

# **FINANCIAL FUNCTIONING OF SELF HELP GROUPS**

*Dissertation submitted in partial fulfilment of the requirements  
for the degree of Master of Philosophy in Applied Economics  
of the Jawaharlal Nehru University, New Delhi.*

**V. BALAJI NAGENDRA KUMAR**

**CENTRE FOR DEVELOPMENT STUDIES**

**Thiruvananthapuram**


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I hereby affirm that the work for the dissertation titled "*Financial Functioning of Self Help Groups*" being submitted as part of the requirements of the M.Phil Programme in Applied Economics of the Jawaharlal Nehru University, was carried out entirely by myself and has not formed part of any other Programme and not submitted to any other Institution/University for the award of any other Degree or Programme of Study.

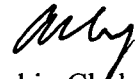
V. Balaji Nagendra Kumar

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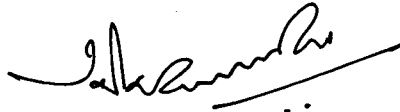
D. Narayana

Fellow



Achin Chakraborty

Associate Fellow



K.P. Kannan

Director

Centre for Development Studies

Thiruvananthapuram

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*V. Balaji Nagendra Kumar*

*Dedicated to*

*The lotus feet of Bhagavan Sathyasai Baba*

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## INDEX OF KEY WORDS

RRB : Regional Rural Bank

PACCS: Primary Agricultural Co-operative Credit Society

NABARD : National Bank for Agriculture and Rural Development

NGO : Non-governmental Organization

SHPI : Self Help Promoting Institution.

DRDA : District Rural Development Agency

DWACRA : Development of Women and Children in Rural Areas

DWACUA : Development of Women and Children in Urban Areas.

DOWMA : District Minority Women's Association

SAARDS : Social Action for the Advancement of Rural Development Society

BPL: Below Poverty Line

RF: Revolving Fund

SHG: Self Help Group

MACTS : Mutually Aided Co-operative Trust Societies

RSS : Rayalaseema Sewa Samithi

BANCOSOL : Banco Solidario

SEF : Small Enterprise Foundation

SEDP : Small Enterprise Development Project

BRI : Bank Rakyat Indonesia

BKDS : Bank Rakyat Indonesia's Unit Desa

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Abstract  
Financial Functioning of Self Help Groups  
V. Balaji Nagendra Kumar

The thesis titled *The Financial Functioning of Self Help Groups* starts with a review of the literature on the economics of group lending. Group lending here is viewed as a response to the high transaction costs resulting from the high default rate in the era of directed credit. Then I review the literature on the modalities of group functioning and the empirical realities of the financial operations of self help groups in terms of the amount of thrift, amount and the number of loans, interest rate determination and the determinants of loan repayment. Joint liability and responsibility among the members is the bedrock of the system effectively doing away with the submission of physical collateral. Homogeneity of group membership is strongly recommended and practiced in order to overcome conflicting interests. The focus of lending from the part of the financial intermediaries is either the group or the individual depending on their perception of the possibility of contagion default in the case of genuine difficulty faced by one member. While some of the reasons behind the default or delayed loan repayment are common irrespective of the focus (eg. an economic shock like crop failure that affects an entire region), some are specific to the mode of lending (eg. large and heterogenous composition of the group).

The literature on detailed analysis of various aspects of group lending is limited. The levels and periodicity of savings, effects of the group specific and individual specific factors on the number and quantum of loans disbursed, levels of participation in groups and the effects of possible socio-economic bias in the credit allocation – these are all important issues which need systematic empirical inquiry. This is what has been attempted in this thesis.

The analysis of secondary data has been carried out with the aim of selecting the appropriate locations for conduct of the field enquiry. The limited information from the sources like Census, NSSO, RBI and State government Website reveals that there is inverse relationship between the number of credit accounts per lakh female population and the number of SHGs across the districts in Andhra Pradesh. While Prakasam district ranks second only to Nellore district in terms of the number of credit accounts, it ranks sixteenth in terms of number of SHGs. This is puzzling in the light of about 59 per cent of population being agricultural labourers in Prakasom district. This prompts us to probe in to the inter-regional variations in the financial behaviour of the SHGs within the Prakasam district.

The field enquiries were made in both Villages and Urban locations of Prakasam district of Andhra Pradesh. Analysis of the primary data collected from the field reveals the following things.

The amount of per-capita periodic saving has a positive relation with member's perception reflected in their educational status: especially the number of members in a group having formal education of more than four years. Unity in purpose of loans and the intention to and the practice of rotation of lending backed up by a relatively higher economic status among the concerned group members reflect higher lending. Moderate and less number of loans associate with the lack of unity in purpose and the lack of intention to rotate the lending. Unlike the low lending groups which were hesitant to lend for non-food consumption purposes, moderate lending groups seem to have diversified their lending purposes. The economic status of the group members tends to reflect the differential number of loans across the survey locations.

Unlike the theoretical possibility and the empirical evidence, there is no discrimination on grounds of either member's leadership or economic status. There is no conclusive evidence on the bias due to the caste heterogeneity. Unlike the expectation, Revolving Fund or bank loan assistance did not result in the adverse effects on the group cohesion. Contrary to this, groups exhibited reason in the choice of funds across the purposes. The broader perception is that own funds are meant for saving and external funds are meant for lending. However, since the group interest rate in most cases is about 24 percent, members could not perceive fair returns from the possible productive investment.

## CHAPTER 1

### INTRODUCTION

#### 1.1 The Problem

There is a considerable amount of evidence on the usurious exploitation of the poor by the rural informal lenders which led the poor in to a low level equilibrium trap of hand-to-mouth existence (Bhaduri, 1973). This necessitated the directed and targeted formal credit to the rural poor to reduce the interest burden. Such an approach has, however, not taken in to account the inherent problems of adverse selection and moral hazard.

Moral hazard problem had a very harmful effect on the rural bank branches in India with over 50 percent of the loans defaulted by early 1990s - thus truncating the ability of the banking system to cater to the credit requirements of the rural poor (Karmakar, 1999). In other words, loan recovery problem has affected the rural poor's accessibility to formal loans along with high transaction cost of monitoring the loans.

To provide a humane and sustainable means of credit to the poor, the combination of formal and informal methods is advocated and being practiced. Basically, it is the group lending method embedding joint liability and responsibility on the part of group members to reduce the transaction costs of and adverse selection by the formal lender and moral hazard of the borrowers themselves. It was formally pioneered by Bangladesh's Grameen Bank. It took the shape of Self Help Groups (SHGs) lending in India with considerable autonomy for the groups following the Federal Ministry-of Economic Co-operation and the Agency for Technical Co-operation of the Federal Republic of Germany's series of studies and workshops on rural finance in developing countries in 1984 and NABARD's pilot project involving 43 NGOs as Self-help Promoting Institutions (SHPIs) in 1988 (Dasgupta, 2001). In the SHG model, apart from joint liability and responsibility, the groups are supposed to manage consumption risk with their own financial resources before being eligible to qualify for formal credit or grants.

Although the literature spoke about the correlates of thrift and credit and the determinants of repayment, it did not speak about the possible determinants of thrift and credit, credit off take or allocation etc which might affect the loan repayment, and in turn attendance and participation in the group meetings.

In this context, we have to critically reflect upon the levels of savings and number of loans disbursed by groups in the light of the factors reflecting the member's perception, ability and constraints and group structure and composition. We should also critically reflect upon the influence of socio-economic heterogeneity among the group members on credit off take or allocation which might help us to understand the degree of group cohesion.

In this context, the specific objectives are the following:

## **1.2 Objectives**

1. To analyse the thrift behavior of the groups in the light of members' perception, ability and constraints;
2. To analyse the credit behavior across the groups and locations in terms of structural differences and the differences in the members' economic status;
3. To study the possible bias in the credit off take and allocation in the light of the member's socio-economic status.

While education reflects the members' perception regarding the saving, land holdings, occupations and house type reflect members' ability to save. Widowhood or single motherhood are understood as the constraints against saving. Group structure is embedded in its age, number of repayable installments and cumulative savings. Leadership, age and caste reflect member's social status. Rural land holdings and urban occupations of the members' families reflect their economic status.

## **1.3 Data and Methodology**

Our data analysis comprise chapters 3 and 4. The data used in the third chapter is gathered from various secondary sources apart from District Rural Development

Agency (DRDA) like population Census 1991 and 2001, Basic Statistical Returns of RBI 2002, NBARD Micro finance 2002 and also from various sources of www.aponline.in The data used in the fourth chapter is gathered from the primary survey conducted in three villages and the district headquarters [Ongole] of Prakasam district in Andhra Pradesh.

The primary data is collected in the following ways.

First, information on the organizational type of the SHG, membership composition [caste or religious] of the groups, participation in the meetings, modes of credit allocation and loan recovery, facts about default and external assistance and details regarding the responsibilities among the members are collected from the group records.

Secondly, details regarding the collective response, practical mode of credit delivery and loan recovery, sanctions against or help for defaulters, effects of external assistance and responsibility sharing in case of group activities are collected by interviewing the group leaders.

Thirdly, details about members' economic status, members' perception regarding thrift and credit, opinions about the existing time limit of loan repayment, reasons behind default and the effects of external assistance and responsibility sharing. However, there are various limitations in the usage of all the information collected in the field survey which is discussed in the analytical limitations (Section 1.4).

NABARD data on the number of credit linked SHGs, their savings and amount of loans is available only across the states under the assumption that all the members are Below Poverty Line (BPL). As a result, a full-fledged macro analysis is not possible, in terms of thrift and credit behavior of self-help groups, efficiency of the use of common resources, extent of intra-group credit widening, responsibility sharing, participation in group deliberations and meetings.

This makes a primary survey inevitable for the present study. In order to select the locations for the primary survey, outreach of SHGs among the female population across

the states, districts of the chosen state (Andhra Pradesh) and Mandals<sup>1</sup> of the chosen district (Prakasam district) excluding girls aged between zero and six is analyzed<sup>2</sup>. In the state and the district level analysis, the number of SHGs per lakh female population is important. Apart from this, district level analysis relates number of SHGs with literacy, occupation, SC/ST percentage and bank and credit accounts. The inverse relationship between the number of SHGs per lakh population and the number of credit accounts in Prakasam district along with it ranking second in the percentage of agricultural labourers in Andhra Pradesh would imply that there would be a marked inter-regional variations within the district.

Since the mandal population is in thousands, SHG outreach is measured per 1000 population. Primarily the choice of villages for sample survey of the groups is based on the distance of these villages from the district headquarters (Ongole) supported by occupational characteristics.

Turning to our survey data analysis, the following five points differentiate the present study from that of others in the analysis of the financial functioning of the groups. Here, loan default is not the central issue. The central issue is the level of thrift and credit functioning itself in relation to the material, structural and perception related indicators which might help in the circumstantial policy intervention to bring about optimality in the group performance.

1. Understanding thrift levels in relation to member's perception about thrift, ability to save and constraints against saving. Whereas, other studies relate the degree of regularity in savings with the degree of cohesion or trust among the members.
2. Contextualizing member's savings in member's requirements unlike in the empowerment and gender composition as emphasized in the literature.
3. Understanding the number of loans disbursed by the group in relation to age of the groups, number of repayable installments and cumulative savings that are

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<sup>1</sup> Mandals in Andhra Pradesh are administrative units known as Blocks in other States.

<sup>2</sup> This is because the girls in this age group are not eligible to become group members. Though women upto the age of 18 are not eligible to become group members, we could not exclude all of them since census does not give disaggregate data.

called structural factors, kinds of loans and member's economic status vis-a-vis the direct discussion about default in relation to the risk, group composition, incentives and economic transformation of the members as discussed in the literature. Here, number of loans imply the number of loans disbursed from the group savings excluding the loans disbursed from the Revolving Fund (RF) and bank loans. However, Separability problem exist in the case of groups which deposited their RF in the banks, be it without immediately disbursing loans from it or after recovering the loans disbursed immediately from the received RF.

4. Relating to loan accrual with the possible bias along the lines of social or economic status.
5. Bringing out reasoning contrary to the expectation in the literature about the loan default in the aftermath of receiving external assistance. Here, member's reasoning behind the treatment of various types of funds is discussed. While own funds in case of many groups is for saving, external assistance - be it RF or bank loan - are meant for rotating.

#### **1.4 Analytical Limitations**

First, since all but one groups experienced prompt repayment of loans, details regarding attendance and participation are not analyzed. The group that experienced poor repayment is due to the corrupt behavior of the leader as will be discussed resulting in the non-conduct of meetings. Secondly, due to prompt repayment, except for a couple of members, in all the groups put together requiring the extension of the deadline to begin repayment of group loans, there is no discussion about the member's perception about the deadline. Thirdly, Since members have faith in their leaders and democratic decision making except in the group that is affected by leader's corruption, that aspect is also not discussed. Fourthly, since there is a clear-cut demarkation between the use of own and external funds except in the aforementioned group, that aspect is not discussed. Fifthly, all the groups conduct meetings in their leaders houses, the issue of responsibility sharing is not discussed. However, members reciprocate in child care and other requirements. Lastly, we could not capture members' participation in the group meetings from the group records. Resolution and its approval in the group meetings are

often put in one sentence. For example, resolutions like "all should regularly save" as said by leader which is unanimously approved. This does not mean that groups are affected by irregular saving. Another striking example is that, the group comprising all forward caste members resolved to eradicate untouchability which any way is mitigated in that part of India.

## **1.5 Chapter Scheme**

First chapter introduces the problem, data sources, methodology and limitations. Chapter two presents the evidence from the literature on the adverse usurious effects of informal lenders and the failure of formal financial institutions in giving access of credit to rural poor, loan recovery and in turn sustainability, the concept of group lending and the empirical evidence on the financial functioning of the SHGs. Chapter three discusses the choice of the state, district and the survey locations for primary survey based on the outreach of SHGs among the population and at the villages. Chapter four analyzes the credit and thrift behaviors of the groups and the possible bias in the credit off take based on the collected primary data and Chapter 5 presents the summary and conclusions.

## CHAPTER 2

### EMPIRICAL ASPECTS OF SELF HELP GROUP DYNAMICS

#### 2.1 Introduction

Based on the secondary literature this chapter traces the exigencies that have led to the evolution of SHG based institutional finance in India. It discusses the economics of group lending in general and SHG based institutional finance in particular. It then goes on to discuss the empirical realities drawing on the experiences of some other countries besides India and survey the analytical issues that emerge from them.

The discussion in this chapter essentially revolves around four issues. In section 2.2, we discuss the need for targeted and directed institutional credit for the poor in developing countries. Starting with the formal-informal distinction, we discuss why the rural poor cannot access formal institutional credit. The explanation usually runs in terms of the asymmetry of information between the borrowers and urban based banks regarding the purpose of and the use of loan and the borrower's intentions regarding the willingness to repay. This justifies the role of private informal moneylenders who live in proximity to the borrowers and possess knowledge about their traits. The moneylenders use a variety of strategies to ensure recovery of loans. The high rates of interest charged by the moneylenders empirically reflect high transaction costs incurred by the lender. Since it is almost impossible for the prevailing formal institutions to simultaneously bridge the information gap as well as to reduce the interest burden on the poor, state action has been advocated to create new forms of institutions drawing on the strengths of informal institutions. We discuss this economics of group-based lending as the theoretical basis of the recent moves in promoting SHG's in India.

In section 2.3, we discuss the failure of the targeted and directed institutional credit system in giving access to the poor. Apart from the generally pervasive problem of asymmetry of information between the borrower and the bank officials, there are informational problems that result in moral hazard between the government and the bank officials as well. It is often observed that bank employees and office bearers of



Primary Agricultural Co-operative Credit Societies (PACCS) erect entry barriers against the poor by requiring them to bribe, which in turn discourages their attempt to access formal credit. Furthermore, bribe is used as an instrument to enable the unintended targets access the formal credit and to let the voluntary or strategic default by the well-off. The failure of the targeted subsidised credit to reach the poor led to the arguments against such schemes and favoured market-oriented credit allocation. This has strengthened the formal-informal segmentation in some places and has led to the re-emergence of informal money lenders in some others thus warranting solutions that would be sustainable and at the same time giving the poor access to credit.

Section 2.4 introduces the concept of group lending in general and the Self-Help Groups in particular. The rationale for group based lending is discussed in terms of its ability to (i) mitigate transaction costs from the standpoint of financial institutions by making the group as a whole liable, and using horizontal socio-economic ties among the poor; (ii) overcome the adverse selection problem through self-screening and selection of peers; and (iii) overcome moral hazard through conditioning of loans with savings by the group members, rotated internal lending using members' savings, peer monitoring, project selection via effective interaction among the members through periodic conduct of group meetings, and through the provision of dynamic incentives.

Section 2.5 deals with the empirical survey of the functioning of SHGs. First we discuss the two actually existing 'models' of group based lending: the Grameen Bank model and the SHG model. We then discuss the financial functioning of the groups in resource generation – both through own savings and loans and grants from self help promoting institutions (SHPI) – and its effect on the amounts of group loans, interest rate determination and the determinants of repayment. We finally discuss the entry barriers that still persist which work against the interest of the underprivileged and their specific needs. We also indicate the unintended consequences of promoting government sponsored groups in terms of long term sustainability and cohesion of the groups.

## 2.2 Need for Targeted and Directed Institutional Credit for the Poor in Developing Countries.

The distinction between formal and informal credit markets can be drawn following a variety of analytical approaches. One kind of distinction can be made on the basis of the degree of information gap between the lenders and borrowers in the respective credit markets. When the urban based formal bank decides to lend to rural borrowers, it is faced with the possibilities of both involuntary and voluntary (or strategic) defaults. While involuntary default stems from sheer misfortune, voluntary default is willful. The former can be attributed to moral hazard which manifests in the borrower's diversion of loan from its intended purpose either to meet pressing consumption requirement or to a much risky production activity which is more likely to fail. In the latter case, even though the borrower is able to repay the loan, he refuses to do so simply because it is in his best interest to do so in the absence of a machinery that can ensure repayment.

