



Study on  
**Non-Performing Assets (NPAs)**  
in **Self-Help Groups (SHGs)**



**Centre for Research on Financial Inclusion and Microfinance (CRFIM)**  
**Bankers Institute of Rural Development (BIRD)**

An ISO 9001:2015 Certified Institution Promoted by NABARD



# Contents

Director's Message  
Acknowledgement  
Executive Summary  
List of Tables and Figures  
Abbreviations

<b>1. Introduction</b>	12
<b>2. Research Design and Review of Literature</b>	26
<b>3. Trends and Analysis of NPAs</b>	32
<b>4. Role of Banks in SBLP</b>	38
<b>5. Role of Self-Help Group Promoting Institutions (SHPIs) in SBLP</b>	46
<b>6. Extent and Reasons for NPAs in SHGs</b>	56
<b>7. Policy Recommendations and Way Forward</b>	76

References

## Director's Message

The Non-Performing Assets (NPAs) are one of the major issues in the banking sector. When the Self-Help Group (SHG) movement started in 1990s, the strength of the movement was almost zero NPAs in spite of loans being collateral free. This encouraged the bankers to extend credit through group mode based on social collateral. However, the movement has witnessed a steep rise in the NPAs in SHG portfolio over the last few years. The NPA levels have risen significantly over the last 10 years from 2.90% as on March 31, 2008 to 6.12% as on March 31, 2018. Under such a circumstance, there was a need for a nation-wide study to analyze the causes of the NPAs and also come up with suitable solutions for this grave problem related to the poor women.



The present study has been conducted with this objective in focus. It also aimed to study the role of banks and SHPIs in capacity building, credit monitoring and motivation for repayment of loans. The study has been conducted by Centre for Research on Financial Inclusion and Microfinance (CRFIM), Bankers Institute of Rural Development (BIRD) Lucknow under the guidance of Micro Credit Innovations Department (MCID), NABARD.

The study is based on sample survey conducted involving 584 members of 207 SHGs from 45 branches spread over 11 districts in six states viz., Assam, Bihar, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh. It provides a professional documentation of primary/secondary data collected on the status of NPAs in SHGs and the interpretation thereof.

The findings of the study will go a long way in guiding the policy makers, practitioners and other stakeholders in understanding the causes of rising NPAs and designing suitable measures for containing them.

Suggestions and feedback on this report are welcome.

**Smt. T. S. Raji Gain**

# Acknowledgement

The report on “Study on Non-Performing Assets (NPAs) in Self-help Groups (SHGs)” has been drafted by Dr. Bhawani Singh Rathore, Research Officer BIRD. The field study has been conducted by Shri KPR Udupa, DGM/Faculty Member BIRD; Shri Sanjay Talukdar, DGM/Faculty Member, National Bank Staff College (NBSC) Lucknow; Dr. Gyanendra Rout, AGM BIRD; Dr. Bhawani Singh Rathore, Research Officer BIRD and Dr. Yogesh Bandhu Arya, the then Research Officer BIRD. We acknowledge their efforts and record our appreciation for the insights and data brought in through the report.

This work has been guided and supervised by the then Director Dr. D. V. Deshpande, Shri Raj Kumar, Joint Director, Dr. Dharendra Kumar and Shri M. R. Gopal, both DGM/Faculty Member and In-charge, CRFIM, Dr. Gyanendra Rout, AGM, CRFIM without whose painstaking efforts, this work could not have been completed.

Shri Arvind Kumar Srivastava, DGM/Faculty Member, BIRD has reviewed the report and his valuable suggestions have helped in bringing the report in present form. We record our appreciation for his contribution in this work.

We thank Micro Credit Innovations Department (MCID), Department of Financial Inclusion and Banking Technology (DFIBT) and Department of Economic Analysis and Research (DEAR) of NABARD Head Office, Mumbai for their guidance.

We sincerely acknowledge the cooperation and support received from the officials of NABARD, Regional Offices in Assam, Bihar, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh, as also from DDMs of districts covered under the study and convey our thanks to them.

We wish to thank the employees of banks and SHG members who interacted with the study team during the field visit, for their wholehearted support and providing necessary information to the team.

## **CRFIM In-charge**

## Executive Summary

**1.** There has been a steep rise in the NPAs in SHG portfolio over the last few years. The NPA levels have risen significantly over the last 10 years from 2.90% as on March 31, 2008 to 6.12% as on March 31, 2018. The absolute NPA amount witnessed a rise of 994% from Rs. 423 crore as on March 31, 2008 to Rs. 4628 crore as on March 31, 2018. In comparison, the loan outstanding has only shown a growth of 239% over the same period.

