

**SELF HELP GROUP-BANK LINKAGE PROGRAMME**  
**A Recurrent Study in Andhra Pradesh**



**June 2007**

**APMAS**  
**HYDERABAD**



APMAS is a learning organisation. When it feels that it has not understood a matter enough, it probes. Even when it thinks that it has understood matters enough, it still probes – in order to search for those signals that it might have failed to pick up, those learnings that it may have overlooked.

APMAS learns, of course for the sake of improving its own work, but also for the sake of sharing what it has learnt, with all those who might be interested in it, and definitely with those who might benefit from it. It makes every attempt not to begin with a bias, to let the data speak for itself. The volume of data gathered by its various teams over the years is enormous, and perhaps more competent persons might have much more to say from such data, than these publications that are brought out from time to time by APMAS.

All the same, it has been our endeavour to place for public discourse what we think we have learnt, and to have the discourse result in such policy interventions, such changes in strategies, such further exploration, by key stakeholders, as contribute to the betterment of the rural woman in Andhra Pradesh.

We hope that the reader will find this publication useful. It is being brought out in both English and Telugu so that those who provided the data, those whose work led to this study, are provided with an account of what was done with that data.

APMAS welcomes critical feedback and hopes that the reader will feel involved enough to provide such feedback, and to put to action the learnings from this and other publications. I take this opportunity to thank the NABARD, bankers, SERP representatives, NGOs and community representatives who gave their valuable time to contribute to this study of SHGs and bank linkage. My thanks are also due to my own colleagues, led by Dr K Raja Reddy, who designed and conducted this study and brought out this report with support from Shashi Rajagopalan. My special thanks to the research investigators who meticulously collected data from the field and to every member and leader of every SHG and every SHG federation, who gave us her time, and shared with us her perceptions, her assessment. She is the cause of this study, and its inspiration.

**CS Reddy**  
**CEO, APMAS**



## STUDY TEAM

---

- **Dr. K. Raja Reddy, Associate Vice President**
- **Dr. G. Bhaskar Rao, Research Officer**
- **Ms V. Samatha, Research Associate**



# LIST OF CONTENTS

---

<b>CHAPTERS</b>	<b>Page No.</b>
<b>List of Tables</b>	
<b>List of Abbreviations &amp; Acronyms</b>	
<b>EXECUTIVE SUMMARY .....</b>	<b>1-7</b>
<b>CHAPTER-1: INTRODUCTION .....</b>	<b>8-13</b>
1.1 Background of the Study .....	8
1.2 SHG-Bank Linkage Status in Andhra Pradesh .....	9
1.3 Need of the Study .....	10
1.4 Objectives of the Study .....	10
1.5 Research Methodology .....	10
<b>CHAPTER-2: PROFILE OF SELF HELP GROUPS .....</b>	<b>14-23</b>
2.1 Profile of Members .....	14
2.2 Profile of SHGs .....	16
<b>CHAPTER-3: QUALITY AND AVAILABILITY OF CREDIT .....</b>	<b>24-37</b>
3.1 Access to Bank Credit .....	24
3.2 Appraisal of SHGs .....	27
3.3 Members and Credit .....	29
3.4 Loan Recovery .....	31
<b>CHAPTER-4: FINANCIAL PERFORMANCE AND SUSTAINABILITY .....</b>	<b>38-47</b>
4.1 Maintenance of Books and Records .....	38
4.2 Financial Status .....	39
4.3 Savings Management .....	43
4.4 Loan Management .....	44
<b>CHAPTER-5: IMPACT OF BANK LINKAGE .....</b>	<b>48-53</b>
5.1 Impact on Member .....	48
5.2 Asset Creation .....	50
5.3 Impact on Membership .....	51
<b>CHAPTER-6: ISSUES RAISED BY STAKEHOLDERS .....</b>	<b>54-59</b>
6.1 Issues Internal to SHGs .....	54
6.2 Cost of Linkage .....	55
6.3 Issues Related to Size of Loan .....	57
6.4 Issues Raised by Bankers .....	58
<b>CHAPTER-7: ACTION AREAS .....</b>	<b>60-63</b>
7.1 Banks .....	60
7.2 SHPIs .....	60
7.3 Federations .....	61
7.4 SHGs .....	61
<b>BIBLIOGRAPHY .....</b>	<b>64 -65</b>
<b>ANNEXURE .....</b>	<b>66 -71</b>

---

## LIST OF TABLES

S. No.	Title of the Table	Page No.
<b>Chapter-1: Introduction</b>		
1.1	SHG Bank Linkage in India and Andhra Pradesh .....	8
1.2.1	Overview of SHG-Bank Linkage in Andhra Pradesh .....	9
1.2.2	Region-wise SHG Bank Linkage .....	9
1.5.1.1	SHG Linkage in Banks Covered in the Study .....	11
<b>Chapter-2: Profile of SHGs</b>		
2.1.1	Coverage of Members and Households .....	15
2.1.2	Economic Profile of SHG Members .....	15
2.1.3.1	Social Categorization of Members .....	16
2.1.3.2	Member Profile-Comparison with 2003-04 .....	16
2.2.1	The Size of the SHGs .....	17
2.2.2	Promoting Institutions .....	17
2.2.3	Sample Villages – Some Particulars .....	18
2.2.4	Caste Profile of SHGs .....	18
2.2.5	Age of SHGs .....	19
2.2.6	Distance from Bank .....	19
2.2.7.1	Grades of SHGs .....	19
2.2.7.2	Grades vis-à-vis Age of SHGs .....	20
2.2.7.3	Social Category vis-a-vis Grade .....	20
2.2.7.4	Grade vis-a-vis Location of SHG .....	21
2.2.7.5	SHG Grade Comparison Since 2003-04 .....	21
<b>Chapter-3 : Quality and Availability of Credit</b>		
3.1.1.1	Linkage-wise Percentage of SHGs across Districts .....	24
3.1.1.2	No. of Loans Accessed- Comparison with 2003-04 .....	24
3.1.2.1	District-wise Bank Linkage and Average Loan Amount .....	25
3.1.2.2	Loan Size vis-a-vis Linkage .....	25
3.1.2.3	Average Loan Size Over the Years .....	26
3.1.3.1	Grade, Linkage and Loan Size .....	26
3.1.3.2	Linkage vis-a-vis Social Composition of SHGs .....	27
3.1.3.3	Loan Size vis-à-vis Social category of Membership .....	27
3.2.1	Qualities in SHGs Appraised by Bankers .....	28
3.2.2	Linkage vis-à-vis Location of SHGs .....	28
3.3.1	Credit Plan and Amount of Credit Sought of Branch .....	29
3.3.2	Manner of Distribution of Bank Loan among Members .....	29
3.3.3	Types of Loans Accessed .....	30
3.3.4	Bank Linkage and other External Loans and Subsidies to SHGs ..	31
3.4.1	Recovery Rate of Various Loans .....	32

Continued...



3.4.2.1	Portfolio at Risk > 90 Days vis-à-vis Age of SHGs in Bank Loans ...	33
3.4.2.2	Recovery Rate vis-à-vis Type of Bank .....	33
3.4.2.3	Recovery Rate vis-à-vis Location of SHG .....	34
3.4.2.4	Recovery Rate and Portfolio at Risk vis-à-vis Grade of SHGs .....	34
3.4.3.1	Loan Repayment Strategies Followed by the SHGs .....	35
3.4.3.2	Loan Recovery Strategies Adopted by Banks .....	35
<b>Chapter-4: Financial Performance and Sustainability of SHGs</b>		
4.1.1	Status of Books and Records in SHGs .....	38
4.1.2	Books, Records, Financial Statements not Prepared .....	39
4.2.1	Idle Funds in SHGs .....	40
4.2.2	Consolidated Balance Sheet of SHGs in % terms .....	41
4.3.1	Monthly Thrift vis-à-vis Social Composition of SHG Membership ..	43
4.3.2	Distribution of Savings .....	44
4.4.1	Action against Defaulters .....	45
4.4.2	Frequency of Instalments vis-à-vis Grade .....	46
4.4.3	Grade vis-à-vis Age of SHGs-Comparison with 2003-04 .....	46
<b>Chapter-5: Impact of Bank Linkage</b>		
5.1.1	Changes as Reported by SHGs .....	48
5.1.2	Changes in Savings and Credit- Comparison with 2003-04.....	49
5.1.3	Changes in Employment and Income- Comparison with 2003-04	49
5.2	Asset Creation as Reported by Members .....	50
5.3.1	Drop-outs vis-à-vis Age of SHGs.....	51
<b>Chapter-6: Issues Raised by Stakeholders</b>		
6.1	Problems Raised by SHG .....	54
6.2.1	Average Visits to Bank and Time Taken for Sanctioning of Loan	55
6.2.2	Costs Incurred by SHGs to Access Loans .....	56
6.3.1	SHG Opinion on Current Bank Linkage Loan .....	57
6.3.2.1	Perceptions of SHGs on Ideal Quantum of Loan .....	58
6.3.2.2	Loan Sanctioned vis-à-vis Applied for .....	58
6.4.	Causes of Default-Assessment of Bankers .....	59

## LIST OF MAPS AND GRAPHS

1.	Map Showing the Study Districts of 2003 and 2006	11
4.2.1	Graph Showing the Idle Funds	40

## LIST OF ABBREVIATIONS & ACRONYMS

---

ADB	:	Adilabad
Amt.	:	Amount
AP	:	Andhra Pradesh
APMAS	:	Mahila Abhivruddhi Society, Andhra Pradesh
Avg.	:	Average
BC	:	Backward Class
BL	:	Bank Linkage
CB	:	Commercial Bank
CIF	:	Community Investment Fund
CRI	:	Critical Rating Index
Cum.	:	Cumulative
CW	:	Change for Worse
EG	:	East Godavari
F	:	Frequency
GNT	:	Guntur
IF	:	Internal Funds
II	:	Insignificant Improvement
KDP	:	Kadapa
KNL	:	Kurnool
MBN	:	Mahbubnagar
MG	:	Matching Grant
Min.	:	Minorities
N	:	Total no. of cases
NABARD	:	National Bank for Agriculture and Rural Development
NC	:	No change
ND	:	Numerically Dominant
NGD	:	Nalgonda
NI	:	Noticeable Improvement
OC	:	Open Category
PAR	:	Portfolio At Risk
PIA	:	Portfolio in Arrears
RCL	:	Rice Credit Line
RF	:	Revolving Fund
RR	:	Recovery Rate
RRB	:	Regional Rural Bank
SC	:	Scheduled Caste
SHG	:	Self Help Group
SI	:	Significant Improvement
ST	:	Scheduled Tribe
Tot.	:	Total
VO	:	Village Organisation
VZN	:	Vizianagaram
%	:	Percentage

### **1 The background**

- 1.1 Andhra Pradesh accounts for 23% of SHGs that have been linked to banks for credit. Of the cumulative credit disbursed to SHGs in the country, SHGs in Andhra Pradesh have accessed over 39%. They accessed over 41% of the credit disbursed in 2006-07 across India. The state was an early starter in the promotion of SHGs, and continues to be a leader in the numbers of SHGs promoted, the numbers linked to banks, and in bank credit accessed.
- 1.2 This study covers 240 SHGs linked to 24 bank branches in 8 districts. The total membership of the SHGs covered was 2,898. In 2003, APMAS had conducted a similar study on SHG-bank linkage, and where useful, some comparisons have been made between the situation then and now, in this report.
- 1.3 The specific objectives of the study were:
  - to assess the quality and reach of credit in rural areas as a result of the bank linkage;
  - to identify the impact of the linkage and issues arising; and
  - to assess changes/growth since a similar study undertaken in 2003-04.
- 1.4 Where 54% of the SHGs covered in the 2003 study were on their first bank linkage at the time of that study, only 25% of the SHGs in the current sample were on their first linkage. Against 15% SHGs in the earlier study with three or more linkages, there were 34% of SHGs in that category in the current sample.
- 1.5 In all, 96 villages were covered by the current study. Around 30% of the SHGs were situated in the same village as the bank branch, 30% in a village away from the financing bank branch, but on a main road, and 40% in villages away from main roads.

### **2 Bank stake in SHGs**

Overall, bank lending to SHGs has become the norm – it is no longer an issue to be lobbied for, and no longer an experiment. The SHG in Andhra Pradesh is a valued client of most rural bank branches and probably brought in good business.

- 2.1 Over 4,000 bank branches of 24 commercial banks and 5 regional rural banks were involved in SHG lending in the state. Commercial and regional rural banks had provided loans on a repeated basis to thousands of SHGs. Several bank branches were termed 'century' branches, as a result of 100 or more SHGs being linked to them.
- 2.2 In 2006-07, on average, each bank-linked SHG in the state received over Rs 77,000 by way of loan. Even though SHGs had idle funds in savings accounts in banks, they were net borrowers.

- 2.3 Loan sizes had grown steadily over the years. Where the first linkage had remained around Rs 26,000, all subsequent linkages were much higher than in 2003, with the 5<sup>th</sup> linkage standing at over Rs 112,000 (against Rs 80,000 in 2003).
- 2.4 Although SHGs were rated each time they sought a loan, the rating was perhaps not been done carefully enough by the SHPI/bank. Only 30% of SHGs financed by banks in the sample appeared to be in grade 'A', and almost as many in grade 'C'. Banks appeared to provide repeat loans based on repayment performance and, good repayment was perhaps being equated with quality.
- 2.5 The grade of an SHG appeared to be influenced by age, with 71.4% of SHGs under 1 year of age being in grade 'A', against 7.1% of SHGs that were over 9 years, being in the same grades. So, too, SHGs with SC members accounted for 12.5% of the SHG in grade 'A', while such SHGs formed 22.5% of total SHGs in the sample. Grade was also influenced by distance from the financing bank branch.
- 2.6 While it is clear that the business of lending to SHGs is a growing one, much more transparency is required in reporting by banks. As mentioned in the previous study, too, banks need to report on loans outstanding at the start of the year, loans disbursed during the year, loans collected during the year, loans outstanding at the end of the year, and, of the loans outstanding, loans overdue at the end of the year. So, too, they must report the total funds of all (not just borrower) SHGs lying with them, by way of savings account balances, fixed deposits, back-end subsidies lying in suspense or other accounts, and so on.
- 2.7 Recovery of loans appeared best when repayment was in monthly instalments. In nearly 24% of SHGs that had a loan outstanding to the bank, more than 75% of the portfolio was at risk. This was, however, not acknowledged, as SHGs tended to repay old loans in bulk, if necessary, when a new loan was to be sanctioned.

### **3 Financial inclusion**

Even as India is struggling to find ways to ensure that financial institutions make their services available to the poor, the SHG-Bank linkage programme in Andhra Pradesh had contributed significantly to financial inclusion.

- 3.1 Over 6,83,000 SHGs in Andhra Pradesh have accessed bank loans. That is, over 82 lakhs of rural women have accessed bank loans, many of them, on a repeat basis. Even a decade ago, the majority of them would not ever have stepped inside a bank, or had any interaction with any banker. In 2005-06 alone, over 359,000 SHGs (or, around 40 lakhs of women) accessed nearly Rs 2,780 crores of bank loans.
- 3.2 Financial inclusion aims at ensuring access not just to credit services, but also to savings services. All SHGs have savings accounts in banks, where member savings not in use are held.

- 3.3 Bank-linked SHGs are the rule, not the exception – almost all members of SHGs, from several SHGs in a single village, from several such contiguous villages, now regularly access bank loans.
- 3.4 Almost all (93%) of members had white ration cards, indicating that they were poor. Agricultural labourers formed 42% of the membership, with those engaged in agriculture forming 34% of members, and those in other occupations forming the rest.
- 3.5 Over a fifth of the members were from socially advantaged classes, while a third of the members were from ST and SC categories.
- 3.6 SHGs in interior villages, too, received credit on a regular basis. The size of the loan, however, was smaller than in the case of SHGs situated in the same village as the bank branch, or in a more accessible village on a good road.
- 3.7 Loan size grew for all SHGs, regardless of their social composition. The average loan amount ranged from Rs 43,640 in the case of SHGs with predominantly ST membership, to over Rs 103,000 in the case of SHGs with membership drawn predominantly from religious minority communities.

#### **4 SHG quality and sustainability**

- 4.1 Around 40% of savings accumulated since inception, have been returned by SHGs to their members. This may have happened so that members reduce their financial risks, or, so that the burden of financial management is somewhat reduced through a reduced corpus, or, so that members enjoy the benefit of a reasonable return on their savings.
- 4.2 Idle funds of SHGs linked to regional rural banks appeared to be significantly higher than in SHGs linked to commercial banks. So, too, SHGs in Kadapa and East Godavari Districts had significantly higher funds.
- 4.3 For every Rs 100 of funds (internal and external) available with an SHG, it had, on average Rs 6.7 of accumulated profit. This profit appeared sufficient to protect savings against inflation, and to provide a real return on savings.
- 4.4 Non-rotation of internal funds, tardy collection of interest on internal funds, and, possibly, non reporting of all interest earned appeared to be reasons why the profit was not what it ought to have been.
- 4.5 While almost all members accessed bank loans, only around 60% of them accessed loans from internal funds. The long term profitability of an SHG is dependent, to a good extent on interest earnings from loans given from own funds. With large bank loans becoming available at lower rates of interest, SHGs tended to lend to fewer members from their own funds – perhaps to those who could afford the higher rate of interest.
- 4.6 Repayment of bank loans was taken seriously by members, but repayment of internal loans was not as good. Interest was paid casually, as were instalments. Sustainability of the SHG requires good management of member funds, and not just of bank loans. Default is not dealt with seriously in places where it is a problem.
- 4.7 Bookkeeping and accounting continued to be of poor quality, as reported in the earlier study. However, where poor bookkeeping would have been a

matter of serious concern if thrift had been increasing steadily, the return of a significant portion of the thrift to members, reduced the size of the risk to members. The return of thrift may well have been a response to acknowledgement by members that they were not able to control the quality of bookkeeping and accounting. On the other hand, the risk to bankers increased significantly, as loan sizes were growing and thrift, in absolute terms, and as a percentage of loans outstanding was decreasing.

- 4.8 SHGs in the older age groups had more members dropping out and the causes needed to be understood better.

## **5 Impact of bank linkage**

- 5.1 Almost all members (89%) reported easy availability of credit, and 77.75% of members reported easy access to formal financial institutions. This is a remarkable situation, given that most villages in Andhra Pradesh now have several SHGs that are bank linked. With SHGs accessing loans from banks on an on-going basis, the average rural woman, ignored by financial institutions even 10 years ago, appears to have become accustomed to being serviced by banks. Most women reported an increase in the habit of saving.
- 5.2 Nearly 72% of the members reported increase in income and 47% reported generation of new employment, as a result of access to credit.
- 5.3 Around 45% of members reported improved leadership capabilities, 48% reported improved health status, nearly 50% reported increased expenditure on food, and over half the members reported increased education for their children.
- 5.4 The steady flow of credit in several SHGs was expected to have a visible impact on asset creation by members. Even if a loan is not directly used for asset acquisition, such regular inflow of even small credit, to large numbers of families in each village, normally, can be expected to result in increased employment opportunities and increased income for several families. Asset acquisition can increase through the increased income - and not necessarily, directly from credit. Interviewees, however, perhaps assumed that they were being asked to report on asset acquisition through credit, and 74% of members reported no increase in livestock, and over 93% reported no increase in savings, or purchase of vehicles, or household gadgets, or improvement in housing or purchase of land.

## **6 Issues raised by stakeholders**

- 6.1 Shortcomings in SHGs cited by SHG members match, to a large extent, the shortcomings identified during the course of data analysis. However, not enough SHGs appeared to be aware of or willing to articulate problem areas within their groups.
- 6.2 Training is an important tool to help SHGs overcome some of these shortcomings, and is desired by SHGs.
- 6.3 Training, however, is not a solution to situations where laxity arises, not from lack of skill as much as from a benefit being drawn because of the lax

situation. Books of accounts are being written badly, or not being written at all, perhaps not as much because adequate training has not been provided, as because some individuals are benefiting from it.

- 6.4 NABARD and SERP have designed good and simple accounting systems and these may need to be adhered to, if bank loaning is to continue over lengths of time.
- 6.5 Overall, the SHG-bank relationship appeared to be a comfortable one, with each partner complaining a little about the other, but without the acrimony of the early years.

## **7 Action areas**

- 7.1 Bankers must report on the previous year's business with SHGs and not on cumulative business with them. So, too, they must report on SHG funds lying with them.
- 7.2 Bankers might want to study the impact of continuous credit flows into a village. Regular credit inflow to large numbers of families in a village must result in overall changes in the local economy, even if it does not result in increase in income or employment opportunity for an individual borrower.
- 7.3 SHGs need to keep better books of accounts and to pay members an interest on savings.
- 7.4 SHPIs need to invest in capacity building in SHGs.