It is clear from the above dilemma that, in the presence of inherent asymmetry of information between the borrower and the lender, to control default and monitor the activities of the borrowers, the lender must have the ability to monitor which may be made possible by physical proximity of the lender to the borrower. Apart from direct costs, this would result in a positive opportunity cost resulting in the formal lender backing away from the rural credit market.

Unlike the formal lender, in general, the informal lender has both locational and historical advantages. The informal lender is better informed about the traits of probable borrower due to the advantages of proximate residence and in turn regular interaction. If there is perfect information symmetry between the borrower and the lender, *ceteris paribus*, the formal and informal rates should be the same. But high rates ranging up to 200 per cent as opposed to 12 per cent formal rates are evident. High interest rates had earlier been explained in terms of monopoly power of the moneylender in the informal credit market. In this view, the moneylender was seen as a monopolist charging 'usurious' interest rate. The earlier government attempts to provide a positive institutional alternative were based on this assumption. However,

recent research shows that, both theoretically and empirically, monopoly power is not a necessary explanation for high interest rate.

An alternative explanation for high interest rates can be found in the the risk of default – involuntary or strategic. Assuming the default probability to be independent of the amount to be repaid, Bottomley's (1975) lender's risk hypothesis explains that the lender charges a risk premium to cover the risk of default. However, it was observed by Aleem (1993) in his study, that in a region in Pakistan the rates of default were estimated to be below 5 per cent. From this one cannot definitely say whether the ex ante risk of default is actually low, or lenders devise their contracts in such a way that the ex post default is minimised. It seems that lenders use a variety of strategies to minimise the risk of default (Ray, 1998).

If the amount to be repaid itself increases the default probability, irrespective of the interest rate charged, the amount of loan tends to be smaller in general and loans for certain purposes become unavailable. Private lenders generally favour lending for working capital and consumption rather than the fixed capital purposes. This can be attributed to the possibilities of default. While involuntary default could occur due to misfortune or moral hazard in loan use, strategic default can occur if the borrower does not need to borrow again from the same money lender. Loans for fixed capital purposes are likely to reduce such need in future.

To overcome the risk of default irrespective of amount and purpose, the lender seeks collateral from the borrower. There would not be default either when the lender's valuation of the collateral is less than or only little higher than that of borrowers. If it is much higher, having a use value, the intention of the lender would be to acquire the collateral – be it land nearer to his own or bonded or attached labour – cheap by forcing default. On the other hand, even if the value of the collateral is small to the lender but very high to the borrower it can still serve the purpose of reducing risk of default.

As observed by Sarap (1990) in western Orissa, by giving a very short time to repay the cash loans [3 to 5 months], lenders force a default and appropriate the deliberately undervalued metallic and ornamental collateral. It is reported that the lenders valued the assets only at 35-40% of the market price. Another possible form of collateral is labour

power. The moneylender may give loans just to secure cheap labour from the borrower since in case of default the borrower has to repay in terms of labour. Since there is a possibility of labourer absconding to break the bondage or attachment, the safer collateral would be the usufruct right over the output of the producer.

Assuming regular interaction between the lender and borrower, usufruct right not just helps in controlling default, it also serves as a monitoring instrument. Since the usufruct right is meant to make profits in the product markets, the result will be the inter linkage between the credit and commodity markets. The terms and conditions in the commodity market affect those in the credit market. Apart from the interest income, this relation enables lender to earn commission on sales and enjoy a profit margin. To cement the ties of inter linkage, lenders tend to focus on a specific segment of borrowers. These can be crop specific (eg, rice growing farmers in Philippines) or client specific (as reported by Aleem on Chambar region of Pakistan and a village surveyed by Janakarajan in South Tamil Nadu segments). To prevent borrowers from borrowing from multiple sources, lenders enforce exclusivity in lending transactions. 10 out of 14 lenders in Chambar said that they would not accept their clients borrowing from other lenders, thus sharing positive externalities between themselves in mitigating adverse selection. To weed out the still persisting bad risks, lenders use small testing loans (i.e. rationed credit) to begin with, accompanied by the promise of increase in loan size to match the borrower's needs provided the latter is honest. This suppresses tendencies of moral hazard by providing dynamic incentives to the borrower.

Apart from the credit and commodity market inter linkage, there is evidence of inter linkage within the credit market. In this, one or more layers of lenders operate as intermediaries between the apex lender and the ultimate borrower. Often formal financial institutions are at the apex. This leads to the cascading of interest rates burdening the poor with the rates often crossing 40 per cent. Ray (1998) cites the Philippine case and Janakarajan (1986) makes similar observation in the case of a south Indian village. It is found in a 1988 study that in the rice growing areas of the Philippines, 70 per cent of lenders got 60 per cent of their funds from formal financial institutions. According to a 1978 survey, more than half of 163 lenders were either savers in or borrowers from formal institutions, and 3 were owners of local banks.

The Chambar lenders in Pakistan were found to have siphoned off up to 50 per cent of their loanable funds from institutions – be it from retail commercial banks or through cotton millers and wholesalers or accepting the deposits of certain institutions without requiring to pay interest rate (Aleem, 1993 as cited in Ray 1998). These arguments lead us to the advocacy of direct and targeted institutional lending to the poor on efficiency grounds.

The very high formal-informal spread implies that the cost side inefficiencies are adversely affecting the ultimate borrowers. The attribution of high interest rates to two of the components in the capital cost, viz. the principle defaulted and the interest lost on outstanding principle by the Chambar lenders, seems to wholly transfer their risk on to subsequent borrowers. This imposes additional cost burden on the poor, particularly because of the inelastic nature of credit requirements by the poor. This phenomenon neither allows surplus generation by the poor to better their material standards nor allows investment in production activities. In other words, the system forced the poor to remain in a low-level equilibrium trap of hand-to-mouth existence. To help the poor break out of this trap, directed and targeted institutional lending is advocated and being practiced.

### **2.3 Critical Assessment of Directed and Targeted Credit Policies**

The Government of India decided to trade social priority with bank profitability and started directing credit to the target groups through nationalised banks and regional rural banks (RRB's) which it specifically set up to cater to the needs of small and marginal farmers, rural artisans, etc.

Since it was inconceivable to lend for consumption purposes, by-and-large the asset less poor got excluded from the credit net (Dasgupta, 2001). In addition, Primary Agricultural Cooperative Credit Societies (PACCS) were given financial support through three tier cooperative structure. Only after second nationalisation, schemes like IRDP, TRYSEM, DWACRA etc emerged to serve the asset less poor with subsidised credit and inputs being used as a tool for redistribution.

By-and-large, the oldest formal financial institutions (i.e. PACCS) failed to ensure adequate access to credit by small and marginal farmers due to unequal economic

relationships among their respective members and inability of the multitudes to effectively monitor the conduct of the managing committees and office bearers to check moral hazard. This enabled the well-off, who are often the committee members and the office-bearers themselves, to take control of decision making and appropriate loans (Singh, 1995 and Karmakar, 1999). All this must have given rise to strategic default and consequently impacted on the sustainability of these institutions. This is evident from the decline in the number of PACCS in India from about 212000 in 1960-61 to about 88000 in 1980-81.

In the absence of an effective institutional mechanism to monitor the bank officials, widespread moral hazard on their part (i.e. as 'agents' in a principal-agent framework) resulted in artificial entry barriers against the poor accessing formal credit. The opportunism was displayed in their acceptance of bribes to let the well-off access formal credit – subsidised or otherwise. Till 1989 only 10 per cent of those who promptly repaid their loans were associated with poverty alleviation programmes such as IRDP.

Requirement of physical collateral as well as the demand for bribe from the part of formal lenders not only erected entry barriers against the poor, but also resulted in the clear-cut segmentation between formal and informal sectors. The latter sector specifically caters to the consumption requirement.

Apart from *loan melas*, debt waivers and agents' role in promoting strategic default in exchange of bribes, the recovery problem in the system was compounded by the inability to realise proceeds from the collateralised land and inability to trace the assets disbursed through IRDP thus leading to unsustainability of the system. There was no credible threat of exclusion from the credit market in cases of strategic default let alone the attempt to compare the pecuniary gains of default vis-a-vis the pecuniary plus non-pecuniary losses due to bank penalty (Swaminathan 1991, Narayana 1992, Besley and Coats, 1995, Sharma and Dreze, 1995, Ray 1998, Mordich, 1999, Karmakar, 1999, Ramachandran and Swaminathan, 2000).

We observe that moral hazard and adverse selection are inherent in the system with the staff needing to monitor multitudes of clients. Especially the staff gave priority to the

fulfilling of physical targets of IRDP without bothering about prior entrepreneurial skills. Unlike the moneylender, who takes years to build a binding relation with his client through the process of progressive increase in the dosage of credit (dynamic incentives) (Siamwalla's Thailand study cited in Ray 1998), the bank employees are constrained by policy directives and frequent transfers.

The unsustainability of the formal directed credit led to the arguments favouring wholesale marketization of financial services which started taking shape after the Narasimhan Committee recommendations of 1991.

The failure of formal financial institutions (FIs) in giving access to credit for the poor during the pre-liberalisation period and the unwillingness of FIs to lend to small rural clientele after financial sector liberalisation resulted in the re-assumption of the importance of rural money lenders (Janakarajan 1986, Sharma and Dreze 1995, Ray 1998, Dasgupta 2001 and Ramachandran and Swaminathan 2000). In several places, the interest rates are around 40 per cent. Of course, in the context of complex transactions linking several markets it is not easy to disentangle the interest rate from other implicit prices. The simple annualised rates on Sangham loans of 10 week duration in Gokilapuram village of Madurai district in Tamil Nadu worked out to be about 90 per cent (Ramachandran and Swaminathan 2000).

The formal financial institutions are unwilling to lend to rural poor due to the lack of proper knowledge about the latter's project selection and strategic skills, and the accompanying high transaction cost. Understandably, even the diversion of credit for acute consumption need may be considered as moral hazard since it signifies deviation from the ex ante contractual terms. Accepting the unavailability of market system, the need for a humane financial system which also caters to the consumption requirements of the poor is imperative. But, it can be argued that the element of subsidy should be done away with to erase the notion of credit as a free good (Dasgupta 2001, Ray 1998 and Khandker, Khalily and Zahedkhan 1995).

#### **2.4 The Concept of Group Lending**

If the transaction cost of monitoring an individual's project is high, it can be reduced by having financial relation with a representative group of several individuals. To qualify

to receive formal credit, one need not submit physical collateral or a third party guarantee. The group itself is treated as a collateral entity with joint liability and the usage of social norms is the core of the concept and practice. It is observed that many tend to treat loans from nationalised banks (subsidised or otherwise) as free good. When a researcher interviewed a woman in Karnataka, she replied that she did not receive a Sala loan, (which is disbursed by banks and always returned due to its binding contract with the group she belongs to), but did receive a Bank loan (Dasgupta 2001). In other words, directed bank loans are perceived to be different from bank loans channelised through groups.

Rather than dealing with individuals, dealing with groups economises on the transaction cost of lending and follow-up monitoring. The principle and the notion of "Joint Liability" is the bedrock of the group's existence. The members guarantee each other's loans taken from financial institution. In other words, bank holds the group responsible for non-repayment of loans. In SHG [Self Help Group] model which is a major breakthrough from group lending [Grameen bank] model, joint liability also implies joint responsibility. Certain responsibilities that are generally carried out by the bankers, viz., project appraisal and selection, monitoring of loan use and loan recovery from the individuals get delegated to the groups thereby eliminating day to day administration costs.

Certain degree of homogeneity may be necessary for the cohesion of the group, in the absence of which the balance of power may tilt in favour of particular social (caste) or economic segments. The geographical proximity is emphasized so that the members get to know the economic and health conditions of their peers. Coupled with homogeneity, the responsiveness to help at favourable terms when required subject to resource constraint would be high. The adverse effects of social norms, for example, social and personal admonishment and threat of non-co-operation, in cases of willful default would be much severe than the responsiveness to help. However, in the case of genuine hardship for one person, the dominant strategy for all other members would be to default.

To enable the trustworthy functioning and quick and dynamic response to help, members are allowed to sort according to previously existing good relationships



between themselves through the mechanism of peer screening and selection subject to the recommendation for homogeneity. Theory of assortative lending infers that through peer selection, group lending price discriminates between the safe and risky types of groups unlike in case of individual lending contracts where due to credit rationing, the safe types get pushed out of the credit market due to their inability to pay high rates due to low expected returns. In a group lending contract, the intra-group agreement of the risky with safe for the former to make compensatory transfers in future to the latter is nonviable.

Theory of peer monitoring suggests that peer monitoring mitigates moral hazard problem. Banks reduce interest rates along side the group members informally monitoring each other ensuring safe activities by using social norms and thus assuring good recovery.

Apart from the use of peer monitoring, banks have several other tools to check moral hazard. Firstly, they consider group as a collateral entity linking institutional credit with a minimum period of group savings and internal lending from those savings. The banks expect the consumption requirements of the members to be met from the group savings. The groups are encouraged to maintain savings deposits with banks with periodic additions that potentially serve as a buffer. Although the group savings are too meagre to be considered as collateral, given the state of poverty among the group members, the marginal utility of money would be high for them. Hence, members tend to closely monitor the activities of their fellows using loans.

Secondly, the banks expect SHPIs like NGOs and government departments to encourage and possibly enforce rotation of lending in order to disperse the financial opportunity amongst the members. It also expects to inculcate democracy in selecting the purpose of loans, which, apart from ensuring safe activities, ensures right choice of needs. And finally, the groups are promised with higher dose of loan if the previous loans are promptly repaid. This provides dynamic incentives for the group members.

Along with the access to formal credit, the group serves as a platform for bargain with government to bolster the productive capacity of the poor through training programmes. Since it is the group formed and managed by members having similar characteristics, it

enables the members to develop basic skills like record keeping and maintenance of accounts and leadership responsibilities.

To put it in a nutshell, SHGs are thrift and credit groups formed and managed by the jointly liable members ensuring regular savings, democratically deciding the credit needs and disbursing the credit through periodic meetings, ensuring prompt repayment through peer monitoring and reviews in meetings, attempting to and acquiring formal credit and overseeing its proper use and repayment of loans and arranging capacity building programmes for the poor (Rao 1994, Khandker, Khalily and Zahedkhan 1995, Besley and Coats 1995, Karmakar 1999, Mordich 1999 B, NABARD Hyderabad 2000, Dasgupta 2001).

## **2.5 Empirical Dynamics of SHGs**

This section presents various aspects of SHGs in their financial, participatory and social sense. Based on the financial and administration criteria, we can distinguish between primarily two types of models of group based lending.

### **2.5.1 *The Grameen Bank Model***

Much has been written about various aspects of the Grameen Bank experience in Bangladesh. Here we somewhat abstract from the empirical details and briefly discuss the analytical content. Apart from bringing banking services to the doorstep of the group, the bank frames and administers the modalities such as the group size, intervals between the meetings, eligibility of the members for obtaining the facilitator-bank's loan, the interest rate on it and its purpose, monitoring the loans, determining the intervals of repayment, the number of installments, amount and the periodicity of savings, and its management etc.

The focus of lending in this model is flexible both across the institutions and across schemes run by an institution like the Grameen bank. But generally it has been observed that from institutions like the Bancosol, the Care Zambia project, the Bank Rakyat Indonesia and from certain schemes like the mobile phone service of the Bangladesh Grameen Bank often the very poor are excluded. However, the Bangladesh Grameen Bank along with BKDS (Indonesia) and the Small Enterprise Foundation

(South Africa) in most case selects the poorest. Care Zambia project forms the groups comprising members already having business experience.

To avoid the contagion effect of simultaneous default by all the members in case of genuine default of one or more of its members, the Grameen Bank lends to sub-groups on a sequential basis. [Karmakar, 1999; Mordich, 1999b]

### **2.5.2 SHG Model**

The groups are facilitated by banks, NGOs or the government in formation, nurturing, monitoring and advice. The group itself determines its membership, its change or increase, the size of membership (within the bounds), interval between the meeting, periodicity of savings and its management, purpose of lending and the interest rate for the internal lending, eligibility of the borrower, intervals of repayment and the number of installments, managing own accounts etc. The best examples are the groups facilitated by the government departments like the DRDA and many of the NGO's in India who select from amongst the poorest segments of the society. The focus of institutional lending here is the group Unlike the Grameen model's focus on the individual. whereas the SHG's manage their resources, Grameen Bank groups do not. In the latter case the members' savings are directly deposited to the bank and individual members get loans directly from the bank. Both the models, however, require the members to contribute regular periodic savings to attain eligibility for loans. The SHG's also require the members to undertake internal lending using group resources.

Based on the targeting of members, we might have another model of SHGs. But, nuances like the social composition, viz. caste and gender, economic composition like the normative BPL, living standards and occupations and physical characteristics like the group size and geographical proximity are specific to organizations and possibly to groups. In India alone, there were 2155 NGOs serving as SHPIs as on 31-3-2002. Hence, it is better to discuss their implications on the real indicators like participation and the repayment rate.

Before getting into the participation related aspects which would affect the sustainability of the groups, our primary concern here is to understand the financial

operations of the groups in their savings, credit delivery, interest rate determination and the determinants of repayment rates.

### **2.5.3 Financial Functioning of the SHG's**

#### *a. Saving Performance of the Groups*

A study of sample groups from 4 districts in Tamil Nadu by Puhazhendi revealed that the average annual savings per member across groups by their age depend upon the gender composition of the groups.

In the age groups of 1-2, 2-3 and 3-4 years, on an average, the members members saved Rs 558, Rs 805 and Rs 1041 respectively. Members of women's groups saved Rs 572, Rs 834 and Rs 1076 per-capita per anum. Men's groups saved Rs 495, Rs 676 and Rs 815 respectively. mixed groups saved Rs 513, Rs 710 and Rs 1015 respectively. To take it further from where Puhazhendi has left, while men's groups reflect some kind of resistance to improve the savings level, mixed groups reflect a faster growth of savings in the third year. In traditional Indian village setting, intermingling is possible only among siblings and kin. Given the fact that only one member from a family is eligible to be in a group, a joint family can portray itself as a conglomeration of separate families and thus form multiple groups; thus cohesively working to promote their own interests.

