The Fragile SHG-Bank Lending Linkage: Some Empirical Evidence for Tamil Nadu

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Microfinance programs are often characterized by progressive lending. A typical borrower receives at first small amounts that increase further with proper repayment performance. This paper attempts to investigate the features of progressive lending and Bank-Self-Help Group (SHG) linkage for a sample of 204 women SHGs in Tamil Nadu. The paired 't' tests reveal that the mean loan cycles across a few blocks are significantly different over loan 1 and loan 2 and loan 1 and loan 4. The empirical analysis reveals that the groups witnessed a decline in their loan sizes over loan cycles. This indicates that the progressive lending to SHGs has declined. Although the loan amount has been increasing over the cycle, the number of loan borrowers was declining. The regression results indicate that factors such as age of the SHG, per capita member credit, and type of bank linkage determine the extent of progressive lending and borrowing in SHGs.

Introduction

The Self-Help Group-Bank Linkage Program (SHGBLP) initiative by the National Bank for Agriculture and Rural Development (NABARD) has contributed significantly towards financial inclusion in India. The SHG-Bank Linkage Program and the Microfinance Institutions (MFI)-Bank Linkage Program have been accepted as effective tools towards inclusive growth for extending various financial services to hitherto excluded categories of poor and rural households. As on March 31, 2012, there were more than 7.96 million savings-linked SHGs and more than 1.15 million credit-linked SHGs with a savings amount of ₹65.5 bn. The phenomenal outreach of the program has enabled an estimated 103 million families to gain access to microfinance from the formal banking system (Acharya and Parida, 2013). Although the SHG model has been around for two decades now and has been immensely successful in bringing many sections of the society within the formal banking system, there still remain many problems with the model. A large number of SHGs fail in regularly performing their most basic functions—meeting regularly, saving money, lending internally, and borrowing from banks. It is also observed that the success of the SHG linkage program has been constrained by rising Non-Performing

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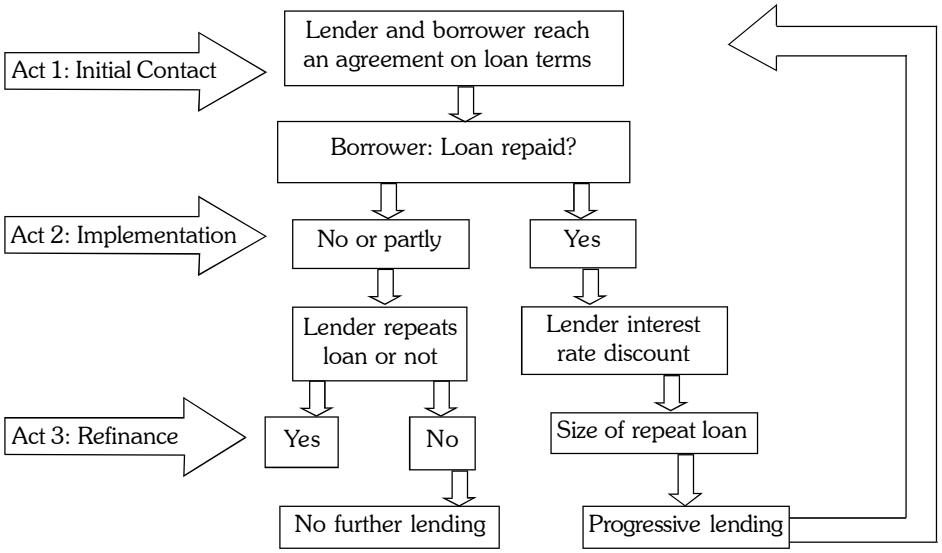
Assets (NPAs). As per the NABARD data, the NPAs of banks against loans to SHGs have gone up from ₹422.93 cr (2.9% of NPAs to O/S SHG loans) in 2007-08 (first time banks reported to NABARD) to ₹1,474 cr (4.7% of NPAs) in 2010-11 and further deteriorated to ₹2,213 cr (6.1% of NPAs) in 2011-12. The year-over-year growth in NPAs is much higher than the growth of loans to SHGs. A ranking of states in terms of lowest NPAs to highest NPAs (against bank loans to SHGs) places Tamil Nadu in the 17th position (Acharya and Parida, 2013).

