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## **Factors Influencing Group Repayment Performance in Haryana: Application of Tobit Model<sup>§</sup>**

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### **Abstract**

Microfinance through self-help groups (SHGs) has evolved as a mechanism for social inclusion of the rural poor. This paper has identified the factors that influence the repayment performance of the SHGs in India, by conducting a study on a sample of 120 SHG members from 60 dairy SHGs and 60 non-members selected from the state of Haryana. Results of Tobit regression have shown that peer monitoring, group size and female percentage have positive influence, whereas homogeneity and loan amount have negative influence on the repayment performance of the SHGs. The study has concluded that if the essence of self-help and cooperation is fostered and monitored properly, the poor can also repay.

**Key words:** Microfinance, Loan repayment, Delinquency rate, Haryana, Tobit model

**JEL Classification:** Q13, Q14

### **Introduction**

The absence of collateral securities and guarantor for the poor is the major impediment to access credit from the formal financial organizations. Banks cannot ascertain applicant's risk type due to inability of the marginal people to prove their creditworthiness. Moreover, the poverty alleviation programs launched by the governments have not been successful in achieving their targets. The beneficiaries perceive these loans as 'grant' so they neither feel the necessity nor the responsibility of repaying the loans. The bankers concentrate only on disbursement of loans which leads to poor recovery and the schemes becomes non-viable (Rath, 1985; Rao *et al.*, 1990). But microfinance

through self-help groups (SHGs) has proved this notion wrong and has shown that even the poor are bankable. About 80-95 per cent recovery rate has been reported by many investigators from different parts of India (Chauhan and Verma, 2001; Madheswaran and Dharmadhikary, 2001; Puhazhendi and Badatya, 2002). It is a community-based participatory approach where the onus of repayment of external loan is not on individual borrowers but on the group as a whole.

This joint liability mechanism tackles three major problems which affect the repayment performance of the SHGs and is common to individual lending to the poor. These are: (i) problem of adverse selection, i.e. the risk of a borrower is ascertained as members are self and co-selected (Besley, 1994; Yaron, 1994), (ii) problem of moral hazards, i.e. it makes sure of proper utilization of loan so that a borrower is in a position to repay within the due date, and (iii) problem of enforcement, i.e. pressure mechanism is operative on willful defaulters (Verhelle and Berlage, 2003). The

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joint liability groups can handle these three problems in a better and cost-effective manner due to high informational flow (on each other's assets, capabilities and character traits) between the group members as they belong to the same community or locality and have potential to exert pressure on group members (Ghatak and Guinnane, 1999). Hence, microfinance through SHGs has evolved as an accepted institutional framework to provide financial services to the poor in the absence of any security.

Now the question arises what are the factors that enhance or limit the repayment performance of the SHGs? This paper has investigated the factors that determine the repayment performance of the dairy SHGs in India for a better understanding of the factors so that they could be manipulated accordingly to enhance the repayment performance.

The groups use all possible means to ensure on-time repayment. A better repayment performance is expected from groups which form their own SHG (Sharma and Zeller, 1997), but contrary to *a-priori* expectation, in some cases it is found that self-selection raises the probability of arrears or does not affect the repayment rate of the groups (Zeller, 1998; Verhelle and Berlage, 2003; Von, 2004). Many researchers have validated the success of peer monitoring in relation to better repayment performance (Hossain, 1988; Siamwalla *et al.*, 1990; Goetz and Sen Gupta, 1996; Manimekalai, 2004). But, the high frequency of meetings does not necessarily always lead to high level of mutual control (Von, 2004). Diverse findings have surfaced in relation to dynamic incentive of promised access to increasingly larger outside credit too (Data and Raman, 2001; Verhelle and Berlage, 2003; Von, 2004).

Many of the key factors of joint-liability mechanism have not shown a clear-cut impact on the repayment performance of the groups. Some of the empirical results do not confirm the commonly held assumptions. Their influences vary from country to country, depending on the local conditions and cultural peculiarities. As, only a few empirical investigations have been carried out on the influence of different factors in India, this paper has studied the group performance of SHGs and has investigated the influence of different factors on repayment behaviour of the groups.