Turning towards the purpose or rationale behind the member's savings, it is found in a Bangladesh study on the operations of groups that savings are used as a bargaining tool. Reference to the protest against amongst other things the lower wages along with the resolve of some groups not to withdraw savings for 10 years and the availability of loans from the NGO's to undertake joint or individual economic activities points in that direction.

#### *b. Lending Performance of the Groups*

Puhazhendi also found that the sample of 4 districts in Tamil Nadu that the per capita amount of loans is positively related with the age of the groups. Transformation of the purposes of loans from consumption to production resulted in a steep rise in the per-capita loan amount. While 72 per cent of all loans were for consumption in the first

year of groups existence, 69 per cent of loans were for production purposes in the fourth year. The per-capita loan amount rose from Rs 926 to 3976 in the corresponding period. Since the amounts required were small and frequent during the initial period, members availed 3 to 5 loans each repayable in 2 to 4 months. In the later period, it was 2 to 3 each repayable in 8 to 12 months.

Apart from the resources from members' savings, we find a strong organizational drive through SHPIs behind the provision of various inputs for productive purposes.

Among others, organizations like the Grameen Bank and the Small enterprise development project of Bangladesh and Rashtriya Sewa Samithi in India help in identifying joint economic activities and provide with financial and material assistance and technical and managerial inputs through orientation and training. While the decisions are made based on the recommendations of field staff in the 2 former cases, the latter decides on the basis of the recommendations of democratically elected committees from amongst the SHG clusters.

Apart from the consumption loans from members savings, the Grameen Bank gives four types of loans, viz. general, joint venture, housing and technology loans of which the latest received kind of the first 2 loans shows the economic standing of the concerned person due to group participation. While the Grameen Bank's income generating loans and material inputs were mainly for agriculture, small business and poultry according to the literature, the loans of certain NGO's and training programmes imparted by the government departments like the DRDA in India were mainly for household manufacturing and service units like candle, basket and pickle making, weaving, tailoring and carpentry (see Khandker, Khalily and Zahedkhan 1995, Hulme and Mosley 1998, Karmakar 1999, Mordich 1999 B, Puhazhendi 2000, Naila Kabir 2001, Datta and Raman 2001 and Simeen Mahmood 2002).

c. *How Does the Interest Rate Get Determined?*

Empirical evidence shows that the group interest rates are guided by the informal market rates. Apart from that, it is set at as high as 24 or greater percent to enable the faster growth of volume of group resource to facilitate more number of and higher amounts of loans. It is argued that, if the loans are set closer to the market rates, the

possible moral hazard of a member lending to a non-member at a higher rate and thus delaying the repayment of group loans can be avoided (Rajashekar 2000, Dasgupta 2001).

Although subsidy is not part of the group lending ethos, there is evidence on certain SHPI's using this as a re distributive tool. Grameen bank subsidises the interest rate on its housing loan which may be justified based on the minimum needs approach. Unlike the non-governmental organizations and banks, government departments and agencies like the SC corporation, BE corporation and women's welfare department in India subsidise interest rate for their mutually exclusive target groups. The newly emerged Swarna Jayanthi Gram Swarozgar Yojana (SGSY) gives an outright subsidy of 50 per cent on the principle itself thus violating the SHG ethos.

Apart from subsidy, departments like the DRDA and several NGOs give grants in the form of the revolving fund assistance RF to bolster the fund position of the groups. This is recallable if not democratically allocated.

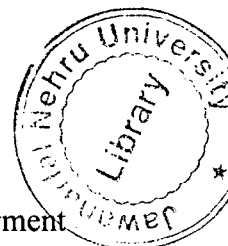
d. *What Determines the Degree of Repayment?*

The possible effects of subsidised loans and revolving fund assistance on the repayment rates is not tested by any study. However, there are other possible determinants of repayment rate which are worth looking at.

The high real interest rate of about 45 percent in Bancosol [Bolivia] and nominal rates of 24-34 per cent in BKDS [Indonesia], 42 per cent in the case of the Small Enterprise foundation of south africa and 28 percent Bank Rakyat Indonesia do not seem to reduce the repayment rate so much. In fact, it was about 98 per cent in the last case in late 90-s and above 98 per cent in early 90-s in the first case. In the first case, in late 90-s it is still over 95 per cent. In India the commercial banks and the Bangladesh's Small Enterprise Development project lending without subsidy is at the rate of about 18 per cent per anum. In both the cases, the repayment rate is over 95 per cent.

Secondly, the nature of the productive activities undertaken should, in theory, influence the repayment rate. 12, 48 and 77 per cent of the NGOs, mixed and the government programme participants, respectively, in rural China reported that they had some

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difficulties in repaying in installments. The first had most participants undertaking farming. The second and third were into non-agricultural activities like processing, manufacturing, services etc. Since by-and-large the NGOs operate in the fertile plains vis-a-vis the operation of the other two kinds of programmes which operate in very backward areas, the non-farm activities of the latter would not be of any significant scale unlike the agro-products of the former.

Thirdly, size and composition of the groups might influence repayment pattern. Few studies found that the repayment rate is lower among the large and propensity to default high among heterogenous groups. It is interesting to find that the groups comprising friends have a greater chance of defaulting. This throws up the puzzle as to how one should characterise friendship – as homogeneity or heterogeneity, or as a third characteristic that does not fit into homogeneous-heterogeneous categorisation?

Another possible factor is the dynamic incentive-interaction. Indonesian Bank Rakyat Indonesia enables the good borrowers of its subsidiary BKDS to promote themselves to BRI clients and borrow larger micro loans, which can be an incentive factor to repay. Like the Government and the NGOs in India, village banks promoted by Foundation for International Cooperation and Assistance (FICA) provide such incentives.

However, the repayment rate is falling in the case of the Bangladesh's Grameen Bank over the years, influenced by the behaviour of the repeat borrowers, several of whom borrow over 2-3 times. If not size and heterogeneity, what results in default in the Grameen Bank's case?

It is evident from Mordich's (1999 b) review of the theoretical literature on group lending that the theory is unclear about the power of game theoretical tool to assess definitely the likelihood of non-repayment. Mobility, especially the urban mobility, is cited by him as a very important reason behind defaulting.

Repayment rate is found to be inversely related to the level of economic development of the respective locality as found in the Finca groups in Costa Rica and in certain non-grameen credit programs of Bangladesh. In the case of the grameen groups, there is a positive relationship along with considerable drop-outs suggesting the possibility of

higher liquidity and better business opportunity. Where there is no alternative credit programme, the repayment rate is said to be higher.

Finally, we discuss the role of social norms in influencing repayment. It is empirically observed that the fear of being ashamed in the community is a credible deterrent against willful default. However at times, this tends to take an ugly shape. In a case involving a Grameen bank group of Bangladesh, the social sanction against physical unchastity was effectively used by the field-staffer to drive a woman to hang herself to death by locking her up in the center shed all night. In some cases in Grameen groups, people had to resort to external borrowings to repay loans. This takes us to the issue of managerial and financial self sufficiency as a precondition for meaningful cohesion among the members.

Unlike the Grameen model, SHG model satisfies this criteria. Since members learn to manage their own resources and are taught not to solely depend on revolving fund assistance, SHG would instill a collective notion over the members' savings. whereas, Grameen model would make people feel that the money belongs to the SHPI. To a larger extent, this is true, for the members savings in the latter model are too meagre in comparison with the services provided by the SHPI.

Since the order of loan disbursement in case of Grameen model is sequential unlike need based in SHG model and is conditioned upon the repayment by the previously borrowed member, rather than the fellow group members expressing solidarity with the one in real difficulty to repay, they displayed coercion by confiscating appliances and sold out for repayment. Contrary to the Grameen Bank group discussed above, a Rasta group of the SHG model near Trivandrum (Kerala) has a condition that if not repay the principle in 6 months, at-least the interest should be repaid. Repayment of the principle can be rescheduled thrice, which reflects the freedom and authority of SHG's in decision making. Here, the members exhibited cohesion by allowing a member borrow twice her own savings which reflects trust. I tend to infer that while the sequential lending in the Grameen model tends to make the members compete among themselves for loanable funds in a cut-throat manner, the SHG model may enable co-operative behaviour. (Khandker, Khalily and Zahedkhan 1995, Rodrigo, Chaves and Gonzalez-Vega 1996, Reinke Jens 1998, Rahman 1999, Karmakar 1999, Mordich 1999 B,



Puhazhendi 2000, Rajashekar 2000, Nair 2001, Albert Park and Chengqin ren 2001, Kabir 2001, James Copestake, Sonia Bhalotra and Suzan Johnson 2001, Datta and Raman 2001, Dasgupta 2001).

Once we discuss the financial operations in a systematic way, we would naturally wish to focus on the element of group cohesion reflected in the members' participation in decision making and sharing of responsibilities.

#### ***2.5.4 Members Participation: An Indicator of Group Cohesion***

This looks at the existence of, the nature of and the implication of entry barriers against the poor and underprivileged people, implications of the exclusion of some from the decision-making in heterogenous and undemocratically formed groups and the possible determinants of group cohesion, viz., homogeneity and responsibility sharing leading to good functioning.

#### ***2.5.5 External Interference in the Formation and the Functioning of the SHGs***

A study on the MRCP (a government programme in Maharashtra) explicitly shows that the norm of homogeneity is often flouted by bureaucrats and the village elders using the existing social norms as a cover. In one case preference was given to the non-poor person having 12 acres [4.8 hectares] of land. She is seen to be the leader of that group. SC/ST women were excluded using the existing social tabus. Even if they are included, they being relatively much poorly endowed in terms of literacy and arithmetic, had to overcome the barriers of unhelpful attitude of the bankers resulting in up to 6 months delay in loan disbursement compared to the others taking only up to 2 months.

Similar things were witnessed in the Chinese government programme operating in very backward areas. There, many of the participants themselves were found to be well-off. Their desire to take control over the loan resources stems from the low interest rates vis-a-vis the mixed and the NGO programmes in China.

Most people in the government programme perceive themselves as not having any stake in the decision making regarding almost every aspect – from formation to the loan recovery. It thus drastically reduces the confidence (for example, in indicators like the

operation of dynamic incentives) and in turn the attendance. For example, 95 per cent, 47 per cent and 23 per cent of the participants in the Chinese NGO, mixed and the Government programmes believe that dynamic incentives are operative. Lack of or inadequate voice to many in the Chinese government groups had led to the disruption of the meetings and even made the groups defunct in the extreme cases.

Looking at the nature of discussions, the NGO groups regularly discuss about the loan re-collection, monitoring loan use, project selection, training activities and information exchange. On these counts, other two programmes are at the lower end (Madheswaran and Dharmadhikary 2001, and Park and Chengqin ren 2001). Along with prompt repayment of external loans, we broadly infer that sustainability of the group depends upon the cohesion among their members simply because the members cannot access formal loans but for the group membership.

### **2.5.6 The Possible Determinants of Group Cohesion**

#### *a. Socio Economic Homogeneity*

Empirical evidence from Paul Mosley (2001) reveals that the economically homogenous groups have better tendency of give and take. Homogeneity is strengthened through the inculcation of the savings habit, so that the issue of lending to a member in need becomes less emotive.

#### *b. Rotation of Responsibilities: A Means of Check and Balance*

If the rotation of responsibilities has to take place, the notion of strict adherence to the socio-economic homogeneity might or might not be necessary. Political power might as well have to be complimented by the homogeneity in the possession of the required literacy, numeracy and leadership skills. The scarcity of such skills within the community in that particular locality warrants the need for having persons with the above mentioned skills as members. This would make the group compromise to an extent with the educational homogeneity. Rajashekar's (2001) study in an area near Trivandrum shows the rotation of leadership once in 6 to 12 months, with one of the 2 leaders being illiterate. As mentioned by Datta and Raman, 33 per cent of 350 members were without formal education. This might imply that education-literacy and in turn

rotation are not the most important criteria for membership and cohesive functioning of the groups which is also stressed in Simeen Mahmood, 2002. Empirically, the argument for socio-economic homogeneity still prevails in Rajasekhar's study which found the Rasta groups to be homogeneous in caste or community.

## **2.6 Conclusion**

Rural poor's access to formal credit is constrained by high transaction cost and possibly high opportunity cost incurred by the banker thus paving the way for the informal lender having locational and historical advantage in curbing default.

The seemingly low level equilibrium trapping of the poor by high manifold usurious informal interest rates coupled with the perceived monopoly power of the rural lender led to the emergence of directed and targeted institutional credit set up encompassing the commercial banks, the PACCS and the RRBs. They failed on account of moral hazard of bank employees, borrowers and the managing committees of PACCs. In its aftermath, group lending emerged as a market driven sustainable financial strategy in financing the poor with peer and project selection and monitoring and joint liability emerging as substitutes for physical collateral. Saving and kinship may be having a close relationship with mixed groups reflecting a faster growth rate. High interest rates are meant to discourage on-lending to the nonmember.

Since improvement in the member's economic status has no definite relation with regularity in loan repayment, individual character would explain the phenomenon. Nature of group functioning depends on intention to and opportunity for members to participate. Those groups comprising members who cannot substitute any other forms of credit for group loans [homogeneous groups] are more likely to function in a cohesive manner and vice-versa in case of economically heterogenous groups. Argument for social homogeneity is not as strong as argument for economic homogeneity. Unlike the former, the latter argument is related to sustainability. Groups are rational in choosing some literate members on grounds of convenience.

## CHAPTER 3

# OUTREACH OF SELF HELP GROUPS AMONG FEMALE POPULATION IN ANDHRA PRADESH

### 3.1 Introduction

This chapter analyzes the outreach of SHGs across Indian states, districts of the chosen state, namely Andhra Pradesh and mandals of the chosen district, namely Prakasam for primary survey.

There is a qualitative difference in the way the concept of group lending is practiced in India compared to the Grameen Bank model of Bangladesh. While the latter works on the belief that the poor are honest in repaying loans, the former convinces lenders [banks] that group lending is a profitable and viable business opportunity that reduces transaction costs and minimizes moral hazard.

#### 3.1.1 *Origin of SHG's in India*

Since the 1970s, numerous Non Governmental Organizations (NGOs) in India had begun experiments in micro financing to address poverty issues and create self-employment for women. Official interest in informal group lending took shape during 1986-87 when National Bank for Agriculture and Rural Development (NABARD) supported and funded an action research project on, 'Savings and Credit Management of Self Help Groups' of an NGO in Karnataka (Dasgupta, 2001)

In 1988-89 NABARD undertook a survey of 43 Non-Governmental Organizations (NGOs) spread over 11 states in India to study the functioning of SHGs and for examining the possibilities of collaboration between the banks and SHGs in the mobilization of rural savings and improving the delivery of credit to the poor. In July 1991, an RBI circular gave a flexible mandate to the commercial banks and the co-operatives to make the SHG operations part of the normal banking business.

The RBI constituted a working group in 1994 to review the functioning of NGOs and SHGs. Accepting its recommendations, RBI advised the banks that lending to the SHG

should be considered as an additional segment under priority sector advances. To speed up the growth of SHGs through efficient facilitation and to enable proper monitoring of groups, NGOs were encouraged to play an intermediary role (Karmakar, 1999 and Dasgupta 2001).

### **3.1.2 Models of SHGs**

Three kinds of models of SHGs exist in the country. They are

1. Model A comprise SHGs formed and financed by banks.
2. Model B comprise SHGs formed by NGOs and formal agencies like various government departments but directly financed by banks.
3. Model C comprises SHGs financed by banks using NGOs as financial intermediaries.

As on 31-3-2002, model B comprised 75% of all the credit linked SHGs. Model A comprised 16 per cent of groups and model C comprised 9 per cent of groups. Between 2000-01 and 2001-02, the national share of models B and A increased at the expense of model C [see [www.nabard.org](http://www.nabard.org)]. Model B is broken up in to five parts as reported by NABARD. Model B is also reported as groups formed by NGOs.

1. Model D comprise SHGs formed by Government agencies and are financed through their facilitation. They include, DRDA in several states, Women's Development Corporation in Tamil Nadu etc,
2. Model E comprise groups formed by banks but financed through the facilitation by Bank staff viz., the Oriental Bank of Commerce [a public sector bank in Dehra-dun [Uttaranchal] and Hanumangarh [Rajasthan]. This is a copybook Grameen style model, which federates groups in to centers.
3. Model F comprise groups facilitated by the NGO/SHG cluster associations viz., the Rashtriya Sewa Samithi in Andhra pradesh etc.
4. Model G comprises groups facilitated by the NGO/Mutually Aided Cooperative Trust Societies (MACTS) known as the Mahila Banks in Andhra Pradesh.

### **3.1.3 Data and Methodology**

There is a severe limitation in carrying out a full-fledged macro analysis of thrift and credit behaviour of self help groups, efficiency of the use of common resources, extent of intra-group credit widening, responsibility sharing, participation in group deliberations and meetings and relative credentials of groups that received external [revolving fund and bank loan] assistance against those did not.

Nationwide data are not available on the number of SHGs by type- let alone about the composition, sources and the volume of funds and other performance indicators. NABARD has only bank loan and refinance related data on the groups that are credit linked with the commercial banks. Hence, the chapter focuses on the outreach of SHGs of the female population linked to banks. For this purpose, we use data from Census, [www.aponline.in](http://www.aponline.in), NABARD micro finance 2002, [www.nabard.org](http://www.nabard.org), [www.indiastat.com](http://www.indiastat.com), [www.censusindia.net](http://www.censusindia.net) and Basic Statistical Returns of Reserve Bank of India. The analysis is carried out at various levels - national, state, district and mandal. A few limitations of the analysis may be noted at the outset. In this study, SHGs imply credit linked SHGs, except in Tables 3.1 and 3.6. In the former, the growth of SHGs is discussed using data from 1992-93 on number of SHGs refinanced. In the latter, Mandal level outreach of SHGs in Prakasam district is discussed. Since data on number of credit linked SHGs is available only from 1998-99, it shall be used in the text. In case of mandal level analysis of SHG outreach, reference is only to all the government formed and nurtured SHGs as on March 2001. With respect to the analysis of all India, Andhra Pradesh and Prakasam district data, population implies rural female population excluding girl children.