**FACT SHEET: SHG-BANK LINKAGE PROGRAMME: A RECURRENT STUDY IN ANDHRA PRADESH**

<b>particulars</b>		<b>Total</b>	<b>EG</b>	<b>GNT</b>	<b>VZN</b>	<b>KDP</b>	<b>KNL</b>	<b>ADB</b>	<b>MBN</b>	<b>NGD</b>
<b>Sample covered</b>	No. of SHGs covered	240	30	31	30	30	30	30	29	30
	No. of bank branches	24	3	3	3	3	3	3	3	3
<b>Functioning of SHGs in the village</b>	% of SHGs functioning	93	93	96	89	92	96	91	96	91
	% of SHGs bank linked	81	85	81	54	78	93	84	93	91
	% of SHGs with repeat linkage	67	83	63	79	48	80	43	66	61
	% of defunct bank linked SHGs	4	4	3	3	4	6	9	2	6
	% of households covered under SHGs	45	26	19	72	61	63	62	48	67
<b>Profile of SHGs</b>	Avg. SHG size at present (no. of members)	12	10	10	14	10	12	14	14	11
	Avg. age of the SHGs in years	5	5	4	5	4	5	6	5	5
	% of dropouts	10	13	8	13	5	7	12	6	14
	% of SHGs having dropouts	51	63	42	53	33	47	70	52	50
	% of A-grade SHGs	30	13	55	23	30	44	27	21	27
	% of B-grade SHGs	41	64	23	40	37	43	40	52	30
	% of C-grade SHGs	29	23	22	37	33	13	33	27	43
<b>Profile of SHG members</b>	% of SC & ST members	34	18	42	30	19	19	62	34	41
	% of Non-SC & ST members	66	82	58	70	81	81	38	66	59
	% of White Card holders (BPL category)	90	89	90	95	85	88	92	91	90
	% of Ag. Labours	42	44	60	50	31	27	43	31	47
	% of landless people	43	54	50	53	36	37	40	40	37
	% of marginal farmers	38	40	47	36	45	30	20	44	49
<b>Savings</b>	Avg. thrift per month per member	42	34	51	33	56	34	38	37	55
	Avg. cumulative savings of SHGs (N=240)	24,251	18,353	22,667	24,467	23,284	22,254	27,671	26,218	29,208
	% of SHGs distributed their savings	47	57	65	70	17	13	60	34	57
	Avg. savings distributed (N=113)	22,338	13,537	25,189	16,179	38,015	14,100	16,808	32,425	32,641
	Avg. amount of idle funds	6,922	8,909	3,881	6,680	14,398	6,547	5,984	4,418	4,576
<b>External source of funds</b>	% of SHGs which received revolving fund	28	3	32	20	37	33	37	52	10
	Avg. amount of revolving fund	10,234	8,125	11,563	12,382	10,000	10,125	10,250	9,185	10,000
	Avg. cum. amount of loans from bank	107,548	111,833	79,274	88,907	106,81	199,55	79,200	127,48	68,917



Particulars		Total	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD
<b>External source of funds &amp; subsidies</b>	% of SHGs which received CIF	31	17	13	13	23	70	37	38	40
	Avg. amount of CIF	37,891	27,311	28,250	30,398	35,235	56,696	35,126	30,948	32,194
	% of SHGs which received subsidy loans	4	0	3	3	3	0	10	3	7
	Avg. amount of subsidy loans from DRDA	57,069	6,258	124,00	10,000	51,000	0	81,125	275,00	40,500
	% of SHGs which received Pavalavaddi	22	10	13	23	30	70	10	0	20
	Avg. amount of Pavalavaddi	2,496	3,294	926	2,127	1,699	3,558	1,870	872	1,404
<b>Loan volume (average amount in Rs.)</b>	1 <sup>st</sup> linkage	23,324	14,700	18,726	25,040	34,900	27,533	20,267	24,483	21,133
	2 <sup>nd</sup> linkage	52,812	35,826	41,682	65,048	77,826	58,655	32,789	56,360	49,675
	3 <sup>rd</sup> linkage	84,262	52,800	77,778	91,667	82,500	107,85	48,333	120,25	88,000
	4 <sup>th</sup> linkage	103,464	84,800	86,667	--	120,00	162,85	78,167	60,000	--
	5 <sup>th</sup> linkage	112,625	112,500	--	--	--	140,00	96,000	75,000	--
<b>Loan repayment (in %)</b>	Average % loan recovery rate									
	i. Internal funds	29	17	30	17	61	48	12	20	19
	ii. Bank funds	79	72	78	78	83	74	70	91	81
	iii. Community Investment Funds	65	83	56	57	75	60	61	71	57
	Average % of PAR > 90 days									
	i. Internal funds	52	75	51	67	39	48	69	37	40
	ii. Bank funds	26	18	32	25	14	37	55	13	27
iii. Community Investment Funds	42	36	67	56	33	45	44	32	43	
<b>Opinion on current bank linkage</b>	Quantum of loan – inadequate	70	60	52	73	87	87	73	62	70
	Timeliness-Untimely-	11	10	6	0	23	3	3	24	17
	Repayment period- Reasonable	85	80	81	90	93	83	83	83	87
	Avg. Ideal loan size	97,958	85,333	66,419	96,067	108,50	153,00	75,000	120,13	81,000
	Avg. time taken to get the loan in weeks	4	3	3	4	4	3	4	6	6
	Avg. no. of visits made to get the linkage	4	3	3	5	4	3	3	6	4
	Avg. amount spent to get SHG-BL in Rs.	355	277	282	462	291	373	229	506	427

# CHAPTER 1: INTRODUCTION

## 1.1 The Background

Women's self-help groups (SHGs) were first formed in Andhra Pradesh in late eighties, with the active initiative of the state government and voluntary development organisations. In the early years, small groups of women met together regularly to save and to lend to one another. Initially, it was felt that when the group savings reached a significant level, matching grants would be given, and the group could rotate those, too, as credit, among members. As a result of the Indira Kranthi Patham (IKP) (previously known as VELUGU<sup>1</sup>) initiated by the government, the numbers of SHGs grew at a faster pace than had initially been anticipated, and the amount of savings, too, overtook too quickly the Rs 10,000 limit that was being allocated as matching grant per group. Meanwhile, SHGs also became actively involved with several non-financial interventions in their villages, and federations of SHGs began to be formed.

By 1992, it became clear that if members of SHGs intended to continue saving and accessing credit, then SHGs had to be helped to access credit from mainstream financial agencies. In 1996, the state government and NABARD worked closely together to establish policies and procedures to link mature SHGs with commercial, regional rural and cooperative banks. Initial reluctance gave way to active lending by banks to an extent and a spread that were not anticipated (See Annex-1 & 2).

Meanwhile, similar initiatives in several other states resulted in large numbers of SHGs of rural women being formed in those states, and these, too, began to be linked to banks. Given its early start, continued governmental support despite changes in the government, and the emergence of professional local organisations whose sole purpose was the strengthening of SHGs and their federations, Andhra Pradesh continued to lead in the field of SHG-Bank linkages, as can be seen from Table 1.1.

Table-1.1: SHG-Bank Linkage in India and Andhra Pradesh

Particulars as on 31.03.07	India	AP	% of AP
No. of SHGs that have accessed bank credit since inception of linkage	29,24,973	683,619	23.37
No. of bank branches providing credit to SHGs (as on 31.03.2006)	44,362	3,751	8.46
Cumulative loans disbursed (Rs. millions)	180,407.42	71,209.73	39.47
Loans disbursed during 2006-07 to SHGs (Rs. millions)	66,431.99	27,754.55	41.77

Source: [www.nabard.org](http://www.nabard.org), SHG Bank Linkage Programme-Regional spread of Physical and Financial Progress as on 31 March 2007

<sup>1</sup> IKP/Velugu is a World Bank Funded Project in AP, being implemented by the Society for Elimination of Rural Poverty (SERPP), Hyderabad, on behest of the Govt. of Andhra Pradesh

## 1.2 SHG-Bank Linkage Status in Andhra Pradesh

The Andhra Pradesh experience in SHG-bank linkage is extraordinary in that 24 commercial banks, the lone state cooperative bank, and 5 regional rural banks are engaged in providing finance to SHGs. What began as an exception fifteen years ago, appears now to be the rule. Of 4,045 rural branches in the state, 3,751 provide credit to SHGs. (See Annex-1 for further details.) Nearly 6 lakhs of SHGs in the state have savings accounts in banks, and of these, 2.9 lakhs received fresh bank credit during 2005-06, some on a repeated basis

Table-1.2.1: Overview of SHG Bank Linkage in AP

Type of Bank	No. of branches	No. of savings accounts	Linkage during 2005-06		
			No. of groups	Amount in crores of Rs.	Average loan per group (Rs)
1. Commercial	2,624	363,648	188,486	1090	57,830
2. Cooperative (state)	256	13,261	6,107	22	37,388
3. Regional Rural	1,165	208,765	99,748	487	48,781
Total	4,045	585,674	294,341	1589	54,339

(Source: Nabard, Southern Regional Office, Hyderabad)

All 3 regions (Coastal, Rayalaseema and Telangana) of the state, and 22 of the 23 districts (urban Hyderabad being the 23rd) in the 3 regions have SHGs drawing credit from banks. Srikakulam, one of the poorest districts in the state, is a forerunner in SHGs drawing credit from banks, on a regular basis. (See Annex 2 for further details.) Despite the wide coverage, and despite major initiatives of the UNDP and others in the Telangana region, SHGs in the coastal region received more than half of the total credit drawn by SHGs in the state, even though only 9 of 23 districts in the state are in coastal area. Four districts in the coastal region, and one in the Rayalaseema region have had SHGs drawing more than 100 crores of bank credit over the years. At least one reason for the higher credit drawn in coastal districts could be that Andhra Bank, the lead bank in the state was also the lead bank in four coastal districts.

Table-1.2.2: Region-wise SHG-Bank Linkage

Region	No. of SHG accounts	Bank loans to SHGs in 2005-06 (Amount in crores)					
		Total loans		First time linkage		Repeat linkage	
		No. of SHGs	Amount (Rs)	No. of SHGs	Amount (Rs)	No. of SHGs	Amount (Rs)
1. Coastal	273,203	138,089	823	40,362	139	97,727	684
2. Rayalaseema	107,636	52,732	315	17,982	62	34,750	253
3. Telangana	212,915	103,520	461	35,967	114	67,553	347
Total	593,754	294,341	159	94,311	315	200,030	1,284

(Source: Nabard, Southern Regional Office, Hyderabad)

The average loan per SHG drawing bank credit for the first time was Rs 33,400, while those which had drawn more than one loan, had an average loan size of Rs 64,190. During the course of the study, an attempt was made to seek details of SHG credit from bank branches visited. Bankers were able to easily provide latest linkage

figures, but found it harder to provide details of all savings of all SHGs in the bank, and also to delve into past linkage records. Where their current systems aggregate data for on-going loans, they seem not to do so for SHG savings. Amounts of SHGs lying in banks by way of savings accounts, fixed deposits and backend subsidies, are not published by Nabard, and SHGs which have fallen by the wayside, too, are not reported on.

### **1.3 Need of the study**

This report is based on a study carried out by APMAS in 2006, of SHG-bank linkage in Andhra Pradesh. Given the continued intensity of SHG-bank linkage in Andhra Pradesh, the study aimed at

- i. capturing key learnings from the field to help improve the programme in Andhra Pradesh, and
- ii. sharing the learnings with other states and policy makers, so that they could learn from the Andhra Pradesh experience.

### **1.4 Objectives of the study**

The specific objectives of the study were:

- i. to assess the quality and reach of credit in rural areas as a result of the bank linkage;
- ii. to identify the impact of the linkage and issues arising; and
- iii. to assess changes/growth since a similar study undertaken in 2003-04.

### **1.5 Research Methodology**

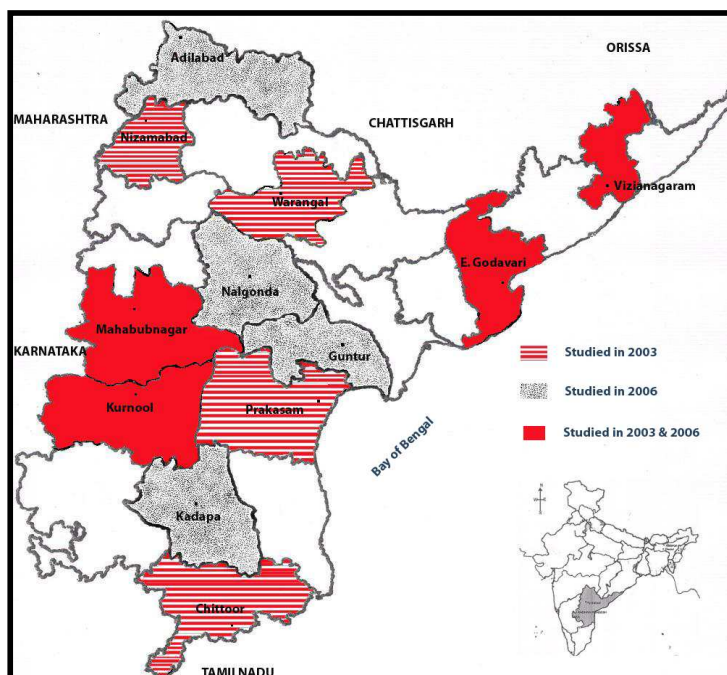
#### **1.5.1 Sampling Design**

In 2003-04, too, APMAS had conducted a study of the SHG-Bank linkage intervention, in which it had covered 400 SHGs in eight districts (East Godavari (EG), Vizianagaram (VZN), Prakasam (PKS) in Coastal region, Chittoor and Kurnool in Rayalaseema, and Mahbubnagar (MBN), Nizamabad (NZB) and Warangal (WRG) in Telangana). It was important to cover at least some of those districts in this study, while also including other districts which had not been looked at then.

The current study covered 240 bank-linked SHGs from 96 villages, linked to 24 bank branches in 8 districts in the state. Three (East Godavari, Vizianagaram and Guntur (GNT)) of the nine districts of coastal region, three (Mahbubnagar, Adilabad (ADB) and Nalgonda (NGD)) of the nine districts of Telangana, and two (Kurnool (KNL) and Kadapa (KDP)) of the four districts of Rayalaseema were selected for the study. Care was taken to include from each region, at least one district covered by the 2003-04 study, to enable some comparison. In each region, the district with the highest, another with moderate and a third with low numbers of SHGs linked to banks were chosen (See Annex -2 and 3 for profile of the districts selected for the study and Map-1).

In each district, 3 bank branches providing credit to SHGs were selected – a branch of the lead commercial bank in the district, a branch of some other commercial bank, and a branch of a regional rural bank. In all, 8 banks providing credit to SHGs were covered by the study. Of these, 4 were commercial banks, and 4 regional rural banks. Bank branches were selected from among the branches with the highest SHG lending in the district.

Map-1: Districts Selected for Study in Andhra Pradesh



The 8 (out of a total of 32) banks selected, together accounted for over 78% of the total credit provided in 2005-06 to SHGs in the state. As can be seen from the table below, almost twice as many SHGs that had availed of bank credit in 2005-06, had savings accounts in the banks. Many of them probably had on-going loan accounts with their banks, even if they had not borrowed afresh during 2005-06.

Table-1.5.1.1: SHG linkage in banks covered in the study

Name of the Bank	Total SHGs with savings account in banks	Total SHGs given credit	Total credit given to SHGs in 2005-06 Rs. crores	SHGs covered by study	% of SHGs covered to total sample
1. Andhra Bank	90,411	49,702	279	60	25.0
2. State Bank of India	104,043	58,714	347	59	24.6
3. State Bank of Hyderabad	49,696	21,404	117	20	8.3
4. Syndicate Bank (SB)	27,305	13,216	79	20	8.3
5. AP Grameen Vikas Bank	93,345	50,144	229	30	12.5
6. Andhra Pragathi Grameen Bank	51,918	24,067	128	20	8.3
7. Chaitanya Godavari Bank	14,375	4,812	25	21	8.8
8. Deccan Grameen Bank	32,307	11,845	49	10	4.2
Total	463,400	233,904	1,253	240	100.0

Within the area of the 24 bank sample branches, 96 villages were selected. In each branch area 4 Gram Panchayats were purposively selected - one in which the bank branch was situated, one that was further away but on a pucca road, and two in villages 2-3 kms away from pucca roads. Within these 4 villages in each branch

area, 10 SHGs were randomly selected – 3 from the village in which the branch was located, 3 from villages on the pucca road, and 2 from each of the 2 villages away from the road.

In all, 240 SHGs were selected, of which 29 were from Mahbubnagar district, 31 from Guntur district, and 30 from each of the remaining districts (East Godavari, Vizianagaram, Kadapa, Kurnool, Adilabad and Nalgonda.)

### **1.5.2 Data collection techniques**

Both primary and secondary data were collected from SHGs, banks and SERP through qualitative and quantitative data collection techniques such as interview schedule, checklists, case studies and observation. Field work for data collection was undertaken in December 2006 and January 2007. The interview schedule mainly covered the socio-economic profile of SHG members, SHGs, infrastructure, sources of funds, fund management, lending norms, repayments and asset creation. To obtain data relating to savings, loans outstanding, loans overdue, fixed deposits, and suspense amounts of the SHGs in the bank, another format was designed. Loan format was designed to know loan recovery rate (RR) and loan portfolio at risk (PAR). The Critical Rating Index (CRI), developed by NABARD was used to know the quality of, and to grade the SHGs. An interview checklist was developed to collect the opinion and suggestions of the bank branch managers on SHG bank linkage process. In all, six formats were used to collect data from SHGs and bankers.

### **1.5.3 The study team**

The Research and Advocacy Unit of APMAS constituted a team with 10 members to collect both qualitative and quantitative data from SHGs and their federations, bank branches, IKP, DRDA and NABARD. Team members had working experience with SHGs and had accounts as a subject in their post-graduation courses. A one-week training was organised for the study team on the current study design, selection of SHGs, data collection tools, and on filling and editing of various formats designed for data collection.

The study team was divided into two field teams, each headed by a member of the research Team in APMAS, and the work of the two teams was coordinated by the head of the research division.

### **1.5.4 Limitations of the study**

Absence of books in SHGs, or books of accounts not updated created some problems for the study team. In many SHGs, the study team arrived at interest earned by SHGs, and drew financial statements of SHGs based partly on available recorded information and partly on an oral report of transactions that had taken place. In bank branches, too, full information was not accessible, despite the fact that visits to banks had all been with prior and adequate notice. The sample was not quite random, as preference was given to SHGs covered by those branches which served at least 100 SHGs.

### **1.5.5 Data analysis**

The filled in schedules were edited. Data was entered and processed by using SPSS and Excel programs, and it was cleaned. Simple statistics such as averages and percentages were computed, and frequency tables, cross and comparative tables prepared to compare the findings and draw meaningful inferences.

### **1.5.6 Reporting structure**

The study report was organized into 8 chapters preceded by an executive summary. Chapter 1 provides the background to the study. Chapter 2 describes the profile of SHGs and their members. Chapter 3 explores the quality and availability of credit to SHGs. Financial performance, including issues of sustainability, of SHGs linked to banks is presented in Chapter 4. The impact of bank linkage is covered in Chapter 5. Chapter 6 contains issues raised by stakeholders. Action areas are discussed in the last chapter of the report.

### **1.6 Conclusions**

- Bank finance to SHGs is very significant in Andhra Pradesh. It appears to have contributed more to financial inclusion than has been formally acknowledged. The geographical spread, the number of SHGs with savings accounts in banks, the number of SHGs financed, repeat loans, all indicate that the providing of financial services to SHGs is not a centrally driven or forced exercise – that providing credit to SHGs perhaps is good business as far as banks are concerned.
- If commercial bankers were major providers of credit to SHGs, regional rural banks were not far behind.
- Banks should be required to report on SHG loans in a manner that makes clear the numbers that are no longer being lent to, alongside the numbers being linked for the first time, and the numbers that are being linked on a repeat basis.
- So, too, the total savings of SHGs in banks, back end subsidies, fixed deposits, loans disbursed during the year, loans recovered during the year, loans overdue at the year end, etc, also must be clearly reported on. As stressed in the previous APMAS report on the same subject, no other business boasts of its 'cumulative' turnover – businesses compare performance with the performance of the previous year, and SHG lending, too, should be reported on, on annual business.

## CHAPTER-2: PROFILE OF SHGS

---

In any analysis of SHG-bank linkage, it is important to take cognisance of the profile of the SHGs that accessed bank loans. In this chapter, the profile of members (their economic, social and occupational categories), and the profile of their SHGs (including their age, grade, distance from bank, etc) have been presented. As already mentioned in the previous chapter, in all, 240 bank-linked SHGs from 24 bank branches of 8 districts of the state were covered by the study. These SHGs were each linked to one of 8 rural bank branches.