## Data and Methodology

Primary data on different socio-economic variables were collected from the SHG members and non-

members with the help of pre-tested schedules during the period 2007-08. Secondary data on repayment was collected from the bank documents and loan register maintained by the SHGs.

The state of Haryana was selected purposively mainly due to the existence of a large number of dairy SHGs and lack of extensive empirical studies. The state is subdivided into two agro-climatic zones, viz. Eastern Zone and Western Zone (Ghosh, 1991). Out of two agro-climatic zones, Western Zone was selected purposively due to the existence of a higher number of SHGs. The districts of Fatehabad and Mewat were randomly selected from the Western Zone of the state. Bhuna, Fatehabad and Jakhhal were the three developmental blocks selected randomly from the Fatehabad district and Feroze Pur Jhirka, Hathin and Nuh were selected randomly from the Mewat district. From these blocks, 30 SHGs which had completed at least two years since inception and had received dairy loans, were selected randomly from each district; hence, a pre-determined sample of 60 SHGs was drawn from the Western Zone of the state. Two members were selected randomly from each of the selected dairy SHGs. Thus, 60 members from a district and a total of 120 members from the Western Zone were selected. Individuals who had received loans for dairy farming were selected as individual members. Sixty non-members were selected in the ratio of 1:2 (non-member: member) as a control group. Individuals who were not members of any SHG and were from the same socio-economic status (as the members) with at least having one lactating animal were selected as non-members.

## Analytical Framework: Tobit Model

The variable delinquency rate (DELQR) was used as a regressand in the model (Sharma and Zeller, 1997). DELQR = 0 implied complete repayment in time, whereas DELQR=1 implied complete delinquency. The function for delinquency rate was defined as per Equation (1):

$$DELQR = f(LAMNT, X) \quad \dots(1)$$

where, *LAMNT* is the amount of loan and *X* is the vector of different group and community variables. This function is defined for  $LAMNT > 0$ , so, the property of the function is:

$$\lim_{LAMNT \rightarrow 0} DEFAULT = 0$$

This is a reasonable assumption, since defaults on small loans are likely to be zero. Here, the dependent variable is truncated at zero when the group repays fully, the relation is specified as Equation (2):

$$DELQR_i^* = \beta_1 + X\beta_2 + \varepsilon_i \quad \dots(2)$$

where,

$$DELQR_i = DELQR_i^* \text{ if } DELQR_i^* > 0$$

$$DELQR_i = 0 \text{ otherwise}$$

$DELQR_i^*$  is a latent variable, observable when it takes a positive value.

Equation (2) is estimated using the maximum likelihood technique (Maddala, 1983).

The explanatory variables included in the empirical model on the basis of theoretical logic and hypotheses are given in Table 1.

## Results and Discussion

### Structure of Sample SHGs

The study on the SHG structure is helpful in understanding the findings and drawing logical conclusions. The sample SHGs in the Fatehabad district were formed by District Rural Development Agency (DRDA) under Swarnjayanti Gram Swarojgar Yojana (SGSY). Under the SGSY the groups receive a revolving fund of ₹ 25000, of which ₹ 10000 is the

subsidy. The sample SHGs in the Mewat district were formed and monitored by non-governmental organizations (NGOs) under the supervision of Mewat Development Agency (MDA). It was found that both types of groups — all-women (group constituted of female members only) and mixed — (group constituted of both male and female members) existed in the study area. Out of the total 60 SHGs, about 33.33 per cent were all-women groups. All-women groups accounted for as high as 53.33 per cent of the total NGO groups, whereas it was 13.33 per cent of the total SHGs in the case of SHGs under SGSY scheme. On an average, each SHG was consisted of 14 members and each group was in existence for more than five years, ranging from the minimum of 24 months to maximum of 74 months.

