relating to all the members of all the 213 groups could be collected through the SHG questionnaire.

***Table 1.5: Distributions of SHGs by District and Blocks***

Districts	Blocks	Number of groups surveyed	Number of members interviewed face to face	Total membership	No. of bank branches covered
Dungarpur	Simalwara	42	149	648	9
Churu	Churu	46	139	474	9
Alwar	Thanagazi & Umrain	38	116	382	8
Ajmer	Masuda	43	131	369	12
Jodhpur	Balesar	44	156	464	7
<b>All</b>		<b>213</b>	<b>691</b>	<b>2337</b>	<b>45</b>

Apart from the Integrated Child Development Scheme (ICDS), 10 NGO promoters were captured by the study. These are (1) Nav Yuvak Mandal, Churu (2) Arnold Educational and Rural Development Society, Alwar (3) Anusuchit Yuva Vikas Sansthan, Alwar (4) Upkaar, Alwar (5) IBTADA, Alwar (6) GSVS, Masuda Block, Alwar (7) PEDO, Dungarpur (8) Jai Bhim Vikas Shikshan Sanstha, Jodhpur (9) Bhagwan Mahavir Viklang Sahayta Samiti and (10) Samaj evam Paryavaran Vikas Sanstha, Jodhpur. In addition we also collected some information about groups promoted by Gramin Evam Samajik Vikas Sanstha, Ajmer.

The ICDS groups formed about 69 percent of the sample. The surveyed groups were spread over 96 villages in the selected blocks. The field survey was carried out with the help of trained field researchers during June-August 2010. Data analysis was done using SPSS.

## End notes

The major guidelines with respect to NPA identification are as follows.

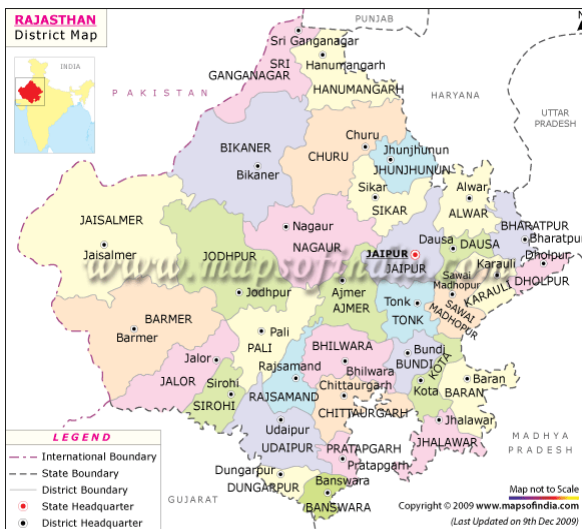
<b>Type of advance</b>	<b>NPA norm</b>
Term loans	If interest and/or installment of principal remains overdue for a period of more than 90 days
Overdraft/ cash credit	If the account remains 'out of order' (i.e., <i>outstanding balance remains continuously in excess of the sanctioned limit / drawing power</i> ) for a period of more than 90 days
Direct agricultural advances	For loans for crops with crop season ( <i>period up to harvesting of the crops raised</i> ) longer than one year, if the installment of principal or interest remains overdue for one crop season For others, if the installment of principal or interest remains overdue for two crop seasons
Other accounts	Any amount to be received remains overdue for a period of more than 180 days

## Chapter 2: Micro Finance sector in Rajasthan

### 2.1 Rajasthan at a glance:

Rajasthan has a very rich history and culture. It is at the forefront of tourist destinations in India. The state has western 'Thar Desert' with average annual rainfall of 250 mm and also has eastern parts where annual rainfall is about 700 mm. The geographical location of Rajasthan poses challenges for its inhabitants (low and erratic rainfall and droughts, extreme heat in summers etc.) but it has certain advantages as well. Its rich culture and architecture attracts domestic and foreign tourists which provides livelihood opportunities to a large number of people. The State has the largest average land holding in country. Moreover Rajasthan is the leading producer of pulses and oilseeds. Its northern part is in the vicinity of the national capital of India and thus has potential to develop as industrial hub. Also, Rajasthan connects Gujarat and Mumbai with Delhi. It has rich mineral deposits. In particular marble and granite are very famous. Rajasthan is also famous for its colorful handicraft.

In terms of total geographical area, Rajasthan is the largest state in the country covering 3.42 lakh sq. kms which is about 10percent of country's area. Out of this only 40percent area (1.64 lakh sq kms hectare) is under cultivation. There are vast areas which are uncultivated due to non-availability of water. Western Rajasthan has the maximum uncultivated land. The population of Rajasthan (2001 census) is 5.65 crores of which 77 percent is in rural areas. The density of population is 165 persons per sq km. The sex ratio is 922 females for every 1000 males. Rajasthan has a high proportion of Scheduled Caste (17percent) population in India and a high proportion of Scheduled Tribes population (12.4percent). The SC population is fairly distributed all over the state (though higher concentration in western part), the tribal area is mostly in south eastern parts.



The Arawali hills range divides the state in to two parts from north to south. The western part is the Thar Desert. Nearly 60percent of state area is under Desert Districts and about 40percent population lives in this part of state. This is characterized by extreme temperature and scanty rainfall. The eastern part of Arawali hills is mostly hilly and ravenous. Large part of it drains out in Bay of Bengal through Chambal and its tributaries. Most of topsoil in this part has already been washed away.

## 2.2 Economy, Livelihood and Employment in the state:

During the Tenth Five-year plan (2002-07) the overall growth in the state was 5.95 percent. The growth in primary sector was only 2.15 percent in the plan period whereas the secondary and the tertiary sector registered a growth of 8.58 percent and 7.16 percent respectively. Thus growth in non-agricultural employment has not been fast enough to compensate for the decline in employment in the agriculture sector. Under-employment is widespread especially in the agriculture sector and very significant in the urban informal sector. The industrial based labor force is quite thin, just 7.15percent, indicating its backwardness.

Agriculture and animal rearing are two main sources of livelihood on which about 70 percent of rural population is completely dependent. Rajasthan has 10 percent of India's land but only 1 percent of its water. Only 28 percent of its cultivated land is irrigated. About 50 percent of the farmers have access only 10 percent of cultivated land. 35 percent of India's livestock population is in Rajasthan whereas it produces about 10 percent of the country's milk and 30 percent of its mutton. Livestock provides 15 percent of the state agriculture domestic product. Considerable percentage of adult are employed with daily wages. The tertiary sector showed the greatest GDP contribution with 41 percent, followed by the primary (32 percent) and secondary sectors (27 percent). Main produces in Rajasthan include millets (coarse grains) in Western Rajasthan, Soybean and Spices in eastern region, Wheat and Cotton in north western region and maize, millets, pulses and grains in hilly regions. The water for irrigation comes from wells and tanks. The Indira Gandhi Nahar Pariyojna (IGNP) irrigates north western Rajasthan.

## 2.3 Banking Infrastructure in the state:

The state has a bank network of 4655 branches comprising of commercial banks (3042), regional rural banks or RRBs (1052) and cooperative banks (561) as on March 2010. There are 43 commercial banks, 6 RRBs and 29 district cooperative banks in the state.

***Table 2.1: Banking infrastructure in the state***

Bank Name	Branches (March 2007)	Branch (March 2008)	Branches (March 2009)				Branches (March 2010)			
			Rural	Semi Urban	Urban	Total	Rural	Semi Urban	Urban	Total
Commercial Banks	2508	2668	995	786	1080	2861	1014	850	1178	3042
RRBs	1015	1022	810	181	49	1040	814	187	51	1052
Cooperative Banks	534	549	189	286	83	558	189	287	85	561
Total	4057	4239	1994	1253	1212	4459	2017	1253	1212	4655

Source: State level Bankers' committee, Rajasthan

The number of bank branches in the state has shown a steady increase over the years. It can be seen from the above table that the bank branches have shown an increase in numbers during 2007, 2008 and 2009. The rural branches have increased by 1.9 percent, semi urban by 8.14 percent and urban branches by 9.07 percent over last one year.

#### **2.4 Priority Sector Lending in Rajasthan:**

Analysis of priority sector advances indicates that there is increase in total credit outflow to priority sector. However the share of priority sector lending in the total advances extended has declined. In particular for agriculture sector similar trend is observed i.e. there is increase in amount of credit outflow for this sector (except in 2009) but decrease in agriculture's share in the total advances from 34.56percent in 2007 to 27.4percent in 2010. However, advances towards weaker section are on increasing slope both in absolute terms and also as percentage of total priority sector.

***Table 2.2: Year wise priority sector lending***

*(Amount in Crores)*

<b>Parameters</b>	<b>March '07</b>	<b>March '08</b>	<b>March '09</b>	<b>March '10</b>
Total Priority sector (PS) advances (Rs.)	34388	40854	43033	49493
percentage of PS advances to Total Advances	56.65	56.57	52.93	48.61
Total Agriculture Advances (Rs.)	20977	24659	24155	27899
percentage of Agriculture advances to Total advances	34.56	34.15	29.71	27.40
Total advances to weaker sections (Rs.)	5981	7666	10300	13197
percentage of weaker section to total priority sector	17.39	18.76	23.93	26.64

*Source: 105<sup>th</sup>, 101<sup>st</sup>, 97<sup>th</sup>, 93<sup>rd</sup> Meeting Agenda of State Level Bankers Committee, Rajasthan (2007-10).*

Table 2.2 shows that advances towards weaker section are on upward slope but it has not contributed towards SHG advances as the mode of advances for the section is largely individual and not through SHGs.

## 2.5 Local context of microfinance sector:

*Table 2.3: Microfinance sector at a glance*

Parameters	Figures
Average population served per Bank branch as on March 10	15292
Per Capita Income (at base 1999-2000)	19806
Per capita bank deposit (Rs.) as on Sept 09	14708
Per capita bank credit (Rs.) as on Sept 09	11766
Number of SHGs reported	360,689
Approx. Outreach of SHGs	44 lakh households
No. Of SHGs having saving bank a/c	2.17 Lakhs
Savings of SHGs in banks	Rs. 180.18 crores
Loans disbursed to SHGs by banks from beginning (1999) till 2010 (SLBC Agenda notes – 105 <sup>th</sup> Meeting, 2010)	Rs. 837.83 crores
No. Of SHG Federations	42 federations and 312 clusters
Total loan outstanding of SHG Bank Linkage as on March , 2010 (estimated)	Rs. 501 crores
Number of MFIs	22
Approx. Outreach of MFIs	8 lakhs clients
Total loan outstanding from MFIs as on March , 2010	Rs. 527 crores

Source: Singh, Jai Pal & Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF

## 2.6 SHG movement in the state:

The Self Help Movement started more as ‘social mobilization’ of women for their better place in family and society than as ‘microfinance movement’ in the state. However, most development practitioners and policy makers gradually realized that mere participation of women was not adequate and some direct action in terms of improving the economic status of women is needed. This led to the organization of women into groups for taking benefits of small financial transactions (savings & credit) and small business (income generation activities). This movement was initiated by voluntary organizations and government (together and/or separately). It will be worthwhile to reflect on the status of SHG movement in the state before discussing defaults in detail. Following sections reflect status of SHG in state:

### ***2.6.1 Self Help Promoting Institutions (SHPIs) in the state:***

Self Help Group mechanism has potential to play a critical role in women empowerment and in delivery of microfinance services to poor. Self Help Group promoting institution (SHPI) plays a key role in SHG movement. The concept of SHGs initiated by voluntary agencies, state government (especially Department of Women and Child Development) has taken a lead in the state.

***Table 2.4: Major SHG Promoting Institutions (SHPI) in Rajasthan***

<b>S. N.</b>	<b>SHPIs</b>	<b>Scheme/ Project</b>	<b>Remarks</b>
1.	Department of Women and Child Development	No specific scheme	Groups are organised by Anganwadi workers and <i>Sathins</i>
2.	Department of Rural Development	SGSY, Watershed Development Programmes DPIP, MPOWER	BPL groups- mostly promoted in collaboration with NGOs
3.	NABARD and Banks	SHG-Bank Linkage Individual Rural Volunteers (IRV)	Through NGOs, commercial banks, RRBs and Cooperatives
4.	Cooperatives		The cooperatives have very recently started forming SHGs
5.	Voluntary Organisations	With support from Donor agencies and government programmes	Groups promoted by NGOs under Government sponsored programmes are often reported by both (NGOs and Government)
6.	Others	Forest dept., elementary education, dept. of Industries	

It is worthwhile to mention that Department of Women and Child Development (DWCD), Government of Rajasthan is the largest promoter of SHG in the state.

### ***2.6.2 Number of Self Help Groups in Rajasthan:***

In Rajasthan, estimating the number of actual SHGs is difficult task as there is no comprehensive database in the state. Various SHPIs (government & non government) have their own set of system for SHG information. Compiling data from SHPIs in the state is next to impossible. Also there are many cases of double reporting i.e. same group is being reported by different agencies. However, Rajasthan microfinance sector report <sup>7</sup> 2010 provides the closest figures on the number of SHGs in the state. The table given below represents SHPIs wise SHGs in the state.

<sup>7</sup> Singh, Jai Pal & Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF, Jaipur

<sup>8</sup>*Table 2.5: Numbers of SHGs promoted by SHPIs as on March 2010*

<b>SHPIs →</b>	<b>DWCD</b>	<b>NGOs</b>	<b>Cooperatives</b>	<b>Others</b>	<b>Total</b>
<b>Schemes ↓</b>					
ICDS	196,273	1245	-	-	<b>197518</b>
SGSY	-	35,518	-	11,839	<b>47357</b>
NABARD-SBLP	-	11,069	-	-	<b>11,069</b>
DPIP	-	18000	-	-	<b>18000</b>
Others	-	11,417	47,638	27,690	<b>86,745</b>
<b>Total</b>	<b>196,273</b>	<b>77,249</b>	<b>47,638</b>	<b>39,529</b>	<b>360,689</b>

Rajasthan microfinance sector report 2010 further explains that as per the data collected from various SHPIs, the total number of SHGs in the state is 360,689. But this can't be taken as reference because there are many cases of double reporting of SHGs (more than one agency reporting the same group) as mentioned before. Also the groups that have become defunct are not deleted from the list etc.

The other reference point for SHG numbers is the saving bank accounts of SHGs. As on March 2010, a total of 2.17 lakh<sup>9</sup> SHGs were reported as having saving bank accounts. But there is problem in taking this as a reference as well because there is a large number of SHGs that do not have bank accounts.

However, it might be safe to assume that about 2.6 lakh<sup>10</sup> SHGs (about 70percent of the SHGs reported) exist in the state.

### **2.6.3 Outreach of Self Help Groups:**

Taking the actual functioning of 2.6 lakh SHGs and the average 12 members per SHG, the total outreach of SHGs in Rajasthan would be about 31.2 lakh members (The figure is 44 lakhs as per reported figures). Assuming that the members are from different families (though there are more than one member from a family in some groups), SHGs are reaching out to about 32 percent of rural families<sup>11</sup>. As per the study conducted by CmF, about 40 percent members in SHGs are BPL<sup>12</sup>. Assuming this sample statistic as representative of whole set, about 12.48 lakh rural BPL families are covered through SHGs, which is about 59 percent of total rural BPL families in state<sup>13</sup>.

### **2.6.4 A glance on SHG savings:**

One of the main objectives of the SHGs is to promote thrift/ savings among members. SHG members save a specific amount every month (equal amount by each member) and the savings are either used as credit for members' need or it is deposited in bank account (which ideally should be used for inter-lending). In Rajasthan, a trend is emerging

<sup>8</sup> Singh, Jai Pal & Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF, Jaipur

<sup>9</sup> Agenda note of 105<sup>th</sup> SLBC Meeting, 2010

<sup>10</sup> Singh, Jai Pal; Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF, Jaipur

<sup>11</sup> Singh, Jai Pal; Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF, Jaipur

<sup>12</sup> Dipstick Study of SHGs in 7 districts of Rajasthan by CmF in 2010

<sup>13</sup> Number of BPL households in Rajasthan as on March, 2010 is 2119352. Source: bpl2002.raj.nic.in

wherein members deposit voluntary savings in the groups; a practice adopted by SHGs in South India.

The total savings of 2, 17,007 SHGs in banks as on March 2010 is Rs. 180.19 crores<sup>14</sup>. This figure is not representative of the total group fund. Dipstick study by CmF in seven districts of Rajasthan in 2010 has revealed that SHGs put about 40 percent of their funds in the saving account of SHGs. Taking this figure<sup>15</sup> for savings lying idle in bank account, it can be estimated that cumulative saving of SHGs as on March, 2010 has been Rs. 450 crores. This translates to average saving per group to be Rs. 20,751 or average saving per member of Rs. 1730<sup>16</sup>.

### 2.6.5 Credit –SHG Bank linkage scenario in the state:

Banks play a pivotal role in delivery of microfinance services to poor through Self Help Group Bank Linkage program. Apart from using own funds, SHGs avail credit from banks for consumption purposes and livelihood promotion activities.

***<sup>17</sup>Table 2.6: Trend of SHG bank linkages in Rajasthan***

CREDIT LINKAGE IN RAJASTHAN		Source: NABARD	Source: SLBC	Source: NABARD	Source: SLBC	Source: NABARD	Source: SLBC	CmF Estimate	Source: SLBC (prov)
		2006-07		2007-08		2008-09		2009-10	
SGSY SHGs credit linked during the year	Number		1769	1813	1298	4625	3100	6281	4349
	Amount (in lacs)		6534	2026	4343	4459	8640	7524	15313
NON-SGSY SHGs credit linked during the year	Number		37897	20078	35922	25062	27198	23902	NA
	Amount (in lacs)		6024	8142	9348	12275	12386	13446	6589
Total SHGs credit linked during the year	Number		39666	21891	37220	29687	30298	30183	NA
	Amount (in lacs)		12558	10168	13691	16734	21026	20970	21902
Total SHGs reported	Number		225000		331959		360689		
% of total SHGs credit linked during the year			10%		9%		8%		
% of SGSY groups out of total SHGs credit linked during the year			8%		16%		21%		
% of total credit disbursed to SGSY groups among all groups			20%		27%		36%		
Average credit disbursed to SGSY group			1,11,776		96,410		1,19,781		
Average credit disbursed to non-SGSY group			40,551		48,979		56,254		

- i) Figures marked in red are the ones reported by SLBC over the years, while in blue are that of NABARD.
- ii) 93<sup>rd</sup>, 97<sup>th</sup>, 101<sup>st</sup>, 105<sup>th</sup> Meeting Agenda of SLBC, Rajasthan
- iii) Format 3 & 4 of SGSY, Government of Rajasthan
- iv) NABARD microfinance report 2007-08 and 2008-09
- v) For 2009-10, SLBC's provisional data is used which does not seem to tally with CmF's analysis
- vi) NABARD data is not available for 2009-10 as of publication of this report. CmF has estimated figures for 2009-10 based on information gathered from banks, DWCD, SGSY, Cooperatives etc.

There is substantial difference between figures reported by SLBC and NABARD. For example, according to SLBC, SHGs under SGSY have received a credit of Rs. 86.40 crores in 2008-09. However, as per NABARD, SHGs under SGSY have received a credit of Rs. 44.59 crores in 2008-09. It is somewhat difficult to choose between the two sources of information. However, we decided to use NABARD data

<sup>14</sup> Page 34, 105<sup>th</sup> Meeting Agenda of SLBC, Rajasthan, 2010

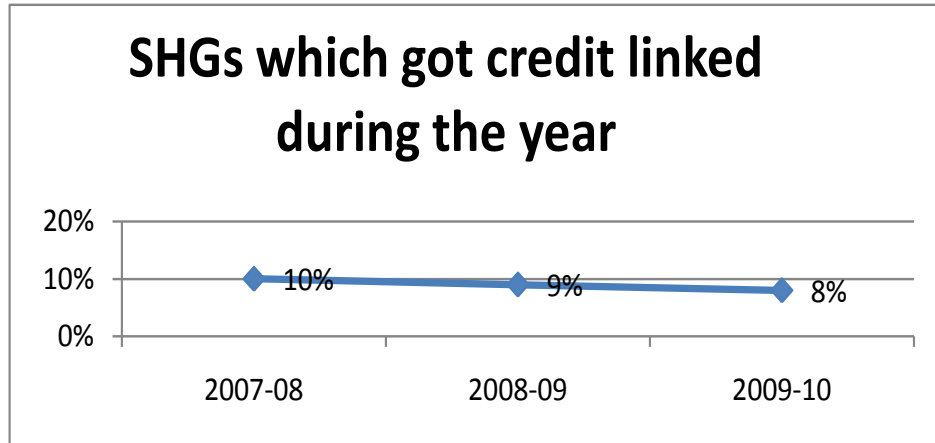
<sup>15</sup> Singh, Jai Pal & Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF, Jaipur

<sup>16</sup> Assuming 12 members per SHG

<sup>17</sup> Singh, Jai Pal & Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF, Jaipur

because it has been published. The figures above clearly indicate that year on year there has been decreasing trend in SHG linkages with banks. In 2007-08, 10percent of total SHGs got credit linked while in 2008-09, it was 9percent and 8percent in 2009-10. The Trend is better represented in graph given below:

**Figure 2.1: Decreasing trend of SHG bank linkages in Rajasthan**

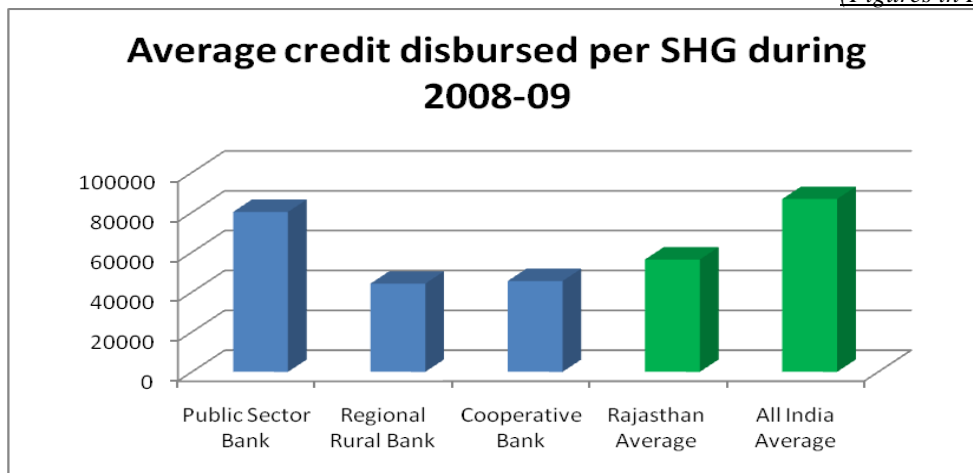


Source: Rajasthan microfinance sector report 2010 by CmF, Jaipur

**2.6.6 Average credit per SHG disbursed during the year 2008-09:**

**Figure 2.2 Average credit to SHGs in 2008-2009**

(Figures in Rs.)