As bank-linked SHGs were randomly selected, even though there was some purposive selection of bank branches and villages in which the SHGs were situated, of the 240 SHGs, 36 did not have any current loan outstanding with their bank. All, however, had been bank linked at some time or other. Most of them (83%) had had one or two loans from banks. The social composition of their members was similar to the composition in the 204 SHGs that were currently linked. A third of these 36 SHGs were of grade 'A' quality, while a quarter were in grade 'C'. For all these reasons, it appeared more likely that they were awaiting the next loan than that the bank link had been broken.

### **2.1 Profile of members**

#### **2.1.1 Outreach**

In the early years of the SHG movement, promoting institutions tended to promote one or two SHGs in each village that they worked with. Over a period of time, the demand for promotion of SHGs by rural women, the government, voluntary development agencies, banks, donors and others increased, and each village began to have as many SHGs as it could hold, among the poor, and, on occasion, also among the better off.

In the 94 villages from which village profiles were collected, 45% of households were covered by SHGs. If a household had more than one member in an SHG, care was taken to depict the membership as from one household. As a result, Guntur with 7,000 plus members from 26,000 plus households might have been construed as having a 27% village coverage – the actual coverage of households was, in fact, only 19%, indicating that more than one woman from the same household was a member. The highest household coverage was in Vizianagaram (72%), with Nalgonda, Kurnool, Adilabad and Kadapa following closely with very significant village coverage. Mahbubnagar with a poverty level of 81% of the population, (see Annex-3), and with very concentrated work by UNDP and others over long periods of time, had less than half the households covered, and East Godavari had only a fourth of households covered by SHG members. The apparent low coverage of households in two districts was primarily due to the inclusion of SHGs from Ummidivaram (in East Godavari district) and Repalli and Pirangipuram (in Guntur district), each with a large urban and non-poor population.



Table- 2.1.1: Coverage of members and households

Particulars	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
No. of members in SHGs	5,623	7,257	14,466	5,588	5,765	3,754	5,060	5,878	53,391
No. of HHs in village	19,640	26,479	17,352	8,665	8,258	5,103	8,259	8,334	102,090
% of HHs covered by SHGs	26	19	72	61	63	62	48	67	45

### 2.1.2 Landholdings

In a programme as large and widespread as the SHG promotion and development work, it is likely that the chasing of targets will result in the better off benefiting from the programme, more than those for whom the programme was really meant. White ration cards are issued by the government to poorer sections of the population, to ensure that they can access adequate food, through subsidised pricing. While there were some variations in various districts, on average, 90% of the members of SHGs were those with white ration cards. Even discounting for the fact that white ration cards are, at times, distributed to those undeserving of subsidy, the percentage of poor members would still form the bulk of membership. This was corroborated by the fact that 43.3% of all members were landless labourers, and 39% belonged to marginal farmer families.

Table- 2.1.2: Economic profile of SHG members (in %)

Particulars	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
<b>A. White card<sup>2</sup></b>	89.4	90.4	94.7	84.9	87.5	92.0	90.6	90.1	90.0
<b>B. Landholdings</b>									
1. Landless	53.7	49.8	53.0	36.2	37.0	40.0	39.9	36.7	43.3
2. Marginal farmers	40.5	46.6	36.3	44.9	30.4	19.5	44.4	49.0	39.0
3. Small farmers	5.8	1.9	7.6	18.9	25.5	32.5	14.3	14.0	15.1
4. Medium farmers	0.0	1.3	3.0	0.0	4.3	8.0	1.4	0.3	2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Marginal farmers <2.5 hectares; Small farmers 2.5-5 hectares; Medium farmers 5-10 hectares

### 2.1.3 Social Categories

Overall, 9.9% of the members were from scheduled tribes (STs), but in the sample studied, there were no ST members in SHGs in Kadapa district, and hardly any in Vizianagaram, Kurnool, Mahabubnagar and Nalgonda districts. In all, 23.2 % of members were from scheduled castes (SCs).

If Kadapa had 0% of members from scheduled tribes, it had a high 45.2% of members drawn from socially advantaged castes. However, when juxtaposed with the economic profile of members, the problem appeared to be not as much that the undeserving were being benefited from the bank linkage, but that the most needy were perhaps being overlooked.

<sup>2</sup> White Cards generally issued to Below Poverty Level (BPL) category by the revenue department to avail limited amount of rice and kerosene on subsidies prices under Public Distribution System.

Table- 2.1.3.1: Social categorisation of members (in %)

Social Category	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1. Scheduled Tribes	11.6	19.3	1.9	0.0	3.0	33.5	4.3	6.0	9.9
2. Scheduled Castes	6.1	22.8	27.8	18.6	16.3	29.2	30.0	35.2	23.2
3. Backward Classes	45.3	26.7	53.5	29.2	44.0	24.6	49.8	50.7	40.5
4. Minorities	0.3	7.7	0.2	7.1	14.9	6.3	7.0	2.1	5.7
5. Open category	36.7	23.5	16.7	45.2	21.7	6.5	8.9	6.0	20.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In comparison with the 2003 study, overall, the percentage of SC and ST membership was higher. The percentage of agricultural labourers was lower, but that of white ration card holders was much higher than in the previous study. That is, on both caste and ration card indicators, the SHGs reached out more to the disadvantaged than they did earlier.

Table- 2.1.3.2: Member profile – comparison with 2003-04

Social & Economic Category	2003-04		2006-07	
	Frequency	%	Frequency	%
<b>Social Category</b>				
1. Scheduled Tribe	236	4	292	10
2. Scheduled Caste	1,029	19	691	23
3. Backward Classes	2,788	53	1,186	40
4. Minorities	234	5	165	6
5. Open Category	1,021	19	564	21
Total	5,308	100	2,898	100
<b>Type of Ration Card</b>				
1. White Card	3,843	72	2,692	93
2. Pink Card	549	11	97	3
3. No card	916	17	109	4
Total	5,308	100	2,898	100
<b>Occupation</b>				
1. Agriculture labour	2,797	53	1,204	42
2. Agriculture	1,258	24	989	34
3. Other	1,253	23	705	24
Total	5,308	100	2,898	100

The percentage of agricultural labourers, however, declined from 53% to 42% of total membership, and the percentage of members from the BC category also reduced from 53% to 40%.

## 2.2 Profile of SHGs

### 2.2.1 Size of SHG

Nearly half the SHGs studied had 10 or less members. Most of the others had between 11 and 15 members each, though 6.3% had 16 members and more.

Guntur was exceptional in that almost all SHGs in the district had 10 or less than 10 members, while East Godavari and Kadapa had a large majority with 10 or fewer members each. In Vizianagaram, one-third of the SHGs had 16 or more members each. The total number of SHG members in the villages covered was over 53,000. In Chapter 3, we have explored which members accessed how much credit.

Table- 2.2.1: The size of the SHGs (in %)

Group size	Name of the district								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
Up to 10	80.0	93.5	16.7	80.0	40.0	6.7	--	63.3	47.9
11-15	20.0	6.5	50.0	20.0	53.3	90.0	96.6	33.3	45.8
16 & above	--	--	33.3	--	6.7	3.3	3.4	3.3	6.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### 2.2.2 SHPIs and SHGs

In three of eight districts, 90% of the SHGs studied were those promoted by Indira Kranti Patham (IKP), formerly known as Velugu, while in another 3 districts, over 70% were those promoted by IKP. In Kadapa and Nalgonda districts, however, nearly a third of the SHGs studied were promoted by local women/communities. In the past few years, IKP has become the key self-help promoting institution (SHPI), with a wide geographical spread, and a depth of reach that includes hitherto untouched, or superficially touched communities.

NGO presence was marginal in the SHGs covered, and this might, in part, be due to declining NGO presence in the field of SHGs, or because villages with higher density of bank linked SHGs were more likely to be those with a strong DRDA/ IKP presence. At least some NGOs active in promotion of SHGs are themselves engaged in providing loans to SHGs, and may not be as active in promoting bank linkage.

Table 2.2.2 Promoting institutions

SHPI	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1. DRDA/IKP	90.0	80.6	76.7	70.0	90.0	90.0	79.3	63.3	80.0
2. NGO	--	--	10.0	--	--	--	--	--	1.3
3. Bank	--	6.5	--	--	--	--	3.4	--	1.3
4. Community <sup>3</sup>	10.0	12.9	13.3	30.0	10.0	10.0	17.2	36.7	17.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### 2.2.3 SHG Coverage at Village Level

In the 96 villages covered by the study, there were over 4500 SHGs – that is, on average, there were 47 SHGs per village. Over 80% of the SHGs were linked to banks. We have already seen that nearly half the households in any village had one or more SHG members; with four-fifths of the SHGs bank-linked, significant credit flows, on a regular basis, can be expected into these villages. Quite apart from what

<sup>3</sup> Community promoted SHGs include those that are promoted by federations, and by leaders of local SHGs.

regular credit flow could do for the borrower and her family, such levels of credit inflows into a village must and will affect the entire economy of the village, over a 10-year span, if not earlier.

Around 7% of all SHGs, and 4% of bank-linked SHGs were defunct, but that still left a high figure of functioning and bank-linked SHGs. Of the bank-linked SHGs, a third were bank borrowers for the first time, while others had borrowed more than once.

Table-2.2.3: Sample villages – some particulars

Particulars	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
No. of villages	12	12	12	12	11	12	12	11	94
No. of SHGs in the villages	738	811	763	532	494	297	474	434	4,543
No. of SHGs bank linked	625	659	412	417	459	249	442	397	3,660
% of SHGs functioning	93	96	89	92	96	91	96	91	93
% of SHGs not functioning	7	4	11	8	4	9	4	9	7
% of SHGs bank linked	85	81	54	78	93	84	93	91	81
% of fresh linked SHGs	17	37	21	52	20	57	34	39	33
% of repeat SHG linkages	83	63	79	48	80	43	66	61	67
% of defunct <sup>4</sup> BL SHGs	4	3	3	4	6	9	2	6	4

Source: DRDA and IKP

## 2.2.4 Caste Composition

In 55% of SHGs, all members belonged to a single caste, while in the remaining 45%, membership was from various castes. Caste homogeneity was most pronounced in Vizianagaram district. The fact that nearly half the SHGs had members belonging to different castes probably indicates the rural woman's willingness to work across castes.

Table-2.2.4: Caste profile of SHGs

Caste composition	Name of the district								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1. Homogeneous	46.7	74.2	60.0	63.3	46.7	43.3	62.1	43.3	55.0
2. Mixed	53.3	25.8	40.0	36.7	53.3	56.7	37.9	56.7	45.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

## 2.2.5 Age of SHGs

The age of the SHGs ranged from less than 1 year to more than 9 years. More than half (56.7%) the SHGs had been formed less than 5 years ago, and 43.3% of the SHGs were over 5 years old. There were hardly any SHGs that were less than a year old, in the sample groups covered by the study. In Adilabad district, over 70% of SHGs were over 5 years of age, and none was less than a year old.

<sup>4</sup> 'Defunct SHGs' = those SHGs that have not been doing any savings and credit activity for more than a year.

Table- 2.2.5: Age of SHGs

S. No	Age in years	Districts								Total
		EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1	Up to 1	3.3	3.2	--	--	6.7	--	--	10.0	2.9
2	1.01 - 3	30.0	51.6	33.3	36.7	26.7	13.3	13.8	23.3	28.8
3	3.01 - 5	26.7	12.9	26.7	26.7	36.7	16.7	31.0	23.3	25.0
4	5.01 - 7	16.7	9.7	30.0	16.7	6.7	40.0	31.0	26.7	22.1
5	7.01 - 9	10.0	19.4	3.3	16.7	20.0	20.0	17.2	16.7	15.4
6	9.01 +	13.3	3.2	6.7	3.3	3.3	10.0	6.9	--	5.8
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### 2.2.6 Distance from Bank

Nearly 57% of SHGs were financed by a bank branch that was within 3 kms distance. A fourth of the SHGs in the sample were less than a kilometre away from their banks, indicating that they were probably in the same village as the bank branch. Over a fifth were more than 9 kms away.

Table-2.2.6: Distance from Bank

Distance in kms	Name of the district								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1. < 1	33.3	16.1	23.3	23.3	30.0	26.7	27.6	10.0	23.8
2. 1-2	--	12.9	23.3	16.7	--	20.0	17.2	6.7	12.1
3. 3-4	23.3	32.3	13.3	23.3	6.7	13.3	27.6	26.7	20.8
4. 5-6	30.0	--	23.3	13.3	23.3	13.3	--	10.0	14.2
5. 7-8	3.3	9.7	10.0	3.3	13.3	6.7	3.4	16.7	8.3
6. 9-10	--	--	6.7	3.3	13.3	10.0	10.3	13.3	7.1
7. 11-12	--	6.5	--	13.3	3.3	10.0	6.9	3.3	5.4
8. > 12	10.0	22.6	--	3.3	10.0	--	6.9	13.3	8.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### 2.2.7 Grades of SHGs

All 240 SHGs studied, were graded during the course of the study. Less than a third of the SHGs were found to be of 'A' grade, and an almost equal number were of 'C' grade. The highest percentage (54.8%) of 'A' grade SHGs was in Guntur district, while the lowest (13.3%) was in East Godavari.

Table-2.2.7.1: Grades of SHGs

Grade	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
'A'-grade	13.3	54.8	23.3	30.0	43.3	26.7	20.7	26.7	30.0
'B'-grade	63.3	22.6	40.0	36.7	43.3	40.0	51.7	30.0	40.8
'C'-grade	23.3	22.6	36.7	33.3	13.3	33.3	27.6	43.3	29.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

As may be seen from Annex-2, East Godavari accounted for a little less than 10% of all SHGs in the state, and a little more than 10% of total loaning to SHGs by banks. As shown in the table above, the district also accounted for the highest percentage of SHGs that were over 9 years of age. The Guntur sample had more than half (nearly 55%) of the SHGs aged less than 3 years.

The reflections on East Godavari gave rise to the question of the relationship, if any, between the age and the grade of SHGs. Table-2.2.7.2 provides information on the age and grade of the sample SHGs. Over 71% of SHGs that were less than a year old, were in grade 'A', and this reduced to just 7.1% of SHGs of over 9 years of age, being in grade 'A'. So, too, if a high 28.6% of SHGs that were less than a year old were in Grade 'C', the percentage rose to nearly 43% in SHGs that were over 9 years of age.

Table-2.2.7.2: Grade vis-à-vis age of SHG

Grade	Age of the SHGs (in years)						Total
	Up to 1	1.01 – 3	3.01 – 5	5.01 – 7	7.01 – 9	9.01 +	
'A'-grade	71.4	43.5	23.3	24.5	24.3	7.1	30.0
'B'-grade	--	30.4	45.0	50.9	43.2	50.0	40.8
'C'-grade	28.6	26.1	31.7	24.5	32.4	42.9	29.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In the 2003-04 APMAS study, 74.4% of SHGs that were less than a year old were in grade 'A', and 15% of those that were over 9 years old were in grade 'C'. The figures in the 2003-04 study had already indicated a gradual decline in grade with increase in age – this study shows a much sharper decline in the quality of SHGs as they age.

In early days of bank linkage, all stakeholders concentrate on the quality of the SHG, but over time, with recovery being more or less assured, all stakeholders, probably relax and the grades perhaps slip as a result of such complacency.

The following table provides information on the grade of the sample SHGs vis-à-vis the social category of the majority of their members. SHGs with members predominantly from the SC category, accounted for only 12.5% of 'A' grade SHGs, even though they accounted for 22.1% of total SHGs in the sample. Special emphasis may need to be placed on capacity building in SHGs, if the linkage is to continue over lengths of time.

Table-2.2.7.3: Social Category vis-à-vis Grade

Social categories	Grading of SHGs			Total
	A	B	C	
1. Scheduled Tribe	8.3	11.2	11.4	10.4
2. Scheduled Caste	12.5	24.5	28.6	22.1
3. Backward Classes	43.1	35.7	44.3	40.4
4. Minorities	8.3	5.1	--	4.6
5. Open Category	27.8	23.5	15.7	22.5
Total	100.0	100.0	100.0	100.0

An attempt was also made to link the grade of an SHG to its distance from the financing bank. While nearly 42% of SHGs that were located in the same village as

the bank were in grade 'A', less than a fifth of those in interior villages were of this quality. So, too, while a little over a fifth of the SHGs in the same village as the bank branch were of grade 'C', nearly a third of those in interior villages were of grade 'C'. Proximity to the bank did appear to have some impact on the grade of an SHG, possibly because of closer supervision.

Table-2.2.7.4: Grade vis-à-vis location of SHG

Grade	Location of the SHG			Total
	Same village as the bank	Village on a main road	Interior village	
'A'-grade	41.7	32.4	19.6	30.0
'B'-grade	37.5	32.4	49.5	40.8
'C'-grade	20.8	35.2	30.9	29.2
Total	100.0	100.0	100.0	100.0

The quality of SHGs had fallen since the previous study as can be seen from the following table. Where two-thirds of the bank linked SHGs in the previous study were of grade 'A', less than a third of the current sample were in grade 'A'. So, too, grade 'C' SHGs increased from 8% to 29%. While repayment rate is a good indicator of quality, over time, as loan sizes grow, governance issues, accounting quality, member-SHG-leader relations, all begin to play their part in determining quality. Indeed repayment will get affected, sooner or later, if any of these is undermined. Banks, in their own long term interests need to focus on the overall quality of the SHGs that they finance. In the previous report, too, banks were urged to assess SHGs regularly, and in a manner that enabled the SHGs to internalise the process and desire to keep up good performance.

Table-2.2.7.5: SHG grade comparison since 2003-04

Grade	2003-04		2006-07	
	Frequency	%	Frequency	%
'A'-grade	264	66.0	72	30.0
'B'-grade	104	26.0	98	40.8
'C'-grade	32	8.0	70	29.2
Total	400	100.0	240	100.0

In any intervention of the size of the SHG promotion and development programme in Andhra Pradesh, it is unlikely that the results will all be good. In that light, if 29.2% of SHGs are in grade 'C', that is definitely not desirable, but it is also not alarming. What is worrisome is that these are bank-linked SHGs and that the grades appear to worsen with age.

## 2.3 Conclusions

- The SHG movement has reached out to large numbers of poor women. It is an extraordinary intervention in terms of the sheer depth and width of coverage of membership. Large numbers of households in each village participate in SHGs, and large numbers of the landless and people with tiny holdings are in SHGs.

- A few years ago, there was concern that perhaps SHGs are not reaching out enough to women from scheduled tribes. That concern appears to have been addressed partially since.
- Banks lend to large numbers of SHGs in each village. Regular credit inflows to large numbers of families in contiguous villages, must have effect on the local economy. Focussed study of some villages which have had steady inflows of credit over 4-5 years, might throw light on important changes in the local economy. The learnings from such a study could have policy implications on converting dormant economies into vibrant ones.
- Bank linkage should normally have been an indication of the high quality of an SHG. That, however, was not borne out by the data. Age appears to affect the quality of SHGs – a concern that had arisen in the 2003-04 APMAS study, and appears to be validated by this study. The caste profile of members, related possibly to levels of literacy, also appeared to affect grade, and special capacity building inputs may be needed for such SHGs.
- Distance from bank, too, appeared to have some effect on quality, and banks, which have proven themselves willing to service interior villages, now need to be urged to ensure supervision and guidance for more distant SHGs. It is not necessary that banks provide such support directly – there are several village and mandal level federations that could be trained and appropriately positioned for this purpose.





## CHAPTER-3: QUALITY AND AVAILABILITY OF CREDIT

In this chapter, the quality and amount of credit accessed by SHG members is being presented. An attempt was made to assess the quantum of loans borrowed, the quality of the SHG loan portfolio in the banks, and the category of members who accessed the loans. As SHGs are also expected to rotate their own savings, and, as they have access to the Community Investment Fund (CIF), some foray into credit in these quarters was also indulged in – partly for the sake of comparison with bank loans, and partly to keep in mind the overall exposure of members to formal borrowing. Operations at bank and SHG level with regard to loan disbursement and recovery have also been touched upon.

### 3.1 Access to bank credit

#### 3.1.1 No. of linkages

In all, a little over a tenth of the SHGs were on their fourth or fifth linkage and nearly two-thirds of the SHGs were on their second or third bank loan. In East Godavari district, a third of the SHGs were on their fourth or fifth bank loan, and in Kurnool and Adilabad, 23% and 20% of the SHGs (respectively) were on their 4<sup>th</sup> or 5<sup>th</sup> linkage. Mahbubnagar, with its fairly long history of external loans had almost no SHGs (in the sample) which had accessed more than 3 bank loans. At least one reason for this could be the large corpus funds available with the mandal level federations, which SHGs accessed on a regular basis.