Some Preliminaries in Microfinance: Group lending is characterized by a small group of individuals jointly liable for individual loans where future loans are sanctioned once the current loans are repaid. Continuation of long-term lending is possible with the help of regular-repayment schedules and use of collaterals (Morduch, 1999). In practice, policy makers have discussed about micro loans and group lending. More recently, however, there has been a shift in focus, away from group lending and borrowing aspects of microfinance loans. These include, for instance, focus on individual lender-borrower contracts that characterize the core component of micro-lending programs and progressive lending is the promise of larger loan sizes on successful repayment of outstanding loans. Consequently, along with group pressure, dynamic incentives like subsidies result in progressive lending (Besley and Coate, 1995; Morduch, 1999; and Armendariz de Aghion and Morduch, 2004).

Progressive lending is defined as the total amount of loan divided by number of loan cycles considered. Typically, progressive lending takes place starting with small loans to the borrowers of SHG-bank linkage model and upon satisfactory repayment performance. According to Hulme and Mosley (1996), "progressive lending is a practice of increasing the credit limit of borrowers by a proportion dependent on their previous repayment record". They also discuss progressive lending in a game theoretic framework where they posit a relationship between utility maximizing lender and borrower engaged in a game in three stages, i.e., initial agreement, implementation and decision on terms of granting repeat finance (see Figure 1). In the first stage (Act 1), the lender sanctions a loan of standard size of X at a minimum level of interest rate r. In stage two (Act 2), the borrower receives a return on the project financed by the loan and repays a proportion of this loan. In case, the borrower does not make full repayment, the banker might punish by rejecting repeat loan. In the last stage, in Act 3, the lender provides a loan even if the borrower does not repay. The reason behind such lending behavior is the lender's strategy of getting into the borrower's arrears to pay back the arrears on the previous loan. This process of progressive lending increases the opportunity cost of non-repayment and discourages further strategic default.

A successful SHG-based lending program should result in progressive lending and borrowing as observed in other microfinance programs. In view of the increasing NPAs stated above, the present study revisits the debate with the following objectives: (1) To explore the changing nature and features of progressive lending and borrowing in three select districts of Tamil Nadu covering 204 SHGs; and (2) To find out the possible factors determining the progressive lending and borrowing in these districts.

Figure 1: Incentive to Repay and Progressive Lending: The Game Theoretic Approach



Source: Hulme and Mosley (1996, p. 61)

Literature Review

Karmakar (1999) has analyzed progressive lending in Keonjhar district of Orissa and found that SHGs that get low level of loans make low savings. The study emphasized on bank linkage and lending activity of SHGs. They also found that the amounts borrowed by SHGs had favorable effect on employment and income generation. Reddy (2005) and Nagaraja and Naidu (2006) have found positive performance of SHGBLP on the financial performance of banks and on the regularity of banking habits. A study by Shylendra (2004) also found that loans increased over different cycles in a progressive manner if the repayment was regular. Kumar (2012) analyzed the progressive lending pattern and its determinants for 106 SHGs in Karnataka. The study found that progressive lending contributed to improving loan size across regions and groups. Thuo and Juma (2014) examined how loan defaults in Microfinance Institutions (MFIs) were minimized by the use of group lending in Kenya. The findings reported that group administration influenced management of loan default rates. In general, group administration was conspicuously strong and positively related to loan default rate management. As far as the utilization of loan is concerned, Kumaran (1997), in his study on Andhra Pradesh, found that 29% of the borrowing loan amount was utilized for small level business, followed by 21% for traditional agricultural and allied purposes, 23% for consumption, 12% for old debt repayment and only 8% for health purposes. Reddy (2005) concluded that a maximum of 30% of loan amount was used for productive and domestic assets, 24% was utilized for food consumption and 22% for agriculture and allied animal husbandry purposes. Puhazhendhi's (2000) work based on Mahalir Suya Udavi Kulu SHG, Tamil Nadu, found that a majority of SHGs having bank linkage had proper circulation of loan amount in the SHGs. About 45% of the loans were