Average credit disbursed by Public Sector Bank (PSB) is Rs. 80,252. In Regional Rural Banks (RRBs) it is Rs. 44,240 and for Cooperative Bank it is Rs. 45,559. Average credit per SHG is Rs. 56,368 which is 35percent less than national average. It is worthwhile to mention here that credit disbursed by PSB is highest as the branch manager of these banks has more financial authority as compared to RRB's & Cooperative managers. The figure 2.2 above gives a pictorial representation of average credit disbursed.

## Chapter 3: Profile of Area and Secondary data analysis

### 3.1 Development Profile of the Selected District:

Within the overall development scenario of the state of Rajasthan, the five districts chosen for the study represent different levels of development too. It must be noted that the state falls in the medium category in terms of Human Development Index (HDI) with 28 of its 32 districts having index values between 0.537 and 0.799.

In Rajasthan, Alwar ranks sixth in HDI and has higher values than the state index for health and income. Its education index value, however, is slightly lower than the state index (Table 3.1). Jodhpur and Ajmer represents the next tier of HDI with moderately medium HDI values. Churu presents an interesting paradox with relatively high ranks in both health and education development but the lowest rank in income. Amongst all the districts its position is 3<sup>rd</sup> in education and 7<sup>th</sup> in health. It has moderate lies at the middle of the medium HDI districts. Dungarpur is the least developed district with the lowest HDI in the state; it ranks third from below in education and income and the last in income.

***Table 3.1: Human Development Indicators of Selected Districts***

District	Education Index	Health Index	Income Index	HDI
Alwar	0.747	0.776	0.710	0.744
Jodhpur	0.725	0.725	0.609	0.686
Ajmer	0.772	0.574	0.686	0.677
Churu	0.832	0.759	0.226	0.606
Dungarpur	0.640	0.282	0.304	0.409
<b>Rajasthan</b>	<b>0.755</b>	<b>0.735</b>	<b>0.640</b>	<b>0.710</b>

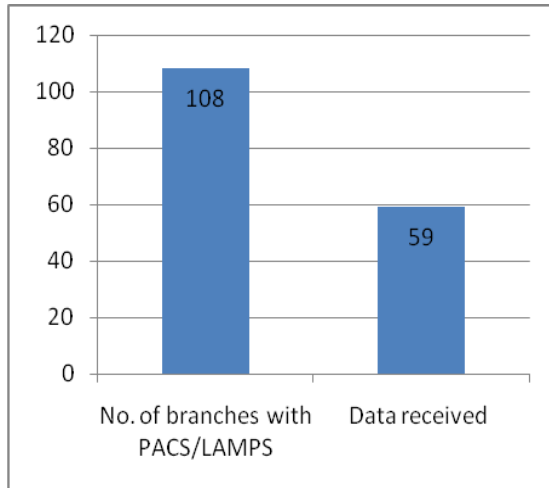
*Source: Government of Rajasthan, Draft Annual Plan 2010-11; Chapter 26, 'Human Development': p.26.7.*

**3.2 Analysis of data obtained from bank branches:** As mentioned above, all the bank branches including PACS/LAMPS in the selected blocks were requested to furnish the information regarding status of SHGs. A format was circulated to each branch of the selected blocks to get the details of SHGs. The data received from bank branches forms the base of the study and provide a lot of relevant information about SHG bank linkages with overdue & NPA SHG. It is worthwhile to look through various angle of the data obtained. Summary of analysis are presented below:

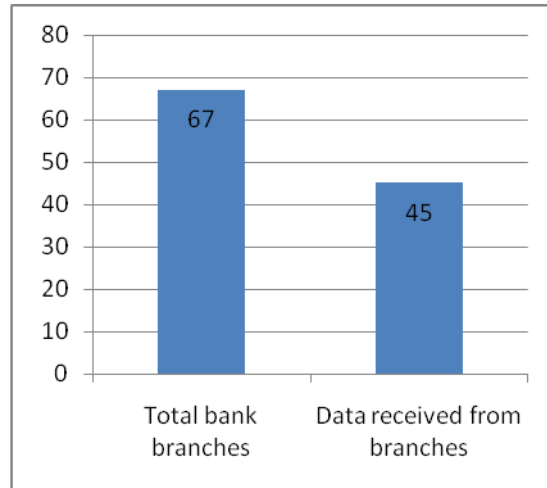
### 3.2.1 Data received from bank branches:

There were 15 banks and 67 bank branches along with 31 LAMPS/PACS in the six selected blocks.

**Fig 3.1: Total banking outlet under study**



**Fig 3.2: Total bank branches under study**



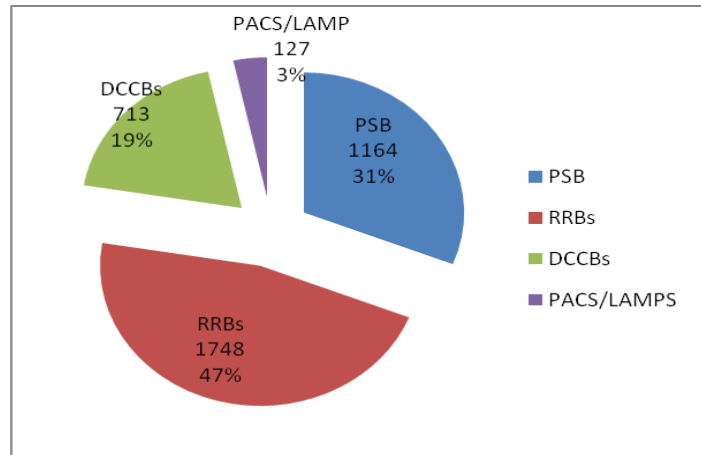
Source: Data collected from branches as on May 2010

The graph above shows that about 67 percent of branches provided the required data. If we take PACS/LAMPS in account, then out of 108 banking outlet, 59 responded positively. It is worthwhile to mention here that many branches could not furnish the required data on overdue & NPA as proper system of tracking NPA was not there, especially in RRBs and cooperative. One of the reasons for high NPA in RRBs and cooperative is that they are not aware of the SHGs which are irregular in their payment. Hence they are unable to take preventive measures in this direction.

### 3.2.2 Number of SHGs in different banks:

The pie chart below provide an insight to the distribution of SHGs in different types of banks. In the selected blocks, Regional Rural banks (RRBs) have highest number of SHG saving accounts i.e. 46 percent, followed by Public sector scheduled commercial banks (PSB) with 31 percent, cooperatives bank with 22 percent and private commercial banks with 1 percent of total SHG accounts. It is significant to mention that in the selected areas the number of branches of PSB (42) is three times that of RRBs (14) while the number of SHGs in PSB is two third that of RRBs. The average number of SHGs per branch for PSB is 47 while that of RRBs is 125 and that of cooperative bank is 119.

**Fig 3.3: Bankwise concentration of SHGs**

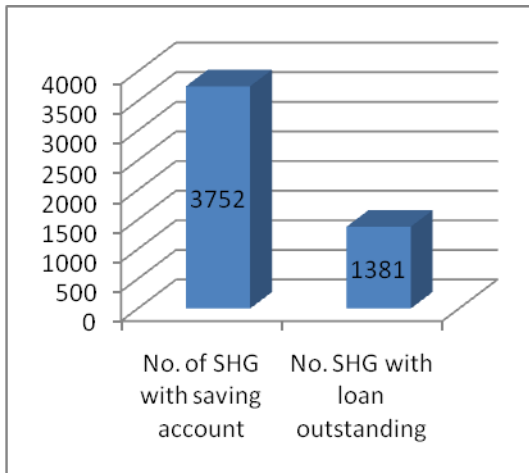


Source: Data collected from bank branches as on May 2010

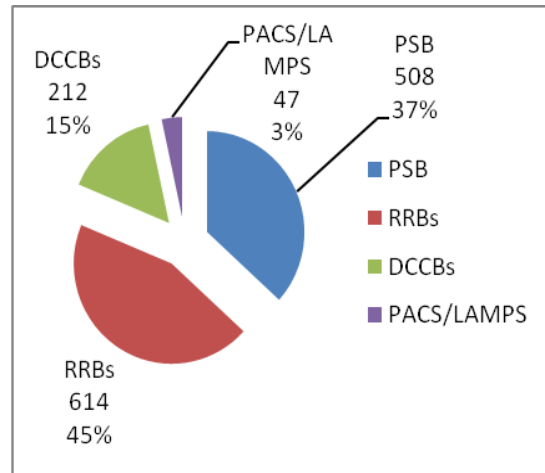
**3.2.3 Saving account v/s loan account:**

Data from 59 banking outlets shows that there are 3752 SHGs with saving bank accounts. This implies that an average of 62 SHG accounts are there in each bank branch. Out of 3752 SHGs, 1381 SHGs were having loan outstanding which is 37percent of total SHGs.

**Fig 3.4: Savings account v/s loan account**



**Fig 3.5: Bank wise loan outstanding**

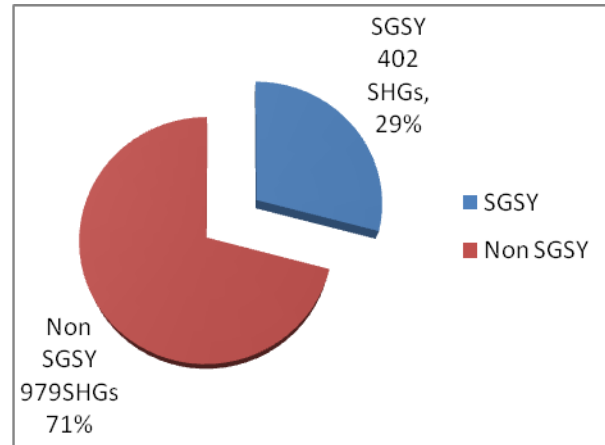


Source: Data collected from bank branches as on May 2010

Out of 59 banking branches, there were no SHG loan outstanding in 15 branches, so per branch the average number of SHGs with loan outstanding comes out to be 31. The above pie chart reflects the bank wise break up of SHGs with loan outstandings. In this respect RRBs have the maximum share of 45 percent followed by PSB with 37 percent and rest 18 percent by cooperative banks. Share of private commercial banks is negligible as only one SHG was having loan outstanding in it. The break up also reflects that number of SHGs with loan outstanding in various banks is in proportion with the total number of SHG saving accounts.

### 3.2.4 Loan outstanding in terms of SGSY v/s non SGSY SHGs:

**Fig 3.6: Loan outstanding of SGSY v/s non SGSY SHG**



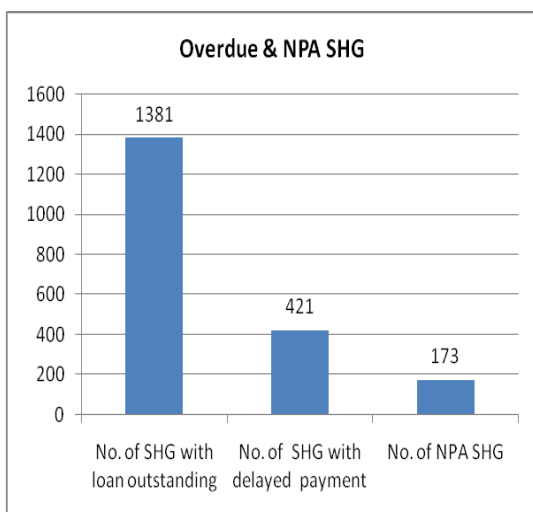
Source: Data collected from bank branches as on May 2010

In terms of scheme wise break up of SHGs, Swarnjayanti Gram Swarozgar Yojna (SGSY) is an important scheme across India. Across five selected blocks and bank branches, 29 percent (394) of SHGs with loan outstanding were from SGSY and remaining 71 percent were other than SGSY. The bifurcation in terms of schemes under which SHG has been promoted is very important as it reflects the objectives and rationale for which SHG is being formed and is directly proportional to quality of SHGs which determines the future of SHGs.

### 3.2.5 Delayed & NPA SHGs:

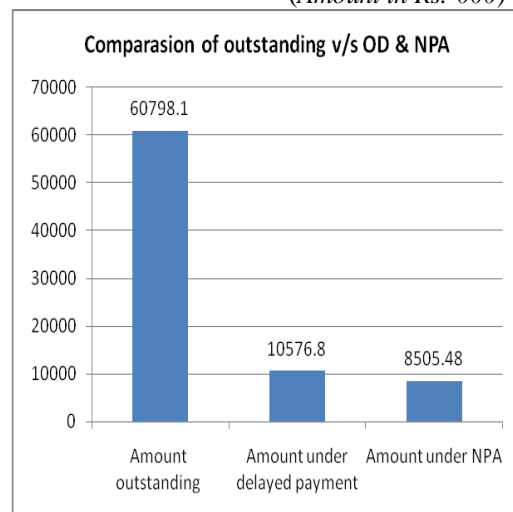
The charts below reflect the overall scenario of delay & NPA under SHGs account in terms of number and amount. The chart on left shows the number of SHGs which have delayed payments or are NPA while the adjacent one represents the delayed amount or value of NPA.

**Fig 3.7: Delayed & NPA SHGs**



**Fig 3.8: Amount in delay & NPA**

(Amount in Rs. '000)



Source: Data collected from bank branches as on May 2010

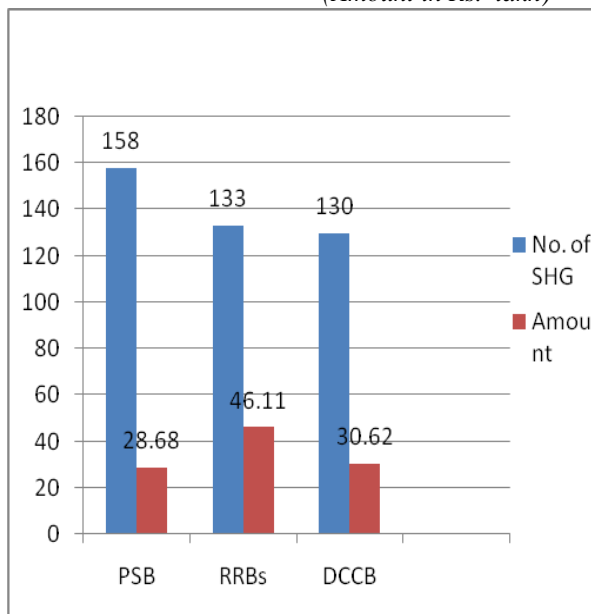
Out of total SHGs with loan outstanding (1381), about 30.4 percent SHGs (421) were in delayed payment category and 12.5 percent (173) in NPA category. The total amount delayed is Rs. 105.76 lakhs which is approximately 17 percent of total outstanding amount and amount under NPA is Rs. 85.05 lakhs which is approximately 14 percent of total outstanding amount. The average overdue amount is Rs. 25,130 and average NPA amount is Rs. 49,164. This analysis at first sight indicates that process of default occurs just after some time of loan disbursement as the average loan per SHGs in Rajasthan is Rs. 56,368 which is near to average NPA amount i.e. Rs. 49,164.

### 3.2.6 Bank wise delayed payment SHGs & Amount:

In the context of the present study, it is important to investigate that; is there any direct/ indirect relation between the type of banks and overdue. With this view in mind, the first step was to classify the SHGs which fall under overdue category in terms of their banking institutions. Out of the total 421 delayed payments SHG, 37.5 percent (158) were in PSBs, 31.6 percent (133) in RRBs and rest 30.9 percent (130) in cooperative banks. It is important to put a point here that while in absolute numbers RRBs has more SHG accounts and outstanding but in case of overdues, PSB occupies the top slot. This indicates that there are more instances of overdue in PSBs.

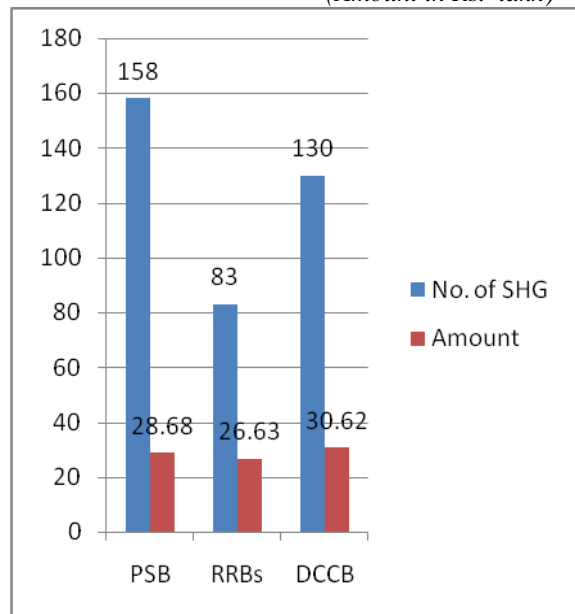
**Fig. 3.9 Delayed SHGs including RGB**

(Amount in Rs. lakh)



**Fig. 3.10 Delayed SHGs excluding RGB**

(Amount in Rs. lakh)



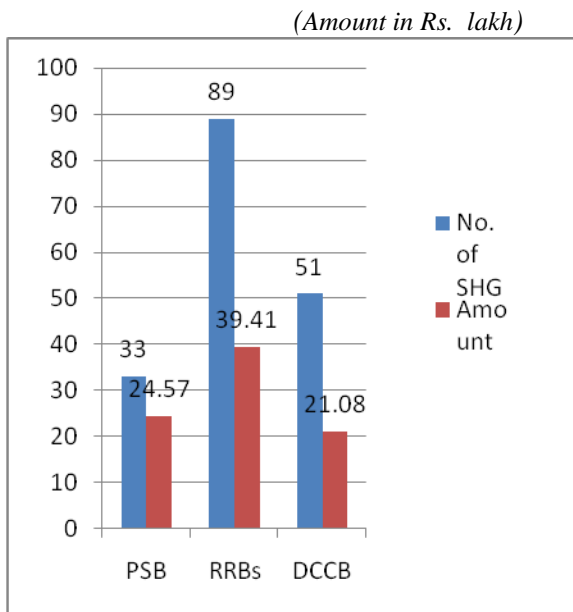
But on the other hand, a glance on the overdue amount reflects an interesting dimension. PSB with highest number of overdue SHGs has the lowest overdue amount. The average overdue amount in PSB is Rs. 18,152, in RRBs it is Rs. 34,669 and in cooperative it is Rs. 23,553. At first instance, we may say that the time of overdue in different banks occur at different loan cycle if we relate it (overdue) with

average loan disbursement by above mentioned banks. On the basis of present data, it may be inferred that overdue in PSB occur at later stage of repayment while in case of RRBs it occurs in initial stage of repayment itself and in case of cooperative it is in the mid stage of repayment. It is important to note that Rajasthan Gramin Bank (RGB) alone contributes 37.6 percent in delayed payment category of RRBs in terms of number and 42.9 percent in terms of volume.

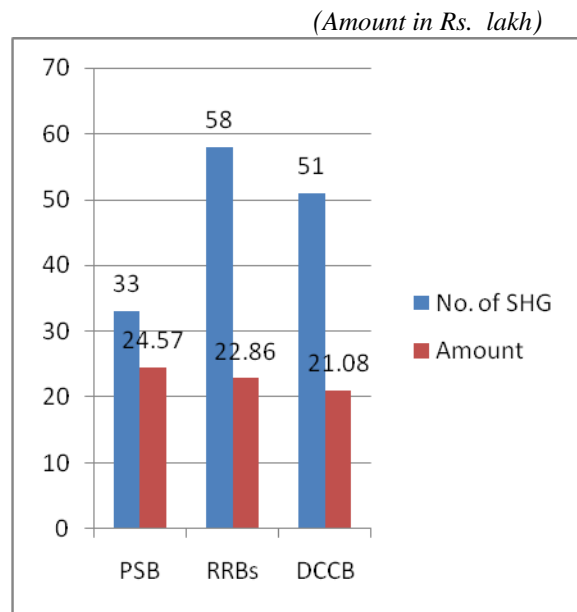
### 3.2.7 Bank wise NPA & Amount:

The graph below represent bank wise scenario of NPA in terms of number and amount. More than 50 percent of total NPA SHGs are from RRBs i.e. 51.4 percent (89), 29.5 percent (51) under cooperative and rest 20.1 percent (33) in PSB. In terms of total volume also, RRBs has maximum NPA. However, average NPA per SHG is maximum for PSB with Rs. 74,454 followed by RRBs with Rs. 44,280 and for cooperative it is Rs. 41,333.