## **3.2 Growth of SHGs in India and its Outreach Across States**

### **3.2.1 Growth of SHGs in India**

We understand the growth of SHGs in the light of NABARD's objective of reaching 100 million poorest by the year 2007. We witness a drastic fall in the percentage growth of number of SHGs vis-a-vis substantial growth of absolute number of SHGs. While the former was 0, 249, 130 and 75 in 1998-99, 1999-2000, 2000-01 and 2001-02, the figure of latter stood at 32995, 94645, 213213 and 340131 in the respective years

1998-99, 1999-2000, 2000-01 and 2001-02. However, this is not sufficient to explain the importance of SHG rooted institutional financing in the country. We can get data from the year of inception of NABARD promoted SHGs only regarding the number of refinanced SHGs. Since about 75 per cent of SHGs are given refinance support by NABARD, we reinforce this conclusion using the 10 year data on the number of SHGs refinanced in Table. 3.1.

**Table 3.1 : Growth of refinanced SHGs in india**

Year	Number of SHGs refinanced	Percentage growth in refinanced SHGs
1992-93	255	0
1993-94	620	143
1994-95	2122	242
1995-96	4757	124
1996-97	8598	81
1997-98	14317	67
1998-99	32995	130
1999-2000	94645	187
2000-01	213213	125
2001-02	340131	60

Source: NABARD Micro Finance 2002 and [www.nabard.org](http://www.nabard.org).

By March 2002, 7.8 million families were covered under SHGs reaching an estimated 39 million poor [assuming 5 members per family]. Between 1999-2000 and 2000-02, the average group size declined from about 18 to 16.8. Under the assumption of the average group size being 16 and constant family size, 1.25 million groups have to be linked by 2007 at a simple annual rate of about 1.58 lakh groups per annum. Thus, while the growth looks impressive, reaching the target of 100 million poor by 2007 looks unlikely.

### **3.2.2 Distribution of SHGs across Indian States**

The distribution of SHGs across the states is marked by wide inequalities across regions and states with in regions. Over two –thirds of the total 4.61 lakh groups in India are located in the four South Indian states (Table 3.2). Another six percent of the total SHGs are located in Maharashtra and Gujarat. Thus, close to three–fourths of all SHGs in India are located in the Southern and Western states of India which also report very high density of commercial bank offices and cooperatives. Going beyond the absolute number of SHGs by standardizing them by female population, it is seen that the southern and western states maintain their supremacy. While the southern states

report over 100 SHGs per lakh population, it is less than 72 for most of the Northern, North Eastern and Eastern states with few exceptions (Table 3.2). The exceptions are, Himachal Pradesh and Uttaranchal: where the density of SHGs is comparable to that in the south Indian states. The higher density of SHGs in south India goes along with wide variations among the states. While Kerala reported 122 SHGs per lakh population, Karnataka reported almost twice that number. The number of SHGs for Tamil Nadu is 361 which is over 70 per cent higher than that of Karnataka. Andhra Pradesh tops if all with a phenomenal 739 SHGs per one lakh female population. In other words, one out of every ten women in Andhra Pradesh is a member of a SHG. Hence Andhra Pradesh would be an interesting case to study.

**Table 3.2: Distribution of SHGs Across Indian States**

States	Female population in lakhs (2001)	Number of SHGs	Percent share of SHGs SHG's	Number of SHGs per lakh population
Andhra Pradesh	274	202301	44	739
Tamil Nadu	174	62709	14	361
Karnataka	172	37032	8	215
Himachal Pradesh	27	5069	1	186
Orissa	155	20553	4	133
Kerala	121	14759	3	122
Uttaranchal	32	3323	1	105
Maharashtra	273	19619	4	72
Gujarat	154	9496	2	62
West Bengal	281	17143	4	61
Goa	3	203	0	61
Rajasthan	209	12564	3	60
Uttar Pradesh	624	33114	7	53
Jharkhand	103	4198	1	41
Madhya Pradesh	213	7981	2	37
Chhatisgarh	103	3763	1	36
Arunachal Pradesh	4	108	0	26
Meghalaya	9	179	0	20
Manipur	9	134	0	15
Haryana	70	970	0	14
Bihar	357	3957	1	11
Sikkim	2	23	0	10
Assam	113	1024	0	9
Jammu & Kashmir	36	300	0	8
Punjab	75	407	0	5
Nagaland	8	15	0	2
Tripura	13	7	0	1
INDIA	3622	461478	100	127

Source: NABARD Micro Finance, [www.nabard.org](http://www.nabard.org)



Since our choice is based on outreach in relation to population, we take village as a unit to get an accurate picture of outreach. In this process, we recognize that average population per village varies across states [Table 3.3]. In Table 3.3, we relate the percentage of average female population per inhabited village in the national average across states and regions with average number of SHGs per village across states and regions.

**Table 3.3: Distribution of states according to the village level outreach of SHGs in relation to average village population**

Regions	States	Number of inhabited Villages	Average female population per village	Average number of SHGs per village	Average village female population as a % of the Total (India)
South	Kerala	1384	8758	11	1417
South	Andhra Pradesh	26586	1030	8	167
South	Tamil Nadu	15822	1097	4	178
South	Karnataka	27066	635	1	103
West	Gujarat	18028	855	1	138
West	Goa	360	932	1	151
Central	Uttar Pradesh	112803	554	0	90
Central	Madhya Pradesh	71526	298	0	48
East	Orissa	46989	330	0	53
East	West Bengal	37910	742	0	120
East	Bihar	67513	529	0	86
East	Sikkim	447	504	0	81
North	Himachal Pradesh	16997	161	0	26
North	Rajasthan	37889	551	0	89
North	Haryana	6759	1028	0	166
North	Jammu & Kashmir	6445	565	0	91
North	Punjab	12428	607	0	98
Northeast	Arunachal Pradesh	3649	114	0	18
Northeast	Meghalaya	5484	167	0	27
Northeast	Manipur	2182	410	0	66
Northeast	Assam	24685	456	0	74
Northeast	Nagaland	1216	649	0	105
Northeast	Tripura	855	1507	0	244
West	Maharashtra	40412	675	0	109
All	INDIA	585897	618	1	100

Note: Computed figures are rounded figures. Since data on number of inhabited villages is not found for Chattisgarh, Jharkhand and Uttaranchal, these states are not included in the above table.

Source: [www.nabard.org](http://www.nabard.org), [www.indiastat.com](http://www.indiastat.com), [www.censusindia.net](http://www.censusindia.net)

On an average, all states belonging to four out of six regions viz., Central, East, North and North East hardly have any SHG per village. In the western region, we witness this phenomenon in Maharashtra. All four states in the southern region have at-least one SHG per village. Within the southern region, Kerala has eleven SHGs, which is the highest number. But Kerala's average population per village is 8.5 times that of Andhra Pradesh's 1030, whereas, its average number of SHGs per village is just 0.38 times above that of Andhra Pradesh's eight.

### **3.3 Outreach of SHGs Across Districts of Andhra Pradesh<sup>1</sup>**

#### ***3.3.1 Performance of SHGs across the Districts of Andhra Pradesh***

Performance of Andhra Pradesh in terms of number of groups is so overwhelming that even the least performing district [Cuddapah] had 275 SHGs per lakh population, which is about 2.16 times the national average of 127. Table 3.4 presents the district level outreach of SHGs.

#### ***3.3.2 Distribution of SHGs by Population Across Districts***

The size of rural female population in the 22 districts of Andhra Pradesh does not show any significant variation. Generally, districts have between 10 and 15 lakh rural female population. While the size of districts is comparable, the number of SHGs shows wide variation across the districts of the state. East Godavari alone accounts for almost 15 percent of the total number of SHGs in Andhra Pradesh and seven districts together account for over 50 per cent of the total number of SHGs. The numbers vary from about 2700 in Cuddapah and 13 times that in East Godavari [Table 3.4].

The wide variation in the number of SHGs in the districts translates itself in to wide variation in the density of SHGs. East Godavari reports close to 1900 SHGs per lakh population and Cuddapah, less than 300 SHGs per lakh population.

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<sup>1</sup> While NABARD's national data show that Andhra Pradesh has 739 SHGs per lakh population (Table 3.2), NABARD's district level data show 891 (Table 3.4). Since the discrepancy is on the higher side, there is no harm in using this data.

**Table 3.4: Distribution of SHGs by population indicators across districts**

Districts	Female population in lakhs (1991)	Number of SHGs	Number of SHGs per one lakh female population	Average female population per SHG
Adilabad	9	6806	747	134
Anantapur	13	6984	526	190
Chittoor	15	11982	825	121
Cuddapah	10	2680	275	363
East Godavari	19	34765	1871	53
Guntur	16	7981	508	197
Karimnagar	14	14880	1060	94
Khammam	10	13141	1295	77
Krishna	14	14852	1054	95
Kurnool	13	6399	479	209
Mahbubnagar	15	11653	754	133
Medak	11	11832	1049	95
Nalgonda	14	8032	581	172
Nellore	10	6203	608	164
Nizamabad	10	7953	818	122
Prakasam	13	7077	556	180
Rangareddi	8	8152	1016	98
Srikakulam	11	19722	1742	57
Visakhapatnam	11	12635	1109	90
Vizianagaram	9	4459	486	206
Warangal	13	18848	1464	68
West Godavari	15	7078	468	214
<i>Total</i>	274	244114	892	112

Source: [www.nabard.org](http://www.nabard.org), [www.indiastat.com](http://www.indiastat.com), [www.censusindia.net](http://www.censusindia.net)

We now turn to the village level outreach of SHGs across districts of Andhra Pradesh using the same information that has been used to understand the village level outreach across states. Neither average population per village across districts nor number of inhabited villages across districts reveal any definitive relationship with the number of SHGs per village [Table 3.4]. Then, which are the correlates of the number of SHGs per village?

### 3.4 The Correlates of Density of SHGs

The correlates chosen for analysis are female literacy, percentage of agricultural labourers in total workforce, percentage of SC/ST's in total population, number of bank accounts per thousand population and number of credit accounts per thousand population on the other in the five tables 3.5 to 3.9.

Intuitively speaking, number of SHGs is supposed to have positive relationship with percentage of agricultural labourers in total workforce and the percentage of SC/ST's in

total population. It is supposed to have inverse relation with percentage of literates in total female population, number of bank accounts per thousand population and number of credit accounts per thousand population. On farm employment is seasonal in nature. during off-season, agricultural labourers would be unable to find off-farm employment in most cases. In the by-and-large caste ridden rural Indian society, poverty and social status would have one to one relationship in cases where SC/STs are not formally employed.

Literacy would indicate higher family capability in terms of earning income. Number of bank accounts per thousand population indicate the extent of individual participation in banking. Number of credit accounts per thousand population would indicate the relative ease for individual to acquire formal credit.

**Table 3.5: SHGs and Female literacy**

Number of SHGs per lakh population	Literacy rate			
	Below 45	45-49.99	Above 50	Total
Less than 500	2	0	2	4
500-599	1	2	1	4
600-799	2	0	1	3
800-999	1	0	1	2
Above 1000	3	3	3	9
Grand total	9	5	8	22

Source: Appendix 3.1

**Table 3.6: SHGs and percentage of agricultural labourers**

Number of SHGs per lakh population	Percent of agricultural labourers			
	Less than 30	30-34.99	35-39.99	40-49.99
Less than 500	0	1	0	2
500-599	0	0	1	1
600-799	0	0	1	2
800-999	0	2	0	0
Above 1000	2	0	2	4
Grand total	2	3	4	9

Source: Appendix 3.1

**Table 3.7: SHGs and percentage of SC/STs in total population**

Number of SHGs per lakh population	SC/ST as a % in total population			
	Less than 10	10-19.99	20-29.99	Above 29
Less than 500	0	3	1	0
500-599	0	2	2	0
600-799	0	0	1	2
800-999	0	0	2	0
Above 1000	0	2	5	2
Grand total	0	7	11	4

Source: Appendix 3.1

**Table 3.8: SHGs and number of bank accounts per thousand population**

Number of SHGs per lakh population	Number of bank accounts per thousand population			
	200 to 300	301 to 400	Above 400	Total
Less than 500	1	1	2	4
500599	1	1	2	4
600799	2	0	1	3
800999	0	1	1	2
Above 1000	3	3	3	9
Grand total	9	6	9	22

Source: Appendix 3.1

**Table 3.9: SHGs and credit accounts per thousand population**

Number of SHGs per lakh population	Number of credit accounts			
	Below 75	75 to 90	Above 90	Total
Less than 500	1	2	1	4
500599	1	0	3	4
600799	1	1	1	3
800999	0	1	1	2
Above 1000	6	2	1	9
Grand total	9	6	7	22

Source: Appendix 3.1

Table 3.5 does not reveal any definitive relation between number of SHGs and percentage of female literates. This raises doubt as to whether relatively fewer number of people in districts with relatively lesser number of SHGs are agricultural labourers. In this regard, table 3.6 leads to ambiguity regarding the relation between number of SHGs and percentage of agricultural labourers. Both districts having less than 30 percent of workforce engaged in agricultural labour had more than thousand SHGs per lakh population. They are, Visakhapatnam and Rangareddy respectively. This lead us towards capturing the social dimension of SHG outreach by relating number of SHGs with percentage of SC/ST's in total population. Like the general pattern, this pattern holds good for the aforementioned districts. While Visakhapatnam district ranks fifth in terms of number of SHGs, it ranks eighth in SC/ST percentage. Whereas, Rangareddy ranks twelveth and ninth respectively.

General pattern is understood in terms of looking at districts in the first two and last two categories together. Since the relationship between number of SHGs and percentage of SC/ST population does not have a specific pattern looking at data, I relate number of SHGs with banking indicators. Table 3.8 relates number of SHGs per lakh population with number of deposit accounts per thousand population and Table 3.9 relates number of SHGs per lakh population with number of credit accounts per thousand population.

While Table 3.8 does not show any definite relationship, Table 3.9 shows an inverse relationship between the number of SHGs per lakh population and number of credit accounts per one thousand population. For instance, the proportion of districts with fewer than 600 SHGs per one lakh population steadily increases as we move from credit account class below 75 to above 90.

In this context, Prakasam district becomes important. It ranks second only to Nellore in number of credit accounts. Whereas, it ranks 16th in number of SHGs. With 555 SHGs per lakh population, it is at the median of districts which have below 1000 SHGs. This could show locational variation regarding the performance of SHG's within the district.

### **3.5 Mandal Level Performance of SHGs and Choice of Mandals to Select Villages for Primary Survey**

#### **3.5.1 Outreach of SHGs Across Mandals of Prakasam District**

There are 56 mandals in Prakasam district. Data reveals that number of villages and population per village substantially vary across mandals. For example, the former vary from three in Cherala to 40 in Kandukuru and the later vary between 500 in CS.Puram and about 6000 in Cherala respectively.

The Appendix 3.5 clearly shows that mandals which performed worse in terms of number of SHGs per thousand population [below 10] had population of well over 20000. Five out of seven highest populated mandals having population of 30000 to 40000 fall in this category. The Table 3.10 relates mandal population with number of SHGs per village.

**Table 3.10: Distribution of mandals by number of SHGs and population**

Female population in thousands	Number of SHGs per thousand population				Total
	Below 10	10 to 14	15 to 19	20 and above	
Below 15	0	0	1	2	3
15 to 19	0	8	5	4	17
20 to 29	6	10	9	4	29
Above 29	5	2	0	0	7
Grand total	11	20	15	10	56

Source: Appendix 3.5

Table 3.10 shows that none of the seven mandals with population above 30000 are in the top category in terms of SHGs per one thousand population. The table shows that the likelihood of villages having more than 15 groups diminishes with the increase in the population across mandals. We thus understand that high population in a well-defined locality results in lesser ability of government officials [Mandal Development Officer] to promote SHGs.

Next subsection discusses the choice of mandals and organizations from which groups are chosen for survey. Three villages are selected based on perceived indicators of backwardness backed up by data. Urban areas are indicators of forwardness.

Here, it may be important to note that our study of the urban groups may be the starting point of incorporating the urban dimension in the study of the SHGs. However, the existing printed and website data refers only to the rural groups.

### ***3.5.2 Choice of Survey Location***

Choice of rural NGOs is done based on our perceived notion of backwardness. NGO named Social Action for Advancement of Rural Development Society (SAARDS) functions with physically disabled - including blinds and mentally disabled. However, mentally disabled are not part of SHGs. NGO named Assist India is chosen due to its functioning among child labourers. It facilitated groups of mothers of child labourers. NGO named Gramasiri is chosen due to grameen style functioning in terms of shouldering of financial responsibility of the groups.

Villages are chosen based on random sampling of villages where SHGs of the respective NGOs are functioning subject to the existence of government groups. Groups themselves are chosen based on random sampling within the villages. However, care is taken to capture the possible variation in the functioning of SHGs based on some information on the occupational characteristics of mandals that are outlined below.

Markapur is selected due to less work force and substantial percentage of work force employed in other occupations which includes stone quarrying and slate making where substantial number of child labourers are reportedly involved. It ranks fifty-second among mandals in terms of percentage of working population with 41.48 per cent. 45

per cent of workforce is engaged in other occupations - next only to Ongole that is near urban location. Apart from this, it ranks fifty-second in terms of percentage of cultivators with just 15 per cent of them. Apart from this, Markapur falls in the worse rainfall zone.

Ponnalur mandal is selected due to relatively high proportion of marginal workforce. It ranks seventh in terms of percentage of marginal workers with 8.74 per cent of them. Tangutur mandal is selected due to high percentage of agricultural labourers and a relatively lesser proportion of marginal workers. It ranks fourth and 49th on these counts.