utilized for the income generation purpose. In another paper, Sooryamoorthy (2005) found that 61% of the members were using the loan to help other family members' needs. About 69% of these borrowers handed over their first loan to their husbands. This study also found that the first loan taken by 42.4% borrowers was used for consumption or old debt repayment, followed by 15% of loan for production purpose and 16% of loan for immediate domestic needs.

Data and Methodology

The data was collected through a survey of 204 women SHGs consisting of 600 members in 12 blocks in three districts (Kancheepuram, Ramanathapuram and Madurai) of Tamil Nadu in the year 2012-13. The data on different loan cycles and lending was for the period 1991-2013. A random sampling method was used in the selection of study units (SHGs and its members). Accordingly, at the first stage, the operational areas of Kancheepuram, Ramanathapuram and Madurai districts' Panchayat Level Federation (PLF) were selected. The selection of the study area was done keeping in view that it should be satisfying two criteria: (1) covering (formed/ linked to the PLF) maximum number of SHGs and rural poor households; and (2) covering maximum number of maturity groups in these districts. The second stage of sampling constituted the selection of blocks. There are 12 blocks, viz., Kancheepuram, Walajabad, St. Thomas Mount, Kattankulathur, Ramanathapuram, Paramakudi, Rameswaram, Thiruvadanai, Chellampatti, Thirumangalam, Usilampatti and Thiruparankundram. Operational areas in these blocks were selected by using the same criteria that was used for the selection of districts. A pilot study was conducted to discuss the issues with SHG members and other stakeholders based on which the final questionnaire was prepared to elicit information on progressive lending issues. Since the data was collected from the available records of SHGs, groups formed during the period 1991-2010 were taken. Different groups were formed in different years. Table 1 presents the number of groups formed in four different periods, i.e., 1991-95, 1996-2000, 2001-2005 and 2006-2010. Some groups have not taken repeat loans. The analysis was carried out using data for the whole period of 1991-2013 over different loan cycles. Since the data was collected from the records kept by the SHGs and the analysis was in terms of loan cycles, the time series was not continuous. Hence, we have analyzed the loan cycles in nominal terms only. The loan cycles are Loan 1 (1992-2013), Loan 2 (1998-2013), Loan 3 (2003-2013) and Loan 4 (2007-2013).

Table 1: Number of Groups Formed During 1991-2010

Year of Formation	Selected Districts		
	Kancheepuram Members (No. of SHGs)	Ramanathapuram Members (No. of SHGs)	Madurai Members (No. of SHGs)
1991-1995	6 (2)	12 (4)	0 (0)
1996-2000	36 (12)	27 (9)	20 (7)
2001-2005	51 (17)	58 (19)	44 (15)
2006-2010	107 (36)	103 (35)	136 (45)
Total	**200 (67)**	**200 (67)**	**200 (67)**

Table 2 presents the number of SHGs that received loan over different loan cycles and those who did not get any loan. The figures in parentheses indicate the number of SHGs that did not get loans. It is observed that the number of SHGs getting loans over four loan cycles has declined in all the blocks. There is a decline in the number of groups being sanctioned new loans in the loan cycle. Out of a total of 204 SHGs, only 168 got a second loan whereas 70 got a third loan and 15 got the fourth loan.