Table-3.1.1.1: Linkage-wise percentage of SHGs across districts

No. of linkages	Name of the district								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1st linkage	23.3	29.0	30.0	23.3	10.0	36.7	13.8	33.3	25.0
2 <sup>nd</sup> linkage	26.7	41.9	50.0	66.7	23.3	23.3	44.8	50.0	40.8
3rd linkage	16.7	19.4	20.0	6.7	43.3	20.0	37.9	16.7	22.5
4th linkage	20.0	9.7	--	3.3	16.7	16.7	--	--	8.3
5th linkage	13.3	--	--	--	6.7	3.3	3.4	--	3.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table-3.1.1.2: Number of loans accessed - comparison with 2003-04

Linkage	2003-04		2006-07	
	Frequency	%	Frequency	%
1st linkage	216	54	60	25
2 <sup>nd</sup> linkage	124	31	98	41
3rd linkage	40	10	54	23
4th linkage	16	4	20	8
5th linkage	4	1	8	3
Total	400	100	240	100

Where 54% of the samples in the 2003 study were on their first bank linkage at the time of that study, only 25% of the SHGs in the current sample were on their first linkage. Against 15% SHGs in the earlier study with three or more linkages, there were 34% of SHGs in that category in the current sample. This, too, is an indicator that lending to SHGs is seen as good business by banks.

### 3.1.2 Quantum of Loan

The average first time loan was smallest in East Godavari district at Rs 14,700, and yet, the approach in the district appeared to be more liberal than in other areas, with SHGs in their 5<sup>th</sup> linkage drawing loans (at an average of Rs 112,500), 8 times the size of those drawn by SHGs in their first linkage. The consequences of such liberal lending may need to be monitored. The largest average loan was in Kurnool district in the 4<sup>th</sup> linkage, at Rs 163,000.

Table-3.1.2.1: District-wise bank linkage

Districts	Linkages (average loan amount in Rs)				
	1st	2 <sup>nd</sup>	3rd	4th	5th
East Godavari	14,700	35,826	52,800	84,800	112,500
Guntur	18,726	41,682	77,778	86,667	--
Vizianagaram	25,040	65,048	91,667	--	--
Kadapa	34,900	77,826	82,500	120,000	--
Kurnool	27,533	58,656	107,850	162,857	140,000
Adilabad	20,267	32,789	48,333	78,167	96,000
Mahbubnagar	24,483	56,360	120,250	60,000	75,000
Nalgonda	21,133	49,675	88,000	--	--

Average loan sizes increased with each linkage as can be seen from the following table. While in early years, an average first time loan to an SHG stood at Rs 15,000, currently an average first time loan is Rs 26,900. Each other linkage (second, third, and so on), too, has similarly grown over the years, indicating increasing banker confidence in SHGs. A little more than what an SHG linked several years ago received as its fourth loan (Rs 53,625), is currently being provided at the time of the second loan (Rs 67,250).

Table-3.1.2.2: Loan size vis-à-vis linkage

Linkages	Average loan amount per SHG per linkage (Rs)				
	First	Second	Third	Fourth	Fifth
Single	26,900	--	--	--	--
Two	24,487	61,143	--	--	--
Three	20,185	47,750	97,639	--	--
Four	18,700	35,350	67,250	123,400	--
Five	15,000	28,587	36,500	53,625	112,625

A comparison between the current situation and the situation in 2003-04 showed that loan sizes had grown steadily over the years – in all the 4 districts covered by both the studies, in both commercial and regional rural bank financed SHGs, and in terms of the size of each linkage, as can be seen below.

Table-3.1.2.3: Average loan size over the years

Particulars	Average size of current loan (Rs)	
	2003-04	2006-07
<b>Districts</b>		
1. East Godavari	37,120	66,767
2. Kurnool	36,380	116,000
3. Mahbubnagar	28,060	80,069
4. Vizianagaram	27,807	63,533
<b>Type of Bank</b>		
1. CBs	35,052	62,708
2. RRBs	32,344	77,432
<b>Linkage</b>		
1. 1st linkage	26,428	26,900
2. 2nd linkage	38,073	61,143
3. 3rd linkage	51,571	97,639
4. 4th linkage	60,867	123,400
5. 5th linkage	80,000	112,625

The significantly higher size of loan in Kurnool district in 2006-07 was possibly because more than two-thirds of the SHGs in the district had received three or more loans.

### 3.1.3 Linkage vis-à-vis SHG profile

An attempt was made to link loan size with the grade and the social composition of the SHG membership. The size of loan provided to grade 'A' SHGs was, for each successive linkage, higher than that provided to grade 'B' or 'C' SHGs for the same linkage. The figures below indicate that while bankers did discriminate in favour of grade 'A' SHGs, (as they should have), they did not appear to make a distinction between grade 'B' and grade 'C' SHGs. In the long run, their business will require them to take notice of changes, if any, in the quality of their clients, over the years, and to respond to those changes in their operations.

Table-3.1.3.1: Grade, linkage and loan size

Grade	Linkage & Loan (avg. amount in Rs)				
	1st	2nd	3rd	4 <sup>th</sup>	5th
A-grade	24,535	58,981	106,208	176,800	128,000
B-grade	22,102	50,596	74,738	85,176	105,000
C-grade	23,789	49,342	76,344	94,167	120,000

We have already seen that the SHGs consisted of a large section of economically and socially disadvantaged communities. They also had members from other sections of society. Given the quantum of bank linkage in Andhra Pradesh, an attempt was made to identify whether any social group benefited more than the others. What emerged was that the largest loan size in the fifth linkage, was accessed by SHGs that had a majority of members from 'backward classes', while the second largest loan sizes went to SHGs with members wholly from socially advantaged castes (other castes). The average loan size on the 3<sup>rd</sup> and 4<sup>th</sup> linkage was highest in SHGs all of whose members were Muslims.

Table-3.1.3.2: Linkage vis-à-vis social composition of SHGs

SHG membership	Linkage & Loan (Average amount in Rs)				
	1st	2 <sup>nd</sup>	3 <sup>d</sup>	4th	5th
1. ST	16,579	35,417	48,333	78,800	96,000
2. SC	21,518	49,926	75,571	75,000	--
3. BC	23,375	54,050	94,500	112,167	87,500
4. Min	30,000	59,250	122,500	233,333	--
5. OC	26,053	61,667	74,000	45,000	100,000
6. ST-ND <sup>5</sup>	22,167	42,500	--	--	--
7. SC-ND	25,857	54,286	110,000	--	--
8. BC-ND	24,133	49,705	77,972	90,000	143,333
9. Min-ND	18,250	48,750	75,000	--	--
10. OC-ND	24,743	62,074	84,867	94,000	--

In the sample, no SHG with members drawn only or mainly from scheduled castes had a fifth loan, and the average fourth loan size was marginally smaller than the previous loan. A comparison with the findings of the 2003-04 study further indicated that the difference between the size of the loan accessed by SHGs with ST/SC members and that accessed by more advantaged groups, had widened over the years.

Table-3.1.3.3: Loan size vis-à-vis social category of membership – comparison with 2003-04

Dominant social category of SHGs	Average Loan Amount in Rs.	
	2003-04	2006-07
1. Scheduled Tribe	27,059	43,640
2. Scheduled Caste	30,078	51,566
3. Backward Classes	31,783	75,160
4. Minorities	35,964	103,182
5. Open Category	44,582	73,944

While SHGs with ST/SC membership did receive loans regularly from banks, some analysis may be required on why their loan size did not grow at the rate as that of other groups. Perhaps they needed help in increasing their loan absorption capacity- a need which can be fulfilled to some extent. On the other hand, if the differences arose out of discrimination, that needs to be attended to immediately. However, if the differences have arisen because of significantly low resource base with SC / ST members then, unless the resource base is first realised, loan sizes may continue to grow at a slow pace.

### 3.2 Appraisal of SHGs

In all, 24 bank branches were covered by the study, and all 24 bank Branch Managers were interviewed. Criteria for acceptance or rejection of SHG loan applications were discussed with each Branch Manager. Common responses coming from at least 15% of branch managers have been listed below. For rejection

<sup>5</sup> ND= numerically dominant membership from that particular section of the community

of loan applications the only common thread across branches was irregularity of savings and low savings – both presumably in relation to younger SHGs wanting first time linkage. Two-thirds of the branch managers cited regularity of savings as an important criterion for providing loans to SHGs.

During the course of the field visits, however, it was noticed that although savings were indeed regular in almost all SHGs, several SHGs had distributed savings among themselves, and the bank had permitted withdrawal of savings. When SHGs withdraw savings from their bank account, the banker probably assumes that it is for internal loaning purposes. More information on savings withdrawal is provided later in this report.

Surprisingly, the quality of bookkeeping was cited as a criterion for lending only by a fourth of the branch managers. The previous loan size was cited as a criterion by even fewer managers, but that could be because loan repayments were not considered to be a problem area, and, therefore, were in the minds of only those managers who had faced some problems in this area.

Table-3.2.1: Qualities in SHGs appraised by bankers

Criteria	Frequency	Percentage
<b>Selection</b>		
1. Group's regularity of savings	16	67
2. Good bookkeeping	6	25
3. Good record of repayment of earlier loans	4	17
4. Loan sought for income generation	4	17
5. High grade of group	10	42
6. Age of the group (older groups)	7	29
<b>Rejection-</b> Irregular and less saving amount	6	25

As banks had not mentioned distance from branch, or ease of supervision as criterion for lending, the link between the location of an SHG and linkage was explored. Interestingly enough, the first linkage was smallest in the case of SHGs that were situated in the same village as the bank branch, and largest in the case of those in the more interior, and less accessible villages. This changed, however, to the largest loans being issued, over time, to SHGs in the same village as the branch, and fairly large loans being issued to other villages easily accessible, and comparatively smaller (but not small enough to cause concern) loans to villages in interior villages. The fact that interior villages continued to be serviced regularly indicated that banks thought SHG lending to be good business, even when the client was not easily accessible.

Table- 3.2.2: Linkages vis-à-vis location of SHG

Location of SHG	Linkage & Loan (average amount in Rs)				
	1st	2nd	3rd	4 <sup>th</sup>	5 <sup>th</sup>
1. Same village as bank branch	21,993	53,647	79,692	122,143	128,333
2. Village situated on main road	24,144	52,904	87,407	118,636	110,000
3. Interior village	23,711	52,015	85,431	73,700	98,667
4. For all the SHGs	23,324	52,812	84,262	103,464	112,625

### 3.3 Members and Credit

#### 3.3.1 Preparation of Micro Credit Plans

Increasingly, SHGs are being encouraged to prepare credit plans covering the needs of each member. These plans are expected to be submitted to banks at the time of applying for a new loan. In nearly three-fourths of the SHGs financed by commercial bank branches, such plans had not yet been introduced, and, therefore, did not form the basis of fixing the credit limit. In nearly 60% of SHGs financed by regional rural bank branches, too, this was the case. SHGs linked with regional rural banks appeared to be seeking higher loans, given that nearly a third of these branches had received credit plans for over Rs 50,000. Less than a fifth of commercial bank branches received loan applications for such amounts.

Table-3.3.1: MCP and amount of credit sought of branch (SHGs in %)

Amount in Rs.	Type of bank		Total
	CBs	RRBs	
No MCP	74.2	59.3	69.2
Up to 25000	2.5	1.2	2.1
25001-50000	4.4	7.4	5.4
50001-75000	2.5	11.1	5.4
75001-100000	7.5	11.1	8.8
> 100000	8.8	9.9	9.2
Total	100.0	100.0	100.0

#### 3.3.2 Disbursement of Loan

Members of SHGs were asked specifically how they distributed the bank loans among themselves. An overwhelming 86.7% said that they distributed the loan equally among themselves. The remaining spoke of distribution of loan based on a mix of the need for loan by various members, the purpose for which the loan was sought, loan repaying capacity and, also, loan absorption capacity.

Table- 3.3.2: Manner of distribution of bank loan among members

Criteria	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1. Equal distribution	90.0	90.3	93.3	80.0	60.0	86.7	96.6	96.7	86.7
2. Purpose of/need for loan	--	--	3.3	16.7	30.0	3.3	6.9	6.7	8.3
3. Loan repaying capacity	10.0	6.5	6.7	6.7	20.0	13.3	--	--	7.9
4. Loan absorption capacity	--	3.2	--	10.0	6.7	16.7	3.4	--	5.0

#### 3.3.3 Different Sources of Loans

Apart from bank loans, members of SHGs had also accessed CIF (Community Investment Fund) loans, and loans through rotation of member savings. While almost all members had accessed bank loans, surprisingly, less than 60% had accessed loans through internal funding. CIF was made available to SC, ST and other SHGs in the ratio of 50:10:40. The funds aimed at improving and diversifying the sources of livelihood of the poorest, through use of the fund for direct income generation

activity, related social activities, and improvement of productive and physical infrastructure on which the poor depended.

The average bank loan accessed was around Rs 9,000, while the average loan from internal funds was a little over Rs 6,200. Internal loan fund size was expected to be lower than bank loan size given the overall internal corpus available. However, it was not expected that the percentage of people who took loans from internal funds would be lower than the percentage of those who drew bank loans. Internal loans are easier of access, available throughout the year, and were in position much before bank loans were introduced. Therefore, the expectation was that all members would have, at some time or other, and on a regular basis, drawn loans from internal funds, whenever needed, and for a range of purposes, given that the members are poor. Internal loans, however, carry a higher rate of interest, and as loan sizes grow, high rates of interest become increasingly difficult to pay, and this could be one reason why members preferred to access bank loans than internal loans.

SHGs in Kadapa district appeared to have a high (and almost equal) percentage of members accessing internal loans and bank loans, and, as a result, they appeared to have drawn loans more from own funds than they had from banks. It appears that several bank branches in Kadapa districts encourage SHGs to draw from their savings account for cash disbursement to members, along with bank loans. One district which appeared to have SHGs formed primarily for the purpose of accessing bank loans was East Godavari, in which just a little over a third of the members had accessed internal loans. These SHGs probably had ensured that their savings in the savings account in financing banks grew fast, so that they could access large bank loans.

Table-3.3.3: Types of loans accessed

Details	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
<b>Percentage of members who accessed loans</b>									
1. Bank Linkage	98.7	100.0	99.8	89.8	97.8	99.3	98.1	100.0	98.1
2. CIF	27.2	29.6	26.9	15.7	50.8	56.9	49.5	27.7	36.7
3. Internal Funds	38.8	48.9	47.0	82.1	77.4	44.5	80.4	58.3	59.7
<b>Average cumulative number of loans</b>									
1. Bank Linkage	2.72	2.07	1.94	1.86	2.74	2.23	2.26	1.78	2.20
2. CIF	1.35	1.13	1.12	1.04	1.26	1.33	1.05	1.15	1.20
3. Internal Funds	1.51	1.57	2.13	2.51	2.51	1.89	2.34	2.59	2.22
<b>Average total loan amount (Rs)</b>									
1. Bank Linkage	10,766	8,106	6,185	11,42	16,42	5,764	9,010	6,059	9,023
2. CIF	3,266	5,473	2,736	8,036	8,569	2,626	3,556	7,567	4,834
3. Internal Funds	2,857	3,360	4,671	11,63	8,156	4,741	4,950	5,843	6,227

### 3.3.4 External Loans and Subsidies

Apart from bank loans, members of SHGs received credit and subsidies from other sources, too. The following table provides some information on the various sources of credit/subsidy, and the amounts received. If the average bank loan to an SHG was



Rs 107,000, the average subsidised loan was Rs 57,069. Over 50% of SHGs had received contributions to their Revolving Fund, and nearly 50% of SHGs had accessed the Community Investment Fund.

The impact of multiple sources of credit was not studied, although a recovery rate on external loans has been reported on in the next section. The new scheme of Pavalavaddi, where SHGs get a refund on interest paid for timely repayment of principal and interest was accessed by nearly 37% of SHGs.

Table-3.3.4: Bank linkage and other external loans and subsidies to SHGs

External Fund Source	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
<b>Bank linkages</b>									
% of SHGs	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average amount (Rs)	111,833	79,274	88,907	106,817	199,557	79,200	127,483	68,917	107,548
<b>Subsidised Loans</b>									
% of SHGs	23.3	6.5	3.3	6.7	86.7	13.3	3.4	6.7	7.9
Average amount (Rs)	6,258	124,000	10,000	51,000	3,558	81,125	275,000	40,500	57,069
<b>Community Investment Fund</b>									
% of SHGs	26.7	19.4	33.3	36.7	93.3	53.3	69.0	56.7	48.3
Average amount (Rs)	27,313	28,250	30,398	35,235	56,696	35,126	30,948	32,194	37,891
<b>SHG-VO Bank linkages</b>									
% of SHGs	3.3	--	--	--	--	3.3	--	10.0	2.1
Average amount (Rs)	25,000	--	--	--	--	10,000	--	8,233	11,940
<b>Rice credit line &amp; produce marketing support</b>									
% of SHGs	10.0	3.2	6.7	3.3	3.3	16.7	20.7	--	7.9
Average amount (Rs)	5,050	35,000	7,350	820	50,000	7,727	11,230	--	11,668
<b>Revolving Fund</b>									
% of SHGs	13.3	51.6	36.7	80.0	53.3	66.7	89.7	30.0	52.5
Average amount (Rs)	8,125	11,563	12,382	10,000	10,125	10,250	9,185	10,000	10,234
<b>Pavalavaddi (Subsidised interest on bank loan)</b>									
% of SHGs	53.3	16.1	33.3	53.3	86.7	13.3	10.3	26.7	36.7
Average amount (Rs)	3,294	926	2,127	1,699	3,558	1,870	872	1,404	2,496

### 3.4 Loan recovery

Given the multiple sources of loans, those loans that had been accessed by a large percentage of SHGs were reviewed for repayment patterns. These were bank loans, CIF loans and loans from internal sources. The Revolving Fund was a one-time small grant and either became a part of the corpus of internal funds, or was distributed to members, and, therefore, its rotation was not reviewed separately. The interest subsidy scheme, though accessed by many, related to refund of interest, and not to loaning, and, therefore, the question of repayment did not arise.

For the purpose of review, the last set of loans that became due and loans that had become overdue earlier were considered. Loans that were outstanding but not yet due for repayment were not considered.

### 3.4.1 Recovery Rate of Various Loans

The recovery rate of bank loans was highest, with 63.9% of SHGs having an over 75% recovery rate. Repayment of internal loans was very poor, with over 57% of SHGs having a recovery rate of less than 25% of loans that had become due. Banks should have been concerned by this. Kadapa, which appeared to have a strong internal loaning programme, also had the highest loan recovery rate, with two-thirds of SHGs having a recovery rate of 50% and more where internal loaning was concerned - except for Kurnool which had 45% of SHGs with a 50% or higher internal loan recovery rate, in all other districts in the sample, less than a fifth of the SHGs had a 50% or more recovery rate.

Table-3.4.1: Recovery rate of various loans (in percentages)

Recovery rate (%)	Name of the district								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
<b>Bank loans</b>	N=23	N=22	N=23	N=22	N=13	N=17	N=23	N=26	N=169
0	8.7	4.5	4.3	--	7.7	--	--	3.8	3.6
< 25	--	4.5	4.3	--	--	5.9	--	--	1.8
26 – 50	21.7	4.5	4.3	9.1	15.4	23.5	--	7.7	10.1
51 – 75	13.0	27.3	21.7	22.7	7.7	29.4	21.7	19.2	20.7
> 75	56.5	59.1	65.2	68.2	69.2	41.2	78.3	69.2	63.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>CIF/RCL</b>	N=11	N=6	N=6	N=11	N=21	N=9	N=15	N=14	N=93
0	--	--	--	9.1	14.3	22.2	20.0	14.3	11.8
< 25	--	16.7	16.7	--	14.3	11.1	6.7	--	7.5
26 – 50	9.1	33.3	33.3	18.2	9.5	11.1	--	21.4	14.0
51 – 75	27.3	16.7	16.7	18.2	19.0	--	6.7	28.6	17.2
> 75	63.6	33.3	33.3	54.5	42.9	55.6	66.7	35.7	49.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Internal funds</b>	N=15	N=17	N=21	N=23	N=18	N=18	N=17	N=20	N=149
0	33.3	23.5	66.7	4.3	16.7	50.0	64.7	55.0	38.9
< 25	40.0	29.4	9.5	8.7	5.6	33.3	5.9	20.0	18.1
26 – 50	13.3	29.4	--	21.7	33.3	5.6	11.8	5.0	14.8
51 – 75	13.3	5.9	14.3	30.4	22.2	5.6	--	10.0	13.4
> 75	--	11.8	9.5	34.8	22.2	5.6	17.6	10.0	14.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

During the course of the study, it appeared as if SHGs focussed only on bank loan repayments in terms of book keeping, monitoring and actual collections. Bank loan instalment and interest were collected and remitted directly into banks. Internal loans were monitored the least, though members knew who had taken how much. Interest on internal loans was collected at random, and principal often remained with a member till a reason (such as clearance for obtaining a new loan) for

repayment arose. At such time, the old internal loan was 'repaid', possibly through adjustment to a new internal or bank loan.