Apart from the above reasons, villages from the aforementioned mandals fulfill our distance criteria with their distance from Ongole [district headquarters] being about 100, 65 and 22 kilometres respectively. The villages are Pedanagulavaram, Ravulakollu and Jeyavaram respectively.

In urban area [Ongole], choice of NGO is based on the need for proper record maintenance. Project officer herself admitted that by-and-large, urban groups do not maintain proper records and suggested an NGO named Bismilla Mahila Mandali, which we chose. Out of the two facilitators of Development of Women and Children in Urban Areas (DWACUA) groups suggested, we chose Prashanthi Mahila Mandali. Three groups each are chosen based on random sampling. Locations of the facilitators happen to be distinct. The former organization functions in Islampet with muslim majority and the other in Gandhinagar respectively. (*Group profile shall be discussed in detail in the next [analysis] chapter*).

### **3.7 Conclusion**

Andhra Pradesh was chosen based on the outreach of SHGs at the village level. Andhra Pradesh had groups 5 times the state average. Prakasam district was chosen due to the perceived variation of the functioning of SHGs across survey locations within the district. This is aided by relatively high rank of the district in number of credit accounts, which has an inverse relation with number of SHGs per lakh population. This is despite high dependancy of its population on farm sector with 79 per cent of the workforce earning its livelihood. Over 50 per cent of the entire workforce were agricultural labourers in the year 1991.



Chosen NGOs operate subject to the availability of government SHGs to enable the capture of organizational variation. Choices of mandals fulfill distance as well as occupational criteria. While Markapur has substantial workforce engaged in other occupations - mainly quarrying and slate making, and we find relatively higher number of marginal workers in Ponnalur. Number of agricultural labourers is relatively high in Tangutur mandal.

Urban groups are chosen based on the random sampling of groups of those organizations suggested by the Municipal project officer by virtue of their ability to maintain records reasonably well.

### Appendix 3.1

#### Distribution of SHGs by population indicators and village level outreach across districts

Districts	Number of shg's per one lakh female population	Average female population per SHG	Inhabited villages in 1991	Average female population per village	Average number of shg's per village	Average village female population of districts as percentage of state
Adilabad	747	134	1581	576	4	56
Anantapur	526	190	932	1425	7	139
Chittoor	825	121	1481	981	8	95
Cuddapah	275	363	880	1106	3	108
East Godavari	1871	53	1322	1406	26	137
Guntur	508	197	692	2272	12	221
Karimnagar	1060	94	1016	1381	15	134
Khammam	1295	77	1092	930	12	90
Krishna	1054	95	937	1504	16	146
Kurnool	479	209	886	1507	7	147
Mahbubnagar	754	133	1475	1048	8	102
Medak	1049	95	1223	922	10	90
Nalgonda	581	172	1119	1235	7	120
Nellore	608	164	1100	927	6	90
Nizamabad	818	122	855	1137	9	111
Prakasam	556	180	1081	1178	7	115
Rangareddi	1016	98	865	927	9	90
Srikakulam	1742	57	1728	655	11	64
Visakhapatnam	1109	90	3082	370	4	36
Vizianagaram	486	206	1458	629	3	61
Warangal	1464	68	985	1307	19	127
West Godavari	468	214	849	1782	8	173
<i>Total</i>	<i>892</i>	<i>112</i>	<i>26639</i>	<i>1028</i>	<i>9</i>	<i>100</i>

Source: [www.censusindia.net](http://www.censusindia.net), [www.indiastat.com](http://www.indiastat.com), [www.nabard.org](http://www.nabard.org) and [www.aponline.in](http://www.aponline.in)

### Appendix 3.2

#### Literacy and Religious status across the districts in Andhra Pradesh

Sl No	Districts	Population (1991) (%)		SC literacy (1991)			ST literacy (1991)			Religious Status (in % in 1991)			
		SC	ST	T	M	F	T	M	F	H	Mu	Ch	O
1	Srikakulam	9	6	31	43	19	20	29	10	100	0	0	0
2	Vizianagaram	10	9	29	40	17	16	23	9	99	1	1	0
3	Visakhapatnam	8	14	45	56	33	17	25	8	97	2	1	0
4	East Godavari	18	4	40	47	33	22	28	16	97	1	1	0
5	West Godavari	18	2	41	47	34	24	29	19	93	2	4	0
6	Krishna	17	2	40	49	31	22	30	13	88	6	5	0
7	Guntur	14	4	37	48	26	21	30	11	83	11	7	0
8	Prakasam	20	4	31	44	18	21	30	12	91	7	2	0
9	Nellore	22	9	35	45	25	16	21	12	90	9	1	0
10	Chittoor	18	3	35	47	23	21	28	13	90	9	1	0
11	Cuddapah	15	2	32	46	18	23	33	12	83	15	2	0
12	Anantapur	14	3	26	37	14	27	39	14	88	11	1	0
13	Kurnool	17	2	28	41	15	25	37	12	82	17	1	0
14	Mahbubnagar	18	7	15	23	5	10	17	3	91	9	1	0
15	Rangareddi	17	4	30	41	19	17	26	8	86	12	2	0
16	Hyderabad	9	1	59	69	49	45	56	32	58	39	2	1
17	Medak	18	4	17	27	8	12	19	3	87	12	1	0
18	Nizamabad	15	6	20	30	10	12	21	4	85	14	1	0
19	Adilabad	19	17	24	35	13	18	27	28	89	9	1	1
20	Karimnagar	19	3	25	36	14	12	20	4	94	6	0	0
21	Warangal	17	14	27	38	16	13	21	5	94	6	1	0
22	Khammam	16	25	32	42	21	16	24	8	93	6	1	0
23	Nalgonda	18	10	25	36	12	15	24	4	94	5	1	0
Tot.	Andhra Pradesh	16	6	32	42	21	17	25	9	89	9	2	0

*Source: www.censusindia.net, www.indiastat.com, www.nabard.org and www.aponline.in*

Note: T – Total Persons, M – Male, F – Female, H – Hundus, Mu- Muslims, CH- Christians,

O - Others

**Appendix 3.3**  
**Occupational Status across Districts in Andhra Pradesh**

Districts	Percentage of workers across districts (1991 census)									
	Cultivators	Agricultural Labourers	Allied Activities	Mining and Quarrying	Household Industry	Manufacturing	Construction	Trades and Commerce	Transport, Storage and Communication	Other Service.
Adilabad	33.9	35.0	1.2	6.2	4.9	5.3	0.9	4.4	1.4	6.8
Ananthapur	35.5	38.6	1.7	0.2	3.3	3.6	1.7	5.7	2.5	7.2
Chittoor	37.7	35.0	2.1	0.4	2.3	4.1	1.4	6.1	2.5	8.4
Cuddapah	29.8	40.2	1.8	0.5	3.9	4.0	1.6	6.7	2.7	8.7
East Godavari	14.9	50.4	2.6	0.2	3.3	5.3	1.1	8.2	3.0	11.0
Guntur	20.5	51.5	1.3	0.5	1.2	5.4	1.3	7.2	3.0	8.1
Karimnagar	31.0	35.7	1.3	2.9	7.9	7.0	1.3	4.0	1.4	7.4
Khammam	27.2	48.4	1.3	3.2	1.9	3.4	1.3	4.7	1.7	6.9
Krishna	15.7	48.6	1.9	0.5	2.4	6.2	1.6	8.6	5.3	9.2
Kurnool	24.7	49.5	0.9	1.8	2.3	3.8	1.7	5.7	2.0	7.4
Mahabubnagar	39.4	42.2	1.8	0.3	1.9	3.6	1.0	3.8	1.1	4.9
Medak	39.9	36.8	1.4	0.5	2.8	6.9	0.9	4.0	1.2	5.6
Nalgonda	32.3	43.0	1.3	0.3	5.3	4.1	1.5	4.6	1.7	5.8
Nellore	21.3	47.7	2.9	0.4	3.0	4.1	1.9	6.8	2.7	9.3
Nizamabad	33.5	31.5	1.4	0.2	13.6	5.0	1.1	5.4	1.4	6.9
Prakasam	26.5	50.9	2.1	0.3	2.5	3.4	1.2	4.9	1.7	6.6
Rangareddy	25.3	28.5	1.9	1.6	1.0	13.8	4.5	7.9	4.3	11.1
Srikakulam	32.7	41.5	4.0	0.2	3.8	2.3	0.6	5.8	1.5	7.6
Visakhapatnam	36.3	23.6	2.3	0.5	2.6	6.5	2.5	7.4	5.0	13.3
Vizianagaram	38.4	34.2	2.2	0.3	3.4	3.8	0.7	6.6	2.3	8.2
Warangal	32.4	42.1	1.1	0.5	3.5	5.0	1.6	4.6	2.3	7.0
West Godavari	15.1	55.2	1.7	0.2	2.2	5.1	1.0	7.3	2.7	9.5

Source: www.aponline.in and www.censusindia.net

### Appendix 3.4

#### Banking development by Districts of Andhra Pradesh

Districts	No. of bank a/c /1000`'s	Deposits per a/c (000`'s)	No. credit a/c /1000`'s	% artisans a/c	no of SSI a/c	% of SSI a/c
Adilabad	283.54	14.83	67.65	0.85	814	0.49
Anantapur	395.88	11.68	92.76	2.01	7698	2.28
Chittoor	415.47	15.58	95.81	1.22	2817	0.79
Cuddapah	430.35	11.63	103.41	2.49	3849	1.45
East Godavari	421.95	11.83	70.12	0.60	4799	1.40
Guntur	453.75	12.99	92.02	0.26	3296	0.81
Hyderabad	1167.20	43.18	141.23	0.77	36524	7.02
Karimnagar	360.05	15.78	74.31	0.89	2097	0.81
Khammam	267.15	12.83	62.57	0.57	1147	0.71
Krishna	506.65	13.96	80.34	0.70	4650	1.37
Kurnool	355.69	11.10	76.98	1.21	1685	0.62
Mahbubnagar	219.86	11.37	75.32	3.63	3280	1.24
Medak	272.36	13.34	92.69	1.97	1965	0.80
Nalgonda	235.23	10.27	63.97	1.52	3540	1.71
Nellore	411.86	11.50	107.42	0.74	1545	0.54
Nizamabad	369.76	13.26	85.12	0.44	1097	0.55
Prakasam	428.06	10.46	105.65	1.09	2176	0.67
Rangareddi	316.68	22.25	45.71	0.66	5747	3.59
Srikakulam	340.20	9.16	68.01	0.96	3098	1.80
Visakhapatnam	466.17	20.92	71.25	1.33	4184	1.55
Vizianagaram	268.00	10.35	67.16	0.86	1366	0.91
Warangal	284.46	15.78	82.00	1.08	2411	0.91
West Godavari	435.95	10.60	83.12	0.43	3914	1.24
Andhra Pradesh	408.37	17.61	82.99	1.13	103699	1.65

Source: Basic statistical returns of Scheduled Commercial Banks -RBI (2001)

### Appendix 3.5

#### Distribution of SHGs by population indicators and village level outreach of SHGs across mandals of Prakasam district

Mandal	No. of villages	Female popn. in thousands	Average female popn. per village	Number of SHG's	Average number of SHG's per village	Number of SHG's per thousand female popn.	Average female popn. per SHG
Voletivaripalem	8	13.90	1,738	318	39.75	22.87	43.72
Hanumanthunipadu	27	14.82	549	253	9.37	17.07	58.57
Jarugumalli	17	14.86	874	331	19.47	22.27	44.90
Vetapalam	21	15.07	717	406	19.33	26.95	37.11
Talluru	26	15.64	602	304	11.69	19.44	51.45
Ulavapadu	26	16.38	630	331	12.73	20.21	49.48
Veligandla	4	16.70	4,174	212	53.00	12.70	78.75
Kurichedu	20	16.79	839	230	11.50	13.70	72.98
Parchur	16	16.82	1,051	376	23.5	22.36	44.73
Pullalacheruvu	14	16.89	1,206	266	19.00	15.75	63.49
Podili	22	17.52	796	236	10.73	13.47	74.25
Ardhaveedu	13	17.70	1,361	199	15.31	11.24	88.93
Chirala	3	17.93	5,975	413	137.67	23.04	43.40
Konakanamitla	22	18.12	824	202	9.18	11.15	89.71
Kothapatnam	19	18.55	976	285	15.00	15.37	65.07
Pedacherlopalle	22	18.56	844	288	13.09	15.52	64.44
Markapur	26	18.80	723	276	10.62	14.68	68.11
Dornala	19	18.88	993	226	11.89	11.97	83.52
Chandra Sekharapuram	38	19.01	500	192	5.05	10.10	99.01
Karamchedu	21	19.44	926	273	13.00	14.04	71.22
Kanigiri	7	19.52	2,788	377	53.86	19.31	51.77
Santhanuthalapadu	8	19.78	2,473	412	51.5	20.83	48.02
Ongole	29	20.26	698	400	13.79	19.75	50.64
Chinaganjam	7	20.30	2,900	353	50.43	17.39	57.51
Yerragondapalem	25	20.31	812	377	15.08	18.56	53.87
Bestavaripeta	21	20.42	972	340	16.19	16.65	60.05
Donakonda	30	20.49	683	165	5.50	8.05	124.18
Gudlur	18	20.94	1,163	305	16.94	14.57	68.64
Tangutur	16	21.91	1,370	469	29.31	21.40	46.72
Cumbum	15	22.34	1,489	222	14.80	9.94	100.62

Mandal	No. of villages	Female popn. in thousands	Average female popn. per village	Number of SHG's	Average number of SHG's per village	Number of SHG's per thousand female popn.	Average female popn. per SHG
Janakavarampanguluru	15	22.34	1,489	297	19.80	13.30	75.22
Naguluppalapadu	17	22.72	1,337	500	29.41	22.01	45.44
Kondapi	10	22.98	2,298	261	26.10	11.36	88.05
Komarolu	34	23.11	680	216	6.35	9.35	106.97
Ponnaluru	19	23.18	1,220	255	13.42	11.00	90.92
Korisapadu	7	23.28	3,325	385	55.00	16.54	60.46
Maddipadu	23	23.50	1,022	371	16.13	15.79	63.33
Inkollu	9	23.91	2,657	425	47.22	17.77	56.27
Lingasamudram	20	24.00	1,200	255	12.75	10.62	94.13
Ballikurava	14	24.34	1,739	287	20.50	11.79	84.82
Tripuranthakam	12	24.77	2,064	314	26.17	12.68	78.88
Martur	29	25.92	894	372	12.83	14.35	69.69
Yeddanapudi	33	26.12	792	238	7.21	9.11	109.76
Racherla	11	26.52	2,411	250	22.73	9.43	106.09
Tarlupadu	18	26.54	1,474	216	12.00	8.14	122.85
Santhamaguluru	16	26.93	1,683	446	27.88	16.56	60.39
Pamur	14	27.98	1,998	320	22.86	11.44	87.43
Pedda Raveedu	32	28.14	879	168	5.25	5.97	167.48
Singarayakonda	17	29.46	1,733	336	19.76	11.41	87.68
Chimakurthy	24	31.71	1,321	353	14.71	11.13	89.83
Marripudi	13	31.77	2,444	231	17.77	7.27	137.55
Mundlamuru	18	34.21	1,900	287	15.94	8.39	119.19
Darsi	38	36.43	959	289	7.61	7.93	126.06
Addanki	19	36.95	1,945	436	22.95	11.80	84.74
Giddaluru	19	38.36	2,019	341	17.95	8.89	112.48
Kandukur	40	40.19	1,005	304	7.60	7.56	132.19
Prakasam	1081	1,273.96	1,178	17190	15.90	13.49	74.11

## CHAPTER 4

### FINANCIAL FUNCTIONING OF THE SELF HELP GROUPS

#### 4.1 Introduction

At the outset, it may be mentioned that 221 members distributed over 22 groups are surveyed. It may also be noted that the information on both the groups of Gramasiri [a NGO belonging to village Ravulakollu] shall not be used, except in Section 4.3 where the group profile is discussed. This is because, they are not obliged to meet regularly and resort to internal lending. They need to save in the initial three to four months of their existence and deposit the amount with Gramasiri. Gramasiri takes up the responsibility of simultaneous lending to all the members. Since only three groups apart from both the Gramasiri groups received bank loan and repayment being prompt in all the cases, a comparative study of groups with good and poor repayment record is not possible.

Section 4.2 presents the characteristics of survey locations according to the member's economic status, number of man-days of employment and wage level across gender. Section 4.3 presents group profile in terms of demographic, economic, educational and social factors. The demographic factors are age of the groups, group size and gender composition of the groups. Economic factors are member's occupations and land holdings status. Social factors are caste and religious affiliation of the members.

It may be mentioned that there is no organizational restriction of group size. However, all the six organizations operating in rural areas said that they stick to the NABARD guidelines of ten to 20 members per group. Urban organizations like DWACUA and District Minority Women's Association (DOWMA) had similar opinions. So far as the gender is concerned, only SAARDS promoting groups comprising handicapped members allow mixed membership. All other organizations promote women's groups.

Three broad objectives of this chapter are; (1) probing thrift behavior of the groups, (2) probing the credit behavior of the groups and (3) probing in to the possible bias in the credit off-take.



This chapter is organised as follows. Section 4.4 discusses the thrift behavior of groups and the impact of group thrift on the dependency of members on informal moneylenders. Section 4.5 delineates members' purpose behind the savings. The credit behaviour of the groups is discussed in Section 4.6 and the possible bias in the credit off-take is analysed in Section 4.7. Section 4.8 is the conclusion.

## **4.2 Characteristics of Survey Locations**

Since the study is based on a sample survey, data was not collected on village population and social groupings [caste]. A meaningful interpretation of variables requires location specific contextualization. This in turn necessitates the information at least on certain economic indicators. Annual number of days of employment per person, daily wage per person across occupations by locations and gender and the occupation that is widespread in the location enable us to contextualize the thrift and credit behaviour of the members.

