

Repayment Performance in Joint Liability Lending: Experience of SHGs in India

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Drawing upon data from 200 SHGs of Madhya Pradesh and Odisha during 2011-2012, this paper explores validity of the argument attached with high repayments and discouragement of strategic default in lending to joint-liable groups in Indian context. The average rate of recovery of SHG loans was found to be only 59.4 per cent including subsidy and debt relief, and NPA was 77 per cent. Many of these groups did not perform the basic function of a SHG (savings mobilization and inter-lending) and were found to be dormant or disbanded at the time of interview. Agencies and clients pretend to interact actively but in reality do not complement one another and thus tend to work independently in the guise of a distorted and false logic of participation. It appears that the concept of SHG is no more working as vehicles of sustaining long term stability of effective financial intermediation and has, in turn become a platform of subverting the desired role for quick and short term gains in the form of loans.

Introduction

Self-help groups (SHGs) are widely prevalent across Asia, Africa and Latin America in varying forms. Though they have different dynamics with respect to contextual specificities, the basic purpose of forming such groups is to make financial service available to people who get excluded by formal financial institutions. Normally it is a network of the poor people belonging to the same community and village who often form homogenous groups with pre-existing social bonds. They contribute small and regular savings, and then rotate them as loans within the group through self-generated terms and conditions, as well as maintain records of such financial transactions. Besides, they hold regular meetings to encourage participation of members in activities of the group, practise collective decision-making and resolve conflict through mutual discussion. Subsequently, they approach a bank and leverage their accumulated savings for higher loans, which they then disburse within the group. The group functions on the principle of joint liability, peer monitoring and peer pressure.¹

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¹ Under the group lending, the group should take up a single activity. If there is a necessity, the group could, however, take up multiple activities. In either case, the loan will be sanctioned in the name of the group which stands as guarantee to the bank for its prompt repayment.