### 3.4.2 Portfolio at Risk

Of 169 SHGs that had loans that had come up for repayment, in 71% of the cases, the bank had a full recovery. In around 24% of the cases, however, more than 75% of the portfolio was at risk, even though bankers orally reported that they had almost no problems with recovery. The age of the SHG appeared to be related to repayment performance, as in 33% of the SHGs of over 9 years of age, 75% of the bank loan was at risk. As mentioned earlier, the SHG loan portfolio has not been at risk so far, as SHGs with repayment problems, raise funds from other sources to repay a bank loan, when the next loan is likely to come. Such a practice may be helpful in showing good recovery performance but results in the credit not working for members, as fresh credit is then used to repay the source that helped repay the previous bank loan.

Table- 3.4.2.1: Portfolio at risk > 90 days vis-à-vis age of SHGs in bank loans (SHGs in %)

PAR > 90 days in %	Age in years						Total N=169
	Up to 1 N=4	1 – 3 N=49	3 – 5 N=42	5 – 7 N=42	7 – 9 N=20	9 + N=12	
0	100.0	77.6	66.7	64.3	75.0	66.7	71.0
< 25	--	2.0	--	--	--	--	0.6
26 – 50	--	2.0	4.8	2.4	--	--	2.4
51 - 75	--	2.0	2.4	4.8	--	--	2.4
> 75	--	16.3	26.2	28.6	25.0	33.3	23.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Commercial and regional rural banks were involved in financing SHGs. The following table shows that in the majority of SHGs financed by RRBs, the loan recovery percent was much better than that in SHGs financed by commercial banks. In over 21% of SHGs financed by commercial banks, the recovery rate was less than 50% of the loans on demand.

Table-3.4.2.2: Bank Loan Recovery rate vis-à-vis type of bank

Recovery Rate in %	Types of Banks		Total (N=169)
	CBs (N=104)	RRBs (N=65)	
0	4.8	1.5	3.6
< 25	1.0	3.1	1.8
26 - 50	15.4	1.5	10.1
51 - 75	20.2	21.5	20.7
> 75	58.7	72.3	63.9
Total	100.0	100.0	100.0

Nearly 66% of SHGs situated in interior villages showed a recovery rate of over 75%, while such a recovery rate was seen in around 63% in SHGs situated in the same village as the financing bank branch, or on a roadside village. Recovery of less than 50% was to be found in 15-16% of SHGs, regardless of the location of the village in which they were situated.

Table-3.4.2.3: Recovery rate vis-à-vis location of SHG (in %)

Recovery Rate in %	Location of the SHG			Total (N=169)
	Same village as branch (N=51)	On a main road (N=54)	In an interior village (N=64)	
0	--	5.6	4.7	3.6
< 25	2.0	--	3.1	1.8
26 – 50	13.7	9.3	7.8	10.1
51 – 75	21.6	22.2	18.8	20.7
> 75	62.7	63.0	65.6	63.9
Total	100.0	100.0	100.0	100.0

A high percentage (82.4%) of SHGs that were graded 'A' had a loan recovery rate of over 75%, against less than half (47.2%) of SHGs graded 'C', with a similar recovery rate. In around 20-21% of 'B' and 'C' graded SHGs, loan recovery rate was less than 50%. In over 45% of SHGs in 'C' grade, more than 75% of the portfolio was at risk. Of the 169 SHGs that had a current linkage wherein some or all instalments had become due, 53, or 31% were in 'C' grade. If this were to be considered the norm, then around 30% of SHGs with bank linkage in the state, might be in grade 'C'. In around 45% of these, or, in around 14% of all bank linked SHGs, around 75% of the total outstanding loans could be assumed to be at risk.

Table-3.4.2.4: Recovery rate and Portfolio at risk vis-à-vis grade of SHGs

RR/PAR in %	Grade of SHGs			Total (N=169)
	A (N=51)	B (N=65)	C (N=53)	
<b>Recovery Rate</b>				
0	2.0	6.2	1.9	3.6
< 25	2.0	--	3.8	1.8
26 – 50	--	13.8	15.1	10.1
51 – 75	13.7	16.9	32.1	20.7
> 75	82.4	63.1	47.2	63.9
Total	100.0	100.0	100.0	100.0
<b>PAR &gt; 90 days</b>				
0	84.3	75.4	52.8	71.0
< 25	2.0	--	--	0.6
26 – 50	2.0	3.1	1.9	2.4
51 – 75	2.0	4.6	--	2.4
> 75	9.8	16.9	45.3	23.7
Total	100.0	100.0	100.0	100.0

In the previous study, we had recommended that regular grading could help banks reduce their exposure to grade 'C' SHGs, by lending less to them. Grade 'C' SHGs, however, continue to receive ever increasing loans. Among SHGs in their 5<sup>th</sup> linkage, the average loan size was Rs 128,000 for those in grade 'A', Rs 120,000 for those in grade 'C' and Rs 105,000 for those in Grade 'B'. Grading appears to be a pre-requisite for each new loan sanction – however, it is perhaps undertaken casually,

or, undue emphasis is placed on past repayment performance, without adequate focus on the sustainability of such performance. The CRI tool examines the quality of an SHG from a number of angles and for long term SHG-bank linkage, intelligent use of this tool is called for.

In several SHGs, loan instalment and interest is directly collected from members and remitted into the loan account of the SHG with the bank. The following table, however, throws some light on various methods used by other SHGs to repay bank loans.

### 3.4.3 Loan Recovery/Repayment Strategies

As more than one strategy could have been used by an SHG/bank for clearing of loans, the percentages were not added up. All the same, the use of savings for loan repayment, whether by members or by the bank, appeared to be not uncommon in districts such as Guntur, Vizianagaram, Adilabad and even East Godavari, to some extent. So, too, borrowing from other sources to repay bank loans was also in vogue in around 10% of SHGs of East Godavari, Kurnool and Nalgonda districts.

Table 3.4.6 Loan repayment strategies followed by the SHGs

Districts	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	Total
Strategy used for repayment of bank loan	% of SHGs in which bank loan is recovered/repaid using this strategy								
Through withdrawal of savings and payment to loan account	13.3	22.6	20.0	6.7	3.3	23.3	6.9	6.7	12.9
Through funds transfer from savings a/c to loan a/c	10.0	12.9	16.7	6.7	--	10.0	--	6.7	7.9
Through remittance of monthly thrift (and loan instalments??) towards loan instalments	--	3.2	--	6.7	3.3	3.3	--	3.3	2.5
Through borrowing from other sources	10.0	6.5		3.3	10.0	6.7	6.9	10.0	6.7
Through other unspecified means	--	--	6.7	3.3	--	3.3	10.3	--	2.9

In the course of discussions, bankers, too, reported various methods of recovering loans. Key strategies reported included the transferring of SHG member funds from the savings account of the SHG to the loan account, the issuance of simple and registered notices to SHGs, the taking of help of the SHPI (mainly the government, in the sample), and visits to the SHGs for loan collection.

Table- 3.4.3.2: Loan recovery strategies adopted by banks

Strategy	Frequency	Percentage
1. Transfer money from SB a/cs	8	33
2. Notices – by ordinary and registered post	8	33
3. Take help of SHPIs	19	79
4. Visits to SHGs- directly or indirectly	17	71

Although various strategies were in place, most bank branches tended to increase the loan size with each linkage, and this itself was an incentive for repayment. This was not stated as a contribution to loan recovery, but at some point or other, it will

not be possible to keep increasing the average loan size – members who can absorb more might get larger loans, and those who cannot might get the same size of loan as on the previous occasion. Unless handled well, at that phase default may increase.

In only 30.8% of SHGs were micro credit plans (MCP) prepared and submitted to banks for sanction. In at least one SHG where the MCP was perused, 13 of 16 members had sought a loan for debt redemption, and, on further probing, the creditors proved to be the remaining 3 women in the group. While it is possible that the members owed money to their leaders (which 2 of the 3 women were), it is also likely that the group borrowed in order to provide these 3 women with larger sized loans. The concentration of much of the bank loan in the hands of a few members will, over time, put to risk all the members.

### **3.5 Conclusions**

- On the whole, loan size increased with each linkage. Grade 'A' SHGs appear to have been put on the fast track for lending, as their loan sizes significantly increased with each linkage. SHGs, regardless of their location and distance from the bank, had received repeated loans from banks.
- Lending to SHGs appears to be good business for banks as SHGs are increasingly becoming regular clients of banks, receiving repeat loans. In most SHGs, bank loans tended to be distributed equally among members.
- While almost all members accessed bank loans, only around 60% of members accessed loans from internal funds. The higher rate of interest on internal loans could be proving to be a disincentive for borrowing from internal funds.
- While loan sizes increased for all social categories of members, SHGs with SCT/ST membership appeared to have significantly lower sized loans. If this difference was based on their lower resource base, the resource base will first need to be enlarged, before they can absorb more credit.
- While repayment of bank loans was taken seriously by members, repayment of internal loans (that is, loan taken from own funds) was not. Loan recovery rate was poor in SHGs with a 'C' grade. Loan recovery rate reduced with the age of the SHG. Loan recovery rate was not affected by the distance of the SHG from the bank. Regional rural banks appeared to be better at loan collection than commercial banks.
- SHG quality appeared not to be carefully assessed at the time of each linkage and, given the poor recovery rate of 'C' grade SHGs, casual grading might affect the sustainability of the bank linkage programme.



## CHAPTER-4: FINANCIAL PERFORMANCE AND SUSTAINABILITY OF SHGS

In this chapter, the financial performance of SHGs and their sustainability have been dealt with. Financial performance of an organisation cannot be assessed without a review of the books of accounts and financial statements. The books of accounts, their content and quality were first reviewed. The financial status of the SHGs was arrived at, as was their profitability. Despite being a multi-functional group, an SHG's primary business is that of providing savings and credit services to its members. To assess the sustainability of the SHGs, savings and loan management within the SHG were reviewed.

### 4.1 Maintenance of records and books

SHGs appeared to maintain different types of books at different places, even where the SHPI was the same. While in some areas, a single book with simple formats for cash book, loan ledger, financial statements, etc., had been provided, in others, these were expected to be maintained separately. Books and records that were being maintained by some SHGs were the pass books of members, the minutes book, the loan ledger and the general ledger. In only 37.9% of the SHGs visited were pass books written up to date. In only 22.5% of SHGs were loan ledgers up to date. There was overwriting in several cases. In several cases these books were either not up to date, or they had simply not been written.

Table-4.1.1: Status of books and records in SHGs (in %)

Type of Books	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
<b>Member pass-book</b>									
1 Complete	46.7	48.4	23.3	33.3	53.3	23.3	20.7	53.3	37.9
2 Incomplete	33.3	38.7	6.7	33.3	33.3	33.3	37.9	23.3	30.0
3 Not maintained	20.0	12.9	70.0	33.3	13.3	43.3	41.4	23.3	32.1
<b>Minutes book</b>									
1 Complete	16.7	45.2	33.3	40.0	40.0	16.7	31.0	23.3	30.8
2 Incomplete	53.3	45.2	26.7	33.3	50.0	66.7	51.7	30.0	44.6
3 Not maintained	30.0	9.7	40.0	26.7	10.0	16.7	17.2	46.7	24.6
<b>Loan ledger</b>									
1 Complete	16.7	25.8	33.3	33.3	26.7	--	34.5	10.0	22.5
2 Incomplete	20.0	38.7	16.7	36.7	43.3	26.7	41.4	26.7	31.3
3 Not maintained	63.3	35.5	50.0	30.0	30.0	73.3	24.1	63.3	46.3
<b>General ledger</b>									
1 Complete	3.3	12.9	10.0	26.7	16.7	3.3	17.2	13.3	12.9
2 Incomplete	6.7	--	--	23.3	23.3	30.0	24.1	3.3	13.8
3 Not maintained	90.0	87.1	90.0	50.0	60.0	66.7	58.6	83.3	73.3



The issuing of receipts for amounts received, the writing of the cash book, or the 'all-in-one' book (a book containing notes on most transactions, though maintained informally), the preparation of financial statements, etc were rare practices. In 15% of SHGs, balance sheets were being prepared presumably with the help of the other entries in the 'all-in-one' book.

Table 4.1.2 Books, records, financial statements not prepared (in %)

Type of books, records, statements	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1. Receipt Book	100.0	100.0	90.0	100.0	96.7	93.3	89.7	96.7	95.8
2. Cash Book	90.0	90.3	90.0	96.7	76.7	86.7	89.7	100.0	90.0
3. All in one book	100.0	100.0	86.7	83.3	100.0	76.7	72.4	90.0	88.8
4. Receipts & Payments	100.0	96.8	86.7	100.0	100.0	93.3	89.7	100.0	95.8
5. Profit & loss	96.7	100.0	90.0	80.0	93.3	100.0	100.0	100.0	95.0
6. Balance sheet	93.3	74.2	80.0	56.7	90.0	96.7	96.6	93.3	85.0

Although the non-maintenance of books and records was a matter of serious concern, given that many of the SHGs were of 'A' grade, and the fact that these SHGs had drawn several loans from banks, there did appear to be some rationale for this apparent financial indiscipline. Many SHGs visited did not require members to repay internal loans, except when asked specifically to do so (such as at a time of fresh loaning from a bank). Many SHGs distributed a significant portion of the savings among members so that that became one less area to monitor closely. SHGs tended to focus on the monitoring of bank loans alone, so that organisational management responsibilities reduced. Bank loans required each member to pay 'x' amount of rupees towards principal and interest combined and the bank worked on the segregation of principal from interest. This meant that accounting and financial management problems were virtually reduced to collection of thrift, which was entered in pass books and remitted into the savings account in the bank; and to loan and interest collection for remittance into the loan account in the bank.

The one danger area lay in the interest collected on internal loans. Interest was indeed collected and in most SHGs, with cash books and loan ledgers not being maintained well, or at all, it appeared more than likely that the interest was being enjoyed either by the borrower, through not paying it, or by some leaders, by not accounting for it. Where interest on internal accounts was collected, the amount of interest due was not always calculated correctly or paid in full. There were no instances of penalty for delayed payment.

## 4.2 Financial Status

### 4.2.1 Idle Funds

Of 240 SHGs studied, 108 SHGs had more than Rs 5,000 of idle funds, either as cash in hand or as cash in bank. In terms of financial management, idle funds indicate loss of earning opportunity and potential for fraud. As books of accounts were not up to date, it was possible to arrive at quantum of idle funds primarily through reconstruction of accounts, based mainly on oral reporting of transactions. It was indeed possible to prepare financial statements through some information from books and records, and the rest through interactions with members. However, it was

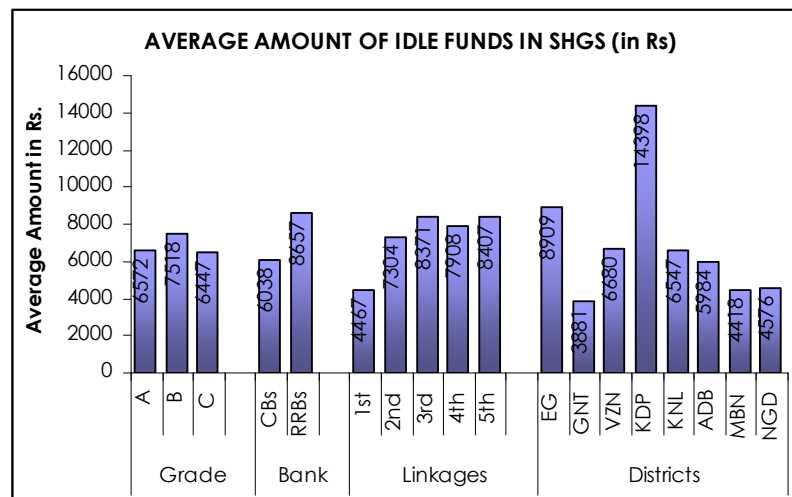
not possible to certify these to be correct statements. As interest earned on internal loans was not carefully recorded, there is a possibility that figures of idle funds are underestimated. That is, if all the interest collected had been entered in the books of accounts of an SHG, cash balances might have been higher.

Table- 4.2.1: Idle funds in SHGs

Amount in Rs.	No. of SHGs	% of SHGs	Total Amount (Rs)
< 5000	132	55.0	316,349
5001-10000	61	25.4	440,749
10001-15000	24	10.0	296,254
15001-20000	10	4.2	169,963
> 20000	13	5.4	437,923
<b>Total</b>	<b>240</b>	<b>100.0</b>	<b>1,661,238</b>

A little over Rs 16 lakhs lay idle with the 240 SHGs studied giving an average of nearly Rs 7,000 of idle funds per SHG. While idle funds did not vary widely across various grades, in SHGs financed by RRBs, on average, Rs 8,657 lay idle in bank accounts against Rs 6,038 in commercial banks. While SHGs on their first bank linkage had, on average, less than Rs 5,000 as idle funds, this rose to a high of nearly Rs 8,407 during the 5<sup>th</sup> linkage, and settled to a little over Rs 9,000 in the 4<sup>th</sup> and 5<sup>th</sup> linkages. These figures appear to indicate that members borrow less and less from own funds as they get used to bank loans – possibly, not because of any compulsion from banks, but because they choose to borrow less from internal funds (perhaps because of the higher interest rate).

Graph-4.2. 1: Idle funds across different variables



As may be seen from the graph above, average idle fund per SHG was highest in Kadapa district at Rs 14,000 plus, with East Godavari, Vizianagaram and Kurnool following at Rs 8,909, Rs. 6,680 and Rs 6,547. SHGs in Nalgonda, Mahbubnagar and Guntur districts had comparatively made better use of internal funds, with idle funds lying at Rs 4,576, Rs. 4,418 and Rs 3,881 respectively. Idle funds lying as cash in hand or in the bank savings account do not earn interest enough to cover the cost of

inflation. They do, however, provide a cushion against delayed repayment by some members and, as loan sizes grow, might perhaps help in maintaining a high repayment rate.

#### 4.2.2 Assets and Liabilities

Despite the fact that books of accounts were not maintained, or badly maintained by many SHGs, in every SHG an attempt was made by the study team to trace growth and use of funds over the years, and likely income earned. For each SHG, a balance sheet was drawn as on the date of the study visit. Consolidated balance sheets, in rupee terms, for all SHGs in each district, is available at Annex-4. Field visits to SHGs during the study were spread over a period of 2 months, but all balance sheets have been drawn for 30.11.06. As already mentioned, interest earned on internal loans was not recorded carefully by SHGs, and the financial statements were drawn by the study team with whatever information was available.

Table 4.2.2 – Consolidated balance sheet of SHGs in % terms

Liabilities & Assets	Districts								Total	
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD		
<b>Liabilities in % of total funds</b>										
1	Loans outstanding to banks	61.8	43.0	51.0	41.4	54.4	36.9	43.2	38.2	46.7
2	Loans outstanding to others	7.1	10.2	8.6	10.1	12.9	9.1	14.0	17.3	11.5
3	Member savings	22.2	34.0	28.9	25.5	16.7	36.3	20.5	33.3	25.9
4	Revolving funds	1.3	9.4	5.8	8.8	4.1	9.0	6.5	3.4	5.8
5	Other grants	0.2	0.0	0.4	0.0	0.0	0.0	3.4	0.0	0.6
6	Profit or loss	6.1	1.8	4.4	14.0	6.8	3.8	8.3	5.6	6.7
7	Suspense account	0.5	1.0	0.0	0.0	0.0	3.7	0.4	0.1	0.6
8	Other	0.8	0.7	0.9	0.2	5.1	1.3	3.7	2.2	2.2
	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Assets as % of total assets</b>										
1	Loans outstanding with members	75.3	67.1	71.5	73.9	88.5	64.3	73.8	68.6	74.1
2	Savings in federations	0.0	0.2	0.0	0.0	0.1	1.7	0.9	2.5	0.7
3	Share capital in federations	0.0	0.1	0.1	0.1	0.0	1.2	0.2	1.5	0.4
4	RF distributed to members	1.3	8.9	3.9	3.3	2.8	8.1	5.5	3.4	4.4
5	Fixed deposits	0.4	0.0	1.9	0.0	1.3	0.4	4.9	0.0	1.3
6	Loans outstanding with non-members	0.8	0.0	0.7	0.0	0.2	2.5	0.7	0.0	0.6
7	Savings distributed	11.3	17.8	14.0	7.0	2.1	13.9	7.2	18.5	10.5
8	Cash in hand	0.2	0.1	0.3	0.4	0.5	0.1	1.3	0.9	0.5
9	Bank balance	10.6	5.7	7.6	15.4	4.4	7.7	2.2	4.3	6.9
10	Suspense account	0.0	0.0	0.0	0.0	0.0	0.1	3.4	0.3	0.6
	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The above table presents the balance sheet in percentage terms – that is, the source of each Rs 100 of liability, and the use of every Rs 100 of assets. The balance sheet shown below is unconventional in that it also includes funds no longer available within the SHG (such as savings returned to members). It appeared important to present such items to get a better picture of the real status of the SHGs. (Care has been taken to offset a fund no longer available on the liabilities side, with an asset also no longer available.)