In village Pedanagulavaram [most backward and 100 Kilometers from the district headquarters], hardly 50-60 days of employment is available per person on farm. Male agricultural daily wage rate was reported to be Rs 40 and female Rs 25 respectively. Main employment is available in stone quarries where males get Rs 100 and females get Rs 40 per day respectively. However, we found occupational segregation along caste lines. While Madiga [schedule caste] people undertake farming, Vadde [Backward caste] people are mainly involved in quarrying which is their caste occupation. Apart from the reluctance of SCs to work in quarries, Pedanagulavaram is economically backward due to two impressionistic reasons. Firstly, among quarry workers, many indulge in alcoholism irrespective of gender. Secondly, food occupies a substantial portion of their commodity basket. It would be thrice that of normal labourer per-capita. This implies that ration of subsidised food through public distribution system (PDS) is not sufficient thus forcing them to buy substantial amount in the open market. Livestock rearing seems to be widespread although not as widespread as the other two villages due to by and large barren nature of land.

In Ravulakollu and Jeyavaram [65 and 25 Kilometers from the district headquarters respectively], people find at least 150 days of employment in agriculture. While wage rates for male workers vary between Rs 50 and Rs 70 depending on the operations

being normal or sowing and harvesting, wage rates for females vary between Rs 30 and 45. While men hardly have alternate employment opportunities in both villages, few women find work in tobacco grading for about 2-3 months after harvest. Livestock rearing is very widespread in these villages for which the demand has not yet saturated.

In both Gandhinagar and Islampet localities of Ongole town [district headquarters]. By and large, men are labourers or petty traders and women are housewives. Contract labourers can get anywhere between Rs 50 and Rs 100 per day. Whereas, others get between Rs 40 and Rs 150 depending on the intensity of work.

### **4.3 Group Profile**

Financial and participatory performance of the groups would depend on their demographic, economic and social characteristics.

#### **4.3.1 Demographic Factors**

Demographic characteristics reveal that the age of the groups vary between two and 96 months, group size varies between 5 and 17 and all but one [Premamaya handicapped] groups comprise women. Out of 22 groups, 6, 8 and 5 groups respectively are aged between one and two, two and three and three and four years respectively. One and two groups each are aged below one and above four years respectively. In villages Jeyavaram and Pedanagulavaram, there are groups in all the age categories except below one year. In village Ravulakollu, there are no groups aged above three years. In Ongole town, all groups were formed about three years back.

Turning to the group size, we find that 16 out of 22 groups are sized 10. One group each are sized 5, 8, 9 and 17 respectively. Two groups are sized 11. Coming to the gender composition of groups, we find that except Premamaya handicapped group of village Jeyavaram, all other groups comprise women.

#### **4.3.2 Economic Factors**

The family occupations are defined as the occupations of the SHG members and their spouses. In village Jeyavaram, 20 out of 54 members are housewives owning milch cattle and 13 are agricultural labourers owning milch cattle. Rest of them are engaged

in various activities. There are 5, 4 and 2 members respectively in the labourers, agricultural labourer-cum-farmers and farmers categories. One member each is employed in animal husbandry and in a NGO. Among the 8 members who are not working, 5 belonging to Premamaya group, are extremely handicapped. In the same village, 22 spouses are engaged in farming followed by 21 agricultural labourers. 4 are engaged in occupations like driving, teaching etc while seven members are either unmarried or widows.

In village Pedanagulavaram, 23 members are engaged in labour-cum-animal husbandry followed by 17 members engaged in labour-cum-farming-cum-animal husbandry. 10, 9 and 1 members each are engaged in labour, labour-cum-farming and labour-cum-trading respectively. In the same village, 42 of the members' spouses are engaged in labour followed by 17 in labour-cum-farming. One member is a widow.

In village Ravulakollu, 28 members are agricultural labourers followed by 15 farmers all of them owning livestock. Three members are housewives while one is trader. In the same village, 25 of the members' spouses are agricultural labourers followed by 15 farmers. Two are tailors and one each is a trader and labourer-cum-farmer. Three members are either widows or unmarried.

In Ongole town, all the 31 members of the three DOWMA [Muslim] groups are engaged in manufacturing of flower garlands. 25 out of the 29 members belonging to the three DWACUA [Municipal government] groups are housewives. Rest of them are engaged in labour, trading, tailoring etc. In Ongole, 26 of the member's spouses are engaged in labour followed by 23 in other activities like tailoring, clerical, and other kinds of occupations. One is a trader. Ten members are either unmarried or widows. Turning to the member's land owning status, we find that 28 out of 54, 16 out of 60 and 16 out of 47 members in villages Jeyavaram, Pedanagulavaram and Ravulakollu own land. The range of land ownership is between one and ten acres respectively, and all the members with above five acres reside in Jeyavaram and Ravulakollu respectively.

#### **4.3.3 Social Factors**

Turning to the social factors, we find that religion does not come in to the picture as far as ascertaining heterogeneity is concerned. Five groups demonstrate heterogeneity in

caste composition. Durgabai DWACRA and Gramasiri group, both belonging to the village Ravulakollu comprise Kamma and brahmin members. However, 7 and 14 out of 10 and 17 members respectively are Kammas. All the three groups of Gandhinagar locality of Ongole town display caste heterogeneity. While seven out of ten members each in Madhavi and Padmavathi groups are kammas, two each are Reddies. One each belonging to SC. In Sitamahalakshmi group, out of 9 members, 5 members belong to other castes. The remaining 4 members include 2 each from Kammas and Reddies respectively.

#### **4.3.4 Concluding Remarks**

About 70 percent of the member's families in villages Jeyavaram and Ravulakollu depend on farm occupations for their livelihood. Whereas, almost all the families in the village Pedanagulavaram depend upon manual labour, be it agriculture or otherwise. The need for women to work seem to be relatively less in urban areas which is evident from the vast majority of the members in Gandhinagar locality of Ongole being housewives. Manufacturing activities undertaken by the DOWMA [Muslim] groups of Islampet locality of Ongole suggest the intention to bolster the family incomes.

#### **4.4 Evaluation of Thrift Behaviour of Groups**

It is recognized that the association of per capita saving with gender composition of groups as observed by Puhazhendi would be superficial (see Puhazhendi's evaluation of the SHGs in four districts of Tamil nadu, NABARD 2000). The variation in savings is related to the member's perception about the importance of thrift, their ability to save and constraints on saving. Status of first leader and members in their formal education is taken as perception indicator. Occupational and housing status of members' families along with widowhood and single motherhood is taken as ability indicator.

The identified constraint on savings is a relatively high family size among members. Since there is no change in leadership in all the groups from their inception, leaders [especially first leader] would influence the level and regularity in saving. Leaders' or members' education status is understood in terms of formal education. Number of members having beyond four years of or primary level education shall be compared across groups in saving categories to get a clearer picture.

Groups with substantial number of members and their family members engaged in occupations other than labour [manual labour] or owning land or residing in non kutchra houses would have better ability to save. Widows or single mothers or unmarried women would have lesser ability to save.

Constraints against saving can increase with increased family size. In this context, number of children for women aged below 40 would be an important explanatory factor.

#### **4.4.1 Evaluation of Thrift Behaviour of Groups**

Members of all 20 groups saved regularly. Hence, analysis of irregularity in savings is out of question. To do away with the influence of variation in the size of group membership on group savings and to bolster the argument by giving a time dimension, we classify groups in to three categories based on their per capita savings in the last six months [PSL6M]. We do not find a wide range of values. But for analytical plausibility, groups are classified in to three saving categories. Groups with PSL6M of Rs 180 come under first, Rs 300 and Rs 400 under second and Rs 600 under third categories respectively. There are eight groups in the first, ten in the second and two in the third categories respectively.

We now look at leaders' and members' education status reflecting the group's perception about the importance of saving. At the outset, it is important to note that only one SHPI called SAARDS [NGO promoting groups in village Jeyavaram], have stipulated the amount of per-capita monthly savings. Members of SAARDS groups have to save Rs 50 per month. Table 4.1 shows an increase in the number of educated first leaders to number of first leaders' which is equal to the number of groups across categories. Similarly, we observe an increase in the number of groups having educated members across categories.

**Table 4.1: Distribution of per-capita savings by educational status of first leaders**

Saving category	Educated first leaders	Number of groups with educated members	Number of groups
180	3	5	8
300 & 400	6	7	10
600	2	2	2
Total	11	14	20

However, with limited data, we have to be cautious in making inferences. Hence, we describe the relationship by examining data on the number of members educated across groups having educated members in each category. The groups are discussed in the order of locations. While one group exists in village Ravulakollu, other four groups exist in Ongole town. There is not much of a size variation among the groups. While first three groups have ten members each, next two have nine and eleven members each. In the first category itself, we observe a wide variation in the number of members educated. 2, 7, 7, 4 and 1 members each in Indirapriyadarshini, Madhavi, Padmavathi, Sitamahalakshmi and Chaitanya DOWMA groups respectively are educated. The groups with very few educated members, namely, Indirapriyadarshini and Chaitanya DOWMA groups are homogeneous in SCs and Muslims respectively. Overall, the proportion of the educated members to the total is low in this category. In this category, three groups viz., Indirapriyadarshini, Madhavi and Sitamahalakshmi groups comprise two, three and three members who had beyond four years of education.

Turning to the second category, it was found that, all six groups of village Jeyavaram, and Durgabai group of Ravulakollu comprise educated members. Except Chaitanya handicapped and Premamaya groups belonging to SAARDS [NGO promoting groups comprising handicapped members in village Jeyavaram] having 8 and 5 members and Chaitanya group of village Jeyavaram having 11 members respectively, all other groups have 10 members each. While Chaitanya group is second in the order, Chaitanya handicapped and Premamaya groups are fifth and sixth in the order. 2, 8, 3, 7, 3, 5 and 7 members respectively in the aforementioned groups received formal education. Only Premamaya handicapped group had all [5] of its members educated. Unlike in the first category, social status has nothing to do with educational backwardness or advancement. While all members of Aswani and Chaitanya handicapped groups have two and three educated members who belong to an upper caste, namely reddy, members of premamaya handicapped group are SCs. Groups in the second category are better in terms of education with five out of seven groups having 60 to 100 percent of their members received formal education vis-a-vis two out of five in the previous category. In this category, majority members of Devi, Premamaya and Durgabai groups received beyond four years of education unlike any group in the first category. Apart from them, all other groups in this category had at least one member who received more than four years of education.

Both the groups in the third category comprise Muslim members. Both groups belong to Ongole and have 10 members each. 4 members each in these groups are educated. 3 and 2 members each in Karishma and Bismilla groups had more than four years of education. From the above description, we understand that education, especially beyond primary level of education may have some influence on the amount of saving. However, in case of the third category, religious homogeneity and the determination to save more result in high saving.

We now turn to economic status of members' families for possible explanation of members ability to save. Before proceeding further, it would be pertinent to analyse the impact of member's education on thrift more systematically with large sample.

#### ***4.4.2 Members' Economic Status - An Ability Indicator***

Let us first relate categories of savings with occupational status of members' families. We can understand from the explanation below that members of groups, which saved Rs 180 per capita mostly, engage in manual labour. Only two out of 80 members own land. Due to lack of land to fall back upon, widows and unmarried girls would be constrained in their ability to save.

In the first category, three groups belonging to village Pedanagulavaram, namely Tirupatamma, Ushodaya and Dhanalakshmi precede the five aforementioned groups in the order. We find that all rural members of groups in the first category are engaged in income earning occupations. Members' husbands in all three groups of Pedanagulavaram are labourers. Members in Tirupatamma group are also labourers. Apart from manual labour, members in Ushodaya and Dhanalakshmi groups are engaged in livestock rearing. Members and spouses of Indirapriyadarshini group of Ravulakollu are agricultural labourers. Only one member from all the rural groups is a widow and she belongs to Tirupatamma group.

In urban areas, we find that all members of Chaitanya DOWMA [Muslim] group are manufacturers. Most members of other three groups are housewives. Out of four working women, in these groups, two are widows and are engaged in tailoring and labour. Of the rest, one is a nanny and other a shopkeeper respectively. Although about half of the members husbands in each of the three non-Muslim urban groups are

engaged in private office and hospital jobs and self employed occupations, existence of one widow each in each of the three groups would have affected the ability to save in a negative manner. Being housewives would also have negatively affected their interest to save more. Four members of Chaitanya DOWMA group are unmarried which also would have affected members ability to save. All the husbands in that group are labourers.

In the second category, three groups precede the groups, which were discussed in the context of members' education. They are, Jhansi, Adilakshmi and Rajyalakshmi respectively. All belong to village Pedanagulavaram. We find that about half of the member's families are better placed in terms of land ownership and engagement in self-employment or regularized occupations. All the three groups of village Pedanagulavaram fit in to the fold of explanation. Hence, being a widow or being unmarried or even unemployed do not seem to affect saving. Five out of ten groups have majority land owners. Three groups have four, two and one land owners each out of ten members. Only Jhansi group of Pedanagulavaram and Premamaya group of Jeyavaram comprise landless. Out of 94 members, 21 each were agricultural labourers and housewives. This is followed by 16 members involved in labour, cultivation and livestock rearing who form a majority of Adilakshmi and Rajyalakshmi groups of Pedanagulavaram. It is followed by 13 cultivators-labourers, five labourers, four agricultural labourers-cultivators and three cultivators. One member each is involved in livestock rearing, labour cum trading and regular employment in an NGO. It is interesting to observe that despite all members of Premamaya group being unemployed due to extreme physical handicap and less education, members saved Rs 300.

As mentioned earlier, this is due to stipulation by SAARDS. Agriculture is the dominant occupation even among the members' spouses. 29 of them are agricultural labourers followed by 23 cultivators and 17 labourer-cultivators. 14 are labourers and four are employed in other occupations viz., teaching, clerical, driving and shop keeping. Four members belonging to three groups namely, Aswani, Chaitanya and Chaitanya handicapped groups are widows. Three members belonging to Devi and Chaitanya handicapped groups are unmarried. While we explained saving by Premamaya and Chaitanya handicapped groups in terms of organizational stipulation, saving by other groups of Jeyavaram might be explicable in terms of demonstration



effect. When it comes to groups of Pedanagulavaram and Durgabai group of Ravulakollu, we might explain in terms of members' ability to save due to the engagement in diverse occupations.

Since groups majority of who's members families are engaged in agricultural labour also save Rs-300, the explanation in terms of occupation especially landholdings does not seem to be adequate. It is important to note that groups comprising by-and-large land-less members are also saving moderate.

Turning to third category, we find that all members are manufacturers of garlands with colour papers. Both groups have four members each whose husbands are engaged in occupations like driving and vehicle mechanic, which would fetch about Rs 2000 per month. Only the husband of Bismilla group's leader is engaged in trading. We would understand that by virtue of self-employment of the members, their ability to save has increased. In short, occupation of the members or spouse does not adequately explain the amount of saving.

#### ***4.4.3 Housing Status: An Ability Indicator***

In the first category 50 out of 80 members live either in kutcha or semipucca or government pucca houses. The rest, 16 live in pucca and 14 in rented asbestos houses respectively. Of them, 60 per cent of them live in kutcha houses. 35 out of 40 members belonging to four rural groups reside in kutcha houses. Only the leader of Tirupatamma group resides in a pucca house. Leader of Indirapriyadarshini group and her daughter who is also the member in the group got government built pucca houses. All four urban groups are heterogeneous in housing. Especially, Sitamahalakshmi group has three of its members owning kutcha, two pucca and one semi-pucca house respectively. Similarly, five members of Padmavathi group own pucca, three semi-pucca and two stay in rented asbestos houses respectively. Eight members of Madhavi group own pucca and two semi-pucca houses respectively. Nine out of eleven members of Chaitanya DOWMA group reside in rented asbestos house. Thus it is evident that the house type may not be a sufficient explanation for low saving, but almost 80 per cent of the first category reside in kutcha /asbestos houses.

Turning to the second category, we find that members' housing is made favourable largely due to the construction of government pucca houses for the poor in village Jeyavaram in the immediate aftermath of a devastating cyclone and flood in the year 1979. 25 out of 54 members got them. Even in this case, 29 members reside in kutcha houses. Of them, 23 belong to Jhansi, Adilakshmi and Durgabai groups. Number of people residing in pucca houses is considerably high in comparison with the previous category. It is 27 in comparison with 16 in the previous. Existences of government pucca houses seem to mark the real phenomenon. 13 out of 28 land holding members in Jeyavaram got sanction for government pucca houses, whereas, only 12 out of 26 landless members got government pucca houses.

Coming to the third category, we noticed that 12 members stay in rented asbestos houses. Of them, nine belong to Bismilla DOWMA and three to Karishma DOWMA groups respectively. Of the five members owning pucca houses, one belongs to Bismilla and four to Karishma respectively. All 3 owning semi-pucca houses belong to Karishma group. In this case, ability to pay over Rs 300 as house rent has translated in to the ability to save Rs 100 per month by member. Since education and occupational status might have not adequately explained the savings categorization comparing the three groups by their housing characteristics it is evident that housing does not adequately discriminate their saving behaviour.

#### ***4.4.4 Family Size as a Constraint***

Family size of members would result in less than desired saving. Family size depends upon group location rather than savings category. Average family size of groups in village Jeyavaram ranged between 1.6 and 3.9. Whereas, in Pedanagulavaram and Ravulakollu, it ranged between four and 6.1 respectively. In Ongole town, it ranges between three and 4.5 respectively.

Looking at the average family size of members across groups, a wide variation is seen within the first category of saving between rural and urban areas. While the family size of four rural groups ranged between four and 6.1, the family size of four urban groups ranged between three and four respectively. In the second category, it ranged between 1.6 and 5.2 respectively. It is because of the average sizes of three groups being 5.2, 5.1

and 4.9 in village Pedanagulavaram and in village Ravulakollu. The average family sizes in the two groups of third category are 4.5 and 4 respectively.