**Fig 3.11 Bank wise NPA including RGB**



**Fig 3.12 Bank wise NPA excluding RGB**



The high NPA per SHG in PSB is because of fact that average loan size per SHG is also highest in PSB as compared to RRBs and cooperative. It is important to note that in terms of number Rajasthan Gramin Bank (RGB) alone contributes 34.8 percent to NPA category of RRBs and 42 percent in terms of volume.

### 3.3 Review of Earlier Studies:

Some of the earlier studies have pointed to the erosion of discipline in SHG movement and warned of imminent danger of loan default. It was argued by some that the original set of principles adopted by the SHGs have slowly been dropped as it became difficult to follow them, especially those related to regularity in attendance, timely repayments, consent from all members etc. (EDA, 2006; CMF, 2006; Bhatia, 2007; and Srinivasan, 2009).

A study commissioned by NABARD, Karnataka in Tumkur and Mysore covering 900 respondents revealed that (1) loans are being equally divided among the members as they do not want to take a credit risk on others, (2) default rates show an increasing trend after farm loan waiver and (3) attendance in meetings is thin and erratic as members perceive the opportunity cost of time spent in meetings to be high (*Srinivasan, 2009*).

Concerns have been raised in various studies regarding the nature of leadership, lack of transparency, unilateral decision making and lack of literacy among SHG members. Many enquiries have taken note of the declining and near lack of bookkeeping abilities among SHGs and examined the role of SHPIs or NGOs (*CMF 2006; EDA 2006; EDA 2006; Srinivasan, 2009; and Parida and Sinha, 2010*).

Loan size for the SHG was a matter of concern for many authors. For instance Bhatia (2007) argued that there is a need to increase the size of the loan considerably for those SHGs which sustain beyond a certain number of years (say 5 years) to enable members to graduate to the economic activity stage. Parida and Sinha (2010) emphasized three aspects that have significant bearing on sustainability of SHGs – loan recovery, savings and linkage with federations.

Across the country Rs 4.23 billion was involved in defaulted loans of SHGs, forming 2.9 percent of total loans outstanding as per reports received by NABARD from 271 banks. Commercial banks reported NPA level of 2.1 percent, RRBs 4.5 percent and cooperative banks 4.8 percent for the year ended March 2008. UP reported highest amount of NPAs at Rs 1.18 billion, accounting for 28 percent of all NPAs in the country. Six states (UP, Tamil Nadu, Karnataka, AP, Maharashtra and Orissa) accounted for 78 percent of NPAs. While the southern states had higher volume of loans outstanding resulting in absolute volumes of NPA being higher, in case of UP and Maharashtra the high NPA share was carried on low loan shares. (*N. Srinivasan 2009*)

Bhatia (2007) and Srinivasan (2009) have observed that the surrounding climate of waivers of farm sector loans and multiple lending available under MFIs could lead to defaults by SHGs. It has also been argued that the lack of enthusiasm of banks in engaging with SHGs and the subsequent difficulty in groups accessing finance tend to reinforce each other in a situation of inadequate human inputs into the relationship building efforts (CMF, 2006). The particular reluctance of banks to lend to SGSY groups has been linked to the poor quality of such groups and faulty selection of livelihood activities under the scheme (*Srinivasan, 2009*).

The positive correlation of the involvement of women in the SHG movement and the increasing political participation was observed in studies by EDA Rural Systems (2006), and *Parida and Sinha (2010)*.

While there are many studies that enquired into the performance of SHGs in India, there are practically no studies that exclusively deal with the problem of SHG default. This is understandable given the data related problems. The present study is a pioneering attempt to fill this gap by focusing on SHGs that defaulted repayments to banks. As already discussed the study aims at understanding the reasons that underlie default with a view to help SHPIs and banks develop a framework to identify potential defaulters among SHGs and pre-empt the occurrence of default.

### **The Riders:**

In many cases, especially ICDS promoted SHGs, tracing and contacting the group members was difficult despite the efforts made by the coordinators and field level functionaries. We could mostly contact and interview those who hold positions of leadership or the ones in charge of maintaining books. To that extent the direct interview sample was structurally different from the overall membership. Hence we use the former only selectively in the discussions in the ensuing chapters.

We could not reach the desired number of sample size (225 default SHGs) that we set out with for two main reasons.

- (i) Some of the members were apprehensive of a survey of defaulter groups, which they thought would lead to some kind of penal action from the banks or government. They were, hence, reluctant to cooperate with the survey.
- (ii) The period of the survey coincided with the onset of rain in most of the districts (Dungarpur and Churu, for instance, were receiving rains after a very long dry spell) and most of the women along with their families were out in their farms preparing land for cultivation. They were unavailable for the interview.

## Chapter 4: Profile of Sample SHG & Members

In this chapter, we will discuss the profile of the SHGs and members mainly based on the information collected through the structured questionnaires. Wherever necessary, we will substantiate the quantitative information with insights drawn from FGDs and personal interviews.

### 4.1 Age of Groups:

As shown in Table 4.1, the average age of the groups in the overall sample is five years. Among the districts, Ajmer reported a slightly younger sample with an average age of four years and Jodhpur reported relatively older groups with average age of seven years. Only in Ajmer and Alwar did we come across defaulter groups that are less than a year old.

***Table 4.1: Average Age of Sample Groups***

*(Figures in percentage)*

Age of group	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	Total
< 1 year	0	0	3.03	3.57	0	1.08
1-2	5.00	8.89	27.27	3.57	15.00	11.83
2 < = 5	60.00	46.67	36.36	42.86	32.50	44.09
5 < = 8	30.00	37.78	30.30	50.00	30.00	34.95
8 < = 10	5.00	6.67	0	0	20.00	6.99
> 10	0	0	3.03	0	2.50	1.08
<b>Average age (in years)</b>	<b>4.9</b>	<b>4.7</b>	<b>4.8</b>	<b>4</b>	<b>6.9</b>	<b>5</b>

Table 4.1 clearly shows that maximum default groups falls in the category of  $2 < = 5$  years (more than 2 years and less than or equal to 5 years). It is significant to mention that during this time major activity loan is being provided to SHG. Hence, at the time of bigger loan amount, SHGs need special attention.

### 4.2 Size of SHGs:

Coming to membership size of the SHGs in the sample, as reported in Table 4.2 the average size for the five districts put together is 12, though it ranges between 10 in Churu and 15 in Dungarpur. These SHGs had about 62 percent of their members from the BPL category.

***Table 4.2: Average Membership of SHG***

Districts	Average membership	Average number of BPL members	Average number of APL members
Dungarpur	15	12	3
Churu	10	5	5
Alwar	11	6	5
Ajmer	11	5	6
Jodhpur	11	7	4
<b>All</b>	<b>12 (2337)</b>	<b>7 (1461)</b>	<b>4 (876)</b>

*Note: Figures in brackets are the total number of members in respective category as per record of SHGs.*

### 4.3 Poverty Status of Members:

We have further analyzed the poverty status of the members in Table 4.3. It shows that there are variations across the districts with respect to poverty status of the members. In Dungarpur, BPL constitute close to 82 percent of the members in the defaulter SHGs, whereas this proportion is 46 percent in the case of Ajmer. In the overall sample, we found 84 SHGs (42 percent) that are exclusive BPL groups<sup>18</sup> which mean that all members were from BPL family while the share of exclusive APL groups<sup>19</sup> stands at 17 percent. 10 percent groups were found in which the share of BPL members exceeds 67 percent (but less than 100 percent). Groups with more than two thirds APL members form 18 percent of the sample.

***Table 4.3: Poverty Profile of Members***

	Exclusive BPL groups	Exclusive APL groups	>= 67% but less than 100% BPL members	>=67% but less than 100% APL members	All groups	% of members by poverty status	
						BPL	APL
Dungarpur	24	1	10	3	42	81.53	18.47
Churu	15	7	5	15	46	52.33	47.67
Alwar	19	12	2	3	38	57.84	40.87
Ajmer	6	5	4	13	43	45.92	54.35
Jodhpur	25	11	1	4	44	62.87	37.13
<b>All</b>	<b>89</b> <b>(41.6)</b>	<b>36</b> <b>(16.8)</b>	<b>22</b> <b>(10.40)</b>	<b>38</b> <b>(17.82)</b>	<b>213</b> <b>(100)</b>	<b>62.25</b>	<b>37.58</b>

*Note: Figures in brackets are the percentages to total groups in sample.*

It must be mentioned here that out of the total members with who research team met in the field, 56 percent belonged to APL households. This may be indicative of the relatively better economic status of group leaders and office bearers who are in charge of writing and maintaining the records; as such member dominated our face to face interview sample of SHG members.

It was reported by many groups that the division between BPL and APL who got loans from banks under SGSY got accentuated post 2006 when the new BPL list was declared based on the BPL survey 2002 by the state govt. One of the short falls of such division, according to 43 percent members, was erosion of group coherence as some of the members suddenly became ineligible for government subsidy. 52 percent members also quoted this as an important factor leading to members' decision to stop repayment. It was, however, difficult to quantitatively gauge the effect of this on loan default.

### 4.4 Status of Activity:

During study, the team tried to capture the status of the group activities in the sample group. Some of the activities studied are they are meeting regularly, conducting business of groups,

<sup>18</sup> BPL groups are those in which more than 80percent members are BPL as per state BPL list of state government.

<sup>19</sup> APL groups are those in which BPL members are less than 80percent of total membership

performing some activity or had shut down everything. To map the status we divided all the sample groups in three sub category of Active<sup>20</sup>, Dormant<sup>21</sup> and Disbanded<sup>22</sup> groups.

Interestingly, not all the defaulter groups were dormant or disbanded at the time of the survey. A third of the groups were found active in the sense that the members were regularly meeting at the time of the survey (Table 4.4). However, half of the groups in the sample reported that they have not had even a single group meeting in the last six months preceding the survey. Such groups constituted more than 90 percent of the sample for Jodhpur district. These groups were considered as closed down or disbanded by the study.

***Table 4.4: District wise percentage distribution of SHGs by Status of Activity***

District	Active	Dormant	Disbanded	Total
Dungarpur	43	23	35	100
Churu	44	20	36	100
Alwar	43	14	43	100
Ajmer	27	15	58	100
Jodhpur	9	0	91	100
<b>Total</b>	<b>33</b>	<b>14</b>	<b>53</b>	<b>100</b>

#### 4.5 District wise SHG Promoting Agencies:

Majority of the groups in the sample – 69 percent - were promoted through the ICDS system (Table 4.5). In Ajmer all the groups surveyed were such groups while in Jodhpur their proportion was the lowest at 36 percent. Groups promoted by NGOs form 64 percent of the Jodhpur sub-sample.

***Table 4.5: Percentage distribution of SHGs by Promoter Type***

District	NGOs	ICDS	Watershed department	Banks	Total
Dungarpur	13 (30.98)	26 (61.9)	3 (4.7)	0	42 (100)
Churu	9 (19.56)	37 (80.43)	0	0	46 (100)
Alwar	10 (26.31)	25 (65.78)	0	3 (7.89)	38 (100)
Ajmer	0	43 (100)	0	0	43 (100)
Jodhpur	28 (63.64)	16 (36.36)	0	0	44 (100)
<b>Total</b>	<b>60</b> <b>( 28.16)</b>	<b>147</b> <b>(69.01)</b>	<b>3</b> <b>(1.4)</b>	<b>3</b> <b>(1.4)</b>	<b>213</b> <b>(100)</b>

*Note: Figures in brackets is the percentage of total groups in the district.*

It is worthwhile to mention that in Jodhpur, linkages of NGOs promoted group in selected block was comparatively more as compared to other study area.

<sup>20</sup> Groups which are conducting/have conducted at least one meeting in the last three months

<sup>21</sup> Groups which have not organized any meetings in the last three months but have conducted at least one meeting in the last six months.

<sup>22</sup> Groups which have not conducted any meeting in the last six months.

#### 4.6 Scheme wise profile of sample groups:

Swarn Jyanti Gram Swarojgar Yojana (SGSY) scheme, a central government sponsored scheme dominated the sample group as 69 percent of sample belonged to that scheme. Donor support comprises of some private funding agency which support grass root NGOs in rural development have share of 6.5 percent followed by NABARD scheme.

***Table 4.6: Distribution of SHGs by scheme wise***

District	SGSY	SBLP NABARD	Donor support	Watershed department	Banks	Others	Total
Dungarpur	26 (61.9)	0	7 (16.67)	3 (7.14)	0	6 (14.28)	42 (100)
Churu	36 (78.26)	0	0	0	0	10 (21.74)	46 (100)
Alwar	23 (60.52)	7 (18.42)	3 (7.89)	0	3 (7.89)	2 (5.2)	38 (100)
Ajmer	30 (69.76)	0	0	0	0	13 (30.24)	43 (100)
Jodhpur	31 (70.45)	3 (6.81)	4 (9.1)	0	0	6 (13.63)	44 (100)
<b>Total</b>	<b>146</b> <b>(68.54)</b>	<b>10</b> <b>(4.69)</b>	<b>14</b> <b>(6.57)</b>	<b>3</b> <b>(1.4)</b>	<b>3</b> <b>(1.4)</b>	<b>37</b> <b>(17.37)</b>	<b>213</b> <b>(100)</b>

*Note: Figures in brackets is the percentage of row total*

The 'Others' is applicable where groups have been promoted without any specific scheme. In present study this category (others) comprises of ICDS (field staff of ICDS like Anganwadi workers promote group under routine work) and NGOs.

#### 4.7 Social Category of Members:

Based on information collected, social categories of members are shown in Table 4.7. The sample SHG drawn from Dungarpur (the district with more than 78 percent tribal population) has 84 percent members from tribal communities. Churu and Ajmer have more than half of the SHG members from other backward castes, while Jodhpur has a relatively larger share of SC members in the sample SHGs. The representation of general category in the overall sample is only 13 percent.

***Table 4.7: Percentage Distribution of SHG Members by Social Category***

	SC	ST	OBC	General	Total
Dungarpur	8.80	83.80	4.48	2.78	100
Churu	21.19	4.24	63.14	11.65	100
Alwar	28.28	8.48	35.22	25.71	100
Ajmer	18.48	9.24	58.42	13.86	100
Jodhpur	39.45	21.10	18.78	16.24	100
<b>Overall (N=2337)</b>	<b>22.20</b>	<b>31.05</b>	<b>32.67</b>	<b>12.80</b>	<b>100</b>

#### 4.8 Literacy and Education:

The table 4.8 provides a fair idea about education level of total member of sampled groups. The members' literacy and education levels as depicted in Table 4.8 reveals that more than 80 percent of the members cannot read and write. 53 percent are totally illiterate while 28 percent can barely sign their names. This is a clear indication that unless there is significant handholding from the promoter agencies in writing the books of accounts, the groups themselves will not be able to independently manage their financial record keeping and also will not be able to know what is written in the record . The incidence of illiteracy is particularly high in Jodhpur (89 percent), followed by Dungarpur (62 percent). In Churu and Ajmer there were few members with education above higher secondary.

***Table 4.8: Percentage Distribution of SHG Members by Literacy and Education Level***

Literacy/ education level	Districts					
	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	All
Illiterate	61.73	31.78	44.73	25.97	88.61	53.11
Can only sign	30.40	35.81	24.94	43.58	8.65	28.04
Up to 5 <sup>th</sup> class	2.31	14.83	14.65	15.82	2.11	8.32
6 - 8 <sup>th</sup> class	1.70	8.90	12.60	8.96	0.21	5.74
9 - 10 <sup>th</sup> class	3.09	5.30	2.57	4.48	0.42	3.11
HSC	0.77	1.91	0.51	2.09	0.00	0.99
Technically qualified	0.00	0.42	0.00	0.30	0.00	0.13
Graduation and above	0.00	1.06	0.00	2.09	0.21	0.56
<b>All</b>	<b>100 (648)</b>	<b>100 (472)</b>	<b>100 (389)</b>	<b>100 (335)</b>	<b>100 (474)</b>	<b>100 (2318)</b>

Figures in the bracket indicate the number of members whose literacy level was mapped which is 99.2percent of total membership in the sample groups. There was no information available about 0.8percent of members.

#### 4.9 Household Income:

Poor practice basket of livelihood activity for household incomes. In the context of Rajasthan; Agriculture, Animal husbandry and wage labor are the three main sources of income for poor households. For this study, the livelihood source which contributes maximum to the household income has been taken as main source of income. During member interaction, we discussed all livelihood sources of households and tried to figure out the primary source with the help of concerned members.

Table 4.9 shows that for 70 percent of the member households, the main source of livelihood is agriculture, though this figure differs for the all five districts surveyed. 89 percent of the families in Dungarpur and 81 percent in Churu are dependent on agriculture as their mainstay; such households constitute 50 percent of the Jodhpur sample. Wage work, especially in the non agricultural sector, provides main income for 38 percent households.

***Table 4.9: Percentage Distribution of Main Source of Household Income of SHG Members***

Activity	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	Total
Agriculture	88.89	81.15	77.36	58.06	50.00	70.45

Animal husbandry	0.93	1.64	1.89	0	8.20	2.58
Agriculture labor	1.85	2.46	2.83	15.32	10.66	6.87
Non-agriculture daily wage Labor	1.85	2.46	4.72	8.06	27.05	9.11
Migrant labour	3.70	1.64	0.94	4.84	0	2.23
Shops	1.85	0	4.72	7.26	0	2.75
Itinerant trade	0	1.64	0	0.81	0	0.52
Salaried employment	0.93	8.20	7.55	4.84	2.46	4.81
Housewife	0	0.82	0	0	0	0.17
Unemployed	0	0	0	0	0.82	0.17
Others	0	0	0	0.81	0.82	0.34
<b>All households</b>	<b>100 (149)</b>	<b>100 (139)</b>	<b>100 (116)</b>	<b>100 (131)</b>	<b>100 (156)</b>	<b>100 (691)</b>

Source: SHGs' member survey.

Note: Figures in brackets are the respective number of household covered in the district.

It is worthwhile to mention here that all 691 household were engaged in multiple activities for income as shared by the respective members. However, it is interesting to note that agriculture remains to be the primary source of income for the families, irrespective of the number of livelihoods pursued by the family members. During interaction with members, it was observed that in majority of cases, source of income and purpose of loan from banks do not match. As shown in table above that major source of livelihood is agriculture, but as the ownership of land is not in the name of women members, hence members find it difficult to avail bank loan for this purpose and also mechanism at branch level does not support extending agriculture loan to SHG. This mismatch between demand & supply is one of the major factors lead to default.

#### 4.10 Occupational profile of sample:

When it comes to members, agriculture is the main occupation of 87 percent of sample population (Table 4.10). Interestingly, even in Jodhpur that reports less dependence of households on agriculture, the proportion of members reporting agriculture as main occupation goes up to as high 94 percent. In the case of Dungarpur the proportion of members whose main occupation – 90 percent is agriculture - matches well with the overall household profile – 89 percent earns mainly from Agriculture. Animal husbandry and non-agricultural wage work are reported by a relatively larger proportion of SHG members in Ajmer. In Churu and Alwar 4 to 5 percent of the SHG members were found to earn their living by working as non-farm wage laborers.

**Table 4.10: Percentage Distribution of SHG Members household by their Occupation**

Occupation	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	All
Agriculture	90.43	87.85	84.72	74.40	93.67	<b>87.29</b>
Animal husbandry	0.31	2.13	1.04	4.17	0	<b>1.30</b>
Daily wage worker – Non-agriculture	0.77	4.9	4.15	7.14	2.11	<b>3.37</b>
Collection of forest produce	0	0	0	0	0	<b>0</b>
Household enterprise	2.93	0.43	0.78	2.38	0	<b>1.38</b>

Other enterprises	1.54	0.85	0	0.60	0	<b>0.69</b>
Skilled worker – non agriculture	0	0.21	1.04	0.30	3.16	<b>0.91</b>
Salaried employee	1.70	2.13	2.59	5.06	0.21	<b>2.12</b>
Housework	0	3.62	5.70	2.98	0.84	<b>2.29</b>
<b>All</b>	<b>100</b> <b>(149)</b>	<b>100</b> <b>(139)</b>	<b>100</b> <b>(116)</b>	<b>100</b> <b>(131)</b>	<b>100</b> <b>(156)</b>	<b>100</b> <b>(691)</b>

Source: Members' survey.

Note: Figures in brackets are the respective column total of households.

#### 4.11 Source of loan repayment:

Importantly, 64 percent of the women members said that they use their own income to repay the loans. Only 33 percent use income from their spouses for this purpose. In Dungarpur, 73 percent of the women repay SHG loans from own income.

**Table 4.11: Source of Loan Repayment**

(Figures in percentage)

District	Income from own economic activity	Income from spouses	Borrowed from others	Total
Dungarpur	72.55	17.65	9.80	100
Churu	66.67	31.82	1.52	100
Alwar	52.27	47.73	0	100
Ajmer	64.29	35.71	0	100
Jodhpur	62.11	34.74	3.16	100
<b>Total</b>	<b>63.71</b>	<b>33.26</b>	<b>3.02</b>	<b>100</b>

3 percent of members said that they have to borrow from other sources primarily moneylenders and relative to repay the loan.

#### 4.12 Purpose of Loan:

The direct interviews with 691 SHG members revealed that 413 among them (about 60 percent) have taken any loan since their joining the groups. In other words 40 percent of members have never availed loan facility. Out of the members who have availed loan, 48 percent used it for meeting household expenses and 28 percent to meet the expenses related to agriculture (Table 4.12). Of the rest 24 percent, livestock purchase, house repair, purchase of fodder and education accounted for 20 percent.