For every Rs 58 of loans from external sources (banks, federations, SHPI, etc), Rs 74 lay with members as loans. This is because internal funds, too, have been lent. That is, at least Rs 16 of internal funds probably is with members in the form of loans. For every Rs 26 of savings mobilised since inception, from members, Rs 10.5 has been returned to members and Rs 15.5 still lies with the SHGs. For every Rs 5.8 of revolving fund raised, Rs 4.4 has been distributed among members.

As against Rs 8.2 lying in banks in savings and fixed deposit accounts, SHGs had Rs 46.7 by way of loans outstanding to banks. Although SHG amounts in banks by way of back end subsidies were not considered, as they had not entered the books of accounts of SHGs, the days of SHGs as net savers in banks appear to be over. They appear to be borrowing several times their funds in banks.

### **4.2.3 Profitability**

Of every Rs 100 of liabilities, Rs 6.7 is shown as accumulated profit. This is not the profit earned in a given year, but profit accumulated over the years. Let us assume that, on average, Rs 16 of member savings was available with each SHG for lending to members. The assumption is based on two counts: one, that this (Rs 16) is the difference between member savings and savings returned to members in the balance sheet of Table 4.2.2, and two, that at least Rs 16 of internal funds was indeed with members as loans, as also indicated in the balance sheet. Let us further assume that the average age of an SHG was 5 years (refer Fact Sheet). Most SHGs lend their own funds to members at an interest rate not less than 2% pm.

Therefore, over the 5 years, a total interest of around Rs 19.20 (Rs 16 x 24% annual interest x 5 years) ought to have been earned. Few expenses are charged to the interest earned account, as expenses are usually met through direct contribution from members. All the same, even if some expenses were assumed to have been met from the interest earned account, the difference between interest likely to have been earned (Rs 19.20) and actual accumulated profit (Rs 6.7 = interest actually earned after perhaps meeting some expenses) is too large to ignore.

The accumulated profit of Rs 6.7 converts to an annual rate of return of 8.4% (over 5 years) on member savings of Rs 16. This rate of interest is more than adequate to cover inflation and give members a real rate of return, even if there is some concern about whether all income earned is reflected in the books of accounts. If members continue to save with their SHGs, it is probably because they see a return on their savings, and also see its value in accessing and repaying bank loans. If the revolving fund and savings are withdrawn by members, it is probably because members have realised that fund management can be complex, and that they need to optimise their risks.

In SHGs in Kadapa, Kurnool and Mahbubnagar, a significant percentage of the loans outstanding with members was from internal funds. Higher profits could have been expected, as a result. SHGs in Kadapa had the highest accumulated profit (Rs 14 for every Rs 100 of liabilities). Out of Rs 34 of savings and revolving fund available, they distributed to members Rs 10, and still had Rs 24 left for internal lending. The rotation of this and the interest earned left them with Rs 14 of accumulated profit – the highest among all the districts. All of the accumulated profit (and more), however, lay in bank balances as idle fund. SHGs in Kurnool and Mahbubnagar districts, however, did not show as much profit earned as was expected given the level of internal lending.

SHPs and members find SHG performance acceptable, as SHGs appear to be running profitably, and, as the return on savings is attractive enough for members to refund savings and interest from time to time. The profit that does not enter the books of accounts, and the profit that might have been earned but was not (because of casual repayment of internal loans and interest by members), are, however, not being monitored.

SHPs provide SHGs with reporting formats that indicate only cumulative receipts and payments and cumulative income and expenditure – even these are not maintained. If SHG members are to trust their groups with their savings over lengths of time, annual financial statements need to be prepared and annual profit/loss taken cognisance of by members and SHPs.

### 4.3 Savings Management

#### 4.3.1 Monthly Thrift

Regular savings varied in SHGs from less than Rs 20 a month per member up to Rs 100 a month per member. Where 59% of SHGs with members drawn only from SC category, and 63.2% of SHGs with members drawn only from ST category tended to have Rs 30 or less as monthly thrift payable per member, over 62% of SHGs with members drawn only from the BC or OC category paid monthly thrift of over Rs 30.

Table 4.3.1 Monthly thrift vis-à-vis social composition of SHG membership

Amount in Rs.	Membership of SHG										Total
	ST	SC	BC	Min	OC	ST-ND	SC-ND	BC-ND	Min-ND	OC-ND	
Up to 20	--	12.8	--	--	5.3	16.7	7.1	6.1	--	--	4.6
21 to 30	63.2	46.2	37.5	28.6	31.6	50.0	42.9	46.9	25.0	48.6	44.2
31 to 50	36.8	30.8	47.9	57.1	57.9	33.3	28.6	30.6	50.0	34.3	38.3
50 to 100	--	10.3	14.6	14.3	5.3	--	21.4	16.3	25.0	17.1	12.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In 96.7% of the SHGs, members saved regularly. The only problem district appeared to be Vizianagaram, where nearly a fourth of SHGs did not have regular collection of savings from members. In Adilabad district, in 3.3% of SHGs, members did not save regularly, whereas in all other districts, savings were regular in all the sample SHGs.

### 4.3.2 Distribution of Savings

Even though members saved regularly, as has already been mentioned in the previous section, savings were also distributed from time to time among members, in nearly half (46.7%) of the SHGs. In Vizianagaram district, in 70% of SHGs, savings had been distributed at various times. In more than a fourth of SHGs studied in that district, savings had been returned to members at least 4 times over the past several years. Against a total thrift accumulation of Rs 58.2 lakhs, and an average thrift accumulation of Rs 24,250, Rs 23.5 lakhs (40.4% of total accumulated) of savings had been returned to members, bringing the average thrift per SHG down to Rs 14,464.

Table 4.3.2 Distribution of savings

No. of times	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
1 Not distributed	43.3	35.5	30.0	83.3	86.7	40.0	65.5	43.3	53.3
2 Distributed:	56.7	64.5	70.0	16.7	13.3	60.0	34.5	56.7	46.7
2.1 1 time	33.3	32.3	30.0	10.0	13.3	43.3	20.7	43.3	28.3
2.2 2-3 times	10.0	19.4	13.3	6.7	--	13.3	13.8	6.7	10.4
2.3 4 & above	13.3	12.9	26.7	--	--	3.3	--	6.7	7.9
Total	100	100	100	100	100	100	100	100	100

At one level, the return of savings to members is disconcerting. However, given that SHGs find it hard to maintain accounts, and given that it is very difficult and very expensive for any agency to supervise such large numbers of regular, small transactions, SHG members appear to have found a sensible way out. They withdraw savings and interest earned from time to time, so that their risk reduces.

The average thrift collected from members per SHG was Rs 22,986 at the time of the previous APMAS study. Indeed this rose to Rs 24,250 per SHG since then. However, at the time of this study (2006-07), over 40% of the thrift accumulated had been returned to members, and the average thrift per SHG reduced to Rs 14,464. The basis of bonding among members of SHGs has been thrift. If, however, thrift reduces to levels where members are not affected by one another's bad borrower behaviour, then the very existence of SHGs comes under threat.

### 4.4 Loan Management

The sustainability of an SHG is closely linked to its capacity to manage its lending activity effectively. The contents of Table 3.4.5 had indicated that around 64% of SHGs had an on time recovery rate of over 75% of the loans that had become due. We had also noticed that as the age of an SHG increased, the portfolio at risk increased (Table 3.4.2).

Bank loans of Rs 20,00 or less per member were expected to be repaid in 18 months, on an average, and this appeared to be reasonable. Bank loans of over Rs 2000, however, were being repaid in 22 months, on average. As an SHG ages, it receives larger and larger loans. If a large loan, say, of Rs 12,000, has to be repaid in 24 months, the very first month, the member has to pay Rs 1440 towards interest, and Rs 600 towards principal. Such a repayment pattern is acceptable in a case where the business engaged in by the member permits repayment at this rate. In other cases, this will result in the member either defaulting, or repaying initially in small

manageable amounts, and then borrowing in bulk from other sources, and repaying the bank loan. Loan payback period needs to be related to loan size for members to benefit from large credit. This has already been understood in consumer and housing credit in the urban sector – it needs to be applied in the case of the rural poor, too.

#### 4.4.1 Action against Defaulters

As loan management in an SHG is an essential component of financial management, leaders and members were asked how they dealt with default among members. In over 69% of SHGs, members reported that default was not an issue and, therefore, that the question of action on default did not arise. In 17.1% of the SHGs in the sample, although default was considered an issue, no action was initiated against defaulters. In other cases where default had to be dealt with, steps taken included repeated visits to the home of the defaulter to persuade her to make payment, informing IKP staff about the default (and presumably, seeking their intervention), and imposition of penalty. In less than half percent of the SHGs, household articles were attached against the defaulted amount.

Table- 4.4.1: Action against defaulters

Type of action	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MB	NGD	
1. No action against	16.7	6.5	30.0	20.0	10.0	26.7	10.3	16.7	17.1
2. Repeated visits	6.7	12.9	10.0	3.3	10.0	20.0	6.9	6.7	9.6
3. Informed IKP staff	--	3.2	--	3.3	6.7	6.7	--	3.3	2.9
4. Any other	--	--	--	--	--	9.9	--	--	1.2
5. Not applicable	73.3	64.5	60.0	73.3	80.0	43.3	86.2	73.3	69.2

#### 4.4.2 Mode of Instalment and Repayment

Repayment was not seen as a problem, as many loans were repaid to banks, at least at the time of issuance of the next loan. In the preceding table, this comfort level is borne out with 69.2% of SHGs stating that default was not an issue, and the rest admitting that they needed to deal with default. In East Godavari and Kurnool districts, however, SHGs appeared to be in a state of denial, as more than 75% loan recovery rates were to be found in only 56.5% and 69.2% of SHGs respectively (see Table 3.4.1), but over 73% and 80% (respectively) of SHGs claimed that default was not a problem.

From Table 3.4.5, it was clear that grade 'A' SHGs had good repayment rates, while grade 'C' had low repayment rates, on the whole. An attempt was made to see whether there was any correlation between the frequency of loan instalments and the grade of the SHG, so that a link could be established (if it existed) between frequency of instalments and repayment rate.

Nearly three-fourth of the SHGs in grade 'A' had a monthly repayment regime, as against a quarter of SHGs in grade 'C'. The better recovery performance of SHGs in grade 'A' could be because they had opted for and/or enforced monthly repayments. Requiring (or, permitting) lump sum repayments by members could be very burdensome especially when loan size increased. Monthly repayments made it possible for women to reduce their loan burden through loan repayment from

regular wages and other cash inflows, however small. Lump sum payments, especially if harvest linked could be devastating for a poor family, if the harvest itself was a failure.

Table-4.4.2: Frequency of instalments vis-à-vis grade

Repayment Term	Grade of SHGs			Total
	A	B	C	
1. Monthly	73.6	46.9	25.7	48.8
2. Quarterly instalments	1.4	6.1	5.7	4.6
3. Lump sum payment	25.0	46.9	68.6	46.7
Total	100.0	100.0	100.0	100.0

#### 4.4.3 Changes in Grades vis-à-vis Age

The sustainability of bank lending to SHGs is dependent on the quality of the SHGs themselves. If SHGs deteriorate in quality over the years, bank lending is unlikely to continue to be robust. In the 2003-04 report, there was a concern that perhaps the quality of SHGs declined with age. Age and grade of SHGs in the two studies were as follows.

Table 4.4.3 Grade vis-à-vis age of SHGs – comparison with 2003-04

Grade of SHGs	2003-04 study (%)		2006-07 study (%)	
	< 5 years	5 and > years	< 5 years	5 and > years
A	70	64	46	19
B	25	23	25	48
C	5	13	29	33

Even though some of the districts in the two studies were different, the trend appears to be towards shift of SHGs from grade 'A' to grades 'B' and 'C', with age. SHPIs and bankers need to focus on maintaining quality in SHGs, if bank credit is to continue over the years.

SHGs were graded in accordance with the CRI tool developed by NABARD. The findings, given in Annex 4 indicate that in only 27.5% of SHGs did financial transactions take place at meetings. In the rest, loan disbursement, loan and/or savings collections took place outside meetings. In less than half the SHGs, meetings were held regularly. Either the irregularity of meetings was a reason for transactions taking place outside meetings, or meetings were held irregularly to provide opportunity for transactions to be held outside meetings. It is remarkable that despite financial transactions taking place outside meetings, 64% of SHGs had a high recovery rate. All the same, it did appear urgent and necessary to ensure that SHGs conducted meetings regularly and took decisions, especially those related to financial management, in those meetings.

#### 4.5 Conclusions

- Bookkeeping and accounting were of poor quality, as reported in the previous report, too. Even though IKP has prepared several accounting



formats and has printed them and trained women in their use, in many SHGs, these were lying unused.

- While the balance sheets of SHGs (when drawn) do show accumulated profit, it appears likely that these profits would have been much higher, if the books of accounts had been well maintained. Interest earned is not easily discernible from the books of accounts and may well be benefiting those who are in charge of loan and interest collections.
- Annual income and expenditure statements need to be maintained by SHGs so that they can monitor interest earned against interest earnable. Profits do seem to provide a real rate of return on savings.
- Idle funds of SHGs linked to regional rural banks appeared to be significantly higher than in SHGs linked to commercial banks. So, too, SHGs in Kadapa and East Godavari Districts had significantly higher funds.
- Around 40% of savings accumulated since inception, have been returned by SHGs to their members. This may have happened so that members reduce their financial risks, or, so that the burden of financial management is somewhat reduced through a reduced corpus, or, so that members enjoy the benefit of a reasonable return on their savings.
- SHGs do appear to be committed to recovering bank loans, but the same commitment appears to be lacking when it comes to loans given from their own funds. Default is not dealt with seriously in places where it is a problem.
- Loan repayments appear to be better where loan instalments are to be remitted on monthly basis, and worse where lump sum repayments are encouraged/permitted.
- SHGs are net bank borrowers - this appears to be a shift from earlier years when all SHGs together had more savings in banks than loans outstanding to banks.

## CHAPTER-5: IMPACT OF BANK LINKAGE

In Andhra Pradesh, banks now lend to SHGs as a matter of course. Most rural bank branches are into SHG lending. Most have experience of regularly dealing with SHGs. Unlike the old IRDP (integrated rural development programme) under which a few families from each district, each year, would receive a one-time loan, the SHG-bank linkage programme is widespread, with each branch lending to large numbers of families in each village, in contiguous villages, on an on-going basis. In this chapter we present information on the impact of bank-linked SHGs on members, their income, assets, etc, and also on the membership of the SHG.

### 5.1 Impact on Members

#### 5.1.1 Changes as Reported by SHGs

Such regular credit inflows into stagnant local economies must leave some impact. SHGs were asked about their perceptions of what had changed. Over 85% of SHGs reported the most significant change as the habit of saving. Around 71% of SHGs reported significant or noticeable improvement in income level, and in availability of credit, while 69% reported so in relation to access to formal institutions. During the course of the previous study, several SHGs had spoken of change for the worse in several areas. During this study, however, the only change for the worse reported was on 'freedom from moneylenders', but less than half a percent of SHGs reported that.

Table-5.1.1: Changes as reported by groups

Particulars	Significant change (>60%)	Noticeable improvement (31-60%)	Insignificant improvement (<30%)	No change	Change for the worse	Total
Income level	17.1	54.6	17.5	10.8	0.0	100.0
Availability of credit	18.8	52.1	22.5	6.7	0.0	100.0
Access to formal institutions	16.3	52.5	27.5	3.8	0.0	100.0
Access to pro-poor programmes	9.2	32.9	44.6	13.3	0.0	100.0
Freedom from money lenders	12.5	32.1	25.8	29.2	0.4	100.0
Employment generation	6.7	27.5	35.4	30.4	0.0	100.0
Habit of savings	55.4	29.6	10.0	5.0	0.0	100.0
Indebtedness	7.1	37.9	38.8	16.3	0.0	100.0
Health status	10.0	38.3	32.1	19.6	0.0	100.0
Expenditure on food	9.6	40.0	28.3	22.1	0.0	100.0
Education levels	16.7	38.3	30.0	15.0	0.0	100.0
Leadership qualities	7.1	38.3	32.1	22.5	0.0	100.0

While 55% of SHGs reported significant or noticeable increase in education levels among their children, nearly half the SHGs reported improved health and increased food intake.

### 5.1.2 Changes in Savings and Credit

SHG members reported in the earlier and current studies that there was improvement in availability of credit, and in access to formal institutions. However, in the earlier study, they had reported that they felt more indebted. This changed for the better at the time of the present study, with 45% (against the earlier 10.8%) reporting that they felt less indebted now. Members still did not feel free of moneylenders, but almost no one spoke of a change for the worse -unlike at the time of the previous study when 22.5% of members said that they felt things had changed for the worse.

Table-5.1.2: Changes in savings and credit – comparison with 2003-04

Impact	Years	Significant (>60%)	Noticeable (31-60%)	Insignificant (<30%)	No change	Change for worse	Total
Availability of credit	2003	20	69	8.25	2.25	0.5	100.0
	2006	18.8	52.1	22.5	6.7	0.0	100.0
Access to formal institutions	2003	10.25	67.5	16.25	6	0.0	100.0
	2006	16.3	52.5	27.5	3.8	0.0	100.0
Freedom from money lenders	2003	17.0	42.3	11.3	7.0	22.5	100.0
	2006	12.5	32.1	25.8	29.2	0.4	100.0
Habit of savings	2003	42.3	51.8	3.8	1.8	0.5	100.0
	2006	55.4	29.6	10.0	5.0	0.0	100.0
Indebtedness	2003	5.0	5.8	16.8	10.8	61.8	100.0
	2006	7.1	37.9	38.8	16.3	0.0	100.0

### 5.1.3 Changes in Employment and Income

Increased credit flows were expected to increase employment opportunities and, therefore, income. Since the 2003-04 study, however, a smaller percentage of

Table 5.1.3: Changes in employment and income – comparison with 2003-04

Impact	Years	Significant (>60%)	Noticeable (31-60%)	Insignificant (<30%)	No change	Change for worse	Total
Income level	2003	14.0	70.5	11.0	4.3	0.3	100.0
	2006	17.1	54.6	17.5	10.8	0.0	100.0
Access to pro-poor programmes	2003	12.5	43.8	26.3	17.0	0.5	100.0
	2006	9.2	32.9	44.6	13.3	0.0	100.0
Employment generation	2003	12.8	34.5	32.5	20.3	0.0	100.0
	2006	6.7	27.5	35.4	30.4	0.0	100.0

members reported increase in access to pro-poor programmes, increase in income and increase in employment generation. This could not be explained given the regular credit inflows.

## 5.2 Asset Creation

Members were asked specifically to list assets that they might have created in the past few years, in relation to their homes and occupations. More than a fourth (26.1%) of the members had purchased livestock, while 30.4% of members mentioned investment in an existing or a new occupation (other than livestock). That is, more than half the members interviewed had invested in enhancing their livelihood opportunity. An insignificant number of persons reported having opened savings accounts in banks, or in housing, ornaments, etc. It was surprising that more members had not opened individual savings accounts in post offices, even though they saw savings as an important impact area. Not opening a savings account in a bank that was not in the same village was understandable, as the cost of travel and time to remit small savings regularly in a bank in a different village can be high. The members of SHGs are jointly and severally liable for the credit they access from banks, and individual savings accounts could be used by banks to meet shortfalls in loan repayments.

Table 5.2: Asset creation as reported by members

Type of Asset	Name of the district									Total N=1847
	EG N=258	GNT N=260	VZN N=311	KDP N=175	KNL N=195	ADB N=257	MBN N=205	NGD N=186		
<b>A. Livestock</b>										
1. Cows/Bufaloes	10.9	23.1	31.5	27.4	33.3	6.2	14.6	21.0	20.8	
2. Sheep, goats	0.8	6.1	4.2	5.7	7.2	1.2	14.6	4.9	5.3	
3. Other	1.9	0.8	0.3	0.6	--	--	--	--	0.4	
4. Not purchased	86.4	70.0	64.0	66.3	59.5	92.6	70.7	74.2	73.5	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
<b>B. Livelihood/ Investment in</b>										
1. Old occupations	32.6	26.9	24.8	27.4	27.2	30.7	25.4	17.7	26.9	
2. New occupations	2.3	5.0	5.8	5.1	4.1	2.3	1.5	1.6	3.6	
3. No change	65.1	68.1	69.5	67.4	68.7	66.9	73.2	80.6	69.6	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

The quantum of loan provided, and the number of times loan was provided were not that high that the credit would directly have translated to asset creation. Members, when responding to questions on asset creation probably thought that they should mention only such assets as were acquired through a bank loan. If a woman uses her loan to take on lease a plot of land, and cultivates it, she is not the owner of the land – however, regular returns from farming, could result in increased income which could be used to acquire assets.