#### **4.4.5 Concluding Remarks**

Except the member's education, especially beyond primary level of education which vaguely explains the thrift behavior of the groups, no other indicator could plausibly explain the difference in the amount of group savings. Since groups comprising land owning as well as the groups comprising land-less members saved Rs 300-400 and the groups comprising mostly housewives saved only Rs 180, economic status is not an explanatory factor. Since all the groups of village Jeyavaram saved Rs 300 irrespective of their member's landholding status, demonstration effect would be attributed to their saving.

#### **4.5 Freedom from Clutches**

Here, we study the impact of thrift in freeing the members from the clutches of informal money lenders and link the arguments with members purpose behind saving namely, contingency planning to smoothen consumption or otherwise<sup>1</sup>, and vigorous rotation of lending, both of which are aided by reduced interest burden. Linking savings with member's empowerment through the enhancement of wage bargaining power as done by Simeen Mahmood (see Judith Heyer et. al, *Group Behavior and Development*, 2002) is weaker on grounds of impact proof. Hence, we link the purposes behind the member's savings to their requirements.

We recognize that members' responses can vary according to economic status of groups and number of loans the group disbursed. Economic status is reflected in the occupational status of members. High economic status of groups is reflected in terms of substantial number of rural group members belonging to land owning families and substantial number of urban group members being housewives. Groups are classified in to 3 categories of loan disbursal. Low lending groups are those groups, which disbursed 1 to 3 loans. Moderate lending groups are those groups, which disbursed 4 to 7 loans, and high lending groups are those groups, which disbursed above 7 loans.

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<sup>1</sup> For analytical plausibility, loans meant for children's education are treated like loans for family consumption. Loans for hospital expenses are few and far between to be accounted for.

Since thrift is a counter to the seemingly perennial dependence on the informal money lenders by the poor for their consumption and working capital requirements, its impact on demand for informal credit need to be examined.

#### ***4.5.1 Impact of Good Thrift Behaviour***

Families of all borrowers of 17 groups ceased to borrow from informal lenders. Of them, all members of 13 groups were hitherto borrowers. Out of four remaining groups, two comprise physically handicapped members most of who neither have decision making power in their families nor are informed in this regard. A near total impact is found in Devi group of Jeyavaram where just one member continues to borrow from informal lenders. All 20 members of two groups in Ravulakollu said that borrowing is men's responsibility.

We noticed that women in all the surveyed groups of Pedanagulavaram and Ongole stuck to their resolve not to borrow from informal moneylenders. To conclude, group thrift has freed members from the clutches of informal moneylenders. Having understood the large success of group thrift in freeing poor from the clutches of informal money lenders, in the next section, we shall discuss the purpose behind members savings across groups that has got to do with the nature of contingency planning and risk taking ability.

#### ***4.5.2 Purpose Behind Members Savings across Groups***

The purpose behind saving can be linked to the nature of contingency planning or risk taking ability of groups or a combination of both in relation to the economic status of the members and savings category of the groups. Let us first discuss about the nature of contingency planning and then move on to risk taking ability.

In this context, rural economic status of the members is reflected in their landholding status and need to be an income earner or not (housewife). In urban areas it is reflected in the need to be an income earner or not and ability to undertake manufacturing activities. Here, it is important to mention that consumption loans can be the loans to smoothen consumption, which might be a sign of destitution, or to meet other

requirements, which would enable to enhance the quality of life by educating their children or buying consumer durables.

Looking at rural areas we find that members of all but one [8] groups having landholding members feel that the purpose behind thrift is to meet contingency of any kind. They cover all the three villages surveyed. In the context of seasonal fluctuation of milk yield, purchase of new milch cattle assumes significance. 12 out of 18 loans disbursed by these groups from their own savings are for this purpose; two loans each were disbursed for health care expenses and small business and one loan each was disbursed for children's education and for family consumption respectively. Except Adilakshmi group that disbursed just one loan in about four and a half year of its existence, all the other groups gave at-least one loan for purchase of milch cattle. Apart from the loans from their own savings, Rajyalakshmi, Aswani, Chaitanya and Adilakshmi DWACRA groups distributed RF equally among its members for this purpose.

We can understand that homogeneity in membership and the resultant ease in peer monitoring (refer section 2.4) has led to the choice of milch cattle that is by-and-large apt to the rural requirements of Prakasam district. Among the groups comprising land owning members, Dhanalakshmi DRDA group comprise just one land owning member and belongs to the low saving category unlike other seven groups which belong to moderate saving category. In comparison with Chaitanya handicapped group comprising three land holding members which disbursed one of its two loans for food requirements, Dhanalakshmi group disbursed both the loans for the purchase of milch cattle. Having looked at nature of contingency planning of rural groups having landholding members, we shall now turn to rural groups having landless members.

Landlessness among rural members does not necessarily mean that members' plans are only directed towards consumption smoothening. Nature of contingency planning depend upon the number of days of agricultural employment per person, levels of male and female agricultural daily wages, availability of alternate employment opportunities in the vicinity and wage levels of male and female labourers within the respective occupations across villages. (Refer 4.2 for locational characteristics). There are three, one and one group each comprising land-less members in the respective villages.

In cases of Tirupatamma and Ushodaya groups of Pedanagulavaram, members said that they save to meet food requirements broadly in line with the backwardness of the village. Contrary to this, Jhansi group<sup>2</sup> said that they are saving to meet any kind of contingency. Collective marketing of red stone and moderate saving unlike the two aforementioned groups whose members and their husbands are labourers and belong to low saving category would have contributed to their strength, both in terms of financial and level of confidence. Apart from this, the group encompassed all the purposes except the repayment of external debt.

Members of Indirapriyadarshini DWACRA group of Ravulakollu reported that they are saving for the sake of saving. Widespread resentment is understandable due to the collusion of group leader and her daughter who also happen to be member in appropriation of loanable funds to illegally benefit the latter's husband in his business. Even before the beginning of repayment of first loan, he got second loan, which is after 1 year of taking the first loan. This group incidentally belongs to the low saving category. Premamaya handicapped group comprising handicapped members is concerned about food requirements and other types of consumption. This belongs to moderate saving category as per the stipulation of the NGO [SAARDS].

Turning towards urban areas, we find that very few members are so poor that they rely on manual labour for living. All members of three Muslim groups in Islampet locality of Ongole undertake manufacturing, although it is a phenomenon after group formation. 25 out of 29 members in Gandhinagar locality of Ongole were housewives. Members of all urban groups said that they save to meet any type of contingency. Four out of six groups here belong to low and the rest to high saving category. As mentioned, low and high saving in Ongole would reflect the interest of the groups to save.

Turning towards the risk taking ability, we find that Devi group of Jeyavaram and Padmavathi group of Gandhinagar [Ongole] engaged in rotation of lending. The former lent 14 times in 24 months and the latter lent 18 times in 36 months respectively. While Devi group belongs to the moderate saving category, Padmavathi group belongs to low

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<sup>2</sup> Apart from the ability to undertake joint productive activities, Jhansi group has acquired considerable strength, which it utilised for collective bargaining. The group managed to acquire house plots and toilets for its members under government programmes.

saving category. The former group lent for livestock rearing and latter lent for household purpose. This might imply that members are relatively better off. While 6 members of former are landholders, 9 members of latter are housewives. This implies that risk-taking ability is backed up by economic status.

#### **4.5.3 Concluding Remarks**

Groups having landholding members, members with relatively higher man-days of employment, relatively higher wages and members not needing to seek outside employment do not seem to have a specific contingency plan unlike those groups whose members employed for relatively lesser number of man-days earning relatively less wages. While majority of the landholding groups belongs to moderate saving category, majority of landless and urban groups belongs to low saving category. Risk taking ability of the members is associated with relatively higher economic status.

#### **4.6 Lending Performance of Groups**

As known, Puhazhendi attributed number of per-capita loans in a time range to the type of requirements, viz., production and consumption (see Puhazhendi's evaluation of the SHGs in four districts of Tamil nadu, NABARD 2000). Here, an attempt is made to understand the credit behavior of the groups according to their ability to disburse number of loans rather than loan size.

It is understood that number of loans disbursed by a group increase over time. In this context, number of group loans depends on the age profile of groups, number of repayable installments, regularity in loan repayment and cumulative group savings. These variables depict the financial structure of groups. While age of the groups and cumulative group savings are related to categories of loans, number of repayable installments is related to categories of loan intervals. While loan categories are same as reported in case of first objective, loan intervals are, 1-3, 4-6, 7-12, 12-24 and above 24 months respectively.

Since repayment is by and large prompt, interval between each loan subject to number of repayable installments can determine the number of group loans. Since groups do not

lend in the first six months of their existence, interval between group loans is calculated in months excluding the first six months.

We then relate number of group loans with cumulative savings of groups. After probing in to the relation between number of group loans and structural factors, we relate number of group loans with kinds of group loans across loan categories and group location where members economic status has an important influence on number of group loans and also the kinds of group loans. While number of groups, number of loans and locations are tabulated, members' economic status shall come in the description of Tables 4.6 and 4.7.

For analytical plausibility, we divide kinds of loans into three categories namely directly productive, health and education and consumption. Directly productive loans are loans given for livestock rearing and small business. Since there was only one loan given for the repayment of external debt, it is included in health and education category. Consumption loans are loans purely meant for family purposes often unspecified in the group records. However, using the information on the purchases of consumer durables, we can demarcate consumption in to food and nonfood requirements. Housewives are considered to be in relatively better economic status.

Before proceeding, it is important to note that none of the directly productive loans are meant for agricultural activities. In other words, members do not depend on groups for farm loans.

#### ***4.6.1 Structural Factors Influencing Credit Habits***

From table 4.2, we find that older groups tend to lend fewer times vis-a-vis the younger groups. Is it due to the inadequate percolation of SHG ethos in to members? Or is it due to the members' mistrust of SHPIs regarding the provision of RF and bank loan assistance - letting alone dynamic incentives? Parallel to this, is it due to the apathy on the part of government related SHPIs and bankers themselves? Finally, is it due to the poor monitoring of group lending performance by SHPIs? The table reveals very interesting but paradoxical pattern. Both high lending groups viz., Devi DRDA group of village Jeyavaram and Padmavathi DWACUA group of Gandhinagar locality of Ongole town are in the first two age categories of groups. Notably, Devi DRDA group



disbursed 14 loans in just two years of its existence. Padmavathi group disbursed 18 loans in its three year existence. On the other extreme, Krishnaveni DRDA group of village Jeyavaram and Adilakshmi DWACRA group of village Pedanagulavaram disbursed just two and one loan each despite their existence since 8 and 4.5 years respectively.

Turning to loan repayment, we find that except in case of Indirapriyadarshini DWACRA group of village Ravulakollu, repayment in installments is regular and by and large prompt. Hence, age of groups is not sufficient to explain the by-and-large under-performance and even dismal performance of groups in several cases. In this context, loan frequency becomes important.

Table 4.3 does not show any definite relationship between loan intervals and number of repayable installments. One group each belonging to six and ten installment category lent ones in 47 and 45 months respectively. The difference in the other intervals is hardly worth mentioning. Why is it so?

**Table 4.2: Distribution of groups by loan categories and age**

Age (in years)	Loan categories			Total
	Low	Moderate	High	
Between 1&2	3	2	1	6
Between 2&3	5	1	1	7
Between 3&4	2	3	0	5
Above 4	2	0	0	2
Grand total	12	6	2	20

**Table 4.3: Distribution of groups according to loan frequency by number of repayable installments**

Number of repayable installments	Loan frequency in months					Total
	1 to 3	4 to 6	7 to 12	13 to 24	Above 24	
6	2	2	4	1	1	10
10	1	2	3	3	1	10
Grand total	3	4	7	4	2	20

Having not succeeded in relating number of group loans with age of groups and repayable installments, we now turn to cumulative savings of groups to possibly explain this phenomenon. We find that low saving does not mean that groups are lending less number of times. Although majority of low saving groups come under low lending category, Both high lending groups discussed above come under low saving classification. It is found that high saving does not mean high lending. Krishnaveni

DRDA groups existing since eight years come under high saving category along with Karishma and Bismilla DOWMA groups existing since three years. Members of the latter two groups save Rs 100 per month. Adilakshmi DWACRA group which disbursed just one loan in its three year existence come under moderate saving category with the cumulative savings of Rs 26500.

There is an interesting thing to mention here. Although Karishma and Bismilla DOWMA groups belong to high saving category, they just disbursed four and five loans respectively vis-a-vis six loans disbursed by Chaitanya DOWMA group which just had cumulative savings of Rs 10800.

**Table 4.4: Distribution of groups according to loan categories and categories of savings**

Loan category	Cumulative savings			Total
	Below Rs-12000	Between Rs-12000 and 35000	Above Rs-35000	
Low		4	1	12
Moderate	3	1	2	6
High	2	0	0	2
Total	12	5	3	20

Having not found any relation between the savings and the number of group loans, we now turn to the kinds of group loans to explain the reasons for variations in the number of group loans as well as the pattern of lending across groups.

#### ***4.6.2 Influence of Kinds of Loans on The Number of Group Loans and Pattern of Lending Across Groups***

Number of group loans and kinds of group loans seem to be having some kind of intricate relationship. The complexity is augmented by difference in the members' economic status. We hypothesize that both the number and type of group loans are positively related to members' nature of taking risk irrespective of economic status. Table 4.5 reveals that low lending groups would be more willing to lend for directly productive activities like purchase of milch animals, starting small business etc.

**Table 4.5: Distribution of groups by categories of lending and kinds of loans**

Categories of lending	Directly productive	Health and Education	Consumption	Number of groups
Low	9	3	5	12
Moderate	5	6	5	6
High	1	0	1	2
Total	15	9	11	20

**Table 4.6: Distribution of groups according to categories of lending and number of loans across kinds**

Categories of lending	Types of loans				Number of groups
	Directly productive	Health and education	Consumption	Total	
Low	14	3	8	22	12
Moderate	13	9	8	30	6
High	14	0	18	32	2
Total	41	12	34	87	20

As mentioned, none of the directly productive loans are for agriculture. 31 out of 36 directly productive loans of rural areas were disbursed for the purchase of milch cattle.

The two Tables (4.5 and 4.6) reveal that there should be unity of purpose for the groups to lend most frequently which would also serve as an inducement to rotate lending. Devi group disbursed all its 14 loans in rotation for the purchase of milch animals. This is equal to the 14 loans disbursed for milch animals by all the 12 low lending groups put together. Padmavathi group of Ongole disbursed all its 18 loans for consumption in rotation. Economic status of groups might have to do with this phenomenon. While six members of the former group are land owners, nine members of the latter are housewives. Since plots of land are small even for those who have them, members of Devi group intend to bolster their family incomes through livestock rearing. However, it doesn't mean that the moderate and low lending groups having land owning members comprise large land owners.

Groups, which lent four to seven loans, have shown the intention to lend for various kinds of purposes. Unlike the high lending groups, these groups neither have unity of purpose nor intention to rotate the lending. Out of 30 loans, 13 were disbursed for directly productive purposes and eight for consumption purpose. I treat loans for health and education as incidental. Out of 13 directly productive loans, eight were for the

purchase of milch cattle. Presence of three urban groups in the six moderate lending groups seem to be responsible for a relatively high proportion of loans for consumption, small business and children's education.

Turning to the groups which just lent one to three loans each, we find that apart from the lack of unity in purpose and lack of intention to rotate lending, they are less willing to lend for consumption purpose. 14 out of 25 loans disbursed are for directly productive activities. Of them, nine were disbursed for the purchase of milch animals and five for small business. Only eight loans were disbursed for consumption. This is not because all of them are too poor to risk lending for consumption. In fact, six out of 12 groups have land owning members. While Chaitanya and Krishnaveni groups have six members each owning land, Adilakshmi group has seven land owners. Aswani group has four land owners and Chaitanya handicapped and Dhanalakshmi groups have one land owning member each. Out of 19 members of Madhavi and Sitamahalakshmi groups, 16 are housewives which shows a relatively better economic status. The above description seem to prove my hypothesis that both the number and type of group loans are positively related to member's nature of taking risk irrespective of economic status. However, difference in the number of loans across locations seem to have a qualified relationship with the economic status of the members as understood from the table and the explanation below.

**Table 4.7: Distribution of kinds of loans across locations.**

Location	Categories of loans			Total loans	Number of groups
	Directly productive	Health and Education	Consumption loans		
1	19	2	2	23	6
2	12	2	6	19	6
3	5	1	0	6	2
4	5	7	26	38	6
Grand total	41	12	34	87	20

The 38 loans disbursed by the six groups in Ongole town and the 23 loans disbursed by the six groups in village Jeyavaram have to be understood adjusting for extreme cases. While 18 out of 38 loans in Ongole are disbursed by only one [Padmavathi] group, 14 of 23 loans in Jeyavaram were disbursed by only one [Devi] group. If we equalize the number of loans across groups in these locations, the average number of loans per group become four and 1.8 and the total number of loans become 24 and 10.8

respectively. Although economic status does not seem to have an effect on the number of group loans on the whole, it can tend to influence the groups in the direction of high lending.

56 out of 60 members of Ongole are either manufacturers or housewives. Whereas, 28 out of 54 members in Jeyavaram are landholders. Housewives belonging to Jeyavaram belong to land holding families : two women of Premamaya group comprising handicapped members being the exception. It may be noted that in all the three surveyed villages, almost all the land holders owned dry land. As discussed in section 4.4.2, rural group with members owning small plots of land can aspire to enhance the family incomes of their respective members through the purchase of milch cattle which happened so in the case of the Devi DRDA group. Casual labourers would be forced to take consumption loans. whereas, the groups comprising most number of housewives or members engaged in better income generating occupations like manufacturing would be induced to borrow for consumption purpose. Tirupatamma and Ushodaya groups of village Pedanagulavaram comprising land-less members all of whom are engaged only in casual labour lent all five of their loans for consumption. Turning to Ongole, the fact that Padmavathi group disbursed 18 loans in rotation for consumption in its three year existence and one member each in two DOWMA [Muslim] groups borrowing for the purchase of porcelain jars and television might depict the intention to consume or consumption culture in urban areas to take it further.