### Determinants of Repayment Performance

To evaluate the repayment performance of the SHGs, we used the variable delinquency rate which meant failure to meet repayment obligation on the schedule date. The rate of delinquency was computed as the proportion of total loan amount in arrears on the promised date (Sharma and Zeller, 1997). The variable was zero in the case of complete repayment on schedule date and was equal to one in the case of complete delinquency. The influence of different factors on delinquency rate was estimated using the Tobit regression model which is based on maximum likelihood

**Table 1. Measurement and expected signs of explanatory variables used in Tobit model**

Explanatory variables ( $X_i$ )	Measurement	Expected sign
Degree of self-selection (SS)	Scale measuring the SS	-
Homogeneity (HOMO)	Scale measuring the homogeneity of the groups with respect to age, caste, marital status, education, occupation and landholding size	+/-
Peer monitoring (PM)	Frequency of meetings per month	-
Peer pressure (PP)	PP = 1, if group members willing to exert pressure in case of default PP = 0, otherwise	+/-
Peer support (PS)	PS = 1, implies group members help one another in times of need PS = 0, otherwise	-
Dynamic incentive of progressively larger outside credit (DI)	DI = 1, if group belongs to SGSY scheme DI = 0, otherwise	-
Group size (GS)	Number of group members	+
Dependency ratio (DR)	Proportion of children in total household size	+
Female percentage (FP)	Percentage of female members in total group members	-
Loan amount (LAMNT)	Value of loan in ₹	+

**Table 2. Sample means of dependent and explanatory variables used in Tobit model**

Variables	Self-help promoting implementing agency		Overall
	SGSY	NGO	
<b>Dependent</b>			
Delinquency rate (DELQR) (Ratio)	0.305	0.088	0.196
<b>Explanatory</b>			
Degree of self selection (SS) (sum of scores)	0.800	0.600	0.700
Homogeneity (HOMO) (sum of scores)	4.833	3.900	4.366
Peer monitoring (PM) (No.)	9.483	10.783	10.133
Peer pressure (PP) (Dummy)	0.333	0.833	0.583
Peer support (PS) (Dummy)	0.333	0.833	0.583
Dynamic incentive (DI) (Dummy)	1.000	0.000	0.500
Group size (GS) (No.)	12.700	15.266	13.983
Dependency ratio (DR) (Ratio)	0.663	0.634	0.648
Female percentage (FP) (%)	73.029	93.209	83.119
Loan amount (LAMNT) (₹ in million)	0.194	0.219	0.207

technique (Maddala, 1983; Gujarati, 2003). Sample means of dependent and explanatory variables used in Tobit regression are presented in Table 2.

The overall delinquency rate was worked out to be 0.196, which implied that 19.6 per cent of the total loan was in arrears on the due date. Delinquency rate was found to be higher for SHGs under SGSY (0.305) than under NGO groups (0.088), which indicated that NGO groups performed better in comparison to groups under SGSY in the study area in relation to repayment performance.

**Degree of Self-selection** — The degree of self-selection was measured by the sum (1 for each positive answer) of scores based on following questions: whether the group reported it self-selected, whether the group explicitly reported that the people had refused to join, whether members had dropped out (except in case the of death or permanent migration), and whether new members had joined later (Verhelle and Berlage, 2003). It was a broad measure to include the *ex-ante* and *ex-post* self-selection as much of the screening of members actually occurred after a group was formed. Out of 60 SHGs, 34 groups (57%) reported to be self-selected in the study area. The major proportion (73%) of the SHGs under SGSY scheme functioning in the Fatehabad district was self-selected, whereas only 40 per cent of the NGO groups functioning in the Mewat district were self-selected. Overall, only three SHGs reported new membership of one member each after the formation of SHGs and six members dropped out

from five SHGs. The reasons for drop out varied from non-deposit of monthly saving contribution to hiding about a previous loan from the other formal organization. But, no case of direct refusal in participation was reported in the study area. Self-selection brings informational advantages and helps the lender to mitigate the adverse selection problem. It was assumed that screening was more effective if the group was formed after a careful self-selection process and exchange of information.

**Homogeneity** — Socio-economic homogeneity/socialities was measured by considering six social and economic characteristics, viz. age, caste, marital status, education, occupation and landholdings of the group members. The total score (1 for each positive answer, 0 otherwise) was calculated based on the following questions: whether the age range within the group was smaller than or equal to 15 years, whether all members belonged to the same caste or two castes at the most, with members of one caste representing less than 10 per cent of the group, whether all members were homogenous in marital status or had at the most two marital statuses with members of one marital status representing less than 10 per cent of the group, whether all members had attained same educational status or two distinct ones with members of one educational status representing at the most 10 per cent of the group, whether at the most 10 per cent of group members were involved in income earning activity other than the group activity and finally, whether at the most five per

cent members of the group differed in their landholding sizes (Verhelle and Berlage, 2003).