**Table 4.12: Distribution of SHG Loans by Purpose**

(Figures in household)

District \ Purpose	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	Number of responses
Meeting household expenses	61 (50.41)	38 (55.88)	29 (35.36)	31 (48.43)	42 (53.84)	201 (48.41)
Agriculture	31 (25.61)	21 (30.88)	17 (20.73)	21 (32.81)	25 (32.05)	115 (27.67)
Purchase of livestock	7	2	9	3	5	26

	(5.78)	(2.94)	(10.97)	(4.68)	(6.41)	(6.63)
House repair	6 (4.95)	1 (1.47)	5 (6.09)	2 (3.12)	2 (2.56)	16 (4.03)
Education	6 (4.95)	1 (1.47)	5 (6.09)	2 (3.12)	1 (1.29)	15 (3.75)
Fodder purchase	4 (3.3)	0	6 (7.31)	3 (4.68)	1 (1.29)	14 (3.17)
Health related expenses	3 (2.47)	1 (1.47)	4 (4.87)	2 (3.12)	0	10 (2.31)
Purchase sewing machine	0	4 (5.88)	3 (3.65)	0	0	7 (1.73)
Festival	1 (0.83)	0	1 (1.21)	0	2 (2.56)	4 (0.86)
Shop	0	0	2 (2.42)	0	0	2 (0.58)
Home-based production	0	0	1 (1.21)	0	0	1 (0.29)
Foreign travel*	1 (0.83)	0	0	0	0	1 (0.29)
Vehicle purchase	1 (0.83)	0	0	0	0	1 (0.29)
<b>Total</b>	<b>121</b> <b>(100)</b>	<b>68</b> <b>(100)</b>	<b>82</b> <b>(100)</b>	<b>64</b> <b>(100)</b>	<b>78</b> <b>(100)</b>	<b>413</b> <b>(100)</b>

Source: SHG Member survey

Note: Figures in bracket is the percentage in accordance with column total

\*son of a SHG member was going to gulf country.

#### 4.13 Contribution of loan from SHG in Asset creation:

It is important to understand what percentage of households created assets out of loan availed from SHG. Only 35 percent of the members i.e. 145 reported some asset creation out of these loans (Table 4.13). Two third had purchased livestock. In Jodhpur 86 percent of the respondents mentioned livestock as the asset created through SHG loans. The other major productive asset reported by women was shops – 33 percent of the SHG loans in Dungarpur and 23 percent in Ajmer have reportedly been invested in shops.

**Table 4.13: Creation of Asset with SHG Loans**

(Figures in household)

District	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	Total
Livestock	18 (49.8)	15 (68.2)	21 (75.0)	18 (58.1)	25 (86.2)	97 (66.9)
Shop	12 (33.4)	5 (22.7)	0.0	7 (22.6)	0	24 (16.5)
Vehicle	0.0	0.0	0.0	2 (6.4)	0.0	2 (1.4)
Agriculture	3 (8.33)	1 (4.95)	3 (10.7)	2 (6.45)	1 (3.56)	10 (6.9)
Sewing machine	1	1	1	1	0.0	4

	(2.8)	(4.95)	(3.57)	(3.2)		(2.75)
House	2 (5.6)	0.0	3 (10.7)	0.0	2 (7.1)	7 (4.82)
Home base production unit	0.0	0.0	0.0	1 (3.2)	0.0	1 (0.7)
<b>Total</b>	<b>36</b> <b>(100)</b>	<b>22</b> <b>(100)</b>	<b>28</b> <b>(100)</b>	<b>31</b> <b>(100)</b>	<b>28</b> <b>(100)</b>	<b>145</b> <b>(100)</b>

*Note: figures in brackets are the percentage of column total*

However there are some contrasting facts if we compare ‘Purpose of loan’ discussed in section 4.13 and ‘Assets creation’ discussed in section 4.14 above. The data in loan use reflects that only 26 members have reported purchase of livestock using loan from groups while in assets creation category 97 members have purchased livestock. When we enquire about this discrepancy with SHG members and staff of SHPIs, they highlighted the truth behind it. Members shared that they quote only that purpose which help them to get easy loan from banks. Members and staff of SHPIs further shared that it is convincing for bankers if SHGs write in bank loan application that credit will be used for purchasing animals, opening of petty shop, establishing home based production etc. But as soon as the loans get passed, members used it as per their need.

### **Conclusion:**

The detailed profiling of the sample groups and members carried out in this chapter has helped us gain insights into the profile of SHG profiles across regions. The analysis broadly suggests that the combined effect of high incidence of poverty, dependence on an otherwise low productive agriculture by SHG members and low literacy rates on the ability of the members to effectively participate in the SHG programme needs to be reflected upon very seriously. Such deadly constellation of negative circumstances may have significant implications on the default of SHG loan in the study region.

## Chapter 5: Exploring the loan default of SHGs

In this chapter we try to delineate the main features of the groups covered in the sample. As per bank records, all these groups have delayed repayment of loan and interest installment to the banks beyond 90 days as on the day when the list was prepared at the branch level. Dealing only with defaulter groups has helped us to look deeper into some of the major systemic factors that lead to default of loan repayment by SHGs. After gleaning the relevant literature on the performance of SHGs and the best practices followed in SHG-bank linkage model, we have decided to focus on the set of factors accepted widely as the critical success factors of SHGs. These are:

- (i) group processes - formation, development and leadership;
- (ii) role of capacity building inputs;
- (iii) status of maintenance of records relating to attendance, transactions, and issues discussed in meetings;
- (iv) norms and regulations relating to member savings and overall saving behavior of members;
- (v) system of inter loaning pursued by the groups;
- (vi) the extent of access to bank loans, the nature of application-sanction-and disbursement cycle, and the patterns of loan utilization;
- (vii) Issue of quality of Self Help Promoting Institutions (SHPIs).

### **Analysis of Data:**

Based on the primary data collected from SHGs, SHG Members, SHPIs and bank branches across five districts, we have tried to look into the major characteristics of default SHGs and delve deeper into the various reasons for it. The issues are discussed below:

### **5.1 Relation between default & process of SHG formation and nurturing:**

The very first thing which determines the quality of groups is the process adopted during formation and nurturing. It is well documented that good quality groups have backing of concepts like proper area selection, identifying proper need of the community, selection of members of a groups based on parameters like socio-economic homogeneity, approximately same cultural equations etc. Out of 213 sample groups and 13 SHPIs across five districts, none of the SHPI except one had followed the localized minimum requirement process of group formation. Due to absence of very first building i.e. adopting proper process as discussed above the quality of SHGs took a beating which in turn impacted repayment. Based on the observations, we may conclude that if proper process of group formation were followed, repayment would have been relatively better.

### **5.2 Purpose and objective of group impacting repayment:**

The SHG movement in the country started with savings led model with objectives that the community comes together, does saving and fulfill their immediate need. After they (SHG) mature and develop some financial discipline, they will approach banks for credit if the amount required is not from group's fund. In any case, *saving first and credit later* has been

the success mantra of quality groups across the country. But the data from field of the sample groups was pointing in other direction:

***Table 5.1: Purpose of SHGs from members' perspective***

<b>Purpose</b> <b>District</b>	<b>Savings</b>	<b>Credit</b>	<b>Subsidy</b>	<b>Other financial services</b>	<b>For non financial services</b>	<b>Don't know</b>	<b>Total member</b>
Dungarpur	14 (9.5)	89 (59.5)	32 (21.42)	0	0	14 (9.5)	<b>149</b> <b>(100)</b>
Churu	13 (9.35)	82 (59)	17 (12.23)	0	0	27 (19.42)	<b>139</b> <b>(100)</b>
Alwar	15 (12.93)	82 (70.6)	9 (7.75)	0	0	10 (8.62)	<b>116</b> <b>(100)</b>
Ajmer	12 (9.19)	85 (64.88)	21 (16.03)	0	0	13 (9.9)	<b>131</b> <b>(100)</b>
Jodhpur	9 (5.72)	119 (76.29)	17 (10.9)	0	0	11 (7.05)	<b>156</b> <b>(100)</b>
<b>Total</b>	<b>63</b> <b>(9.11)</b>	<b>457</b> <b>(66.13)</b>	<b>96</b> <b>(13.89)</b>	<b>0</b>	<b>0</b>	<b>75</b> <b>(10.85)</b>	<b>691</b> <b>(100)</b>

Source: SHG survey

Note: Figures in bracket represent the percentage of row total

The table 5.1 clearly indicates that members of these groups view SHGs as medium of mobilizing easy credit. Almost two-third of respondents i.e. 66 percent said they formed group to get loan/ credit. Savings was on the lowest priority of the member as only 9 percent shared that they become part of groups to do small savings. Members further said that during formation of groups, facilitators of SHPIs assured them that loan from banks will be available if they become member of SHG. In other words, binding factors of 77 percent members was only credit from banks & subsidy and not savings. Once they received loan, member see no pint point in following group principals like repayment and hence instances of default is high. On the other hand, 84 percent members from groups of 100 percent repayment said that savings and credit both are the major purposes and they start with savings and then graduate to credit.

### **5.3 Lack of capacity building affecting repayment:**

Proper training and capacity building is one of the most important building blocks of SHGs. Capacity building take care of awareness generation among members about group concept, role & responsibility of leaders, group principle likes regular meeting, regular savings, transactions in the meetings only to maintain transparency, process of loaning and repayment etc. It was tried to ascertain the extent of exclusion of sample groups from capacity building input by estimating how many members have undergone any training programme on SHG concept by SHPI or other.

***Table 5.2: Training of leaders & members***

District	Total Sample	Interaction with no. of leaders	No. of Leaders attended training on SHGs	Interaction with Members (excluding leaders)	Members attended any training on SHGs
Dungarpur	42	79	14 (17.77)	70	9 (12.85)
Churu	46	73	9 (12.3)	66	6 (9.0)
Alwar	38	59	12 (20.11)	57	11 (19.29)
Ajmer	43	61	17 (27.86)	70	16 (22.85)
Jodhpur	44	56	11 (19.64)	100	6 (6.0)
<b>Total</b>	<b>213</b>	<b>328</b>	<b>53 (16.1)</b>	<b>363</b>	<b>48 (13.22)</b>

Source: SHG & member survey

Note: Figures in the bracket is the percentage of respective total (leaders & members)

Above table clearly indicates that out of 328 leaders only 53 (16.1 percent) had received any training on group concept. For other members, this figure was even low as only 48 members (13.22 percent.) out of 363 had undergone any kind of training on group concept. Due to lack of concept seeding on financial discipline, credit need assessment of members, credit worthiness of members' etc. default perpetuated in the group. In groups with 100 repayments, all members have undergone the required training on group concept in various phases. Members of these groups also shared how to do recovery in case of default (*peer pressure by virtue that if a member is not repaying then rest of member will go and sit in front of house for a day or day which cause embracement to family and she repay the amount*).

#### **5.4 Dynamics between Age of SHG & default:**

One of the important questions before the research team was to find out at what stage of groups default generally happens. The profiling of sample revealed that almost 44 percent of groups were in age bracket of 3-5 years (table 5.3). This age bracket of 3-5 years is also the time when groups get bigger loans or activity based loan from banks.

***Table 5.3: Age profile of groups in percentage***

Age of group	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	Total
< 1 year	0	0	3.03	3.57	0	1.08
1-2	5.00	8.89	27.27	3.57	15.00	11.83
2 <= 5	60.00	46.67	36.36	42.86	32.50	44.09
5 <= 8	30.00	37.78	30.30	50.00	30.00	34.95
8 <= 10	5.00	6.67	0	0	20.00	6.99
> 10	0	0	3.03	0	2.50	1.08

Average age (in years)	4.9	4.7	4.8	4	6.9	5
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So, it can be concluded that groups need special attention/ input when they are 3-5 years old. In other words, perfect credit planning, hand holding and business development services at group level is required to manage the bigger loan amount.

### 5.5 Savings:

We could gather data on 186 groups on savings of 2060 members (Table 5.4). 27 groups did not have any data on savings. Based on the available data, the total member savings was Rs. 40.5 lakh. The average savings per member in Ajmer is highest i.e. Rs. 2888 and lowest in Churu i.e. Rs 1181.

**Table 5.4: Savings Status of Groups**

(Amount in Rs.)

District	No. of SHGs	No. of saving members	Total savings	Average Savings/member	Average savings/memb (SGSY)	Average savings/memb (non SGSY)
Dungarpur	42 (100)	611 (94.3)	1,028,578	1683	1989	1413
Churu	45 (97.83)	424 (89.5)	500,970	1181	1286	1078
Alwar	30 (78.95)	294 (77.0)	659,994	2244	2589	1923
Ajmer	31 (72.1)	339 (91.9)	979,052	2888	3206	2452
Jodhpur	38 (86.36)	392 (84.5)	883,127	2253	2852	1802
<b>All</b>	<b>186 (87.32)</b>	<b>2060 (88.1)</b>	<b>4,051,721</b>	<b>1967</b>	<b>2384</b>	<b>1733</b>

Note: Figures in brackets are percentages to total SHG/members sample.

A glance on average savings per member i.e. Rs. 1967 indicates that these groups had average savings at par with state average of Rs. 1730<sup>23</sup>. At first instance the higher savings amount was a bit surprising taking the quality of groups in consideration. On delving deeper into the issue, two interesting reasons cropped up-

- Two-third of sample group was from SGSY and average savings of SGSY group is 23 percent<sup>24</sup> more than state average. Hence the higher savings amount;
- Another interesting insight was that in almost 34 percent of groups promoted by DWCD<sup>25</sup>, facilitators (AWA, Saathin, and Sahyogin) used to deposit the savings amount on the behalf of 35-40 percent of members every month so that groups remains alive. The motive was to avail higher loan amounts and subsidy in second/ third loan cycles.

<sup>23</sup> Singh, Jai Pal & Bhargava, Pranay (2010), Rajasthan Microfinance report 2010, CmF, Jaipur

<sup>24</sup> Analysis of data from NABARD, status of Micro finance in India 2008-09

<sup>25</sup> 69 percent of sample groups were from Department of Women & Child Development (DWCD)

## 5.6 Savings behavior as an instrument to detect default:

It was very important to analyze the trend of savings in groups over years. Savings behaviors over six years have been mapped. The trend in member savings is presented in Table 5.5. The data reveals important aspects about the saving behavior of SHG members of the defaulter groups. The most significant thing is that the saving role of these SHGs, which perhaps is the most significant role expected of them, has lost its primacy over the years. In 2005, 93 percent of the members in the sample who were SHG members in that year reported savings. This percentage varied between 80 and 90 until 2008. Since then there has been a steady decline in the number of saving members among the respondents to this study. The average monthly savings per member also does not show any significant improvement over time. The data presented here suggests that over the years these SHGs could not develop themselves into strong institutional payers in mobilizing thrift and small savings of the poor households.

***Table 5.5: Changes in the Savings by Members***

*(Amount in Rs.)*

<b>Year</b>	<b>Average Savings per SHG</b>	<b>Average Savings per month/ members</b>
Year 1 (2005)	3727	36.43
Year 2 (2006)	4267	41.30
Year 3 (2007)	5093	56.38
Year 4 (2008)	4672	50.13
Year 5 (2009)	4511	47.84
Year 6 (2010)	4760	46.78

The above table 5.5 shows that after year 3 there has been decline in average member savings. It is worthwhile to mention here that in previous chapter section 4.1, we have seen that maximum age of defaulter groups i.e. 44 percent were in age group of 3-5 years. So the analysis of savings behavior provide an indication that decline in average savings is one of the main characteristics of defaulter groups and it starts after bigger loan amount being sanctioned to groups which in turn reflects that groups were formed to avail credit only. After availing loan, members do not feel any value in being as group members because the very purpose of being a member of group was to avail bank credit only and not savings and all. Based on analysis of saving behaviors, it can be deduce that if credits being the only purpose of group formation then groups are bound to fail.

## 5.7 Relation of default with status of records:

This takes us to one of the central concerns of SHG promotion efforts in the country, viz., the regular and systematic upkeep of books of records. In order to capture this aspect, we went through a painstaking process of going through every single register of the 213 SHGs that we studied. The results of that exercise are summarized in Table 5.6.

The glaring lacuna in book keeping is clearly depicted in the table below. One fourth of the sample groups could not produce attendance registers and even of those who did; only one third were found to be updating the register. In other words, Out of 213 groups, 158 (74.26 percent) were found to have attendance register and only 45 (28.67percent of groups who were having attendance register) of them were updated. While close to two thirds of the groups had their loan and savings ledgers, only a third of them had updated the information. It may also be mentioned here that the proportion of groups that maintain attendance and loan/ savings ledgers is high in the ICDS group as department provides a register where all three type of basic records (attendance, cash book & ledger) can be recorded. But the fact is that only a few groups have kept the records updated. Strikingly, the idea of a cash book is not with most of the groups. Many of them, who possessed it, have written the entries absolutely wrongly.

**Table 5.6: Maintenance and Updation of Books of Records in percentage**

Districts	Attendance register		Cash book		Loan/ savings ledger		Number of groups
	Maintained	Updated	Maintained	Updated	Maintained	Updated	
Dungarpur	80.95	41.18	42.86	55.56	83.33	51.43	42 (100)
Churu	86.96	37.50	15.22	28.57	65.22	36.67	46 (100)
Alwar	67.57	20.00	37.84	28.57	48.65	16.67	38 (100)
Ajmer	84.85	28.57	54.55	27.78	72.73	29.17	43 (100)
Jodhpur	52.27	4.35	11.36	0.00	45.45	10.00	44 (100)
<b>All</b>	<b>74.26</b>	<b>28.67</b>	<b>30.69</b>	<b>33.87</b>	<b>62.87</b>	<b>32.28</b>	<b>213 (100)</b>

*Note: The maintained column is the percentage of group those have maintained the respective record and rest do not maintain that records.*

The scenario with cash book and ledger is more worrisome as only 30 percent and 62 percent groups possessed these books while updated record was available with 34 percent and 32 percent respectively. Irrespective of promoters & scheme, the situation of records as explained above was almost same with sample groups.

It was observed that due to incomplete records especially the financial transactions, members do not trust each other, faith on SHG as institution was also gradually fading, which affects the group as a whole. Almost 34 percent member said that they have repaid the entire loan but due to incomplete record which show that they still owe amount to SHG, have created sense of distrust and as a consequent other member have stopped repaying.

On the other hand, groups with 100 percent repayment have all the records updated. In addition to attendance, cash book & ledgers, these groups also prepare *Trial balance* every month for better updated financial transactions. The facilitators read out the records at the end of every meeting which make every member aware about status of records and transactions.

### **5.8 Meeting as an Indicator:**

The data also suggests that with years there has been decrease in number of meetings of groups envisaged as the norm. In almost 96 percent of the cases we studied, one meeting a month is the accepted norm, though emergency meetings can be called to address issues of critical significance. It has been observed from the records that after third year of group formation, 31 percent of the groups meetings could not happen as scheduled as compared to first year where only 5 percent of cases had deviated from the norm. It has also been observed that in the case of 44 percent of the groups, a decline has set in after first year itself and coincidentally these are the groups who got loan from bank in first year. So, it can be deduced that prime objective of members was to get bank loan only. Hence after getting loan they do not see any value in group. This conclusion is in agreement with our explanation that prime objective of 66 percent of members was to get bank loan and this concept of bank loan was seeded by facilitators of groups to form groups.

A word of caution, however, is required here. A number of attendance registers clearly appeared “cooked up” as many of the entries looked as if they have been made on a single day. Though this could not be proven, such fudging is not unlikely given the fact that often single individuals like the Anganwadi workers (AWW) are left with the record-writing job, which gets invariably delayed as she has many other responsibilities, including formation and nurturing of other groups.

### **5.9 Relation between default & opening of bank accounts:**

Interestingly, in 44 percent of the cases, the SHG records show that bank accounts were opened within a week of group formation; in another 13 percent cases this happened within a fortnight to a month. The time gap goes up to more than a year in 5 percent cases. Overall, bank accounts were opened within a week to a month’s time of group formation in 56 percent of the defaulter groups that we studied.

Table 5.7 indicates that there is no significant difference in account opening with respect to various types of banks. However, the largest proportion of groups linked within a week of formation was found in the case of commercial banks (54 percent), followed by cooperative banks (46 percent) and RRBs (32 percent) in that order.

**Table: 5.7 Bank wise time gap in opening of Bank Account**

(Figures in percentage)

Time-gap	PSBs	Coops	RRBs	All
< week	53.8	46.3	31.9	44.4 (68)
fortnight to a month	25.0	16.7	29.8	23.5 (36)
1- 3 months	3.8	3.7	19.1	8.5 (13)
3<=5 months	0.0	7.4	0.0	2.6 (4)
5<=8 months	7.7	1.9	14.9	7.8 (12)
8<=12 months	7.7	9.3	0.0	5.9 (9)
> 12 months	0.0	11.1	4.3	5.2 (8)
No response	1.9	3.7	0.0	2.0 (3)
<b>Total</b>	<b>100</b> <b>(52)</b>	<b>100</b> <b>(54)</b>	<b>100</b> <b>(47)</b>	<b>100</b> <b>(153)</b>

Note: Figures in brackets are total number of SHGs for the respective categories

Based on the decades of field experiences, and <sup>26</sup>“Aadhar”, it has been observed that there are some prerequisite tasks which should be completed before a SHG opens its savings account in bank viz. - to understand the purpose of group formation, deciding savings amount, process and time of meetings, formation of bye laws by groups, selection of leaders etc. During interaction with good quality groups, we found that this process gets completed before opening of account which takes on an average three months time. But the above tables indicates that account of more than 60 percent groups were opened within a months time, which reflects that the prerequisite tasks were not fulfilled thereby hampering the quality of SHGs and repayment process.