#### **4.6.3 Concluding Remarks**

A vast majority of directly productive loans in rural areas are for the purchase of milch cattle. About 2/3rd of all the rural loans were for this purpose. Apart from the age of the groups and number of repayable installments not showing positive and inverse relationship with the number of group loans, both of them show a contrasting picture. Relating the number of loans with the kinds of loans, we find that unity in purpose-kind, having majority of the members of rural groups owning small plots of land and majority of the members in urban areas being housewives would prompt members to take more risks and rotate lending vigorously either to bolster the family incomes or maximise utility through consumption. Low lending can be attributed to caution or the risk aversion from the part of the members given the members belonging to various economic status being part of these kinds of groups. Only with respect to the locational

difference in the number of loans the economic status of the members would come in to the picture although in a limited way.

#### 4.7 Credit Behaviour of the Groups

Understanding bias in credit targeting and credit off-take. Since majority of the groups belong to low lending category, we hypothesize that there is discrimination on one ground or another in credit allocation that undermines pure membership criteria.

To understand credit targeting, first we look at the distribution of borrowers by loan categories of groups across member's status. In this context, the statuses are, first leader, second leader and member respectively. Like in the previous sections, the groups are divided in to low, moderate and high lending categories.

Secondly, we look at distribution of non-leader borrowers across age classification of members. Thirdly, we relate borrowing status of non-leader members with landholding of their families in rural areas and occupational status of their families in urban areas.

Fourthly, we look at the borrowing status of non-leader members across castes in the groups that are heterogenous in caste composition. Since the number of loans is less than what it ought to be in most groups in relation to their age and number of repayable installments, reasons for lesser credit off-take is discussed in the second part of 4.6. Reasons would include delineation of funds across purposes and corrupt behavior of leaders.

##### 4.7.1 Leadership Status of Members

Although an increasing proportion of non-leaders got loans across categories, the table doesn't imply that low lending is due to the first leader's appropriation of group's loanable funds. To investigate the hypothesis deep, we probe in to the loan recipient status of those low lending groups in particular whose leaders had borrowed.

**Table 4.8: Distribution of borrowers according to membership status across loan**

Loan category	Number of borrowers	Number of groups	Number of members
Low	24	12	113
Moderate	28	6	61
High	20	2	20
Grand total	72	20	194

All four groups whose first leaders borrowed had more than one borrower. All the co-borrowers in these groups happen to be non-leaders. Similarly, the co-borrower of second leader in Krishnaveni DRDA group of Jeyavaram happens to be non-leader. By looking at moderate lending groups, it is noted that, only one of four first leaders who borrowed had borrowed twice. On the whole, that group [Chaitanya DOWMA] lent six times. None of the moderate lending groups lent to first as well as second leaders.

Having not proved the bias on leadership ground, we now look at the relation between borrowing status of non-leader members and their age to understand the possible hierarchical exertion of power.

**Table 4.9: Distribution of non-leaders by borrowing status across their age classification.**

Age classification	Number of borrowers	Number of non-borrowers	Total
15-25	15	20	35
26-40	33	62	95
41-55	9	12	21
56 and above	1	2	3
Grand total	58	96	154

A close examination of data group-wise does not reveal exclusivity of age categories in terms of loan accrual across groups. Although only members belonging to one category got loans in the case of two groups, there are people in the same category who did not get loan in the same group. Having not proved bias on grounds of age, now our attempt is to probe into the relation between the non-leader's landholding status and loan accrual.

**Table 4.10: Distribution of non-leaders by borrowing status across landholding category**

Land classification	Number of borrowers	Number of non-borrowers	Total
0	25	49	74
0 to 2	5	11	16
2 to 5	4	9	13
above 5	1	2	3
Grand total	35	71	106

Out of 14 rural groups, only two groups depict the situation. However, except the fact that DWACRA [government groups eligible to get revolving fund assistance] depict this situation, it is not possible to draw inference from this information. Aswani

DWACRA group of Jeyavaram and Adilakshmi DWACRA group of Pedanagulavaram gave one of two and one of one loans respectively to members owning highest number of acres [four and three] respectively. Other loan of Aswani group was given to first leader.

Turning towards family occupations in Ongole, we find no relationship. We cannot think of members whose husbands are not employed in government service exchanging opportunity to borrow with governmental favours from members whose husbands are employed in government service. It is because, none of the husbands - including those of leaders were employed in government service. Turning towards members' occupations, we find that 25 out of 29 members in Gandhinagar are housewives. All the members in Islampet are manufacturers. Hence, influence on this count could be ruled out. We now turn towards the influence of caste on non-leaders borrowings in the groups that are heterogeneous in caste composition.

Out of four groups that demonstrate heterogeneity in caste composition, two groups demonstrate bias on grounds of caste. Durgabai DWACRA group of Ravulakollu comprise six kamma and two Brahmin members. All the three loans given to Non-leaders accrued to kmmas. Similarly, six out of eight members in Madhavi DWACUA group of Gandhinagar [Ongole] comprise six Kamma and two Reddy members. Both the loans went to Kmmas. Notably, Padmavathi DWACUA group comprising members of three castes disburse loans on a rotation basis. It disbursed 18 loans in 36 months of its existence. Similarly, Sitamahalakshmi DWACUA group comprising members of three castes did not demonstrate bias on grounds of caste. Having identified some bias only on grounds of caste, we turn towards group specific circumstances and behaviors that influence credit off take.

#### ***4.7.2 Influence of Members' Preference on Credit Off take***

Members' preferences are derived through discussions and inferences from the data on the receipt of and the usage of revolving fund and bank loan assistance apart from the data on the members' behavior in the group where leader's conduct is unacceptable.

We understand from tables depicting loan categories that in relation to the age of groups and their number of repayable installments, groups have not lent as many times.



All but two groups have not resorted to rotation of internal loans. Poor lending performance of groups is despite prompt recovery in cases of all groups except Indirapriyadarshini DWACRA group whose leader has reportedly indulged in unacceptable decision making. Probing in to the members' behavior, we can understand that behavior of most of the groups' look like being rational.

We find that low lending is due to the ability of most of the groups to delineate the purposes across types of funds. Ten of 20 groups were able to clearly delineate funds across purposes. For them, while own funds are too precious to be lent, external assistance in the form of RF and bank loan are worth lending equally to all its members or investing in group activity.

Nine groups received RF and one received bank loan respectively. Of these groups, four are DWACRA, two are DWACUA, three are DOWMA and one DRDA group respectively. Adilakshmi DWACRA group of Pedanagulavaram and Chaitanya DWACRA group of Jeyavaram got RF twice each. While the former deposited one installment of Rs 10000 in bank, it established grossary shop with another installment of Rs 10000 coupled with the bank loan of Rs 100000. The latter lent both installments to its members. Two other DWACRA groups, two DWACUA groups and Krishnaveni DRDA group lent their RF and bank loan to all of their members equally. In all the aforementioned cases, recovery rates are prompt. Since the borrowings were for consumption purpose, members were hesitant to borrow again from RF paying interest rate as high as 24 per cent.

All DOWMA [Muslim] groups of Ongole deposited RF in the manufacture of flower garlands. Looking at other groups, we find a varying picture. Just like other DWACUA groups, Padmavathi DWACUA group lent its RF equally among its members and recovered with the same hesitation of members to borrow again. Both Assist groups deposited their RF in bank. Jhansi assist group got bank loan twice which it invested in red stone marketing business.

Tirupatamma DRDA, Dhanalakshmi DRDA and both SAARDS handicapped groups which did not get RF along with Durgabai DWACRA group said that lending is need based. Both times Indirapriyadarshini DWACRA group lent to leader's son-in-law who

repaid nothing. This is despite the passage of 18 months since getting the first and six months since getting the second loan respectively.

Although five members quit the group 15 months after its formation [nine months before survey period] in this case, it is paradoxical to observe continued saving by all the ten existing members despite widespread resentment within the group.

#### **4.7.3 Concluding Remarks**

Only caste and leader's corrupt behavior could partially depict the bias in the credit off-take. It is interesting to observe that members exercise reason when it comes to the usage of different kinds of funds. While own savings are perceived to be very precious, revolving fund and bank loan assistance are worth using either in the directly productive activities or consumption which would help maximise either income or the utility.

#### **4.8 Conclusion**

Understanding the thrift and credit behavior of the groups warrants understanding the economic profile of the groups across locations. About 70 percent of the member's families in villages Jeyavaram and Ravulakollu depend on farm for their lively hood. Whereas, almost all the families in the village Pedanagulavaram depend upon manual labour, be it agriculture or otherwise. The need for women to work seem to be relatively less in urban areas which is evident from the vast majority of the members in Gandhinagar locality of Ongole being housewives. Manufacturing activities undertaken by the DOWMA [Muslim] groups of Islampet locality of Ongole suggest the intention to bolster the family incomes.

Except the member's education, especially beyond primary level of education, which vaguely explains the thrift behavior of the groups, no other indicator could plausibly explain the difference in the amount of group savings. Since groups comprising land owning as well as the groups comprising land-less members saved Rs 300-400 and the groups comprising mostly housewives saved only Rs 180, economic status is not an explanatory factor. Since all the groups of village Jeyavaram saved Rs 300 irrespective

of their member's landholding status, demonstration effect would be attributed to their saving.

Groups having landholding members, members with relatively higher man-days of employment, relatively higher wages and members not needing to seek outside employment do not seem to have a specific contingency plan unlike those groups whose members employed for relatively lesser number of man-days earning relatively less wages. While majority of the landholding groups belong to moderate saving category, majority of the land-less and urban groups belong to low saving category respectively.

Risk taking ability of the members is associated with relatively higher economic status. Apart from the age of the groups and number of repayable installments not showing positive and inverse relationship with the number of group loans, both of them show a contrasting picture. Relating the number of loans with the kinds of loans, we find that unity in purpose-kind, having majority of the members of rural groups owning small plots of land and majority of the members in urban areas being housewives would prompt members to take more risks and rotate lending vigorously either to bolster the family incomes or maximise utility through consumption. Low lending can be attributed to caution or the risk aversion from the part of the members given the members belonging to various economic statuses being part of these kinds of groups. Only with respect to the locational difference in the number of loans the economic status of the members would come in to the picture although in a limited way. About 2/3rd of all the rural loans were disbursed for the purchase of milch cattle.

Only caste and leader's corrupt behavior could partially depict the bias in the credit off-take. It is interesting to observe that members exercise reason when it comes to the usage of different kinds of funds. While own savings are perceived to be very precious, revolving fund and bank loan assistance are worth using either in the directly productive activities or consumption which would help maximise either income or the utility.

## CHAPTER 5

### CONCLUSION

This chapter summarises the study and highlights the major issues, the main analytical findings and their policy relevance. Literature spoke about the correlates of thrift and credit, the determinants of loan repayment, adverse effects of the lack of opportunity for the downtrodden members to express their views and the implications of varying levels of group homogeneity. Since the gender is not a direct answer for the differential thrift levels among the groups, the study tries to analyse the thrift levels across the groups in the light of the member's perception, ability and constraints.

Since the groups' age reflects the quantum and the number of loans subject to the timely accrual of the external loans, the study attempts to look at the way of understanding the differential number of loans across the groups based on the structural factors and kinds of loans.

We understand from the literature that homogeneity in membership in all the respects is not sacrosanct on grounds of convenience in terms of risk management and record keeping. However, there is evidence on the adverse effects of heterogeneity on the loan repayment. To have a better understanding of the phenomenon, we focus on the effect of socio-economic heterogeneity on the credit allocation.

Since there is no group level macro data on the economic status of the members and other group specific indicators across groups, we cannot use NABARD data, which is the only data source regarding the SHGs and their aggregates for our analysis. Hence, primary survey is inevitable. It may be important to note that the present study of the urban groups may be the starting point of incorporating the urban dimension in the study of the SHGs. However, the existing secondary data sources refer only to the rural groups.

The survey location has been chosen from the best performing region and state in terms of the number of SHGs credit linked as well as the outreach of SHGs among the female population. There is a wide inequality in the number of SHGs as well as the number of

SHGs per lakh population across the states. Andhra Pradesh having about 739 SHGs per lakh female population vis-a-vis 361 in Tamil Nadu, 215 in Karnataka and 122 in Kerala would be an interesting case for the study.

Within Andhra Pradesh, the inequality is far less than at the national level. It ranges between 275 in Cuddapah and 1871 groups per lakh population in East-godavari districts. Even in Cuddapah, the figure is 2.16 times that of the all-India average of 127 groups. Nine districts have above 1000 and the remaining 13 districts have below 1000 SHGs per lakh population. Among the latter, four groups have less than 500 per lakh population.

Our aim is to analyze the thrift and credit behavior of the groups with an inter-regional perspective. Three villages each distant about 25, 65 and 100 Km respectively from the district headquarters apart from the headquarters itself are chosen for survey. The choice of Prakasam district which reflects an inverse relation between the number of credit accounts and number of SHGs is supported by the fact that it ranks second in the percentage of agricultural labourers despite being in an agriculturally abnormal zone. While the district ranks 16th in the number of SHGs per lakh population, it ranks second in the number of credit accounts.

Villages are chosen from the mandals based on the distance from the district headquarters and perceived indicators of backwardness apart from the availability of the government groups along with the groups belonging to the chosen NGOs. Urban groups are chosen based on the relatively better performance of the SHPIs in record maintenance as directed by the Municipal project officer.

Members' perception in the form of the attainment of formal education shows a vague relation with saving category of groups with majority of the moderate saving groups comprising educated members vis-a-vis a minority in the low saving category. The picture becomes clearer after relating saving with members having more than four years of formal education. In three of the 10 moderate saving groups, majority of their members received over four years of education. Similarly, atleast 50 percent of educated members in both the high saving groups had beyond four years of education strengthening the relationship.

We could not establish a decisive relationship between the members' ability of saving and their economic status. We find that groups comprising land holding members as well as groups comprising land-less members belong to the moderate saving category. Whereas, several groups comprising housewives and a group comprising members undertaking manufacturing activities belong to low saving category. Since members of all the groups of village Jeyavaram belong to moderate saving category, irrespective of their member's landholding status, demonstration effect would be attributed to their saving with the two SAARDS handicapped groups being the exception due to the organizational stipulation.

We find that members of 17 groups are free from the clutches of informal moneylenders by virtue of group membership, with the members of one group almost free. Perhaps this may be due to the absence of heavily indebted groups. However, members of 15 groups who ceased to borrow after joining the groups resolved never to borrow again.

While analysing the purpose behind the member's saving, we find that by and large the groups having landholding members, members with relatively higher man-days of employment, relatively higher wages and members not needing to seek outside employment do not seem to have a specific contingency plan unlike those groups whose members employed for relatively lesser number of man-days and earning relatively less wages. Food requirements are important for those land-less groups that lack dynamic leadership. By virtue of dynamic leadership, Jhansi group diversified lending portfolio and started collective marketing of red stone despite comprising landless members. Like the landholding groups, all the urban groups said that they do not have a specific contingency plan. While majority of the landholding groups belongs to moderate saving category, majority of the landless and urban groups belongs to low saving category respectively.

The analysis of the number of loans disbursed by the groups reveals that, apart from the age of the groups and number of repayable installments not showing positive and inverse relationship with the number of group loans, both of them show a contrasting picture. Relating the number of loans with the kinds of loans, and member's economic status, we find that unity in purpose kind, having majority of the members of rural

groups owning small plots of land and majority of the members in urban areas being housewives would prompt members to take more risks and rotate lending vigorously either to bolster the family incomes or to maximise utility through consumption. Of the two groups, which lent high, the rural group, lent purely for livestock rearing and urban group lent for non-food consumption.

Moderate lending is due to the lack of unity in purpose and the intention to rotate lending. However, these groups encompassed all types of purposes. Low lending is due to lack of unity in purpose, intention to rotate lending and caution against lending for non-food consumption purpose or the risk aversion from the part of the members given the members belonging to various economic status being part of these groups. Hence, economic status does not help in the explanation.

Only with respect to the locational difference in the number of loans the economic status of the members would come in to the picture, although in a limited way. The effect of economic status is limited by the high lending groups of Ongole and Jeyavaram which disbursed 18 and 14 loans respectively but for which their group averages are comparable to those of Ravulakollu and Pedanagulavaram.

While examining the possible socio-economic bias in the credit off take, we find that only caste and leader's corrupt behavior could partially depict the bias in the credit off-take among non-leaders. Since only four out of 20 groups demonstrated caste heterogeneity and only two out of them showed this bias, there cannot be conclusive inference.

It is interesting to observe that members exercise reason when it comes to the usage of different kinds of funds. While own savings are perceived to be very precious, revolving fund and bank loan assistance are worth using either in the directly productive activities or in consumption which would help in maximising either income or the utility.

Having concluded the findings, let us now reflect upon some policy relevance of the study.

- (1) To enable the members to understand the importance of saving, compulsory education for the children aged between six and 14 should be implemented.
- (2) To preserve the member's ability to save, a clear-cut definition and practice of homogeneity may be imperative. Practically speaking, ability reflected in the present and future economic status is more important than caste homogeneity in terms of saving performance of the groups. For example, a widow or an orphan may not have the ability to translate the land or other assets into income, leading to the truncation of savings by other able members.
- (3) To free the poor from the clutches of the external money lenders, all the poorer and vulnerable sections of the society should be organized in to groups.
- (4) Irrespective of the purposes behind the member's saving, SHPIs might have to pressure the able groups to save more than what they are saving now in case the groups lack dynamic leadership.
- (5) Rotation of lending should be encouraged so that members would be innovative in identifying their own needs that would enhance their quality of life without compromising the need to avoid moral hazard. Apart from this, rotation of lending ensures liquidity in the hands of people and can thus avoid the future prospect of borrowing from the informal moneylenders. Rotation of lending becomes much more important to erase the caution, which runs contrary to the efficacy of social penalties and dynamic incentives in the mitigation of default.
- (6) Members' ability to differentiate between the types of funds across the purposes cannot be the reason for not insisting upon the importance of rotation of lending. Rotation of lending can ensure liquidity in the hands of the people thus preventing the future prospect of borrowing from the informal moneylenders.



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