Table 2: Number of SHGs That Received Loans Over Different Loan Cycles

Blocks	Loan 1	Loan 2	Loan 3	Loan 4
Kancheepuram	17 (0)	12 (5)	7 (10)	4 (13)
Walajabad	17 (0)	13 (4)	8 (9)	3 (14)
Kattankulathur	17 (0)	15 (2)	8 (9)	4 (13)
St.Thomas Mount	17 (0)	14 (3)	4 (13)	1 (16)
Ramanathapuram	17 (0)	12 (5)	3 (14)	0 (17)
Paramakudi	17 (0)	15 (2)	5 (12)	1 (16)
Rameswaram	17 (0)	16 (1)	9 (8)	0 (17)
Thiruvadanai	17 (0)	15 (2)	7 (10)	0 (17)
Chellampatti	17 (0)	17 (0)	8 (9)	1 (16)
Thirumangalam	17 (0)	15 (2)	5 (12)	0 (17)
Usilampatti	17 (0)	14 (3)	6 (11)	1 (16)
Thiruparankundram	17 (0)	10 (7)	0 (17)	0 (17)
Total	**204 (0)**	**168 (36)**	**70 (134)**	**15 (189)**

It is also evident from Table 2 that there is substantial decline in the number of groups during the third and fourth loan cycles. As observed in the field from interviews with SHG members, the consistent decline in the number of SHGs availing loans over the loan cycle is largely due to the decreased support of NGOs in promoting different activities of the SHGs like business development, training, and credit plus services like insurance, etc., in the areas of the present study. It is hypothesized that in the event of proper business and enterprise activities by the SHGs, the repayment will be regular and such repayment will result in progressive lending over the loan cycles. The study period also includes declaration of Malegam Committee recommendations in 2011 that possibly would have affected the whole microfinance industry preceded by the Andhra Pradesh crisis. These recommendations sent different signals to stakeholders both concerning the demand and supply sides. The data clearly shows (see Table 3) a decline in lending post-Malegam declarations.

Table 3: Pre- and Post-Malegam Lending Pattern
(Individual borrower's loan sanctioned during pre- and post-Malegam periods at block level)

Blocks	Loan 1#			Loan 2#			Loan 3#			Loan 4#		
	A	B	C	A	B	C	A	B	C	A	B	C
Kancheepuram	32	18	0	18	17	15	12	9	29	0	12	38
Walajabad	41	9	0	24	14	12	9	15	26	3	6	41
Kattankulathur	33	17	0	18	27	5	15	9	26	0	12	38
St.Thomas Mount	38	12	0	15	26	9	3	9	38	3	0	47
Ramanathapuram	38	12	0	14	21	15	3	6	41	0	0	50
Paramakudi	35	15	0	9	35	6	9	6	35	0	3	47
Rameswaram	50	0	0	42	5	3	24	3	23	0	0	50
Thiruvadanai	48	2	0	21	15	14	15	6	29	0	0	50
Chellampatti	41	9	0	35	15	0	18	6	26	0	3	47
Thirumangalam	47	3	0	29	15	6	11	3	36	0	0	50
Usilampatti	38	12	0	14	27	9	6	12	32	3	0	47
Thiruparankundram	47	3	0	11	18	21	0	0	50	0	0	50
Total	**488**	**112**	**0**	**250**	**235**	**115**	**125**	**84**	**391**	**9**	**36**	**555**

Note: A = No. of individuals sanctioned loan in pre-Malegam period.
B = No. of individuals sanctioned loan in post-Malegam period.
C = No. of individuals not sanctioned loan in pre- and post-Malegam periods.
# = Loan borrowing period: Loan 1 (1992-2013), Loan 2 (1998-2013), Loan 3 (2003-2013) and Loan 4 (2007-2013).

Results and Discussion

Pattern of Progressive Lending Across Blocks

Table 4 presents the pattern of progressive lending across all blocks. Here, it may be noted that progressive lending is defined as the promise of a new/additional loan if the previous loan is repaid successfully by the borrower i.e., the SHG. The second loan is extended to the SHG on repayment of the first loan. In other words, a second (new) loan to the borrower depends on effective repayment of the first (previous) loan.

Though, the number of loans sanctioned to the SHGs declined for the groups in the loan cycle, the average loan amount grew from ₹66,312.75 for the first loan to ₹113,865.94 in the second loan. There was a decline in the average loan in the third and fourth phases of the loan cycle. With such decline in loans over the cycle, the 'within group' borrowing by individual members has also declined. The field observations revealed that this decline in the last two terms of the loan cycle might be due to both demand and supply side factors. The SHGs did not approach for more loans and banks were not enthusiastic in advancing new loans towards the end of the cycle.