#### **5.10 Default v/s Interloaning:**

Inter-loaning or the periodic circulation of pooled resources of group members as loans among themselves is an important aspect of the effective functioning of SHGs. Such internal lending is necessary to enhance the group solidarity, increase the skills of the SHG to engage in financial transactions, inculcate financial discipline and, above all, contribute towards the building up of a group fund that can be leveraged to access more loans from the formal banking system. In short, inter loaning is a critical means to a SHG’s evolution into strong micro institutions with proper systems and practices.

Interestingly this crucial activity of interloaning) was found in only 46.5 percent of the SHGs (Table 5.8). The proportion of members who have taken such loans was 34.9 percent of all the members about whom information was collected through the survey. It was found that the largest proportion of members with interloaning was in Ajmer i.e. 70.73 percent

<sup>26</sup> A publication on SHG by Centre for microFinance based on the decades of field experience of field partners in Rajasthan.

followed by Alwar with 50 percent members. Jodhpur and Churu turned out to be extreme cases where only about 11 and 14 percent members were found to have availed internal loans.

***Table 5.8: District wise no. of SHGs in interloaning***

District	Total groups	No. of groups that reported inter-loaning	Total membership	No. of members who availed SHG loans
Dungarpur	42	29 (69.05)	648	275 (42.44)
Churu	46	18 (39.13)	474	65 (13.71)
Alwar	38	18 (47.37)	382	191 (50.00)
Ajmer	43	26 (60.47)	369	261 (70.73)
Jodhpur	44	8 (18.18)	464	53 (11.42)
<b>Total</b>	<b>213</b>	<b>99 (46.5)</b>	<b>2337</b>	<b>816 (34.92)</b>

*Note: Figures in bracket indicate the percentage of groups and members involved in interloaning.*

It is worthwhile to mention here that 53.5 percent of sample groups have never practiced interloaning i.e. have not used their own fund for loaning purpose among themselves. It means that these groups have not developed any credit discipline and were directly exposed to bank loan. Lack of interloaning in groups simply indicates that members have not acquired the required financial and credit discipline, a crucial activity that should be undertaken applying for bank loans. In this case there is high risk if external resources like bank credit come to their disposal.

In the case of other set of sample (groups with 100 percent repayment), interloaning was found in all groups.

#### ***5.10.1 Amount in interloaning:***

The table 5.9 present interesting insights about inter loaning amount and also one of the major reasons of default. The total savings of the sample group is Rs. 4,051,721 while the total outstanding of interloaning amount was only Rs. 745,629 i.e. 18.4 percent of total savings.

***Table 5.9: Amount of SHG loans Reported by the Groups***

*(Amount in Rs.)*

District	Total Savings	Outstanding Interloaning amount
Dungarpur	1,028,578	273,207 (26.56)
Churu	500,970	36,808 (7.34)
Alwar	659,994	113,845 (17.24)

Ajmer	979,052	298,769 (30.51)
Jodhpur	883,127	23,000 (2.6)
<b>Total</b>	<b>4,051,721</b>	<b>745,629 (18.4)</b>

*Figures in bracket is the percent of total savings*

Among districts, Jodhpur had the lowest utilization of groups fund (2.6 percent) followed by Churu (7.34 percent). Almost 72 percent of groups fund were lying idle in the bank account. From table 5.9, it can be deduced that:

- Purpose of sample groups is not self help as they are not using their own fund, first medium & way of supporting members;
- Members also shared that they do not use their own fund as there is lack of trust among them and wait for bank loan.

Proper uses of group fund among members inculcate habit of repayment, financial discipline which was missing in the sample group. Against 18 percent 87 percent of group fund was outstanding at the time of survey in the form of loan to members in groups with 100 percent repayment.

#### **5.10.2 Frequency of Inter-loaning:**

As mentioned before, only 46.5 percent of the SHGs in the sample reported inter-loaning among members. Table 5.10 indicates that only 35 percent of members from 99 groups have availed the facility of interloaning. Some of these members have used this benefit up to 8 times in Dungarpur.

***Table 5.10: Inter-loaning among SHG Members***

Number of times group fund has been used by members	Number of members					
	Dungarpur	Churu	Alwar	Ajmer	Jodhpur	All
1 <sup>st</sup> time	275	65	191	261	53	<b>816 (34.9)</b>
2 <sup>nd</sup> time	242	29	155	191	30	<b>647 (27.7)</b>
3 <sup>rd</sup> time	211	16	177	169	0	<b>573 (24.5)</b>
4 <sup>th</sup> time	34	0	19	22	0	<b>75 (3.2)</b>
5 <sup>th</sup> time	21	0	11	17	0	<b>49 (2.1)</b>
6 <sup>th</sup> time	26	0	0	0	0	<b>26 (1.1)</b>
7 <sup>th</sup> time	26	0	0	0	0	<b>26 (1.1)</b>
8 <sup>th</sup> time	26	0	0	0	0	<b>26 (1.1)</b>

<b>SHGS reported interloaning</b>	<b>29</b>	<b>18</b>	<b>18</b>	<b>26</b>	<b>8</b>	<b>99</b>
<b>SHGS with no interloaning</b>	<b>13</b>	<b>28</b>	<b>20</b>	<b>17</b>	<b>36</b>	<b>114</b>
<b>Total SHGs</b>	<b>42</b>	<b>46</b>	<b>38</b>	<b>43</b>	<b>44</b>	<b>213</b>

The above table also point out the only few percentage of members availing the benefit while majority (65 percent) are outside the ambit. This also reflects lack of democratic process and equality among groups.

### ***5.10.3 Glances on inter loaning by virtue of positions:***

Equality, democratic process, equal opportunity of services, ownership etc. are some of the important features of SHGs. Analysis of use of group fund reveals violation of equality and equal opportunity by some dominant members. Out of 816 members who have availed group fund at least once, research team met 231 of them.

***Table 5.11: Inter-loaning among SHG Members***

<b>District</b>	<b>Total members surveyed</b>	<b>Office bearers met</b>	<b>Total Members involved in interloaning</b>	<b>percent share of members &amp; office bearers</b>		<b>Average inter loaning amount (Rs.)</b>	
				<b>Members*</b>	<b>Office Bearers</b>	<b>Members*</b>	<b>Office Bearers</b>
Dungar-Pur	149	74	63	29	34	3130	4163
Churu	139	69	17	10	7	2311	3466
Alwar	116	61	53	23	30	3939	2988
Ajmer	131	68	84	37	47	5299	5387
Jodhpur	156	72	14	6	8	2524	2400
<b>Total</b>	<b>691</b>	<b>344</b>	<b>231</b>	<b>118</b>	<b>113</b>	<b>3440</b>	<b>4280</b>

Table 5.11 shows that from 231 members who have used group fund, 48 percent were office bearers. The average size of sample groups is 12 and on an average three office bearers i.e. 25 percent of group size. But in terms of availing services (interloaning), there share was almost 50 percent (113 members out of 231). The average interloaning amount availed by members was Rs. 3440 while that of office bearers was Rs. 4280 i.e. almost 24 percent more.

### **5.11 Bank Linkage v/s Default:**

The most important part of the study was to determine the status of group with respect to bank loan and repayment. The first step in this direction was to find out scenario of loan disbursement to these groups. With all our strategy i.e. reviewing records of groups, discussion with groups and facilitators of the respective groups, we could find detail of 177 (83percent of sample) groups. The district wise detail is given in table 5.12. As shown in table, the total bank loan disbursed to 177 groups was Rs. 1.45 crores and in terms of bank loan per group it is Rs. 55,147. A third of all the bank loans are disbursed in Jodhpur, which

also reports the highest average loan amount. The share of bank loans is the lowest in Churu and Alwar – 12 and 13 percent respectively.

***Table 5.12: District wise status of bank loan disbursed***

*(Amount in Rs.)*

District	Total bank loan received by SHGs (Rs.)	Bank loan per SHG (Rs.)
Dungarpur	3,279,693 (22.61)	59,631
Churu	1,729,200 (11.92)	38,427
Alwar	1,848,000 (12.74)	39,319
Ajmer	2,917,300 (20.11)	59,537
Jodhpur	4,729,500 (32.61)	70,590
<b>Total</b>	<b>14,503,693</b> <b>(100)</b>	<b>55,147</b>

*Note: Figures in bracket is percentage of total loan*

The detail of loan transactions was not properly maintained in the records. In fact, in 18 percent of groups there was not a single detail about bank loan like when loan was availed, who has taken the amount, what is the status of outstanding etc. It is relevant to mention here that in 34 percent of groups' repayment crisis started due to lack of transactional records as members were of view that they have repaid the amount while the same was not mention in the books and hence due to this confusion other members of same groups have stopped repaying.

#### ***5.11.1 Access of bank loan by individual member:***

Coming to access of bank loans by individual members, it was found that out of 2337 members , 1325 (or 56. 7 percent) have received a share in the bank loan at least once (Table 5.13) . The total number of bank loans availed by individual members is 1949. Churu has the lowest percentage of members with bank loans with only about a third reporting so. Jodhpur has the highest percentage of members with bank loans – 71 percent.

***Table 5.13: Number of Bank Loans Availed by SHG Members***

District	Total membership of groups	Members with share in bank loan	No. of bank loans availed by members	Members with share in inter loaning
Dungarpur	648	376 (58.02)	527	275 (42.44)
Churu	474	162 (34.18)	188	65 (13.71)
Alwar	382	219 (57.33)	355	191 (50.00)
Ajmer	369	238 (64.50)	373	261 (70.73)
Jodhpur	464	330	506	53

		(71.12)		(11.42)
<b>All</b>	<b>2337</b>	<b>1325</b> <b>(56.70)</b>	<b>1949</b>	<b>816</b> <b>(34.92)</b>

*Note: figures in bracket are percentage with respect to total members in each district*

The above table 5.13 reflects the true nature of defaulter group. It can be deduced that the prime objective of group formation was to avail bank loan only. Total members who have availed inter loaning facility is 35 percent while those who have availed bank loan is 57 percent. Distinguishing the “bank loan” and “inter loaning” at members’ level is in itself a defeating concept because it hampers the group theory. The total fund belong to groups which comprises of SHG own fund/savings plus bank loan and hence at members level, it is only loan which she owes to groups. It was observed that members categorize loan as ‘bank loan’ and ‘interloaning’ and argued why they should bother about group solidarity if they have availed ‘bank loan’. Therefore, categorization of bank loan and inter loaning at members level has negatively impacted the concept of group and hence repayment.

#### **5.11.2 Access to bank credits by position in groups:**

Need based distribution of bank loan is very important from repayment points of view. Hence it became necessary to map that who has availed bank loan and in what proportion.

**Table 5.14: Borrowing by Position in Groups**

*(Amount in Rs.)*

District	Total members surveyed	Office bearers met	Total Members availed bank loan	Number of members & office bearers		Average loan amount	
				Member	Office Bearers	Member	Office Bearers
Dungar-Pur	149	74	114	61	53	9589	11337
Churu	139	69	66	29	37	6053	13761
Alwar	116	61	91	47	44	7247	9964
Ajmer	131	68	99	53	46	11194	14428
Jodhpur	156	72	103	51	52	12441	14268
<b>Total</b>	<b>691</b>	<b>344</b>	<b>473</b>	<b>241</b>	<b>232</b>	<b>9305</b>	<b>12751</b>

s

#### **5.12 Loan outstanding status:**

The ratio of loan outstanding to loan availed in the case of interloaning and banks credit (Table 5.15) shows that close to a half of the bank loans as against 23 percent of interloaning amount were outstanding at the time of the survey. The ratio as per the SHG

records was more than 55 percent for Churu, Alwar and Jodhpur. Jodhpur also ranks first in the ratio of SHG loans outstanding to loans availed with 39 percent of its SHG reporting outstanding loans.

***Table 5.15: Ratio of Loan Outstanding to Loan Availed***

*(Figures in percent)*

District	Ratio of loan outstanding to loan availed	
	Bank loan	Inter loaning
Dungarpur	47.44	30.19
Churu	58.04	21.24
Alwar	57.09	15.13
Ajmer	35.22	21.04
Jodhpur	55.01	38.53
<b>Total</b>	<b>49.72</b>	<b>22.52</b>

The above table indicates that close to 50 percent of bank loan is in NPA category. The most remarkable and revealing features which the above table 5.15 reflects that problem of repayment start after certain period of time and not just after the disbursement of loan. This fact is also supplemented in the earlier sections and supported in next section. It also convey a message that at the time of loan to members if member level credit planning is done then default rate could be reduced.

### **5.13 Mapping the defaulter:**

One of the crucial aspects of the study was to know who the defaulters are. Table 5.16 given below provides a glimpse about it. On both the front i.e. SHG bank loan and interloaning, office bearers of groups are more in number as compared to members in terms of defaulter.

***Table 5.16: Defaulter mapping***

District	Bank Loan				Interloaning			
	No. of members availed loan		No. of Member with outstanding		No. of members availed loan		No. of Member with outstanding	
	Office bearers	Members	Office bearers	Members	Office bearers	Members	Office bearers	Members
Dungarpur	53	61	39	41	34	29	16	11
Churu	37	29	26	13	7	10	4	6
Alwar	44	47	37	34	30	23	16	14
Ajmer	46	53	31	31	47	37	21	12
Jodhpur	52	51	47	36	8	6	8	5
<b>Total</b>	<b>232</b>	<b>241</b>	<b>180</b>	<b>155</b>	<b>113</b>	<b>118</b>	<b>65</b>	<b>48</b>

In SHG bank linkages, 78 percent of office bearers have defaulted while 66 percent members other than office bearers are defaulter in this category. On the uses of group fund (interloaning), 57 percent of office bearers & 40 percent members are in default category.

During group discussion, it was observed that if leaders of groups stopped repayment, rarely any members asked her to pay. Instead, other members also stop repaying in groups. In almost, 67 percent of groups, this phenomenon was observed.

#### 5.14 Issue of regularity in repayment:

On an average, the groups we studied started having repayment problems after about one year of availing the loan. In Dungarpur a typical group reportedly defaulted on repayments to the banks after 16 months and in Churu after 9 months of getting the loan disbursed. Interestingly, the views of the members whom we interviewed personally indicate that the tendency to default payments to the group started after about 2-3 years of joining the groups.

The data on regularity of loan repayment by the members clearly suggests how serious the crisis in repayment is with respect to the sample SHGs. More than 80 percent of members whose records we could trace were irregular in their loan installments to the banks (Table 5.17). No information was available for 7 percent of the members.

The situation regarding SHGs can be better appreciated by looking at the percentage of members who were irregular in SHG loan repayment. The problem here is that in 77 percent of the cases there is no updated information available as to the status and pattern of internal loan repayment. Quite alarmingly, in Alwar and Jodhpur the study team could not ascertain any information on the repayment records of individual members of SHGs.

***Table 5.17: Regularity of Repayment of Bank and SHG Loans***

*(Figures in percent)*

District	Status of repayment – Bank loans			Status of repayment – SHG loans		
	Regular*	Irregular	Information Unavailable	Regular*	Irregular	Information Unavailable
Dungarpur	3.9	94.1	2.0	6.1	36.7	57.1
Churu	37.3	60.2	2.4	0.0	30.8	69.2
Alwar	28.2	52.7	14.5	0.0	0.0	100.0
Ajmer	10.9	77.3	11.8	12.5	12.5	75.0
Jodhpur	0.0	92.3	7.7	0.0	0.0	100.0
<b>All</b>	<b>11.5</b>	<b>80.7</b>	<b>7.1</b>	<b>3.4</b>	<b>19.5</b>	<b>77.1</b>

*Note: \*regular here mean that member deposit some percentage of due amount to banks and SHGs*

Above table shows that there is high irregularity in repayment of bank loan as compared to interloaning. The reasons we cull from members for the situation includes;

- 32 percent members with loan outstanding says that bank loan will be waived off in some time, so no need to repay; case of willful default
- 29 members couldn't repay because the assets/investment from loan is not producing anything (milch animal purchased but not giving sufficient milk, no crop due to draught etc); case of genuine default

So, almost 32 percent cases were of willful default while 29 percent of genuine default which happen due to natural calamity and lack of member level credit planning.

#### 5.15 Equation of loan cycle and default:

After evaluating the approximate time of loan default as discussed above it is also very important to find out at which loan cycle most of the groups had repayment problem. In other words, at which loan cycle the bank faces maximum risk of NPA. We have tried to map the loan cycle of defaulter groups which may throw some light on relation between loan cycle and default. The table 5.18 represents district wise number of loan to sample groups.

***Table 5.18: District wise no. of bank loans availed by SHGs***

<b>Details</b>	<b>District →</b>	<b>Dungarpur</b>	<b>Churu</b>	<b>Alwar</b>	<b>Ajmer</b>	<b>Jodhpur</b>	<b>Total</b>
No. of groups in the sample		42	46	38	43	44	213
No. of groups that availed loans at least once		42	46	38	43	44	213
No. of loans							
1 <sup>st</sup> loan		42 (100)	46 (100)	38 (100)	43 (100)	44 (100)	213 (100)
2 <sup>nd</sup> loan		31 (73.08)	21 (45.65)	26 (68.4)	30 (69.76)	33 (75.0)	141 (66.19)
3 <sup>rd</sup> loan		4 (9.52)	0	2 (5.26)	4 (9.3)	7 (15.9)	17 (7.98)
4 <sup>th</sup> loan		2 (4.8)	0	1 (2.6)	1 (2.3)	4 (9)	8 (3.8)
5 <sup>th</sup> loan		1	0	0	0	2	3 (1.4)
Total number of loans availed by groups		76	62	63	72	86	359

*Note: Figures in bracket represents the percentage of total groups in district*

Out of 213 defaulter groups a, 72 groups (33.8percent) defaulted in first loan cycle. Further, 124 groups (58.21percent) have defaulted in second loan cycle. It is important to note here that second loan for SGSY groups is 'activity loan' in which considerable amount is sanctioned by bank. Normally, the average age of group is two-three years when this loan being sanctioned to groups. This fact corroborates with age profiling of sample groups which shows that 44 percent of defaulter groups falls in the age bracket of 3-5 years.

Loan wise defaulter is more clearly represented in table below.

***Table 5.19: Loan wise mapping of defaulter groups***

<b>Loan cycle</b>	<b>No of groups linked</b>	<b>No. of defaulter groups</b>
1 <sup>st</sup> loan	213 (100)	72
2 <sup>nd</sup> loan	141 (66.19)	124
3 <sup>rd</sup> loan	17 (7.98)	9
4 <sup>th</sup> loan	8 (3.8)	5
5 <sup>th</sup> loan	3 (1.4)	3
<b>Total</b>		<b>213</b>

Note: Figures in bracket represent the percentage of total groups

### 5.16 A glance on the scheme wise defaulter:

One of the foremost questions that we seek to answer through this study was to analyze if there is any correlation between various schemes under SHGs are being promoted and default. Primary data collected from sample has helped us to understand the stages at which groups become defaulter. Table 5.20 below presents the scheme wise detail in accordance with loan cycle.

**Table 5.20: Scheme wise mapping of defaulter groups**

Scheme →	SGSY	SBLP NABARD	Donor support	Watershed department	Banks	Others	No. of defaulter groups
1 <sup>st</sup> loan	42 (28.76)	3 (30)	2 (14.28)	1 (25)	3 (100)	21 (56.75)	72 (33.8)
2 <sup>nd</sup> loan	99 (67.8)	4 (40)	4 (28.57)	2 (75)	NA	15 (40.5)	124 (58.2)
3 <sup>rd</sup> loan	5 (3.42)	1 (10)	2 (14.28)	NA	NA	1 (2.7)	9 (4.2)
4 <sup>th</sup> loan	NA	1 (10)	4 (28.57)	NA	NA	1 (2.7)	5 (2.34)
5 <sup>th</sup> loan	NA	1 (10)	2 (14.28)	NA	NA	NA	3 (1.4)
<b>Total SHGs</b>	<b>146</b> <b>(100)</b>	<b>10</b> <b>(100)</b>	<b>14</b> <b>(100)</b>	<b>3</b> <b>(100)</b>	<b>3</b> <b>(100)</b>	<b>37</b> <b>(100)</b>	<b>213</b> <b>(100)</b>

Note: Figures in the bracket is the percentage of column total

NA: not applicable as groups did not reach to that level

We know that second loan in SGSY group is activity based and substantial amount is being given to groups and with appreciable subsidy. From the above table 5.20, 58 percent of groups defaulted during second loan and share of SGSY is 68 percent in that.

It can be deduced that the process and system applied during second loaning is not proper and hence high default. Systems like improper grading of groups by bank branches, providing substantial credit to groups without proper credit planning, lack of assessment of credit absorption capacity of individual members and hence inadequate/over credit to members, minimal approach towards interloaning etc. are some of the major lacunae in the system.

### 5.17 Practice of norm in sample SHGs:

The defaulter groups appeared not to follow most of the basic norms that are prescribed for healthy development of a group. Majority of groups have not evolved any working rules that can effectively help in their governance and performance. Close to 65 percent of the groups do not pass resolution (consent of all members not taken in account) while applying for loans and only 35 percent follow the system of resolution (table 5.21). Although in 72 percent of groups, there was system of written application during the time of loaning to members but less than 26 of the groups could produced any form or document to support the

claim when asked to do so. Only 11 percent have any rule regarding use of group fund. Only one-fourth groups i.e. 25 percent had some set principles regarding use of group fund by members i.e. in what proportion a member can avail credit from group fund. Lacunae were also observed in one of the most important norms of “attendance”. Only 27 percent groups reported that a member can avail credit facility from groups if she fulfills certain criterion of attendance while this parameter was completely absent in 73 percent of the groups. 32 percent of groups said that at time of getting loan from banks, their account is being verified by staff of SHPIs. On interaction with SHPIs staff they said it is how the audit is being done but in real terms it was not an audit at all, however even this system of checking superficial account was missing in 68 percent groups. Surprisingly, 85 percent of the groups reported that it is the office bearers/facilitators that decide who to be given the loan to and only 15 percent groups said that this facility is being democratically decided.