So, too, when large numbers of families in a small compact area access funds (credit, in this instance) regularly, their purchasing power increases. When the purchasing power of large numbers of families increases, several new services enter

the area, as people now can pay for those services. In a few open ended meetings conducted in some villages, members reported increased transport facility from the village to the main road. They reported improvement in housing, making the distinction that credit was not used for the improvement. They reported the entrance of flour mills in the area. They reported increase in laundry services, new provision stores and tea shops. That is, increase in assets and employment opportunities were reported, not as end use of credit, but as the result of regular inflow of credit into the village. The study, however, captured the increase in livelihoods and assets, possibly arising only out of actual use of credit for such purposes

### 5.3 Impact on Membership

In the earlier study on SHG-bank linkage, the issue of drop outs as an SHG ages had been highlighted. In some ways that was corroborated by this study, with SHGs in the below 1 year category having no persons dropping out of membership. In only 14.3% of cases of SHGs above 9 years of age was there no drop out. In the rest of the SHGs in that age group (9 years +), between 1 and 5 members had dropped out at some stage or other.

The higher the age group, the more likely it was that members had dropped out. The exception was with SHGs in the 7 to 9 year age group, in which more than 62% of SHGs reported no drop outs.

Table-5.3.1: Dropouts vis-à-vis age of SHGs

No. of dropouts	Age of the SHGs (in years)						Total N=240)
	Up to 1 (N= 7)	1.01 – 3 (N=69)	3.01 – 5 (N=60)	5.01 – 7 (N=53)	7.01 – 9 (N=37)	9.01 + (N=14)	
No dropouts	100	71.0	55.0	24.5	37.8	14.3	49.2
One	--	15.9	35.0	22.6	21.6	28.6	23.3
Two	--	2.9	3.3	20.8	18.9	14.3	10.0
Three	--	7.2	3.3	11.3	2.7	14.3	6.7
Four	--	2.9	3.3	3.8	10.8	14.3	5.0
Five & above	--	--	--	17.0	8.1	14.3	5.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

During the period of the earlier study, bank linkage was not quite as deep or wide in its ambit. The impact of drop out in membership arising out of causes other than death was, therefore, confined to the group itself. With bank linkage having increased as it has, turnover in membership could have systemic effect.

As against 59% of SHGs with no drop-out from membership in the previous study, in only 49% of SHGs covered by this study was there no drop out. Even though the drop-out rate was not alarming (at 10% of membership in the current sample, vis-à-vis 7% in the previous sample), it was a matter of concern that the numbers of drop outs increased with the age of the SHG.

## **5.4 Conclusions**

- SHGs reported significant impact on their habit of savings, their income, their access to credit, and on health, food and education status in their families.
- Around a third of the members of SHGs reported increase in employment opportunities. A similar percentage reported improvement in current occupation and/or undertaking of new occupation. The signs of increased income were to be seen in increased expenses on food, and on improved education and health status.
- Insignificant investment had taken place in land acquisition, housing, mobility, or ornaments (also a form of savings in India).
- SHGs in the older age groups had more members dropping out and the causes needed to be understood better.
- The growing sense of indebtedness reported by SHG members in the previous study appears to have changed with most members reporting a change for the better. Given the increasing levels of bank loans, such feedback suggests that members do not feel overwhelmed by the bank loans.



## CHAPTER-6: ISSUES RAISED BY STAKEHOLDERS

In order to further improve the SHG-bank linkage programme, discussions were held with various stakeholders on what they saw as the issues that needed to be addressed. The discussions were open-ended and the responses were subsequently tabulated and categorised to the extent possible. In this chapter, we present issues raised by members of SHGs related to internal management matters, and to linkage with banks. Issues raised by bankers, too, are discussed in this chapter.

### 6.1 Issues internal to SHGs

Discussions were held at all 240 SHGs on what they viewed as problems that might affect SHG-bank relationship. Interestingly enough, several issues raised in this study through the collection and analysis of hard data, were also stated by members as problem areas. Only such problems have been provided in the following table as were identified as problems by at least 5% of SHGs.

Table 6.1 Problems raised by SHG

Problems	No. of SHGs	Percentage
<b>Books of accounts</b>	<b>93</b>	<b>38.75</b>
1. No book-keeper/books	40	16.67
2. Books are not updated	29	12.08
3. Don't know how to write the books	14	5.83
4. Book-keeper/animator not doing their job	10	4.17
<b>Meetings</b>	<b>86</b>	<b>35.83</b>
1. Irregular meetings / poor attendance	36	15.00
2. No meetings - migration, conflict, no book-	31	12.92
3. Due to work pressure not conducting/attending	19	7.92
<b>Leadership</b>	<b>48</b>	<b>20.0</b>
1. No leadership rotation	35	14.58
2. Members unwilling to take up leadership	13	5.42
<b>Lending norms</b>	<b>61</b>	<b>25.41</b>
1. Violation of norms	33	13.75
2. No fixed norms	15	6.25
3. No internal lending	13	5.42
<b>Training</b>	<b>67</b>	<b>27.91</b>
1. Need training in book-keeping	28	11.67
2. Need training on income generating activities	22	9.17
3. Do not get any training	14	5.83
4. Need training on SHG concepts	13	5.42

A fairly common set of concerns was bookkeeping, accounting, and bookkeepers. This was reiterated by SHGs speaking of bookkeeping as a major training need. Irregularity of meetings, concentration of leadership in a few, and violation of



lending norms were other issues spoken of as key problems. Annex-5 indicates that indeed many of the problems identified by members were also those identified when the CRI tool was applied by the study team to enable grading of SHGs. The percentage of SHGs that reported these problems, however, was not commensurate with the numbers of SHGs having such problems.

It is important to ensure that leaders do not unduly control SHGs. If meetings are not held regularly, if books are not written regularly, then, a few persons acquire a vested interest in keeping the SHG in their control. If transactions are held outside meetings, it becomes less and less in the interest of leaders to permit change in leadership, or to arrange for regular meetings.

## 6.2 Cost of Linkage

### 6.2.1 No. of Visits and Time Taken

SHGs appeared, on the whole, at ease with the bank linkage programme. An attempt was made to assess the cost in terms of time and money to access bank loans. Where the first linkage of an SHG took an average of 4 weeks for sanction and release from time of first introduction, for SHGs in their fifth linkage time taken was less than 2.5 weeks. On numbers of visits to be made to the bank branch, however, there appeared to be no let up with each linkage. SHGs on their fifth linkage made 4 visits to the bank while those on their first and second linkages made fewer visits. While this appears strange, it must be remembered that on the first few linkages, bankers make several visits to the SHG, and the SHPI makes several visits to the bank on behalf of the SHG. If all visits by all stakeholders were to be clubbed, it is likely that the numbers of visits made have reduced, though the numbers of persons making the visits might still be high, given that all SHG members are often required to be physically present at the branch at the time of loan release. The following table indicates clearly the reduction in time and in number of visits made for bank linkage, since 2003

Table-6.2.1: Average Visits to bank and time taken for sanctioning of loan

S. No.	No. of linkage	Time taken in weeks		No. of visits made	
		2003-04	2006-07	2003-04	2006-07
1	Single	19.36	4.00	4.53	3.70
2	Two	14.16	4.01	3.64	3.78
3	Three	11.40	4.80	3.62	4.31
4	Four	14.60	1.65	2.94	2.65
5	Five	3.00	2.38	2.00	4.00

### 6.2.2 Amount Spent

The costs incurred by SHGs to access loans are provided in the following table. Over 67% of SHGs spent, on average, Rs 166 towards bus fares. While this was an expense to be expected, other not-so-legitimate expenses incurred for linkage included 'payments for services', payment to the 'animator', 'updating of books', 'records and stationery' and, 'any other' costs. SHGs in Mahbubnagar were the worst hit, having to pay Rs 506, on average, for each loan accessed, while those in Vizianagaram followed with an average cost of Rs 462. More than half the SHGs spent on 'records and stationery' prior to a linkage, nearly a third of the SHGs paid

someone or other for updating books before each linkage, 17% of SHGs paid 'any other' costs, 8.7% made payments to their animator, and 5.4% of SHGs made 'payment for services'. Most of these costs are not warranted if an SHG is functioning well, and were probably paid to those who helped make the linkages.

Table 6.2.2 Costs incurred by SHGs to access loans

Particulars	Districts								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
<b>1. Bus fare</b>									
% of SHGs	70.0	67.7	73.3	66.7	73.3	43.3	69.0	73.3	67.1
Avg. amount in Rs.	198	159	222	135	145	167	140	164	166.1
<b>2. Updating of books</b>									
% of SHGs	20.0	6.5	6.7	30.0	46.7	26.7	58.6	30.0	28.1
Avg. amount in Rs.	143	363	475	143	199	229	198	128	234.6
<b>3. Food</b>									
% of SHGs	6.7	32.3	23.3	13.3	20.0	16.7	24.1	26.7	20.4
Avg. amount in Rs.	65	91	112	68	65	68	171	131	96.4
<b>4. Animator</b>									
% of SHGs	3.3	12.9	16.7	20.0	--	6.7	10.3	--	8.7
Avg. amount in Rs.	300	150	550	74	--	65	150	--	161.1
<b>5. Daily wage</b>									
% of SHGs	--	6.5	--	--	10.0	10.0	24.1	13.3	8.0
Avg. amount in Rs.	--	125	--	--	103	363	204	213	126.1
<b>6. Records &amp; stationery</b>									
% of SHGs	43.3	9.7	40.0	66.7	73.3	20.0	72.4	90.0	51.9
Avg. amount in Rs.	125	50	157	138	158	50	192	120	123.8
<b>7. Payments for services</b>									
% of SHGs	--	3.2	6.7	3.3	3.3	--	3.4	23.3	5.4
Avg. amount in Rs.	--	100	750	300	100	--	300	126	209.5
<b>8. Service charges to VO</b>									
% of SHGs	--	6.5	--	10.0	--	16.7	6.9	--	5.0
Avg. amount in Rs.	--	750	--	83	--	72	40	--	118.2
<b>9. Loan documentation</b>									
% of SHGs	13.3	16.1	3.3	13.3	23.3	3.3	17.2	16.7	13.3
Avg. amount in Rs.	43	71	15	78	109	50	112	180	82.2
<b>10. Any other</b>									
% of SHGs	23.3	22.6	10.0	13.3	10.0	13.3	24.1	20.0	17.1
Avg. amount in Rs.	153	117	365	100	60	153	64	190	150.3
<b>Total amount in Rs.</b>	<b>8,318</b>	<b>8,749</b>	<b>13,852</b>	<b>8,725</b>	<b>11,187</b>	<b>6,880</b>	<b>14,670</b>	<b>12,821</b>	<b>85,202</b>
<b>Avg. amount in Rs.</b>	<b>277</b>	<b>282</b>	<b>462</b>	<b>291</b>	<b>373</b>	<b>229</b>	<b>506</b>	<b>427</b>	<b>355</b>

On a Rs 50,000 loan, a cost of Rs 355 works out to 0.7% and, in itself, this is not a high cost. The SHGs covered by this study were only into their 3<sup>rd</sup> linkage in Vizianagarm and Nalgonda districts, and could, therefore be excused (to some extent) the need for updating records, acquiring stationery, etc. However, Mahbubnagar, with several SHGs in their 5<sup>th</sup> linkage, and with a high investment in capacity building, appeared to have systematised the payments and that was disappointing – especially, as 58.6% of SHGs made payments for updating of records, and 72.4% for records and stationery.

### 6.3 Issues Related to Size of Loan

#### 6.3.1 Opinion on Current Bank Loan

Over 70% of SHGs reported that they thought the loan size inadequate. Guntur district appeared to have the happiest bank customers, with nearly half the SHGs reporting that the loan received by them was adequate. The most unhappy customers were those in Kurnool and Kadapa districts. Around a fourth of the sample SHGs in Kadapa and Mahbubnagar districts also reported that the loan release was not timely. On repayment period set by banks and/or followed by SHGs, there was less unhappiness, with some SHGs in East Godavari, Guntur and Kurnool districts feeling that the loan payback period was less than needed.

Table-6.3.1: SHG opinion on loan adequacy, timeliness and repayment period

Opinion	Name of the district								Total
	EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
<b>Quantum</b>									
1. Adequate	36.7	48.4	26.7	13.3	13.3	26.7	37.9	26.7	28.8
2. Inadequate	60.0	51.6	73.3	86.7	86.7	73.3	62.1	70.0	70.4
3. > requested	3.3	--	--	--	--	--	--	3.3	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Timeliness</b>									
1. Timely	90.0	93.5	100.0	76.7	96.7	96.7	72.4	83.3	88.8
2. Untimely	10.0	6.5	--	23.3	3.3	3.3	27.6	16.7	11.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Repayment period</b>									
1. Less	10.0	16.1	6.7	--	13.3	6.7	3.4	3.3	7.5
2. Reasonable	80.0	80.6	90.0	93.3	83.3	83.3	82.8	86.7	85.0
3. > required	10.0	3.2	3.3	6.7	3.3	10.0	13.8	10.0	7.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

#### 6.3.2 Ideal Quantum of Loan

An attempt was made to ascertain across social categories of SHGs what their perception of an ideal sized loan was. Only 5% of SHGs thought that a loan of less than Rs 25,000 would be ideal, and most of these were with ST membership. Nearly a third of the SHGs thought that a loan of Rs 75,001 to 100,000 would be ideal. A large section of SHGs with OC category members felt this way. A fourth of the SHGs thought that a loan of over Rs 100,000 would be ideal, and, on the whole, there were few SHGs with ST or SC members who felt the need for a loan of this size.

Table-6.3.2.1: Perceptions of SHGs on 'ideal' quantum of loan

Ideal loan size in Rs.	SHGs (grouping based on social category of members)										Total
	ST	SC	BC	Min	OC	ST-ND	SC-ND	BC-ND	Min-ND	OC-ND	
< 25000	21.1	10.3	4.2	--	5.3	16.7	--	--	--	--	5.0
25001-50000	21.1	23.1	16.7	28.6	10.5	33.3	35.7	16.3	--	31.4	21.3
50001-75000	26.3	20.5	10.4	14.3	--	33.3	7.1	22.4	--	11.4	15.4
75001-100000	21.1	30.8	39.6	28.6	63.2	--	42.9	28.6	50.0	22.9	32.9
100001-125000	5.3	--	4.2	--	10.5	--	--	4.1	--	5.7	3.8
125001-150000	5.3	12.8	4.2	--	--	16.7	7.1	20.4	25.0	17.1	11.3
> 150000	--	2.6	20.8	28.6	10.5	--	7.1	8.2	25.0	11.4	10.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The size of the loan sought by an SHG and the size actually sanctioned were also compared. The gap between what was being sought and what was being provided appeared to decrease with each linkage, except that at the time of the fifth linkage, the loan sanctioned was 22% less than the loan sought. This could indicate either that the applications became more reasonable as an SHG matured, or that bankers became more confident of lending to SHGs as they matured, or that each began to have a better understanding of the other's needs and compulsions, as they grew together. As there were few SHGs in the fifth linkage, it is likely that the increased difference between loan sought and loan sanctioned was contextual.

Table-6.3.2.2: Loan sanctioned vis-à-vis applied for

Linkage	Amount of loan in Rs		Difference of loan	
	requested	sanctioned	Amount in Rs	%
1st linkage	37,967	26,817	11,150	29
2nd linkage	78,204	61,143	17,061	22
3rd linkage	117,130	97,639	19,491	17
4th linkage	144,500	123,400	21,100	15
5th linkage	143,750	112,625	31,125	22

#### 6.4 Issues raised by bankers

On the whole, bankers appeared comfortable with lending to SHGs. Some, in fact, expressed concern over having to lend through federations in the future. Even though default was not perceived as a significant problem, it was seen as a problem area. Nearly four-fifths of the bankers interviewed, felt that default was a problem because internal systems were not in place in SHGs. Another 42% felt that migration and poverty were contributors to default. A third felt that wilful default was already becoming an issue, even among women. Other reasons cited for default were probably related to specific contexts.

It has been assumed that lending through a village or a mandal level registered federation would ease the banker's burden and also contribute to better quality credit. Bankers, however, appeared to be wary of having to lend through federations. At least one reason might be that in borrowing through SHGs, members becoming jointly and severally liable for dues to the bank.

Table 6.4 Causes of default – assessment of bankers

Reasons for default	Frequency	Percentage
1. No internal systems	19	79
2. Migration and poverty	10	42
3. Wilful defaulting	8	33
4. Loan for non-productive purposes	3	13
5. Failure of crop/ IGA	2	8
6. Defunct groups	2	8
7. Lack of awareness	2	8
8. No follow up from SHPI/Bank	2	8
9. Multiple loans	1	4
10. Death of SHG member	1	4

Members of federations have limited liability and may not have assets adequate enough for the bank to proceed against, in the case of serious default. Even though it is highly unlikely that a bank will (or will be permitted to) ever proceed legally against members of an SHG for default, branch managers can put moral pressure on SHGs to repay loans taken. If, however, SHGs draw loans through a united front (a federation), then poor financial or loan management by the federation will affect all SHGs in their relationship with the financing bank.

## 6.5 Conclusions

- Shortcomings in SHGs cited by SHG members match, to a large extent, the shortcomings identified during the course of data analysis. However, not enough SHGs appeared to be aware of or willing to articulate problem areas within their groups.
- Training is an important tool to help SHGs overcome some of these shortcomings, and is desired by SHGs.
- Training, however, is not a solution to situations where laxity arises, not from lack of skill as much as from a benefit being drawn because of the lax situation. Books of accounts are being written badly, or not being written at all, perhaps not as much because adequate training has not been provided, as because some individuals are benefiting from it.
- Nabard and SERP have designed good and simple accounting systems and these may need to be adhered to, if bank loaning is to continue over lengths of time.
- Overall, the SHG-bank relationship appeared to be a comfortable one, with each partner complaining a little about the other, but without the acrimony of the early years.

## CHAPTER-7: ACTION AREAS

---

APMAS engages in field research, not for its sake, but for the purpose of contributing to appropriate action indicated by the research. Key action areas are listed below and may need to be initiated by appropriate agencies. It is important, as we consider the areas for action, that we take cognisance of the fact that bank loans to SHGs in Andhra Pradesh are poised to grow at least for some more years, even if no special interventions are made at this point. However, if credit is to reach members of SHGs for many more years, and if it is to result in their betterment, then different stakeholders do need to initiate action on several fronts, and especially on those that relate to accountability, transparency, skill and knowledge building, and sustainability.

### 7.1 Banks

- Commercial and regional rural banks appear to have reached out to large numbers of SHGs in contiguous areas, on a regular basis, over the past few years. Bankers must report on annual performance vis-à-vis SHG financing – not on 'cumulative' performance. The latter is misleading and does not give a clear picture of what was outstanding at the start of the year, how much was collected, how much of fresh loans were disbursed, and how much of that was outstanding at the year end, and how much of the loans outstanding were loans that were overdue.
- So, too, banks must be asked to submit returns on savings, fixed deposits and back-end subsidies of SHGs lying with them, so that the loans outstanding can be compared with the moneys of SHGs with them.
- It might be in the interest of bankers to study the effect of repeated cash inflows into a village through large numbers of SHG members. Common sense suggests that increased purchasing power in large numbers of families must give rise to new services being established in the village, and, therefore, to new employment opportunities to the local population, and lending opportunities to the banker. If, however, new loans are adjusted against older loans and interest payable, then what appears to be a cash inflow, might well not be that, and the local economy is unlikely to have come out of its slumber.
- Banks need to take much more seriously, the assessment of the SHGs that they finance, each time they appraise a loan. An SHG might have been of grade 'A' when they first financed it, and may have slipped thereafter (or vice versa), and they need to keep that in mind when arriving at credit limits. Such assessment will also encourage SHGs to desire to live up to high standards.

### 7.2 SHPIs

- SHGs need to maintain good books of accounts. Good formats have been designed but the printed formats were not available at all the SHGs visited. If SHGs were asked to maintain accounts in the available simplified (but

complete) set of formats, they would be in much better control of their finances.