Table 4: Progressive Lending (₹) in SHGs of Tamil Nadu					
Blocks	**Descriptive Statistics**	**Loan 1**	**Loan 2**	**Loan 3**	**Loan 4**
Kancheepuram	Mean	57,912	70,882	48,824	58,824
	Mean of PCC	4,249	5,154	3,427	2,424
Walajabad	Mean	118,719	166,563	191,250	150,000
	Mean of PCC	4,527	7,010	8,997	4,638
St.Thomas Mount	Mean	119,667	236,910	193,333	102,133
	Mean of PCC	17,419	14,501	12,156	6,887
Kattankulatur	Mean	41,563	127,500	95,313	12,500
	Mean of PCC	5,822	9,162	5,960	784
Ramanathapuram	Mean	77,813	72,750	56,250	0
	Mean of PCC	36,878	74,220	10,294	0
Paramakudi	Mean	54,724	70,176	45,588	17,647
	Mean of PCC	5,847	9,239	3,039	1,357
Rameshwaram	Mean	85,588	153,529	109,118	0
	Mean of PCC	5,387	8,986	7,313	0
Thiruvadanai	Mean	52,647	102,941	60,000	0
	Mean of PCC	3,916	6,798	3,849	0
Chellampatti	Mean	57,706	122,824	151,765	23,529
	Mean of PCC	4,168	10,757	9,859	196
Thirumangalam	Mean	56,688	129,688	55,000	0
	Mean of PCC	3,733	10,612	2,745	0
Usilampatti	Mean	59,125	113,750	90,625	62,500
	Mean of PCC	4,900	9,081	20,057	4,525
Thiruparamkundram	Mean	74,313	80,000	0	0
	Mean of PCC	5,841	6,150	0	0
Total	**Mean**	**66,313**	**113,866**	**83,946**	**28,588**
	Mean of PCC	**8,557**	**14,306**	**7,308**	**1,734**

Loan Mean Difference and Paired *t*-Tests

To find out the differences in loans sanctioned by banks to SHGs over different loan cycles across different blocks, a paired *t*-test on the means of loans was conducted. A paired *t*-test considers the difference between paired values in two samples, i.e., loan 1 and loan 2, loan 1 and loan 3, loan 1 and loan 4, and produces the *t*-value. The null and alternative hypotheses thus framed are:

H_0: *There is no difference between the mean loans over two cycles in the two periods of lending.*

H_1: *There is a difference between the mean loans over two cycles in the two periods of lending.*

Here, one attempts to see if there is any significant difference between average loans lent to groups in different cycles. The results are presented in Table 5.

From Table 5, it is evident that among the blocks of Ramanathapuram district, Paramakudi, Rameswaram, and Thiruvadanai blocks yield significant mean differences in loans over certain loan cycles. Such differences are over loan cycles loan 1-loan 2 and loan 1-loan 4. In Madurai district, most of the blocks show significant mean differences over loan cycles loan 1-loan 2, loan 1-loan 3 and loan 1-loan 4. The field observations attribute the reasons underlying differences across districts mentioned above to certain districts having SHGs with small businesses performing well and taking repeat loans. The overall evidence is thus mixed showing the best progressive lending features in Madurai district, followed by Ramanathapuram. The field observations also indicate that in Madurai district, the NGOs are more active in monitoring the SHG activities and training the members for conducting small businesses.

Determinants of Progressive Lending: Regression Evidence

The theories developed using ideas of sequential stage of group development identify definite phases in the life cycle of the group. Tuckman (1965) mentions that each group passes through the distinct stages of development such as forming, storming, norming, and performing. Therefore, the age or the level of maturity of the group ought to play a dominant role in determining the progressive lending of the groups. To find out the factors determining progressive lending from bank to SHGs and their relative importance a log-linear regression model is estimated by the OLS method, following Kumar (2012). The description of the variables used and their expected signs in the regression are presented in Table 6. The choice of variables is also driven by the field observations. For instance, the type of bank linkage is captured by the bank dummies as defined in Table 6.