***Table 5. 21: Status of Norm Generation in Groups***

<b>percent of groups that follow lending norms like</b>	<b>percent of groups</b>
Resolution	34.6
Written application	72.6
Norms relating to use of group fund	11.7
Norms relating to group loan/ member	25.0
Norms relating to Bank loan/ member	23.5
Norms linking attendance in meetings and loan eligibility	27.0
System of self grading	9.00
Audit	32.00

120 out of the 213 groups had no response when asked about their strategy to deal with the problem of default. Many of them are lost and confused as there was no direction from the SHPI support structure. Of the rest, one third has not done anything to address the default problem. 8 groups said that they have already received the notice from banks.

## **5.18 Observations from FGDs**

In the previous section we have tried to figure out the quantitative aspects of default groups on various important parameters like process of group formation, saving pattern and behaviors, understanding about group fund and interloaning, attendance frequency, role and effect of promoting agency, association with schemes, process and time gap in bank linkages and other norms.

Some of the crucial aspects of the study cannot be fully explained without taking qualitative features in consideration. In the present sections we have tried to address some of those crucial aspects of SHG functioning with equal emphasis on functionaries of SHPIs and SHG member perspective. The following section summarizes the insights from these.

### ***(i) Target approach of SHG formation:***

It has been demonstrated across country that SHG is an effective institutions for poverty reduction and women empowerment. But it (SHG) can be only effective when it is promoted

with right approach and process. During study it was observed that target of group formation is being allotted to ground functionaries without assessing the need of the area i.e. whether the area has potential to form groups or not. It was surprising to note that in many villages there were 5-6 groups while the adjacent village was not a single one. The reason behind this that the field staff of that villages has been given target by higher officer and a particular villages falls under ambit of that staff while the adjunct one is not. This led to double reporting, breaking of groups to form new and many more malpractices because in any case the staff has to report that groups have been formed. The process described here is more applicable to BPL groups and SHPI related with it and in 70 percent cases ICDS department. Target should be there but based on certain criterion and need and not merely to fulfill the target

***(ii) Quality of SHPI under government sponsored programme:***

SGSY groups are promoted by many NGOs for which they get Rs. 10,000 as promotional cost per groups in four stages. The task of promoting groups under SGSY is being allotted by District Rural Development Agency (DRDA)/Zilla Parishad to some selected NGOs in the district. Since appreciable promotional cost (*Rs. 10,000 per groups*) is involved so many NGOs who do not have the required capacities to promote good quality groups applied to DRDA as facilitators of SGSY groups. In this study there were ten NGOs across five districts and eight of them were involved in promoting SGSY groups. It was matter of concern that none of them have long term vision about SHGs and no qualified staff with them to lead the direction. Staff of these NGOs shared that the objective of SHGs is to generate credit and subsidy from banks for poor people. The limited understanding of SHGs by the staff of NGOs has multiple effects as this understanding pass to SHG members and hence for them SHGs is a medium for generating credit only. This point was very much reflected in section “**purpose of group from members’ perspective**”. Hence the issue of quality which bound to affect the repayment.

It was also observed that these NGOs easily get the nod of the district authorities to promote SGSY groups year after year without reviewing their work or quality check.

***(iii) Knowledge and Training:***

Various research studies have revealed that lack of proper training to SHGs is one of the most important reasons for poor quality of groups across country. Barring few SHGs none have received any specific training. Many of the groups were not even aware about the basic function of a group. Most of the SHPIs were not even aware about the various training a group required during different stages. SHPIs were of view that training is required when SHG is starting some new activities like Dairy, goatry, some enterprises etc. Training on issues like Group concept, role of leaders in groups, exposure on the purpose of groups, parameters of good quality groups etc. do not have much weight age and hence no such training to maximum number of groups. Lack of these training has its implication on quality and possible factor for defaulter.

***(iv) Purpose of SHG formation:***

It was very evident that many of the defaulters SHGs were formed by hanging the carrot of loan and subsidy. Hence once they received the loans, the motivation for the group to sustain and move ahead got lost. Further many groups lost their interest in inter loaning as they feel that the interest on their savings is too low or completely absent in comparison to bank rate of interest. In some of the cases the bank loans were not shared among all the members of the groups which led to difference of opinion finally leading to discord within the groups.

**(v) Leadership:**

In many cases the leaders were nominated by promoters (*largely in the case of ICDS groups*) or field workers. The members did not seem concerned about this aspect at all. In many cases, the members did not know who their leaders are. The main criterion used for the selection of leaders was education and literacy. In most of the groups the educated members are made the leaders and are in charge of the complete maintenance of the records, bank transactions, use of group fund, transactions in meeting etc. In other words, leaders become owner of groups. The leadership in almost all the cases stayed with the same member since the formation of groups. The few cases of change in leadership were mainly due to death of a leader or change in her place of residence.

**(vi) Record of groups:**

Record maintenance in SHGs consists of two critical functions:

- a) **Record writing** is generally done by facilitator of groups (*staff of NGOs/AWAs in case of ICDS*). Rural women cannot do record writing due to high illiteracy levels;
- b) **Record maintenance** which is done by office bearers/members of groups. Record maintenance implies safe keeping of records, ensure that all transactions is recorded etc.

In sample groups, both functions were found to be under-performing. Above sections indicated that record writing was poor while maintenance was worse. In more than 80percent of samples, records were found to be lying with facilitators. It won't be exaggeration to mention here that *facilitator* seems to be owner of records as it is up to them to write or not write the transactions while the elected SHG leaders and members have no idea of the actual transactions. Ignorance on the part of members can also be one of the reasons. Further, the records in many places have not been maintained once the worker stops showing interest. SHG members, interestingly, believe that it is better that facilitator takes control as they are assured of getting a loan sanctioned. There is complete dependence on facilitator which has very serious repercussion. Two instances are described below:

In Jodhpur it was clearly evident that the members of SHG were not at all aware what the record maintenance part and completely dependent on NGO staff, the one who maintained the records and looked into the bank transactions. When we analyzed the pass book of two SHGs, the outstanding amount in one was Rs. 19,628 and in second it was Rs. 28, 453. But as per the members it should be much less than half as what is reflecting in pass book because they have deposited two more installments after this amount and staff of NGO have also told them (*members*) that same has been credited to their account. Passbook was

updated recently. These discrepancies in accounts were not recognized until the time of the survey.

The members of an SHG (*Sonia SHG*) promoted by Anusuchit Yuva Vikas Sansthan (AYVS), Alwar increased their saving amount to Rs 100 a year before we met them. However, the amount in the register still read as Rs 50. Members were unaware of this discrepancy till the team verified their books of account as all the women in the group are completely illiterate.

***(vii) Limited support to SHG after bank loan:***

Opening of a bank account of SHG is first milestone in SHG bank linkages process. In almost all instances banking activities are undertaken by the secretary or/and the president of the group along with facilitators of SHPIs. Rarely members have been taken to bank and hence limited exposure to rest of members.. It was observed that once loan from bank get sanctioned SHG members are left to fend for themselves. This is an important observation in the context of SHGs stating in FGDs that once the loan comes through, the number of meetings reduces and the savings also tends to cease eventually.

Further many of the SHGs are upset that they have not got the subsidy promised. There was a widespread ignorance among members and leaders alike as to how the back-ended subsidy system works. The banks do not seem to spend any time clarifying many of the technical aspects of linkage to the groups.

***(viii) Credit planning at group level:***

Credit is one of the most important services of SHG to its members. In good quality groups, credit planning is done at regular intervals and especially at the time of bank linkage. The process of credit planning involves estimation of credit requirement of members and various ways to fulfill it taking consideration the credit absorption capacity of members, her repayment capacity and proper utilization of same. In less than 20 percent of groups this method of credit planning has been followed. In most of the cases there has been equal distribution of credit which leads to serious implications like:

- a) Members not availing credit as per need and hence borrow from other informal sources like money lender, relatives etc on high rate of interest. Such loans are always paid earlier
- b) There were instances where there was no need for credit but members availed it as other were taking it. (*This is due to lack of proper credit planning*). Since there was no need, hence the amount was used for unproductive activities leading to difficulty in repayment.

***(ix) Process of Accessing bank Loans:***

The process of accessing bank loan presents very interesting insights. It is needless to mention that loan amount is for members to fulfill their needs both consumption and productive. Since the loan is for the use of members, the amount should ideally be in accordance of the need. But this is not the case especially in SGSY group where large amount is involved.

In the case of SGSY loans, it was observed that loan amount is generally decided after bank manager informs that a specific loan amount can be applied for. After this the group decides upon each member's share and just after disbursement, the loan is distributed. In many SHGs (*in Jodhpur, for instance*) it has been noticed that the President and Secretary take the lion's share of the loan and distribute the rest among the members. In one case we found a president who is a member of 3 SHGs uses credit for further lending. It was also observed that in many cases of SGSY groups, loan was sanctioned without actual need of the groups. This is primarily done to fulfill the target of SGSY which is being monitored at district level in District level coordination committee (DLCC). After the sanction, group being asked to complete the formalities. This process catalyze the default rate and it is relevant to mention here that out of 146 SGSY groups in sample 59 groups got loan by this process.

***(x) Role of grading:***

Grading is a process which measures credit worthiness of a group. There are parameters set by NABARD for general SHG bank linkages and by DRDA for SGSY groups. In case of non BPL group, grading is done by branch managers/officer while in case of SGSY groups the process is executed by a committee comprises of branch managers, block development officer of the block in which SHGs falls and concerned SHPIs. The objective of the process is to measure the quality of group and accordingly recommend loan amount. Ideally this is a very suitable mechanism to measures the quality of groups and if this process executed properly, there is high probability to filter out poor quality groups for which no loan should be sanctioned and hence default up to maximum extent can be avoided. Bank branch has a very critical role in this process.

Theoretically speaking all sample groups have undergone the process of grading as shared by respective branch manger and concerned staff of SHPIs. But it all was on paper and no ground checking of groups i.e. visit and see the actual functioning of groups on parameters prescribed in the grading format has been done. Most of branch manger said that branches have insufficient staff and hence to visit each SHGs and see their function is not possible; so we asked the staff of SHPIs to come with all the records and grading is done based on the records which is needless to say that can't give true picture of SHGs. In other cases, even records were not verified and loan sanction to fulfill the target of SGSY groups; shared some branch mangers.

Based on the interactions with branch managers, staff of SHPIs and discussion with SHG members, we may say that lack of grading is one of the most prominent factors which pave the ways to default.

***(xi) Repayment schedule:***

As stated before, many members said that monthly repayment schedule was not convenient for them and they preferred to repay every 2-3 months. But it becomes customary that repayment will be monthly. In many cases we found that repayment do not match with cash flow of members' households. Further investigation revealed that the SHPIs have instructed them (*SHG Members*) to repay monthly. In fact improper repayment schedule is one reason for default in many cases but generally not recognized properly either by SHPIs or banks.

## **Chapter 6: Features of good quality SHGs - A Comparative analysis**

As part of the study, we have analyzed 18 groups which have 100 percent repayment rate and following best practices. Among them 11 are promoted by NGOs (PEDO in Dungarpur, AERDS and IBTADA in Alwar, GSVS in Ajmer and BCT in Churu), 6 by ICDS (4 in Ajmer and one each in Churu and Alwar) and 1 (male group) by the PACS directly. For the purpose of analysis we did not include the male group as it could distort the average picture. 56 percent of members belong to BPL category and the rest to APL. 3 groups had exclusive BPL members whereas one group was comprised exclusively of APL members. The oldest group was formed in December 2000 and the youngest group in October 2008. About 90 percent of the members in these groups reported their primary occupation as agriculture. Animal husbandry formed the secondary occupation for 60 percent of the members. Three case studies from different districts are attached annexure 1.

It is important to note here that these best quality groups are from same districts, same blocks, linked with same bank branches, same community etc. i.e. almost every external factors are the same. Then why these groups are so different? To investigate this, we carefully study the system that these groups have adopted/ followed. There was nothing new in the activity i.e. it was same as we have seen in the defaulter group like savings, interloaning, records maintenance, bank linkages etc. These groups also faced confrontation among members. But difference lies in its approach towards each activity they undertook. Records of all groups were regular and updated. The minute's books showed high attendance rates of members in groups' meetings. 86 percent of the members in the groups have availed internal loans. On an average these groups have availed 3 bank loans. Most importantly, majority of the groups had clear-cut norms relating to saving and lending.

The analysis of the cases has helped us to distill out some of the factors responsible for success of these 18 groups. Following are the process followed by SHPIs and SHGs in forming & nurturing and maintaining of the groups:

### ***6.1.1 Process of group formation:***

The process of group formation in these groups started with area selection. A general meeting is being organized in the area (villages) to explain the concept to every villager and not just to a few households. This ensures the confidence and support of community at larger scale. The process of wealth ranking<sup>27</sup> is followed which involves categorizing the households in the selected area into 3-4 categories based on the relative economic condition. This is done to form groups with members with similar economic condition. This process ensures a force of cohesion amongst the members. Groups with members of similar economic condition ensures that there are less chances of domination by one or two members as seen in the defaulter groups where office bearers and facilitators have more influence. This process of area selection and wealth ranking was followed by 14 of 18 best quality groups while none of the defaulter groups followed this process.

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<sup>27</sup> It is a process which compares the economic position of a family in the village. It is being done by participatory method by villagers itself and facilitated by staff of SHPIs.

### ***6.1.2 Ownership and Participation of groups:***

The Participation – Self Help Groups work on active participation of all members of the group. It works on the principle of inclusion where each member clearly and explicitly not only voices his concern but also contributes to solving the individual and group problems. This is practically seeded in the very beginning of group and needs to be nurtured through proper and regular meetings and documentations.

### ***6.1.3 Proactive and Participatory Leadership:***

In the case of these 18 groups, regular systematic rotation of leaders was observed. These groups change their leaders every 2 to 5 years. This gave everyone a chance to lead the group and take up core responsibilities. The groups promoted by IBTADA have made provisions for emergency meetings for urgent loans between normal schedules. The leadership is more proactive. The members are more active with a higher frequency of internal lending and have a greater awareness of group activities.

### ***6.1.4 Democratic decision making pattern:***

Self Help Groups are invariably required to take decisions based on consensus and democratic values. Qualities like logical confrontation, proper discussions between group members before taking any decision and unity in decision making are need to inculcate. This can be done through formal and informal training and guidance. Discussion with groups revealed that these qualities are part of their system.

### ***6.1.5 Training & capacity building:***

One of the building blocks of good quality groups which were almost neglected in defaulter group was emphasis on capacity building.

Interaction with concerned SHPIs and groups has revealed that proper capacity building of leaders and members is one of the main factors in ensuring quality output, awareness amongst members etc. SHPIs are ready with training calendar i.e. at which stage what trainings needs to be organized for members and facilitators. A gist of various trainings is given below:

***Table 6.1 Training cum exposure programme for SHGs***

<b>Type of training</b>	<b>Participants</b>	<b>Topics covered</b>	<b>Duration</b>	<b>Method</b>
Orientation training	SHG members	On Group concept: Basic concept of SHGs, principals governing SHGs	Two day initially and then on regular basis	Poster display, presentation, role play

	Leaders of SHG	Role of leaders in SHG	One - two day	Poster display, presentation, role play
Exposure visit	SHG members	Concept of service fee, self grading etc.	One day	Filed visit, participating in the meeting
Handholding support	SHG	On every theme that	On regular basis	Participation in group meeting, record writing, sector meeting
Skill building	Facilitators	Nurturing of groups: Methods of conducting meeting, features of ideal group,	Two days	Posters display, Videos, Discussions
	Facilitators	Record writing : proceedings of meeting, ledger, saving register, Trial balance , bank linkages	Two days	Presentation, exercises and Discussion
	SHG Leaders/Members	Maintenance of records, methods to check and verify records	Two days	Poster display, exercises and Discussion
Refresher training	Facilitators	On record writing, group formation and nurturing	One day	Presentation, poster display and exercises

In addition to above mention specific training programme, group meetings have also been used as a platform for handholding support. Each and every meeting of the SHG will act as training platform which helps in attaining sustainability.

#### ***6.1.6 Awareness among Members:***

Interactions with members made it amply evident that they have clear understanding of why they are a part of the SHG. The bank loan is only one aspect of it; internal lending and savings are seen as even bigger drivers by them. Many of the groups have been formed as savings groups and hence the main focus for them is on savings and internal lending. This ensures that they have timely access to immediate credit. These SHGs were trained on the basics of SHG concept.

#### ***6.1.7 Proper Book keeping:***

In those 18 groups, a system of proper support in maintenance of the records by SHPI and other support staff was present. Members were aware of what is going into

the books as they do check them with the help of more educated members of the villages once in a while. As it was mentioned in the previous section that members were also provided training to maintain the records properly and how to check if all transactions has been recorded or not. Although they may not be able to write it but with trainings they can verify as seen during survey. At times they have the federations auditing their accounts. Along with this, following system were also found with these groups:

- **Financial Auditing:** Internal financial audit carried out every year. All the facilitators have been given training on auditing. They are well versed with preparation of financial statements such as Receipts and Payments, Income & Expenditure, Balance sheet, trial balance etc. This helps in identifying misappropriation of funds if any.
- **Reporting Systems:** The monthly reporting of SHGs to SHPIs ensures proper monitoring and corrective measures are taken if required as the qualitative and quantitative facts get highlighted in MIS.

#### **6.1.8 Use of group fund- Inter loaning:**

Records of these 18 groups appraised us with the fact that there was small idle fund (in the range of 15-25percent) lying in the savings account while in case of defaulter groups 72 percent of group fund was idle. Facilitators and group members shared that it is a norm for the group fund to be fully utilized before approaching the bank for more credit, if atal required.

In the case of IBTADA and PEDO groups, we find that the use of loans was clearly segregated into as small and big loan component, i.e. loan product for different use. The small loan component which is part of the internal lending ranges anywhere between Rs 5000 to 10000 and could be used for any purpose. The big loan component that varies from 15000 to 20000 is used for economic activities only. The bank loan would fall into the big loan component. These groups have put the money collected as penalty in a common fund which is used to meet the group expenses with respect to travel to bank, stationary etc.

#### **6.1.9 System of self grading:**

Groups promoted by IBTADA Alwar and PEDO Dungarpur have a system of periodic evaluation. These evaluations are carried out by cluster<sup>28</sup> or federation<sup>29</sup> and it is very effective in highlighting the lacunas in a group if any. After evaluation, recommendations are made to those SHGs and are asked to take remedial measure. The beauty of this system is that the process of evaluation is being done by the community itself.

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<sup>28</sup> Association of 8-10 SHGs is called cluster in Rajasthan

<sup>29</sup> Association of 8-10 cluster (140-150 SHGs) is called federation

#### ***6.1.10 Bank linkages with need based credit:***

We have seen in the previous chapter (exploring the loan default of SHGs) that there is no system at group level to estimate the credit requirement of members and hence when they get bigger loan from banks, proper utilization is an issue.

SHPIs which have promoted quality groups have laid emphasis on setting the system of credit mapping. Further, mapping of credit requirement should not be mere wish list of members but strictly based on the credit absorption capacity followed by other factors like use of credit and other services. The total credit requirement is prepared based on the effective credit needed by members and bank application with required amount (total requirement minus group funds) is prepared and put it in bank.

But before linkages group members have been provided exclusive training on bank linkages, bank norms, lending policies and utilization so that fund management can be properly done at group level.

#### ***6.1.11 Cost Coverage:***

One of the reasons for groups to default is lack of handholding by SHPIs especially by NGOs. During interactions with NGOs, it was revealed that due to limited project fund, handholding could not be continued for long.

An institution is sustainable and viable in long run when it meets its expenditure from earnings. To inculcate the same logic with SHGs, the concept of service fee, membership fee etc. has been introduced by several SHPIs. It was surprising to see that in case of IBTADA and PEDO, entire cost of staff, stationary etc. has been borne by SHG and its federation. Furthermore the contribution of members comes from profit of groups' fund and not from members' savings. The projects get over after 4-5 years but there is continuous support of staff as the entire expenditure met by SHG and its federation. Along with meeting expenses of groups by service fee, this practice inculcates a sense of responsibility and ownership. Members ask facilitators (to whom fee is being provided) the status of groups on various parameters which ultimately leads to better services by facilitators.

#### ***6.1.12 System of repayment:***

SHGs with good repayment record follow sound practices. In good SHGs, there are few instances where repayment is an issue as repayment of the installments are linked to need based activities (consumption & income generation) followed by proper monitoring by other members of groups. Further, it was observed that, the group as a whole made it a point to send bank installments in time even if few members not repaid the scheduled installment. This practice is adopted to maintain healthy relations with banks. The solidarity of the group played a major role here as also the formulations of clear norms that govern group functioning.

### ***6.1.13 Capacity to resolve conflicts, problems:***

All the above mentioned parameters reflect that these 18 groups with 100 percent repayment have never faced any problems. But it is not the case; time and again there were issues like irregular savings, low attendance in meeting, non repayment of due amount etc.