**2.** Region-wise analysis shows that the share of NPAs has increased for Southern and Western regions, while it has decreased for Eastern, North-Eastern, Northern and Central regions in 2017-18. Three Southern states viz. Tamil Nadu (17.48%), Andhra Pradesh (14.39%) and Telangana (11.04%) together account for 43% of the total NPA amount as on March 31, 2018 and four major states viz. Odisha, Uttar Pradesh, Karnataka and Maharashtra account for another 23%.

**3.** Agency-wise analysis shows that the NPA level of cooperative banks (7.56%) is higher than commercial banks (6.36%) and regional rural banks (5.35%). RRBs which are regional and local players have lower level of NPAs and this has been the pattern over the last few years. Program-wise analysis shows that loans under NRLM/SGSY had greater delinquency than the entire portfolio for private sector banks, RRBs and cooperative banks. It has been observed that the NPA level in NRLM/SGSY program is higher than the average NPA level.

**4.** In this scenario of rising NPAs in SHG portfolio, this study conducted across 11 districts from six states, attempts to analyze the causes of NPAs and find possible solutions for containing them. It also aims to study the role of banks and SHPIs in capacity building, credit monitoring and motivation for repayment of loans. The study covered 45 branches, 207 SHGs and 584 members. All the three categories of banks viz., commercial banks, regional rural bank and cooperative banks were covered as part of the study.

**5.** The study has found that the role played by SHPIs and banks in handholding, monitoring and follow-up was not as per the expectation. The study found that the average time between the formation of SHGs and opening of SB account for the sample was eight months. This shows a delay in the process of the opening of the saving bank account as this process is normally expected to be completed within a period of one month. Further, the average time between the opening of SB account and credit linkage was found to be 22 months. This significant gap reduces the attractiveness of the SHG loan for the members.

**6.** It has been observed that most of the SHGs have received only one time lending and the repeat dosage of credit was not a common phenomenon. Only 35% of the groups have received a second loan and only 10% have received a third loan. Further, it was observed in many SHGs visited that they were not conducting meetings regularly, books of records were not maintained properly, but were still

provided loan by the banks. 73% of the SHGs visited have not updated the books of accounts and 69% of the SHGs have not witnessed any rotation of the office bearers.

**7.** It was found that banks were not playing an active role in monitoring and handholding the SHGs as they were found to be severely constrained due to inadequate staff and work pressure in their branches. Branches which had BCs used to connect with the credit linked SHGs on a few more occasions than those which did not have BCs. Out of the 207 SHGs studied, the branch officials did not visit 72 SHGs. Further, 131 members conveyed that the bank has not reminded them to repay the loans.

**8.** Handholding and follow-up by SHPIs plays a crucial role in the performance of SHGs. However, around 65% of the SHGs covered as part of the study were found to be dormant, signaling the failure of the SHPIs in extending the handholding support. The awareness level of the members was found to be low with regard to due date, amount due and repayment installment. Around 62%, 41% and 46% of the members were not aware about the due date, amount due and the repayment installment respectively.

**9.** Assessment in terms of support services like training, collective economic activity and federating, shows that only 44% of the SHGs have undergone some sort of training, only 22% of the SHGs have initiated a group economic activity, only 24% of the SHGs were members of a federation and only 16% have received financial support from the federations. This shows the lack of focus on financial literacy, livelihood promotion, work done on strengthening federations and market linkages. The focus is more in terms of providing saving and credit linkages only.

**10.** The study attempted to determine the level of NPAs in the sample branches. The average NPA level of the sample branches was found to be 53.03%, which is significantly higher than the average All India NPA level of 6.12% as on March 31, 2018. SGSY (26.75%) has the major share in the NPAs in the sample branches. NRLM with less than All India NPA level (5.58%) across branches in districts which were NPA affected, shows that so far NRLM is doing comparatively better in terms of recovery of the loans sanctioned. The study results show that other Government sponsored programs like ICDS, PVP and MT are also the major contributors in the NPAs (19.75%).

**11.** For the 16 commercial bank branches covered as part of the study for which the NPA data is available, the average NPA level was 32.84%. The average NPA level among the 13 RRB branches was 61.87%, which is almost double that of commercial bank branches. The average NPA for the 7 DCCB branches was 82.80%, which is worst among the three category of banks.

**12.** In terms of the nature of loan facility, bankers were more comfortable in extending the CC limits vis-à-vis term loans as NPA regulations for cash credit accounts provide them more leeway in comparison to term loan accounts. For branches which were offering only CC limits, NPAs in SHG lending was 49.49% and for branches which were offering only term loans, NPAs in SHG lending was 72.39%. This shows a huge difference in NPA levels in terms of the nature of loan facility.