The dependent variable in this model is Average Loan Amount (ALA), i.e., total amount of loan divided by the number of loan cycles. The independent variables are: age of the member (calculated from the year of joining SHG), size of the group (group's total number of members), and PCC and PCS. The SHG that survives for a long period with uninterrupted savings should make the group to increase its cycle or size of loans. It may be expected that compared to younger SHGs, i.e., age 1, older SHGs, i.e., age 2 and age 3 groups are likely to positively influence progressive lending of the SHGs. The reason given by Kumar (2012) is that older SHGs might have continued savings leading to an increase in cycles of loans or size of loans. But this study was in the context of groups with a not-for-profit MFI. In the present study, the context is SHGs with bank linkage. The PCC accessed by the member is measured as an independent variable of this model. This variable indicates how well the credit is being delivered to the members in the group. The higher the PCC, the better is the positive influence on progressive lending of the SHG. At present, women in SHG movement in Tamil Nadu mostly depend on bank linkages for getting credit and the group's size is very crucial for SHG movement. To capture the effects of type of bank linkage, age of SHG and size of SHG appropriate dummy variables have been used. In the sample under consideration, SHG-bank linkage is of three types,

Table 5: Test for the Difference in Mean Across the Loan Cycles

Loan Cycles (pairs)	Mean	*t*-Statistic (*p*-Value)	Mean	*t*-Statistic (*p*-Value)	Mean	*t*-Statistic (*p*-Value)	Mean	*t*-Statistic (*p*-Value)
(a) Kancheepuram								
	Kancheepuram		**Walajabad**		**St. Thomas Mount**		**Kattankulathur**	
Loan 1-Loan 2	904.1688	0.727 (0.4777)	2483.238	1.2658 (0.2237)	–2917.9	–0.3013 (0.7670)	3339.383	1.003 (0.3308)
Loan 1-Loan 3	–822.878	–0.5334 (0.6011)	4470.415	1.2803 (0.2187)	–5262.42	–0.458 (0.6531)	137.45	0.0311 (0.9756)
Loan 1-Loan 4	–1,825.09	–1.1599 (0.2631)	111.4501	0.0331 (0.9740)	–10531.8	–0.9424 (0.3600)	–5037.98	–1.7061 (0.1073)
(b) Ramanathapuram								
	Ramanathapuram		**Paramakudi**		**Rameswaram**		**Thiruvadanai**	
Loan 1-Loan 2	37,341.92	1.2767 (0.2199)	3,391.653	1.4062 (0.1788)	35,98.872	1.9112 (0.0741)*	2,881.771	1.4824 (0.1577)
Loan 1-Loan 3	–26,584.4	–0.8118 (0.4288)	–2,808.45	–1.7608 (0.0974)*	1,926.37	0.9709 (0.3461)	–67.6353	–0.0435 (0.9658)
Loan 1-Loan 4	–36,878.5	–1.1864 (0.2528)	–4,489.54	–1.6999 (0.1085)	–5,386.97	–5.1289 (0.0001)***	–3,916.48	–11.2675 (0.0000)***

Table 5 (Cont.)

Loan Cycles (pairs)	Mean	*t*-Statistic (*p*-Value)	Mean	*t*-Statistic (*p*-Value)	Mean	*t*-Statistic (*p*-Value)	Mean	*t*-Statistic (*p*-Value)
(c) Madurai								
	Chellampatti		**Thirumangalam**		**Usilampatti**		**Thiruparamkund**	
Loan 1-Loan 2	6,588.776	2.2854 (0.0363)**	6,878.6	3.3463 (0.0041)***	4,180.988	2.688 (0.0162)**	309.4764	0.1318 (0.8968)
Loan 1-Loan 3	5,690.216	2.0048 (0.0622)*	–988.206	–0.6577 (0.5201)	15,156.86	1.0372 (0.3151)	–5,840.8	–5.0522 (0.0001)***
Loan 1-Loan 4	–3,972.3	–13.9833 (0.0000)***	–3,733.3	–14.6792 (0.0000)***	–374.806	–0.0798 (0.9374)	–5,840.8	–5.0522 (0.0001)***