The best part about these groups was the ability of group members and leader to resolve these issues. All these groups have been equipped with conflict resolution mechanism which they acquired as a part of capacity building input. It is worthwhile to mention that at three places i.e. Dungarpur, Ajmer and Alwar, members have developed robust system of repayment. Members shared that if any members does not repay on time, she would be given appropriate time to repay the amount. If even after stipulated time, she failed to do so and that too willingly then all members of groups go and sit at her house for a day or two. Members further explained that this system works as no one in village would like that 10-11 members are sitting and that too women for collection of due, because it spreads a bad word about that family in the community. Hence the defaulter pays the amount eventually. Similarly they deal with other issue also.

## **6.2 Self Help Promotion: The Experience of SHPIs**

Banks and SHPIs play a critical role not only in promoting and nurturing SHGs but also in sustaining the momentum of SHG movement. In this section we attempt to collate and reflect upon the insights that the research team derived by talking to the concern SHPIs and bank representatives at the district, block and village levels.

We observed major differences in the overall approach towards SHG promotion and nurturing amongst various SHPIs. It was noticed that organisations like IBTADA, Alwar and Gramin Evam Samajik Vikas Sansthan (GSVS), Ajmer, who have a larger mandate with respect to being part of the SHG movement and women's empowerment have promoted good quality groups. Organization like IBTADA Alwar, PEDO Dungarpur, GSVS Ajmer and others who have promoted quality groups work with well defined approach towards SHG movement. For example, the research team observed that IBTADA works with its decade-old groups through federations and extend continued support in matters like maintenance of records, capacity building, and mobilizing credit from formal financial institutions, livelihood support, risk mitigation and social security support. Evidently, for these organizations, formation of the groups is not an end in itself which is completely absent in the other promoters of groups (defaulter) which have been studied.

On the other hand, many others (for instance, AYVS, Ajmer, AERDS, Alwar and NYM, Churu) seem to have approached SHG programme in a project mode. As a result they worked with SHGs only as long as the fund lasted. Similar is the case of Upkar Sansthan which stopped interacting with the water users groups it had promoted once the program funding ceased. The financial support to an SHPI for promotion and bank linkage of SHGs varies between Rs. 4500 (SBLP of NABARD) and Rs 10,000 (SGSY by DRDA) per SHG. The DRDA support is released in phases depending on the linkages with banks. Normally, the funding support is meant for 2-3 years wherein credit linkages of the group are to be

undertaken. Lack of funds has been cited by these organizations as the main constraints for not been able to support SHGs that they had formed.

NYM Churu was doing good work in the 6 blocks of Churu district for SHG- Bank Linkage. In all they had formed about 1200 SHGs in Churu alone. They had appointed coordinators for each block who looked into the complete functioning of the program. But once the SHG Bank Linkage funding stopped, they did not have sufficient funds to continue with the activity. Financial constrains forced the organization to stop its work midway. Attempts were made to raise grant from NABARD to support two coordinators who would look after the programme. But their efforts did not succeed. When the study was being undertaken, it was two years since the organization had stopped working in that area.

It was clear from observations that SHGs in a project mode peaked between 2005 and 2008. After 2008, many organisations slowly exited their areas of work. Such abrupt withdrawal by SHPIs caused serious problems for the groups in maintaining relations with banks, in preventing misappropriation, and in sustaining the motivation level of the members.

It must be mentioned that while the financial support works as an incentive for SHG formation, this can also lead to mindless promotion of groups without properly inducting the poor women in to the ethos of collective decision making and action. Further, most of the SHPIs visited by us lacked training in SHGs and microfinance. Their understanding of SHGs is found to be limited to only credit linkage. Hence the knowledge that is transferred to women members is also limited. Many SHPIs do not offer any training to the SHG members and tend to depend on the government and banks for such inputs.

Detail discussions with SHPIs lead us to conclude that following are the major reasons which lead to default:

- Lack of capacity of staff
- Project approach of the organization inspite of long term sustainable approach towards SHG movement
- Extreme delay in bank linkages
- Lack of monitoring by SHPIs
- No system of continuous handholding support
- Absence of concepts like cost coverage and community monitoring

### **6.3 Patronage by Banks: Issues and Challenges**

The study tried to assess the views and opinions of different kinds of banks engaged with SHGs. Officers of Public Sector Commercial Banks, Regional Rural Banks and Cooperatives Banks in the relevant districts were met and in-depth interviews with them revolved around 3 major issues-

- a) Process of sanctioning loans to SHGs
- b) The experience of the banks with respect to default and the reason of default; and
- c) Ways of working with SHGs, specially the ones who were NPAs.

The main concerns that were highlighted in the interviews with the banks were as follows:

### ***6.3.1 SHG Portfolio:***

SHG loans form only a small proportion of the total portfolio at the branch level – amounting to Rs 7 to 10 lakhs per branch on an average. A typical branch has about 40- 50 SHG accounts and in a year, 8-9 SHGs access loans. This miniscule portfolio of SHGs as compared to overall portfolio generally does not generate interest of branch manager, said one manager on the condition of anonymity. However, the banks follow the common rules and procedures laid down by NABARD in lending to SHGs.

Since SHG lending falls within the purview of priority sector lending, commercial banks and RRBs find it generally difficult to decline loan applications, shared by 6 out of 15 managers interviewed. According to them applications are rejected only when the groups fail to furnish the requisite documents and information. However, it is worthwhile to mention that although branches do not reject application in general but keep (applications) pending for long time. During the study we came across many cases where applications of SHGs were pending for 6-12 months and branch manager is not directly rejecting as it may raise several objections. They (branch manager) provide common response to applicant like due to less manpower the application will be processed after some time, it will be sanctioned next month, NREGA payment is going on etc. so groups are asked to visit the bank in the week or so.

### ***6.3.2 Sanctioning of Loans:***

All the banks branches visited did state that they do undertake grading of groups. However, depending on the bank and the SHG loan cycle some differences were observed in the grading process. For instance, in Ajmer district, the Union Bank of India at village Kharwa receives maximum of 2 to 3 loan applications in a year. They also have a better staff strength. Hence the process of grading is not difficult for this branch. On the other hand, the Rajasthan Gramin Bank of Thanagazi in the Alwar district has a small team and receives more applications. Here the process of loan approval varies on a case to case basis. For smaller loans, the due diligence process involves checking of records and meeting members. For bigger loan amounts and SGSY loans they undertake a complete grading process as prescribed by NABARD/DRDA. In Thanagazi again, the Alwar Central Cooperative Bank's manager stated that grading is done only for the BPL groups. It was reported that the bank has stopped sanctioning loans to groups formed by NGOs. Also loans are generally given to those SHG who shows land related document.

The SGSY loan applications need approval of panchyat Samiti and DRDA. Some of the banks try to rework the amount sanctioned while most of them simply process the applications without any change. If the subsidy amount is sanctioned and received from the government, then the loan is approved and disbursed. It is otherwise rejected. Thus, in the case of SGSY loans the average time for processing loans depends on the government releasing the subsidy.

As against this, the time for disbursing loans also depends on completion of documentation as required by the bank. For a cooperative bank it would take about 15- 18 days as the loan committee meets minimum twice a month if not more. But in reality they all accepted that the average time taken is about a more than a month and a half, as the papers are never in place and there is ample delay from all sides.

The loan applications of ICDS promoted groups need approval from the CDPO. The ICDS workers and the CDPO are given targets for formation of groups, bank linkage and the number of loans to be granted. Since the banks do not have such targets, they do not cooperate, shared CDPO and staff of ICDS. They opined that within the target approach, there is a need to coordinate between banks and the ICDS functionaries if the system has to function well. The banks pointed out that that they do get targets and sometime to fulfill that we financed the group without grading and proper evaluation due to insufficient and specialized staff in microfinance who understand SHGs and all.

### ***6.3.3 Reasons for Default: Bankers' Perspectives***

Many of the bank officials cited loan waiver by the central government and lack of proper information communication as the major reason for loan default by SHGs. Announcement of loan waiver schemes feeds into the belief of SHG members that their loan too would be waived eventually. This leads to stopping of repayment.

The bank managers' experience shows that in the case of bank loans, default usually begins with the second cycle in the case of SGSY groups and with third or fourth loan cycle in the case of normal SHG bank linkages, when the loan amount gets bigger. The SGSY borrowers tend to default more than bank linkage borrowers. The system of back ending of subsidy helps them reduce the burden of default of SGSY loans to some extent. Some banks were found to adjust member savings against loan installments, while some use pressure tactics like non-release of AWW's salary, if she has her salary account with the bank. However, when a bank loan is defaulted it directly hits their book of accounts. Hence the pressure of recovery on these loans is higher.

The other important reason according to the bankers is lack of training of SHG members. They stated that often in their experience only some members borrow and default; the rest of the group may not have any idea about the loan. Hence when the bank contacts the group, there may not be much positive response and the loan ends up as an NPA. In order to address this issue some branch managers insist on the presence of all members at the branch for all the processes right from opening of the bank account to loan approval and loan disbursal. One bank manager has even made every woman of the SHG open separate bank accounts; the recovery according to him is better this way.

The branches clearly stated that they do not undertake any specific training for the SHGs at any point in time. Their head offices, NABARD and the local government offices do trainings and they generally pass on the message to the SHGs. Further, not all the bank staff themselves are trained in SHG and microfinance. Of all the officers

we met, only two were partly trained in microfinance and SHG – Bank linkage as part of their routine training. There was no practical training on these.

Faulty group formation is also referred to as a factor that leads to loan default. Women are brought together in an ad hoc manner by holding the carrot of subsidy and loan if they save for 6 months. Getting the loan hence becomes the only goal of SHG, after which a general apathy sets in. There is no clarity among such group members as to how they benefit in the long run by being part of a group.

#### ***6.3.4 Loan Recovery:***

Banks in general face serious problems of recovery of SHG loans. It was observed that the cooperative banks are relatively better equipped to deal with SHGs as they operate at the level of the Gram Seva Sahakari Samiti (GSSS). The system of loan review followed by the cooperatives looks more appropriate from the point of view of monitoring. The loan application is first approved by the PACS manager, which is then passed on to the bank manager who then reviews it at his level. The application is then presented to the loan committee at the district level. The final decision, as to whether a loan is sanctioned or rejected, lies with this committee. The responsibility of recovery lies with the PACS manager. However this system is not exactly followed during the time of implementation.

The commercial banks still face problems. They send notices of default periodically and also offer settlement options after a stipulated period of time. They send periodic letters to the ICDS Department and the CDPO on the default status. The local AWW is also informed. Unfortunately they do not take much action, and many of bankers stated that it is just a formality passing the information on. In places where the AWW is active, responses are found quicker. The bankers have to take recourse occasionally to harsher measures like freezing the personal accounts of AWWs or the leaders of the SHG or threatening to recover the overdue from these accounts.

#### **6.4 Symptoms for precautionary measure to avoid/reduce default:**

Based on the findings of the study, certain features have been identified which if dealt with at the proper time by SHPIs/ banks, default can be avoided or at least reduced. The features are as follows:

##### ***6.4.1 Careful selections of SHPIs for SGSY groups:***

Due diligence should be taken care by district authority whenever any SHPIs is being selected to promote groups under SGSY it should be checked if they can support the groups with adequate staff. This is important as it was found that majority of them do not have skilled staff to promote quality groups.

##### ***6.4.2 Credit planning of groups:***

Proper credit requirement of each member should be mapped at group level before applying for bank loan as this process help to identify the credit absorption capacity of members. Due to lack of credit planning and availability of fund by virtue of bank

loan many times members avail more credit than required which is being used for not so productive purpose and hence couldn't repay.

***6.4.3 Proper capacity building inputs to groups at the time of bigger loan:***

It is very clear from findings that majority of default happened when groups availed bigger loan especially in the case of SGSY groups. So special inputs to the group by SHPIs is required before and after bigger loans are taken so as to ensure proper use of credit by each member.

***6.4.4 Group without interloaning should be avoided with bank loan:***

Based on the findings, we may say that those groups which are not practicing interloaning should not be sanctioned bank loan as those groups have not yet developed financial discipline and trust among themselves to the desired extent. If bank loan is being sanctioned to these types of groups, then there are high probabilities of default.

***6.4.5 Proper grading by bank before loan sanctioned:***

Based on the observation of the study, it won't be an exaggeration to say that in more than three-fourth of sample groups, grading was not done properly by bankers and also by concerned staff of SHPIs. Actual grading would not have recommended these groups to be fit for bank loan and hence default could have been avoided and especially during activity based loan of SGSY groups. It is advisable to bankers that proper and effective grading of groups should be done before sanctioning loan, no matter how small amount may be.

***6.4.6 Decrease in meeting percentages as a symptom:***

Whenever there is decrease in attendance of members in meeting which generally happens in the age bracket of 3-5 years as per study findings, it means that group needs special attention and staff of SHPIs should be more careful and attentive towards groups during this time because this is the period when symptoms of default start in the group.

***6.4.7 Decreasing in saving rate:***

As mentioned in the case of meeting, similar is the case of saving i.e. if there is constant decrease in average savings per members, it means there is something wrong in the groups and this should be attended with special attention.

***6.4.8 Constant monitoring:***

One of proactive measures that could save or minimize default is the proper and constant monitoring by staff and also by members of groups. Leaders should be adequately trained to monitor the activity of the groups. Regular monitoring helps to avoid fraud or misappropriation of fund in groups.

## Chapter 7: Synthesis and Way forward

This study enquired into the nature of SHGs that defaulted repayment of bank loans in the state of Rajasthan and tried to delineate the features of such groups with a view to enhance understanding of the various reasons of default. The study was undertaken in 5 districts in Rajasthan and 213 SHGs with NPA accounts with various banks. The sample was dominated by groups promoted by the Women and Child Development Department under the ICDS. Most of the groups received loan assistance under SGSY.

### 7.1 Synthesis of findings:

The study unraveled many interesting dimensions of these groups and reinforced the significance of focusing on the core principles of SHG formation and promotion as identified by some of the earlier enquiries into SHG quality and performance. The study findings revealed the following as the defining characteristics of the groups that defaulted.

- Ad hoc formation of groups
- Lack of emphasis on group development
- Widespread laxity in writing and absence of basic books of record
- Lack of attention to member savings
- Low incidence of inter-lending
- Appropriation of benefits by the leaders/ office bearers
- Credit to group without estimating credit needs of members
- Lack of effective grading by banks

Brief elaborations of findings are here:

First, the default groups have in general received inadequate attention to the processes of establishing cooperative interaction among the members. Any social group evolved through phases of coming together, learning to work together, developing norms of engagement and finally being able to work together in an interdependent and flexible manner. Most of the groups in the study have not gone through such an evolutionary process.

Second, the study revealed that there is widespread laxity amongst the default groups with respect to maintaining and updating even the critical financial records. This had led to misappropriation of benefits of the scheme by the leaders, who often are the only literate members. Only 10 percent of the SHGs have all the required records updated regularly. One fifth of the groups could not present their minutes books/ attendance registers and, of those could, 70 per have not updated these. Similarly, though 65 percent of all groups surveyed could present their loan and savings ledgers, two thirds of them have not updated the entries.

Third, there is a general lack of understanding of the strengths of SHGs and the ways of working with banks. Saving and inter-lending are considered as two crucial functions of SHGs and are very critical for generating and consolidating cooperative group behavior. However, only half of the SHGs reported any such lending using group fund. Further, 9 percent of these SHGs did not report any saving members. Lacks of basic knowledge about banking and overall financial illiteracy are the other two striking features of the defaulted SHGs.

As far as the external factors are concerned, continuous drought situation, low levels of economic activity and poor income were found as the major triggering factors that accelerated the process of group degeneration and eventual default. About a fifth of the groups cited poor economic status of members as the major reason for them defaulting repayment. Paradoxically, in one of the districts, many BPL groups ended up having multiple bank loans as they were reportedly pressurized to purchase animals as part of SGSY scheme. Most of these groups, obviously, ended as defaulters.

Members were not educated as to how to avail the benefits of subsidy. Many of the government promoted groups are formed by using the carrot of subsidy – interpreted as ‘free money’ - to attract women to join groups. Groups have not been educated on how subsidy reduces the cost of credit. This has led to negative promotion of subsidy support which in turn has prevented the poorer households from taking advantage of schemes like SGSY.

## **7.2 Some possible strategy for vibrant SHG movement in the state:**

In conclusion, this chapter outlines the major opportunities and issues that need to be addressed for scaling up the SHG movement in Rajasthan

### ***7.2.1 Reach out to ‘all poor families’ and ‘not restrict to only BPL’:***

There are large numbers of families which are not in BPL list but are only marginally better off than BPL. A single year of drought is enough to pull them below BPL families’ status<sup>30</sup>.

More importantly, the whole approach of SHG is based on affinity amongst members and on the condition that members of a group have mutual trust and can use peer pressure on each other to ensure repayments etc. Experiences all over reveal that groups with members belonging exclusively to BPL households do not function well. Therefore, focusing only on BPL families, while forming SHGs (as done under SGSY, DPIP and MPOWER projects), may not address the objectives of poverty alleviation or women empowerment effectively. Also it in this process a large number of poor families will be left out. The SHG movement in Rajasthan should reach out to all poor (about 60-70percent households in rural areas) including BPL, small and marginal farmers, etc.

### ***7.2.2 Strengthening SHG movement in Weaker Areas:***

SHG movement has been found to be weak in one third districts of Rajasthan which includes Nagaur, Dholpur, Dausa, Karouli, Barmer, Jodhpur, Pali, Jalaur, Alwar and Rajsamand. This disparity can be tackled with two-prolonged strategies. First, to create a cadre of human resource, including Community Resource Persons (leaders of SHG groups) in stronger districts, in phases and train them to promote Self Help Groups in the weaker districts. Community resource persons (CRPs) are better placed in creating solidarity among group members and can pace up the movement in weaker districts. Second, to put special focus on weaker areas by allocating special

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<sup>30</sup> If international standard of poverty is applied (per capita daily expenditure of Rs. 40 and less) 88percent of population in Rajasthan will fall under BPL.

funds for implementation of community based microFinance and livelihoods projects by collaborating with NABARD, Banks and Voluntary Organizations.

### **7.2.3 Adopting common approaches:**

Currently, in Rajasthan, Self Help Groups are promoted by many Government and Non Government agencies with different objectives like women empowerment, poverty alleviation, delivery of credit etc. The promoting agencies, even if they work in same village, have different vision and objective for SHGs. The expectations from SHGs also differ. This creates operational problems and confusion at the community level. All SHGs, irrespective of their pedigree, should have uniform systems, processes, operations, book-keeping, record-keeping, grading, auditing and quality standards. Such a standardized approach to all SHGs would draw attention and focus on SHG movement rather than on a select set of SHGs falling under a certain scheme.

### **7.2.4 Saving first, credit later:**

The SHG movement started with 'thrift' as its core value and banks came in later with credit, primarily to augment SHGs' corpus. Objective was to meet the growing credit needs of SHG members. But now, primarily under government programs, the SHGs are being formed to meet the targets and to avail bank credit only.

If such a trend continues, the sector and its core value of 'Self help' will not grow. If the core value of 'Self help' does not grow, then solidarity within the groups will not be strengthened, which in turn will lead to disintegration of groups. Self Help Group Bank Linkage Program cannot afford such a trend and therefore, the groups must focus on savings by members first, so that they do not become dependent on bank credit for small needs. Bank credit is only meant to supplement the group savings. SHGs have to provide appropriate savings products to mobilize disposable cash surpluses of members and create a reserve for future

### **7.2.5 Promoting 'area centric' federations of SHGs:**

Self Help Groups on their own are tiny institutions. They can best be effective to provide small social capital, small savings and small credit to members. They alone and individually are not in a position to bring larger change and great impact on lives of poor women unless they federate into next tier institutions and aggregate their demands and surpluses to market, to take benefit of 'economics of scale'.

In the next 3-5 years, efforts should be made to federate the SHGs into village clusters and block level federations. This task is very crucial and would require clearer perspectives, skills, patience and investment necessary for 'institution building'. There are good instances of Federating SHGs in the state and outside. The learnings from this experience should be used in forming new SHG federations.

### **7.2.6 Rajasthan Micro Finance Mission:**

State Government may consider setting up a body for SHGs in Rajasthan with equitable mix of government functionaries, SHPIs and SHG community leaders in form of 'Rajasthan Micro Finance Mission or Rajasthan SHG mission'. The body would prepare a vision and a 5-year action plan to scale-up the SHG movement in the state. All SHGs, irrespective of their pedigree, may fall under the purview of this body. Under this body, a cadre of quality auditors can be developed (at district level) which will help communities and bankers for an independent assessment. This cadre may be given the task of regular grading of the SHGs and providing necessary inputs to SHGs on regular basis.

### **7.2.7 Increasing Bank Credit through Self Help Groups:**

Compared to the vast demand and potential of micro credit, annual credit through SHGs from banks in Rajasthan (about Rs. 200 crores) is very low. The number of SHG credit linked every year is also about 10 percent. The repayment of SHGs to banks is more than 95 percent on time. It is also observed that the SHG members start losing interest in group meetings etc. if timely credit is not received from banks.

SHGs have the potential and capacities to bridge the gap between Banks and the poor. Therefore, banks should increase their credit through SHGs. This can be done by orientation and sensitization of branch staff, simplifying the procedure of opening bank accounts and credit sanction to SHGs, not impounding of SHG savings (while giving them loan), timely processing loan application of SHGs, encouraging repeat credit linkages, adopting a common system of grading, appreciation of the quality of SHGs by providing incentives to good groups on priority etc.