**13.** The study has also compared the repayment performance of the bank loans and the internal loans and the repayment performance of the bank loans and the MFI loans. While 52% of the members who availed bank loans have not repaid, only 22% of the members with internal loans have not repaid. 59% of the SHGs had 100% members who had repaid on their internal loans. It shows that SHGs have different attitude towards payment of bank loans than internal loans. Out of the 123 members who availed the MFI loans, only 8.94% did not repay, which is much less than 52% of the members who have not repaid on bank loans.

**14.** As far as the reasons for high level of NPAs were concerned, they can be divided into five categories viz., member level, group level, SHPI level, bank level and external reasons. Some of the member level reasons were poor repayment capacity of the members due to no regular source of income in the absence of income generating activity, occurrence of events like ill-health, death in family, crop failure etc. The low ticket size of the loan has also not resulted in any significant improvement in the condition of the household. Further, in some of the cases migration of the members to urban areas was also seen as a reason for non-repayment.

**15.** At the group level, negative peer pressure, misappropriation of funds by office bearers and poor group formation mainly to avail subsidy and low cost funds were the major reasons. At the SHPI level, poor monitoring of groups, poor handholding of groups resulting into low awareness level of the clients, misappropriation of funds by SHPI staff and the target oriented approach, particularly in NRLM leading to issuing of loans without the requirement of members were some of the reasons encountered.

**16.** At the bank level, poor monitoring of loans due to high work pressure and no dedicated manpower for SHG lending and perception of the branch staff that SHG NPAs are comparatively less in amount and hence not according them due importance and priority were witnessed. In addition, it was found that banks were not following the basic appraisal system of SHG lending. Grading was either not done or not done properly. It was observed that those SHGs which were not following the panchsutras were provided loans by banks. In certain cases with waiting period of loan ranging upto one year, SHGs defaulted wilfully so as to express their anger against the delay in disbursement.

**17.** Last but not the least, some of the reasons which were external to the SBLP too affected the repayment. Multiple lending by MFIs with no availability of common credit data, multiple SBLP programs running in the same area like NRLM and WSHG<sup>1</sup> in Mirzapur, political promises particularly during elections and the client perception of the loan waiver are some of the external reasons.

**18.** The study has found that demonetization has moderately affected the repayment of the bank loan by SHGs. Only 23% of the members have faced difficulty in repayment due to sudden withdrawal of the specified bank notes. However, the impact has been more pronounced in terms of liquidity, wages and employment opportunities. Around 43%, 43% and 49% of the members felt that demonetization has affected the liquidity, wages and the employment opportunities respectively. Demonetization also did have an impact in terms of fresh loan issuance to SHG members for around 2-3 months.

<sup>1</sup> Women Self-Help Group (WSHG) programme implemented by NABARD.

**19.** The study has also come up with recommendations for certain measures for containing NPAs in SHGs. With increasing loan sizes, the group mechanism seems to be not working or in fact working to the disadvantage of the members. Policymakers may consider selectively moving beyond group lending and may offer individual loans through groups as done by the MFIs. This will take care of group related repayment problems like negative peer pressure, mis-appropriation of funds by office bearers etc.

**20.** Further, mentoring of the groups can be done by providing them training for starting the livelihood activities and also providing them market linkages for the products/services so that they use the funds for income generating activity and have no problem in paying back the loan amount. In addition, providing group health and life insurance clubbed with loan at low cost will help as members spend a significant portion of the loan on events like ill-health, death in family etc.

**21.** The study also stressed on ensuring that the hand-holding support of SHPI is strong and continues beyond a limited time period. It has been found that once promotional assistance/donor support ends, the SHPIs handholding support to SHGs reduces substantially. Around 4-5 years are required to strengthen a SHG so grants from NABARD should be for longer duration.

**22.** Further it needs to be ensured that grading of SHGs needs to be done properly and loans should be issued only if it is found suitable for lending. Loans issued by MFIs should also be accounted for while issuing loans to SHGs. It has also been suggested that banks may consider the concept of corporate BCs for monitoring, follow-up and recovery of loans given to SHGs. The role of the bank may be restricted to sanctioning of the loan. Such an arrangement may result in regular follow-up and result in lower NPAs given the fact that banks are under-staffed, have different products to handle and no dedicated manpower for SHG lending.

**23.** Last but not the least, quantum of loan should be high as it is a major limiting factor and focus should be on providing customer satisfaction which is the need of the hour. With low ticket size loans the incremental income is not above subsistence and income generating capacity has not gone up to high level. Banks need to be sensitized to improve their quantum of multiple dozens of credit, for well performing SHGs. Banks should back up SHGs with quick renewal of loan as well as increase in quantum of the same, based on corpus fund.