In our study area, the SHGs received, on an average, four positive replies to the framed questions. It was found that the SHGs under SGSY were more homogenous than the groups formed by NGOs. Age-range was found to be less than or equal to 15 years in about 58.3 per cent groups. Out of the total 60 SHGs, 15 SHGs under SGSY and 20 SHGs formed and monitored by NGOs reported homogeneity in relation to age. It was observed that 43 SHGs (71.7%) in the total groups were homogeneous in relation to caste, of which 23 SHGs were under SGSY and 20 under NGO groups. About 47 per cent of the SHGs reported homogeneity in marital status and 53.19 per cent of these SHGs were under SGSY. The major proportion (80%) of the total SHGs was homogenous in the educational status. About 52.08 per cent of the educationally homogenous groups were NGO groups and remaining 47.92 per cent were under SGSY. Not even a single case was found where more than 10 per cent of the group members were engaged in income generating activity other than the group activity, as the number of income generating activities varied from one to three per group. All the groups under SGSY were found to be homogenous in landholding, whereas all the NGO groups were non-homogenous in landholding.

The problem of moral hazards was expected to be less for a homogenous group as persons with a homogeneous background have better information about each other. It was also assumed that failure in meeting the obligations was less likely to occur in the case of homogenous groups since defaulters would suffer substantial utility losses due to loss of reputation and social sanction. But, many authors have viewed that social ties may hamper the group performance due to enforcement and collusion problems. Hence, their sign may not be *a-priori* clear.

**Peer Monitoring** — Peer monitoring was captured by a proxy variable, viz. frequency of group meeting. It was observed that the average number of group meetings conducted by the SHGs in a year was 10, ranging from 7 to 12. The NGO groups reported a higher number of meetings than by the groups under SGSY. The NGO workers always encouraged the conducting of regular group meetings at the scheduled time and it created an indirect pressure on group members to not to miss the scheduled meetings. But, it

was not possible for one Gram sevak/sevika (village level worker) to supervise a large number of SHGs of a block alone, in the case of SHGs under SGSY. The frequency of meetings promotes an SHG's monitoring activity and ability. In need, peers can take corrective measures. Thus, monitoring could help in reducing willful default.

**Peer Pressure** — Peer pressure was measured by a dummy which was equal to one if the group members stated their willingness to exert pressure on a willful defaulter, and zero, otherwise. In the case of willful default, 35 sample groups (58%) reported that they exerted pressure on group members and remaining 25 groups (42%) did not put any pressure on the group members. The number of SHGs that had put pressure on defaulting members was more in the Mewat (25 SHGs) than Fatehabad (10 SHGs) district. As in the monitoring, peer pressure also helps to improve performance of a group. The fear of exclusion from the group compels the members to fulfill their obligations. Peer pressure also helps in enforcement of rules and regulations and smooth functioning of the group.

**Peer Support** — Peer support was captured by a dummy which was taken equal to one if the group members stated that they helped one another in the time of need in other way than giving the needy member an intra-group loan, and zero, otherwise. About 83 per cent of NGO groups in the Mewat district had supported their group members in need, whereas only 33 per cent SHGs under SGSY in the Fatehabad district had assisted their peers at the time of need. Peer support/group solidarity is an incentive mechanism that contributes to the alleviation of moral hazards. What makes a borrower promptly fulfill his repayment obligations is the belief that the group will help him in difficult times.

**Dynamic Incentive** — Dynamic incentive was measured by a dummy which was taken equal to one for the SHGs which belonged to SGSY scheme, otherwise zero. Dynamic incentive is crucial in the group lending mechanism. The subsidy and future enhanced outside credit is supposed to act as an incentive for the better performance of groups. The groups under SGSY were formed by DRDA and were not monitored properly. Only one Gram-sevika/sevak helped in forming the SHGs and looked after the groups. In our study, the groups in the Fatehabad fell under this category

where the members were interested to pocket the subsidy and paid no heed to the performance of the groups which was unlike to the groups formed by the NGOs in the Mewat district. The subsidy and promise of future enhanced outside credit acted as an incentive for the better performance of the group. But, the dynamic incentive turned out to be positively associated with delinquency rates, which means it has failed to induce or improve repayment performance.