### **7.2.8 Credit Fund for SHGs:**

Annual credit from banks to SHGs in Rajasthan is stagnant. It varies between the ranges of Rs. 160 crores to Rs. 220 crores. Only about 60 percent of SHGs have been able to take credit from banks in last 10 years. Whereas the annual credit in states like Andhra Pradesh is to the tune of Rs. 5000 crores. Banks, State Government and leaders of SHG movement should explore possibility of setting up an 'exclusive SHG credit fund' and 'special purpose vehicle' (SPV) to deliver credit to SHGs in state.

### **7.2.9 Investment by Government and Banks:**

Considering the good impact that SHGs are having on households, both in terms of women empowerment and economic development, there is need to make necessary investment in institutional building. Currently most of the SHGs are formed by state government employees, where targets they have to meet targets. The due process involved in SHG formation is not followed. It has been seen that a good quality SHG needs about 3 years of hand holding and a capital expenditure of Rs. 8000/-. Further, quality improvement of existing SHGs will require Rs. 5000 per SHG. This

translates to a total investment of Rs. 250 crores<sup>31</sup> to improve the quality of existing SHGs and create good quality SHGs. This investment may be viewed as a part of developing financial infrastructure. Government and Banks should come forward and invest in building potential base of its future clients.

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<sup>31</sup> Quality improvement of existing SHGs (about 1 lakh SHGs are lacking quality) needs an investment of Rs. 50 crores (Rs. 5000/- per SHG). In terms of increasing outreach by about 50,000 new SHGs per year for the next 5 years, an investment of Rs 8000 per SHG is required which aggregates to a total of Rs 200 crore. This translates to total investment of Rs. 250 crores.

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## **Annexure 1: Case study**

### ***Case Study 1***

#### **Khushi SHG, Madanpuri Village, District Alwar**

##### **Background:**

The SHG was formed about 10 years ago by IBTADA. Initially they began with saving Rs. 10 per week, which was raised to Rs 20 once every 15 days. Since the last couple of years (via resolution on 17/8/08) every member has been saving Rs. 50 per month. Average personal savings currently is Rs. 4630. This SHG is a part of a SHG federation named “Sangarsh Mahila Sabha” for financial and non financial support.

##### **Group Governance and Dynamics**

Every three years the SHG office bearers get changed. In this way every member of the group gets a chance to hold positions of responsibility at some point of time. The group as a whole selects the leaders and they decide unanimously who should be the next three leaders. They pay Rs. 250 per month to the *Munshi* who is provided by the federation for maintaining of the records. The same is followed by all the SHGs formed by IBTADA. While selecting the group members, it is ensured that all are on the same level of understanding and then the group is formed. Adopting the above mentioned process, they have not had any major conflicts. If any minor dispute arises due to lack of understanding, it is sorted by the entire group.

##### **Knowledge and Awareness of the Members**

SHG as opined by members has been formed for saving and for easy availability of credit. At present, members avail easy credit from SHG & banks and do not depend on informal sources as was the case earlier. Some of them have taken loans for purposes like house building and setting up business and have been able to successfully repay their loans. They have all started some sort of livelihood activity or complemented and expanded their previous activities. Thus the income source of households has diversified, assuring further availability of loans.

##### **Bank Linkage**

The groups have received till now 3 loans from the bank and the present loan is under underway. The current loan is Rs 2.5 lakhs, of which Rs 1 lakh is subsidy. The amount of loan to be sought from banks is discussed first at group level unlike in the case of defaulter groups where facilitators/bank manager decide the loan to be given to SHG after which application is prepared by groups. This whole process is being guided by Assistant Manager of the Federation and the *Munshi*/ accountant.

The amount needed by each member is also put forth and accordingly when the loan is sanctioned the amount is redistributed amongst the women as per the need and plan. It is ensured that the bigger amount from bank should be used for some economic activities only. For consumption purpose, they use group fund in the form of internal loaning. There are two types of loans- a small loan component which is normally upto Rs 10,000 per member and a big loan component (that includes the bank loans), which is upto Rs 20,000 per member.

The money left after the internal loans are kept in an iron box, whose keys are with another leader. The amount that lies in the box would be maximum Rs. 2000-3000.

### **Group Norms**

The group follows the system of penalty in case of late repayment and not attending the meeting. Amount of fine is Rs 2 for every Rs 100 for late repayment and Rs 5 for not attending the meetings. Members can delay loan repayment only by one installment and that too with the permission of groups. With respect to bank loan there is no option of non-repayment and members have to repay their monthly installment. They do aid members who find it hard to repay their installments informally. In case some member needs money for some emergency, she can call an emergency meeting.

Loan installment is decided by the members and approved by the group as a whole. But generally the minimum amount is fixed at Rs. 100 for small loans and Rs. 300 for big loans. The normal repayment cycle is 10 to 18 months. In case of an emergency, one can apply for the second loan before re-paying the previous one.

## *Case Study 2*

### **Garib Nawaz SHG, Satana Village, District Ajmer**

#### **Background**

The SHG was formed approximately 8 years ago by the ICDS department under the dynamic Prachyeta Ms. Krishna. Initially group begun with saving Rs. 50 monthly, which has been increased to Rs. 100 a month now for the last two years.

#### **Group Dynamics and Governance**

The group as a whole decides and selects leadership. There is system of election every two years to elect the leaders. However the same leaders are still the office bearers as they are getting re-elected due to their proactive role. Leaders understand their roles & responsibility. It was also found whenever any important decision is to be taken, it will be done so in the presence of at least 70 percent members. Leaders alone can take any decision.

#### **Emphasis on savings & Interloaning**

This group believes in the philosophy of saving more which translates to more interest generation; hence unlike the other groups in the same locality they have never redistributed the savings or interest within their group.

#### **Record Maintenance:**

The record of this group was updated. Every member are aware about the financial transactions i.e. how much their savings is, outstanding from banks. Surprisingly, this group prepares trial balance every month which is a rare phenomenon in ICDS promoted groups. Every member was having personal pass book.

#### **Bank Linkage**

They have received till now two loans from the bank and the present loan cycle is near complete wherein the current loan is of Rs 1 lakhs. As in other best groups, how much amount is required from banks is discussed first at group level and then applied in bank.

#### **Group Norms**

The group follows the system of penalty - Rs 10 as penalty for late payments and Rs 10 again for not attending the meeting. Bank installments of the loan cannot be delayed and they have to be paid with the interest due. They can delay internal loan repayment only by one installment, while regular interest payment is insisted upon.

### *Case Study 3*

#### **Lohaniwal Swayam Sewa Samooh, Dokva village, District Churu**

This is an all male group promoted by Bhamasi Gram Seva Sahakari Samiti, under the Churu Central Cooperative Bank Limited in village Dokva in Churu district. The Samiti that caters to six villages has promoted 13 groups.

The name of group is *Lohaniwal* formed in December 2000 with 18 members. All the members belong to the backward *Prajapati* caste. All except three are literates. 16 out of the 18 members are engaged in small production units. The activities include manufacturing of iron sheet products like barrels, tailoring, truck engine repair and servicing, floor mill, selling clay utensils, embroidery work, tea stall and bangle and cosmetics shop. Farming, driving and building contract are the other occupations reported.

The group is found to meticulously maintain all the records and updating them. One of the members is in charge of writing the accounts. This person has been trained thoroughly by the field officer of the Sahakari Samiti. At the time of the study, the deposit with the bank was Rs. 208,800. Each member had a savings of Rs. 11,600.

The group has an ongoing loan of about Rs. 8 lakhs with the CCB Churu. The loan carries an interest rate of 10.5 percent, whereas the SHG charges the members 24 percent. The group has clear cut lending norms.

This group, though different from most of women SHGs in terms of economic activity profile and credit absorption capacity but has clearly demonstrated that affinity groups if nurtured with care and prudence can evolve into credible sustainable micro institutions.

*Annexure 2*

Schedule No. \_\_\_\_\_

**STUDY ON LOAN DEFAULT BY SHGS**

**SHG SCHEDULE**

**(To be filled in by verifying SHG records and in consultation with a representative of the promoting agency and/or group representative (key informant).)**

Date:	Start Time:	End Time:
Name of the Facilitator:		

**1. Background Information on the SHG:**

1.1 District:	1.2 Block:	1.3 Village:
1.4 Name of the SHG :		
1.5 Date of SHG formation: ----/----/--- --	1.6 Date of account opening: ----/----/-----	
1.7 Bank & Branch Name:		
1.8 Total members:	1.9 No. of BPL Members:	
1.10 No. of members belonging to: SC ____ ST ____ OBC ____ Physically challenged ____ Others ____		
1.11 Name of the SHG promoter:		
1.12 Type of SHG promoter: (see the code list below)	1.13 Scheme under which SHG promoted: (see the code list below)	
1.14 Current status of SHG: 1. Active <input type="checkbox"/> 2. Dormant <input type="checkbox"/> 3. Disbanded <input type="checkbox"/>		

*Code: 1.12 [1- NGO; 2- ICDS; 3- Panchyat; 4- Watershed dept.; 5- Banks]*

*Code- 1.13 [1- SBLP NABARD; 2 – SGSY; 3 – Watershed dept.; 4 - Donor support; 5 – IRV; 6 - Others]*

*Code 1.14 [Active – if meeting happens although may not be regular; Dormant – If there is no meeting for the last three months; 3- If there is no meeting for the last six months]*

**1.14 Educational status of members (present in meeting):**

Status	No. of members
Illiterate	
Literate	
Studied up to 5 <sup>th</sup> class	
Studied up to 8 <sup>th</sup> class	
Matriculate	
10+2	
Technically qualified	
Graduate above	
Total	

**1.15 Occupational profile of household (Primary occupation):**

Activity	No. of members
Agriculture	
Animal husbandry	
Non-agriculture daily wage labor	
Collection of forest produce	
Household enterprise	
Other enterprise	
Skilled labor (carpentry, masonry, blacksmithy etc)	
Unskilled manual labor	
Salaried employee	
Total	

**1.16 Books of record maintained by the group:**

Type of book	Maintained or not (Yes =1/ No=2)	Updated regularly or not (Yes =1/ No=2)
Minutes Book & Attendance register		
Cash Book		
Ledger ( <i>savings &amp; loan</i> )		
Members Passbook		

**2. Institutional & Financial Information of SHGs:****2.1 Frequency of group meetings: \_\_\_\_\_**

*Code (1 – weekly, 2 – fortnightly, 3 – Monthly, 4 – no fixed frequency)*

## 2.2 SHG meeting & Attendance:

Year	No. of scheduled meeting	No. of meetings held	Attendance percent (average during the year)	Special remarks*
2010 (Jan-June)				
2009 (Jan – Dec)				
2008 (Jan – Dec)				
2007 (Jan – Dec)				
2006 (Jan – Dec)				
2005 (Jan – Dec)				
2004 (Jan – Dec)				
2003 (Jan – Dec)				
2002 (Jan – Dec)				
2001 (Jan – Dec)				

*\*special remarks like 1 or 2 members are continuously absent etc.*

## 2.3 Savings within the group:

Year	savings per month per members	Total savings amount	No. of saving*
2010 (Jan-June)			
2009 (Jan –Dec)			
2008 (Jan –Dec)			

2007 (Jan –Dec)			
2006 (Jan –Dec)			
2005 (Jan –Dec)			
2004 (Jan –Dec)			
2003 (Jan –Dec)			
2002 (Jan –Dec)			
2001 (Jan –Dec)			

*\* if there are 10 members and all of them saved in a month, no. of saving will be 10*

#### **2.4 Interloaning:**

Year	No. of members who have taken loans	Total no. of loans given	Total amount of loan given to members	Rate of interest	Amount outstanding
2010 (Jan-June)					
2009 (Jan –Dec)					
2008 (Jan –Dec)					
2007 (Jan –Dec)					
2006 (Jan –Dec)					
2005 (Jan –Dec)					
2004 (Jan –Dec)					
2003 (Jan –Dec)					
2002 (Jan –Dec)					
2001 (Jan –Dec)					

*Note: Take data if available with SHGs beyond 2006 also.*

## 2.5 Linkage with Banks-Bank loan details:

Loan	Type of loan *	Month & Year of application	Month & year of sanction	Month & year of disbursal	Amount of loan applied for	Sanctioned amount	Disbursed amount	Rate of interest	Amount outstanding	
1										
2										
3										
4										
5										

\*1- term loan; 2- cash credit limit

### 2.5.1 Since how long has the SHG loan been outstanding

### 2.6 Has grading/rating done by bank at the time of loan sanctioning?

a.  Y

b.  N

## 3. Financial activities of individual members

No	Name of member	Position in group*	Age	Total savings	No. of loans taken		Total amount of loan taken (Rs.)		Amount outstanding (Rs.)
					SHG	BANK	SHG	BANK	
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									

\*1- President; 2- Secretary; 3- Treasurer; 4- Members

**Ongoing loans – details and regularity of payment**

**ADDITIONAL QUESTION WHERE IS THE DEFAULT AND AMOUNT**

**4. Details of grants/subsidy received by the group**

Frequency	Source	Amount	Month & Year	Utilization
1				
2				
3				
4				
5				

**5. Details of training and exposure:**

Type of training/exposure	For whom ( <i>members/leaders</i> )	Number of member participated	Who conducted the training/exposure

**6. System of loan sanctioning to members from groups**

6.1 Is there a system of written application by members?

 Y N

6.2 Do group have credit policy in terms of use of group fund, amount of loan sanction to a member, bank loan, any other?

 Y N

6.3 Does the group pass resolution in the meeting when loans are sanctioned?

 Y N

6.4 Is there any specification regarding attendance in the group meetings where loans are sanctioned?

 Y N

6.5 Amount of loan to members is decided by:

- a. SHG                      b. Office bearers only              c. Member who is taking loan              d. Fixed  
Fixed  
(Mem. present in meeting)

6.6 What are the terms and conditions with respect to repayment from member to group;

6.5.1 Duration of repayment is decided by:

- a. SHG                      b. Office bearers'              c. Member who has taken loan              d. Fixed  
duration

6.5.2 Is there any system of penalty in SHG?

- a. Yes \_\_\_\_\_              b. No \_\_\_\_\_

6.5.3 Amount of penalty?

- a. Fixed amount              b. Depend on the amount of loan

6.5.4 No of delayed repayments allowed?

6.7 How are the funds generated through interest, penalty and other sources used by the SHG?

- (1) added to group capital
- (2) Used for group activities
- (3) Shared among members
- (4) Other

6.8 Has the SHG accounts been audited?

- a. Yes \_\_\_\_\_ b. No \_\_\_\_\_

6.8.1 If yes, by whom?

*Annexure 3*

**STUDY ON LOAN DEFAULT BY SHGS**

**MEMBER SCHEDULE**

[To be filled in by personally meeting and interviewing SHG members in the sample]

Date:	Start Time:	End Time:
Name of the Facilitator:		

**1. 1. Personal profile of SHG member**

1.1 District:	1.2 Block:	1.3 Village:
1.4 Name of the member:		
1.5 Name of SHG:		
1.6 Social group: <i>(Code: 1-General; 2 – OBC; 3 – SC; 4 – ST; 5 – Muslim)</i>	1.7 Educational status: <i>(Code: 1- Illiterate; 2 – literate; 3- studied up to class 5; 4- studied up to class 8; 5 – matriculate; 6 – plus 2; 7 – technically qualified; 8 – graduate; 9 – other)</i>	

1.8 Number of family members? Total \_\_\_\_\_ Adult \_\_\_\_\_ Children \_\_\_\_\_

1.9 Poverty status of the family: BPL \_\_\_\_\_ APL \_\_\_\_\_

1.10 Main source of household income:

1.11 Main source of members' income, if any:

**Code for 1.10 & 1.11** (*Agriculture- 1; Animal husbandry - 2; Agriculture labor - 3; Non-agriculture daily wage Labor (local)- 4; migrant – 5; shopkeepers – 6; itinerant trade – 7; salaried employment – 8 Housewife -9; unemployed-10; others -11)*

## 2. Your financial activity in the group

### 2.1 Loans from SHGs:

Loans from SHG ( <i>Month &amp; Year</i> )	Amount	Purpose	Rate of interest	Outstanding amount	Duration of repayment	Repayment stopped since when
Loans from Banks						

#### 2.1.1 What is the repayment mode of loans taken from the group?

1. Repaid in regular monthly instalments
2. Repaid in regular fixed monthly instalments
3. Irregular repayments, but within a time frame
4. Bullet repayment of principal with monthly interest repayment

#### 2.1.2 What is the source of funds for repayment?

1. Income from own economic activity
2. Income from spouse's/ children's economic activity
3. Use income of both i.e. own and spouses/ children's
3. Other

#### 2.1.3 How often you had to borrow to make repayments?

1. Never
2. Rarely
3. Occasionally
4. Frequently

## 3. Details of Current Savings:

	Current savings	
	1	2
	Amount	Periodicity
1. Deposits with self-help groups		
2. Postal deposits		
3. Deposits with commercial banks/ cooperatives		
4. Company		
5. Deposits in chit funds		
6. Informal deposits/ Cash Stashed away		
7. Other Temporary assets in the nature of investment (specify)		

4. Overall debt portfolio of the household (*other than SHG*):

	Source	Purpose	Amount	Rate of interest	When taken	Outstanding
1						
2						
3						
4						
5						
6						
7						
8						

5. Whether you have received any training/ orientation/ exposure related to SHG activities?  
 Yes \_\_\_\_\_ No \_\_\_\_\_

3.1 If yes, give details.

Type/ Topic	Number of days	Usefulness

4. Have you received any subsidy through the SHG? Yes \_\_\_\_\_ No \_\_\_\_\_

4.1 If yes,

When:

How much:

5. Were you able to create any asset with the help of SHGs? If yes, give details.

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**6. Default/Overdue detail:**

6.1 What are the reasons for non repayment to SHGs?

6.2 After how many months of taking loan did repayment stopped?

6.3 Are you/your family repaying the loan from other sources?

7. Does the SHG have any system to deal with defaulters? If it has how does it function?

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8. In your experience, how useful are SHGs to their members? Describe

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*Annexure 4*

**STUDY ON LOAN DEFAULT BY SHGS  
FGD WITH SHGs: DISCUSSION GUIDE**

<b>Date:</b>	<b>Time (started):</b>	<b>Time ended:</b>
<b>Name of the SHG :</b>		

<b>Block :</b>	<b>Panchyat:</b>	<b>Village:</b>
<b>Participants Summary (Total no of women):</b>		
<b>Name of the Facilitator:</b>		

### **I. Group governance and dynamics:**

1.1 How leaders are chosen?

1.2 Is there provision of rotating leadership?

1.3 Who writes the book of accounts?

1.4 How do you resolve disagreements/conflict among members?

1.5 How decisions are taken in group?

### **II. Knowledge and awareness of members**

2.1 What is the purpose of the SHG?

2.2 What did you gain from the SHG?

2.3 This SHG belongs to/whose ownership prevails?

### **III. Bank linkage:**

3.1 What are the process/steps for credit linkages that group has followed?

3.2 Who goes to bank?

3.3 What are the processes of distributing bank loan among members?

3.4 Who decided that group should approach bank for credit?

**IV. Repayment crisis:**

4.1 For what purpose does credit was taken from bank? (*Only about outstanding/default loan*)

4.2 How many members have used that credit?

4.3 How many members are not repaying regularly and what are the reasons for that?

4.4 Why did group stop repayment to bank?

4.5 After how many months from loan disbursement, repayment get stop?

4.6 What steps have been taken so far to address the crisis?

4.7 Is there any system to address the repayment issue in the group? If yes, what is it?

*Annexure 5*

Questionnaire No. \_\_\_\_\_

**STUDY ON LOAN DEFAULT BY SHGS**

**QUESTIONNAIRE FOR SHPIs**

Date:	Start Time:	End Time:
Name of the Facilitator:		

1. General Information:

1.1 District:	1.2 Block:	1.3 Village:
1.4 Name of the SHG promoter:		
1.5 Established since:	1.6 Total no. of SHGs formed:	
1.7 Current status of SHG: 1. Active <input type="checkbox"/> 2. Dormant <input type="checkbox"/> 3. Disbanded <input type="checkbox"/>		
1.8 Total members:	1.9 No. of BPL Members:	
1.10 Number of SHGs with: 1. Overdues _____ 2. NPA _____		
1.11 No. of members belonging to: SC _____ ST _____ OBC _____ Others _____ Physically challenged _____		

2. Do you have any formal system of monitoring to track lending and repayment of SHG members?
  - 2.1 If yes, please elaborate.
  - 2.2 If no, what are the reasons of not using them?
3. What is the system of ensuring quality of groups?
4. Do you provide any capacity building to the groups? Yes \_\_\_\_\_ No \_\_\_\_\_
  - 4.1 If yes, please describe it.
  - 4.2 If no, what are the reasons?

5. Could you elaborate on the specific circumstances that led to SHGs default repayments?

*Annexure 6*

Questionnaire No. \_\_\_\_\_

**STUDY ON LOAN DEFAULT BY SHGS  
QUESTIONNAIRE FOR BANK OFFICIALS**

Date:	Start Time:	End Time:
Name of the Facilitator:		

**1. General Information**

1.1 District:	1.2 Block:
1.3 Name of the Bank:	1.4 Branch:

2. What are the systems of defining Overdue & NPA in your bank?  
Overdue:  
NPA:
3. What are the steps in sanctioning loan to a group?
4. Are every group undergo grading/rating before sanctioning loan?
5. What are the processes for grading/rating of group?
6. What is the average time taken by branches in sanctioning loan?
7. What according to you are the major reasons for SHG overdue/NPA?
8. Has the bank done any internal analysis of default among SHGs? If yes, what are the findings?
8. What steps are being taken to recover the overdue/NPA?
10. Have you undergone any training on SHG/Microfinance?
11. What has been the role of the NGO-SHPIs in promoting and sustaining SHGs?
12. General comments.