Total (a+b+c)

	Mean	*t*-Statistic (*p*-Value)
Loan 1-Loan 2	5748.412	2.1662 (0.0315)**
Loan 1-Loan 3	–1249.453	–0.3931 (0.6947)
Loan 1-Loan 4	–6823.004	–2.4180 (0.0165)**

Note: ***, **, * denotes 1%, 5% and 10% level of significance, respectively.

Table 6: Description of Variables	
Variable	**Description**
Commercial Bank	SHGs linked to commercial bank = 1, 0 otherwise
Cooperative Bank	SHGs linked to cooperative bank = 1, 0 otherwise
Age 1	SHGs of age of 3 to 5 years = 1, 0 otherwise
Age 2	SHGs of age of 5 to 7 years = 1, 0 otherwise
Age 3	SHGs of age above 7 years = 1, 0 otherwise
Size 1	SHGs having members 1 to 14 in group = 1, 0 otherwise
Size 2	SHGs having members 15 to 19 in group = 1, 0 otherwise
lpc	Log of per capita credit accessed
lps	Log of per capita savings

i.e., commercial bank, cooperative bank and regional rural bank. Hence, two dummy variables are used as given in Table 6. Similarly, there are four categories of ages, i.e., 0-1 year, 3-5 years, 5-7 years, and above 7 years; and the three variables Age 1, Age 2 and Age 3 are used for the ages of SHGs 3-5 years, 5-7 years and above 7 years, respectively. With regard to size of SHGs in terms of members, two dummies are used for the three categories, namely, Size 1 for members 1-14 and Size 2 for members 15-19. Bigger SHGs are subject to information asymmetries and smaller groups do not break even. Therefore, 15 to 19 members in a SHG are supposed to perform better.

The estimated equation is as follows:

$$ALA = \beta_1 + \beta_2\, Commercial\ bank + \beta_3\, Cooperative\ bank + \beta_4\, Age\ 1 + \beta_5\, Age\ 2 + \beta_6\, Age\ 3 + \beta_7\, Size\ 1 + \beta_8\, Size\ 2 + \beta_9\, lpc + \beta_{10}\, lps + u$$

The type of bank linkage variable, though positive, is not significant in any of the two cases. The higher aged groups are negatively associated with progressive lending. Group size though positive is not statistically significant. Per capita credit is positively associated with progressive lending and is also statistically significant (see Table 7).

Table 7: Determinant of Progressive Lending – OLS Estimates	
Independent Variable	**ALA (Dependent Variable)**
Commercial Bank	0.003 (0.05)
Cooperative Bank	0.039 (0.52)
Age 1	–0.223 (1.53)
Age 2	–0.337 (2.30)*
Age 3	–0.512 (3.52)**
Size 1	0.028 (0.37)
Size 2	0.004 (0.06)
lpc	0.763 (39.13)**
lps	–0.019 (0.66)
Constant	2.049 (6.67)**
R^2	0.59
N	204
Note: * $p < 0.05$; ** $p < 0.01$; and computed *t*-values in parentheses.	

Conclusion

The empirical analysis reveals that the groups witnessed a progressive decline in their loan sizes over different loan cycles. This indicates that progressive lending is declining. Although the loan amount has been increasing over the cycle, the number of borrowers was declining. The empirical findings of this study when corroborated with field observations ascertain that groups with proper banking linkage with support of skill development are sustainable. The sample of SHGs is purely based on PLF. Observations from the field indicate that new public work programs like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) might have caused a decline in motivation on furthering SHG activities in the study area. The study period also coincides with the post-Malegam scepticism that influenced the banking industry in slowing down the lending process. The repayment from SHGs slowed down which might have also affected the progressive lending features ideally expected in such microfinance programs.

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