- Age appears to affect the quality of an SHG and turnover in membership. SHPIs might want to identify changes arising out of age, reasons for those changes, and to then arrive at appropriate tasks which will correct slippage, if any.
- SHPIs may want to invest in training SHG members about good and bad credit, and the impact that each can have on the members and on the village. Sensitisation of SHPI staff, and of SHG members on the 'productive' value of some 'consumption' or 'provident' loans is required, so that members know what to do with large credit.
- SHPIs need to encourage SHGs to engage in exit interviews with SHG members who withdraw from membership, to understand the withdrawing member's concerns and reasons for leaving. Some of the reasons, if known, probably can be addressed through a redesigning of the services, or the SHG itself.
- SHPIs need to help SHGs prepare formal financial statements for review every month. These statements will bring to the notice of members the size of internal loaning, the size of idle funds, interest earned during the month and so on. Formal discussion on these matters could result in better use of internal funds.

### **7.3 Federations**

- Federations of SHGs at village level might consider undertaking internal audit of SHG accounts more regularly and seriously.
- Village federations may also consider giving "Best SHGs" awards on an annual basis, using the process to educate member SHGs about grading, and inspiring them to want to maintain the highest of performance standards.
- Village organizations might also want to revise their by-laws so that SHGs which do not have a high repayment rate, cannot participate in the election process of the village organization.
- Federations at mandal level might consider basing a small trained team of SHG leaders from each village to regularly train SHG functionaries in book-keeping.
- Federations may also regularly hold review meetings on SHG performance, on interest earned vis-à-vis interest earnable, on distribution of savings, etc. So that SHG leaders internalize the issues and likely implications.

### **7.4 SHGs**

- SHGs continue not to pay interest on savings to their members. As a result, members have started demanding the withdrawal of savings from their SHGs. SHGs need to be encouraged to add interest to savings each year, so that members can see the growth of their savings, and desire to have it grow into a corpus to see them through old age.
- SHGs need to keep good books of accounts. They need, in particular, to monitor more carefully, the interest earned from internal loaning. Some of the

formats designed by SHPIs are quite simple and require time and effort but not high skill to fill and keep updated.

- Internal loans must be repaid with the same commitment as bank loans. Default must be visited with penal interest and other disincentives.
- SHGs might want to use the large credit flows to alter land holding patterns, so that women increasingly have land in their names. Care needs to be taken, however, to ensure that land of some other male member in the family is not transferred to her, though that, too, may have its own advantage, if the woman is able to assert control over that land.
- Regardless of due date to bank, SHGs might consider having small monthly repayments with interest, so that members do not find the need to make bulk repayments through borrowing from other sources.
- It is not enough that an SHG is running profitably. It has to ask itself whether it had earned more profit, which is not reflected in its books, and/or, whether it earned as much profit as it could have. There appears to be some indication that perhaps all the interest earned is not getting reflected in the books of accounts.
- It may be worthwhile to consider reducing interest rates on internal lending to increase the demand for internal loans and monitor its circulation.





## BIBLIOGRAPHY

---

- APMAS & CMF, (2006), "Quality Issues of Self Help Groups in Rajasthan", Jaipur, Centre for Microfinance
- APMAS, (2005), "SHG Bank Linkage: A Study in Andhra Pradesh", Hyderabad, APMAS Publication Unit
- APMAS, (2006), "A Study on Community Investment Fund (CIF) in Andhra Pradesh", Unpublished
- Banking with the Poor – Nabard's experience – Ms. Ranjana Kumar
- Commercial Aspects of SHG Banking in India; by Dr. Hans Dieter Seibel and Harishkumar R. Dave; Paper presented at the Seminar on SHG-bank Linkge Programme at New Delhi on 25th and 26th November 2002
- Economic Survey 2006-2007
- EDA Rural Systems and APMAS, (2006), "Self Help Groups in India: A Study of the Lights and Shades, A joint initiative of CARE, CRS, USAID and GTZ, Care India Publication
- EXAMINING SELF HELP GROUPS: EMPOWERMENT, POVERTY ALLEVIATION AND EDUCATION
- GOI, Ministry of Finance 2007: Economic Survey 2006-07
- Impact of Microfinance Linkage Banking in India on the Millennium Development Goals (MDG) Wolfgang Hannover, May 2005
- Linking Banks and (Financial) Self Help Groups in India -An Assessment By Dr. Erhard. W. Kropp and Dr. B. S. Suran
- Microfinance, Self-Help Groups and Empowerment in Maharashtra Raghav Gaiha, Department of Economics, University of Rome "Tor vergata" & Mani Arul Nandhi, Jesus and Mary College, University of Delhi (This is a condensed version of a study sponsored by the Asia and Pacific Division of International Fund for Agricultural Development, Rome). November, 2005
- NABARD, gtz and SDC 2006: Towards a Sustainable mF Outreach in India: Experiences and Prospectives, New Delhi, NABARD, gtz and SDC.
- Nanda, Y. C. (1996), " Linkage Banking – An Update from India" (in) Kropp, Erhard and R. B.Linkage Banking in Asia, Bangkok, Asia Pacific Rural and Agricultural Credit Association
- Prabhu Ghate, (2006),"Microfinance in India: A state of the sector report, 2006", New Delhi, CARE, SDC and Ford Foundation
- Promotion of Self Help Groups under the SHG Bank Linkage Programme in India, by Malcolm Harper; Paper presented at the Seminar on SHG-bank Linkge Programme at New Delhi on 25th and 26th November 2002
- Quality Issues in Microfinance Sector in Rajasthan

- Self Help Groups: Use of modified ROSCAs in Microfinance by Kumar Aniket- June 2005
- SHG-Bank Linkage Programme for Rural Poor – An Impact Assessment; by V. Puhazhendi and K. C. Badatya; Paper presented at the Seminar on SHG-bank Linkge Programme at New Delhi on 25th and 26th November 2002
- Study Report – SHG-Karnataka - SHG PER SE
- Study Report – SHG-Tamilnadu
- Women's Self-Help Groups in Andhra Pradesh – Participatory Poverty Alleviation in Action , Dr. Joy Deshmukh-Ranadive Senior Fellow, Centre for Women.s Development Studies, 2004

## ANNEXURE

Annex-1: Bank-wise extent and spread of bank credit to SHGs in Andhra Pradesh

S. No	Name of the Bank	No of branches	No. of SB accounts	Loans disbursed in 2005-06		
				No. of groups	Amount in Rs.	Average
<b>Commercial Banks</b>						
1	Allahabad Bank	6	1,040	693	47,159,000	68,051
2	Andhra Bank	664	90,411	49,702	2,793,938,400	56,214
3	Bank of Baroda	31	5,656	2,794	150,725,000	53,946
4	Bank of India	46	3,569	1,839	109,096,000	59,324
5	Bank of Maharashtra	8	640	224	9,875,000	44,085
6	Canara bank	95	10,250	4,783	255,429,600	53,404
7	Central Bank of India	62	5,954	2,987	163,132,000	54,614
8	Corporation Bank	37	4,072	2,264	133,990,000	59,183
9	Dena Bank	4	291	242	13,223,000	54,640
10	Indian bank	161	22,648	11,393	739,336,000	64,894
11	Indian Overseas Bank	69	10,947	5,358	341,751,500	63,783
12	Karnataka Bank Ltd.	3	147	56	3,017,000	53,875
13	Karur Vysya Bank Ltd	1	-	-	-	
14	KBS Local Area Bank	1	-	-	-	
15	Oriental Bank of Commerce	1	2	2	405,000	202,500
16	Punjab National Bank	20	1,530	872	37,537,500	43,048
17	South Indian Bank Ltd	4	614	186	8,354,000	44,914
18	State Bank of Hyderabad	342	49,696	21,404	1,172,141,000	54,763
19	State Bank of India	609	104,043	58,714	3,468,194,700	59,069
20	State Bank of Mysore	1	196	79	6,299,000	79,734
21	Syndicate Bank	231	27,305	13,216	790,849,200	59,840
22	UCO Bank	16	1,409	799	48,632,000	60,866
23	Union Bank of India	93	12,548	5,569	335,121,000	60,176
24	United Bank of India	1	2	2	150,000	75,000
25	Vijaya Bank	43	3,484	1,915	106,313,500	55,516
26	Vysya Bank Ltd.	75	7,194	3,393	165,484,000	48,772
	<i>Sub-total</i>	2,624	363,648	188,486	10,900,153,400	57,830
<b>Cooperative Banks</b>						
1	AP State Coop Bank Ltd.	256	13,261	6,107	228,329,000	37,388
	<i>Sub-total</i>	256	13,261	6,107	228,329,000	37,388
<b>Regional Rural Banks</b>						
1	AP Grameen Bank	334	51,918	24,067	1,283,871,100	53,346
2	AP Grameen Vikas Bank	479	93,345	50,144	2,287,774,000	45,624
3	Chaitanya Godavari Bank	84	14,375	4,812	253,937,000	52,772
4	Deccan Grameen Bank	163	32,307	11,845	493,193,600	41,637
5	Sapthagiri Bank	105	16,820	8,880	546,994,000	61,598
	<i>Sub-total</i>	1,165	208,765	99,748	4,865,769,700	48,781
	<b>Total</b>	4,045	585,674	294,341	15,994,252,100	54,339

Annex-2: District-wise extent and spread of bank credit to SHGs in Andhra Pradesh

S. No.	District	No. of SHG Accounts	No. of Bank Linkages and Amount during 2005-06					
			Total loans		New SHGs linked		Old SHGs linked	
			SHGs	Amount (Rs in thousands)	SHGs	Amount (Rs in thousands)	SHGs	Amount (Rs in thousands)
<b>Coastal</b>								
1	Srikakulam	26,433	15,781	1,050,011	1,530	30,267	14,251	1,019,744
2	Vizianagaram	20,562	6,664	356,930	1,515	47,189	5,149	309,741
3	Visakhapatnam	24,427	15,897	1,048,199	6,413	327,696	9,484	720,503
4	West Godavari	36,376	19,168	1,241,708	6,149	207,281	13,019	1,034,427
5	East Godavari	54,948	26,099	1,645,369	8,163	290,243	17,936	1,355,126
6	Krishna	30,245	16,585	830,468	5,072	156,287	11,513	674,181
7	Guntur	36,251	16,102	790,819	4,876	136,194	11,226	654,625
8	Prakasam	22,824	11,731	696,326	3,356	10,13,08	8,375	595,017
9	Nellore	21,137	10,062	575,411	3,288	96,649	6,774	478,762
<b>Total</b>		<b>273,203</b>	<b>138,089</b>	<b>8,235,241</b>	<b>40,362</b>	<b>1,393,114</b>	<b>97,727</b>	<b>6,842,127</b>
<b>Rayalaseema</b>								
10	Chittoor	35,213	17,137	1,181,989	4,626	135,752	12,511	1,046,237
11	Kadapa	17,357	10,491	696,653	6,018	272,016	4,473	424,637
12	Anantapur	30,071	11,962	579,572	4,424	133,374	7,538	446,198
13	Kurnool	24,995	13,142	687,316	2,914	77,088	10,228	610,228
<b>Total</b>		<b>107,636</b>	<b>52,732</b>	<b>3,145,530</b>	<b>17,982</b>	<b>618,230</b>	<b>34,750</b>	<b>2,527,300</b>
<b>Telangana</b>								
14	Adilabad	22,021	7,602	322,582	2,002	64,712	5,600	257,870
15	Nizamabad	17,041	8,739	449,649	4,872	168,987	3,867	280,663
16	Karimnagar	22,512	8,968	300,784	3,955	96,931	5,013	203,853
17	Khammam	31,695	16,338	618,002	2,641	42,858	13,697	575,144
18	Warangal	31,050	14,334	525,977	3,724	94,927	10,610	431,050
19	Medak	17,265	13,893	728,038	4,844	145,565	9,049	582,473
20	Rangareddy	13,900	7,568	597,131	1,513	119,428	6,055	477,703
21	Mahabubnagar	21,940	8,243	448,979	3,587	146,146	4,656	302,833
22	Nalgonda	35,491	17,835	622,339	8,829	265,491	9,006	356,848
<b>Total</b>		<b>212,915</b>	<b>103,520</b>	<b>4,613,481</b>	<b>35,967</b>	<b>1,145,045</b>	<b>67,553</b>	<b>3,468,437</b>
<b>Grand Total</b>		<b>593,754</b>	<b>294,341</b>	<b>15,994,252</b>	<b>94,311</b>	<b>3,156,389</b>	<b>200,030</b>	<b>12,837,863</b>
<b>Source: Nabard, Southern Regional Office, Hyderabad</b>								

Annex-3: Select development indicators for sample districts

Indicator	Units	Districts							
		EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD
Geographical area	sq. km	10807	11391	6339	15359	1758	16105	18432	14240
Population	000	4873	4406	2245	2573	3512	2479	3507	3238
Sex ratio (females to 1000 males)	No.	992	984	1004	975	965	989	970	967
Rural population	'000	3736	3174	1833	1973	2720	1823	3135	2809
Literacy rate	%	65.5	62.8	51.8	64.0	54.4	53.5	45.5	57.8
Female literacy rate	%	61	54.2	40.7	50.8	41.1	41.4	32.8	45.17
Urbanization	%	23.8	28.9	17.2	24.0	25.8	23.1	11.1	11.9
Bank branches/1 lakh persons	No.	7.1	7.82	6.16	7.01	6.63	6.77	6.24	6.28
Per capita bank deposits	Rs.	2357	2727	1063	1881	1924	1798	1229	1117
Per capita bank credit	Rs.	1544	2134	726	1323	1391	697	893	807
Per capita bank credit to agriculture	Rs.	457	487	209	523	427	201	423	328
Per ha. bank credit to agriculture	Rs.	2906	2368	961	2979	1376	779	1868	1626
Per capita bank credit to SSIs	Rs.	127	244	48	78	74	56	41	65
Per capita bank credit to industry	Rs.	479	675	214	212	443	201	229	174
Per capita Income	Rs.	23871	21029	15405	16316	15528	15384	13139	16943
Poverty level	%	10	29	43	23	35	49	81	27

Source: [www.aponline.gov.in](http://www.aponline.gov.in)

Annex-4: Consolidated balance sheet of all SHGs in Rupees

	Liabilities & Assets	Districts								Total
		EG	GNT	VZN	KDP	KNL	ADB	MBN	NGD	
A	Liabilities									
1	Bank borrowings outstanding	1,533,716	888,888	1,296,661	1,135,685	2,168,550	842,425	1,600,198	1,005,631	10,471,75
2	Other external loans outstanding	175,165	212,060	217,726	277,510	515,194	207,015	518,079	456,785	2,579,534
3	Members savings	550,576	702,687	734,024	698,510	667,618	830,142	760,320	876,244	5,820,121
4	Revolving funds	32,500	195,000	146,200	240,000	162,000	205,000	238,820	90,000	1,309,520
5	Other grants	5,000	0	10,000	0	0	0	125,000	0	140,000
6	Profit or loss	150,649	37,016	112,015	384,869	271,631	86,825	308,620	146,830	1,498,455
7	Suspense account	12,454	19,820	952	131	1,000	83,448	13,819	1,516	133,140
8	Other	21,439	13,510	23,246	5,770	203,400	30,760	135,882	56,960	490,967
	Total	2,481,499	2,068,981	2,540,824	2,742,475	3,989,393	2,285,615	3,700,738	2,633,966	22,443,49
B	Assets									
1	Loan outstanding with members	1,869,605	1,387,602	1,815,727	2,026,782	3,531,290	1,468,718	2,730,857	1,805,808	16,636,38
2	Savings in Federations	527	4,940	840		5,500	38,420	32,417	65,250	147,894
3	Share capital in federations	100	1,330	2,100	3,070	1,500	27,143	9,151	39,195	83,589
4	RF if distributed	32,500	185,000	98,300	90,000	112,000	185,000	203,820	90,000	996,620
5	Fixed Deposits	10,500	0	47,900	0	52,800	10,000	181,000	0	302,200
6	Loans outstanding: non-members	21,000	0	19,000	0	8,100	56,350	25,000	1,000	130,450
7	Savings distributed	279,747	369,260	356,569	190,672	81,804	318,473	264,654	487,653	2,348,832
8	Cash in hand	4,167	2,100	7,330	10,351	20,895	2,979	48,515	23,150	119,487
9	Bank balance	263,103	118,208	193,058	421,600	175,504	176,534	79,609	114,135	1,541,751
10	Suspense account	250	541	0	0	0	1,998	125,715	7,775	136,279
	Total	2,481,499	2,068,981	2,540,824	2,742,475	3,989,393	2,285,615	3,700,738	2,633,966	22,443,49

## Annex-5: CRI Tool and Sample SHGs

Particulars		Frequency	% of SHGs
<b>1</b>	<b>Feeling of homogeneity/solidarity</b>		
a.	Very strong	35	14.6
b.	Moderate	164	68.3
c.	Not very much	41	17.1
Total		240	100.0
<b>2</b>	<b>Governance issues</b>		
2.1	Awareness about objectives of SHG programme	88	36.7
2.2	Awareness about rules and regulations	154	64.2
2.3	Sharing of leadership responsibilities by members	75	31.3
2.4	Awareness about member-wise savings and loan position	196	81.7
<b>3</b>	<b>Conduct of meetings (During the last six months)</b>		
a.	Meetings held regularly on fixed date, time and place	36	15.0
b.	Meetings held regularly once a month, but at the convenience of all	69	28.8
c.	Meetings not held regularly, but when held, they are on fixed date, time	57	23.8
d.	Meetings are irregular	78	32.5
Total		240	100.0
<b>4</b>	<b>Attendance in meetings (During the last six months)</b>		
a.	Above 90% in all group meetings	47	19.6
b.	70% to 90% in all group meetings	41	17.1
c.	50% to 70% in all group meetings	35	14.6
d.	Less than 50% in all group meetings	117	48.8
Total		240	100.0
<b>5</b>	<b>Financial transactions in the group</b>		
a.	All fund collections, financial decisions and disbursement of loans are	66	27.5
b.	All fund collections/financial decisions are made in meetings but loans	40	16.7
c.	Fund collections are made outside meeting but loan decisions are taken	74	30.8
d.	Both fund collections and financial decisions are taken outside the	60	25.0
Total		240	100.0
<b>6</b>	<b>Member awareness about financial transactions</b>		
a.	All members are aware about all financial transactions	24	10.0
b.	Above 75% of the members are aware	97	40.4
c.	Only few members are aware	112	46.7
d.	None are aware	7	2.9
Total		240	100.0
<b>7</b>	<b>Regularity of savings (During the last six months)</b>		
a.	100% on time payment of savings by members	149	62.1
b.	90% on time payment of savings by members	34	14.2
c.	70% to 90% on time payment of savings by members	20	8.3
d.	Less than 70% on time payment of savings by members	37	15.4
Total		240	100.0

*Table continued...*



		Frequency	% of SHGs
<b>8</b>	<b>Pattern of internal lending</b>		
a.	Need based loans availed by many members	78	32.5
b.	Need based loans availed by few members	88	36.7
c.	Equal distribution of loans among all members	42	17.5
d.	Loans extended repeatedly to only a few members	32	13.3
	Total	240	100.0
<b>9</b>	<b>Velocity of internal lending = Total loans disbursed/total corpus</b>		
a.	Over 1.5 times	93	38.8
b.	Between 1-1.5 times	71	29.6
c.	Less than 1 time	76	31.3
	Total	240	100.0
<b>10</b>	<b>Repayment terms</b>		
a.	Monthly Instalments	117	48.8
b.	Quarterly Instalments	11	4.6
c.	Lump sum payment	112	46.7
	Total	240	100.0
<b>11</b>	<b>Repayment pattern</b>		
a.	Regular repayment of principal and interest in full on monthly basis	73	30.4
b.	Regular repayment of principle in part and interest in full on monthly	35	14.6
c.	Regular repayment of only interest in full on monthly basis	132	55.0
	Total	240	100.0
<b>12</b>	<b>Borrower quality – number of defaulters</b>		
a.	Less than 2 members	135	56.3
b.	Between 2-5 members	36	15.0
c.	More than 5 members	69	28.8
	Total	240	100.0
<b>13</b>	<b>Asset quality – percentage of default (Formula: Amount overdue for more than 3 months/Total loan outstanding)</b>		
a.	Less than 10%	126	52.5
b.	Between 10%-20%	33	13.8
c.	More than 20%	81	33.8
	Total	240	100.0
<b>14</b>	<b>Up to date maintenance of records</b>		
14.1	Adherence to the groups bye laws	43	17.9
14.2	Attendance register	95	39.6
14.3	Recording of financial decisions taken at meetings	148	61.7
14.4	Savings collection	189	78.8
14.5	Loan disbursement	184	76.7
14.6	Repayment performance	160	66.7
14.7	Member-wise savings and loan portfolio	160	66.7