

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

Supported by



**Bankers Institute of Rural Development,
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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

SHGs have become proven and time-tested vehicles for promoting savings and credit among poor women. 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 repayment rate is more than 95%. But for the last few years, the repayments from SHGs are slowly coming down. As per Status of Microfinance in India, 2008-09, NABARD, 8.6% of the total loan outstanding under SHG was classified as NPA in the state as on March 31, 2009. The aggregate data suggests that RRBs and cooperatives have huge NPAs under general and SGSY categories respectively. Almost a third of SHG loans of RRBs and close to 50% of SGSY loans of cooperatives turned NPAs by March 2009. One of the major reasons cited by bankers for their hesitation in lending to SHGs is the increasing default among SHGs. In this backdrop, Centre for microFinance, Jaipur has designed a study to assess the reasons for default from various angles and BIRD has been supporting this study. In this study, we aim to address this issue (*loan default*) through an extensive qualitative and quantitative research in areas of Rajasthan. The objective of the study is to understand the reasons underlying this phenomenon and develop an early warning system so that timely action can be taken to avoid defaults. Study of the existing best practices in repayment and disseminate the same is also one of the features of the study.

The study used a stratified sampling methodology, the strata being district, block, SHG and member. Five districts were selected to represent different geographical areas; Alwar (*in east*), Jodhpur (*in west*), Churu (*in north*) Dungarpur (*in south*) and Ajmer (*in central*) regions of the state. Within each district one block is selected (*except Alwar, where two blocks were taken for study*) where there is relatively higher presence of SHGs with default accounts. The basis of 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 SHG and 691 SHG members spread across five districts. The Self Help Promoting Institutions (*SHPIs*) that were present in the study sample include DWCD department, NGOs, Watershed department, 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 have been part of this study.

The study highlights several reasons for default. The process of default starts from the formation stage itself as the accepted norms like area selection, wealth ranking, members with same socio economic condition etc. had not been followed by any of the 13 SHPIs except PEDO in Dungarpur. The SHG movement in the country started with savings lead model with objectives that community will come together, do savings and fulfill their immediate need. 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 some other directions as 66 percent of members shared that the prime objective to form SHGs was to get credit, 13 percent said that subsidy was the main reasons while only 9 percent members become part of the group for savings as main objective.

The female literacy rate in Rajasthan is low. Profiling of sample group reflects that literacy rate of the SHG member was 16 percent. Due to low literacy rate, capacity building of SHGs members and leaders form an important part to make members aware and understand the SHG in holistic way. However, data from sample was quite revealing as only 16 percent of leaders and 13 percent members have undergone any training on group concept.

The progressive erosion in quality is visible in irregular records not 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 while updated record was available with 34 percent and 32 percent respectively.

Interestingly the crucial activity i.e. Interloaning was found only in 46.5 per cent of the SHGs surveyed. The proportion of members who have taken such loans came to 34.9 per cent 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 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 oneself. 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 concerned schemes with system of financing have stake in making a group defaulter.