**Group Size** — The group size indicated the number of persons in a group. The SHGs under SGSY in the Mewat district were comparatively larger in size (15.27) than the SHGs in the Fatehabad district (12.70). On an average, the SHGs had 14 members. The number of members varied from 10 to 20 per group. It was hypothesized that if the group was small in size, then the flow of information will be more across the members. Hence, the problems arising out of asymmetric information would be less. With increase in the group size, monitoring and enforcing become more costly and less effective. So it was expected that the smaller the group size, the lesser was the chance of default.

**Mean Dependency Ratio** — Mean dependency ratio represented the group-wise proportion of dependents in the total household size. On an average, the mean dependency ratio was 0.65 and it was higher for SHGs under SGSY than under the NGO groups. In general, a group with higher mean dependency ratio will not risk the higher credit access in future.

**Female Percentage** — It indicated the percentage of female members in a particular group. Out of the

total members of the SHGs, on an average, 83 per cent were women in the study area. It was found that as high as 16 NGO groups and as low as 4 SHGs under SGSY scheme were reported to be exclusive female groups in the study area. The percentage of female member was higher in NGO groups (93%) in comparison to SHGs under SGSY scheme (73%). In the case of microfinance, the role of the variable, female percentage in repayment performance has generated considerable interest, as the earlier studies (Sharma and Zeller, 1997; Von, 2004) have shown that repayment rate is higher for the SHGs with higher proportion of women members. The hypothesis is that problem of moral hazard is likely to be less with the women members.

**Loan Amount** — Loan amount was the credit accessed in rupees. On an average, a SHG received the term loan of ₹ 0.21 million, over the years. The magnitude of term loans varied from as low as ₹ 61,000 to as high as ₹ 5,47,100 per SHG, over the years. Average term loan was more for NGO groups than for groups under SGSY. If the loan size was higher, the chance of unwilling default increased in the case of failure of a project. As the SHG members belong to lower socio-economic strata, they may not be able to meet the repayment obligations out of personal resources.

In order to see the relationship between the dependent variable, viz. delinquency rate and explanatory variables, a zero order correlation matrix was constructed and has been presented in Table 3.

**Table 3. Zero-order correlation matrix: Delinquency rate and the explanatory variables**

Variables	DELQR	SS	HOMO	PM	PP	PS	DI	GS	DR	FP
DELQR										
SS	0.25***									
HOMO	0.46***	0.26***								
PM	-0.81***	-0.31***	-0.34***							
PP	-0.79***	-0.24**	-0.39***	0.69***						
PS	-0.78***	-0.30***	-0.36***	0.76***	0.73***					
DI	0.66***	0.16	0.46***	-0.41***	-0.51***	-0.51***				
GS	-0.10	0.01	-0.22**	-0.04	-0.07	0.05	-0.38***			
DR	0.16	-0.18*	0.18*	-0.04	-0.08	-0.09	0.27	-0.21		
FP	-0.89***	-0.15	-0.34***	0.74***	0.80***	0.75***	-0.63***	-0.07	-0.15	
LAMNT	0.01	-0.16	-0.13	0.15	-0.11	0.01	-0.11	0.10	0.02	0.09

Note: \*\*\*=Pd<sup>0.01</sup>; \*\*=Pd<sup>0.05</sup>; \*=Pd<sup>0.10</sup> in a two tail test.

For abbreviations, see Table 1.

**Table 4. Estimated Tobit coefficients of determinants of delinquency rate**

Explanatory variables	Estimated coefficient	Robust standard error	p >  t
Constant	1.072	0.169	0.000
Degree of self-selection (SS)	0.020	0.014	0.147
Homogeneity (HOMO)	0.019**	0.008	0.016
Peer monitoring (PM)	-0.041***	0.010	0.000
Peer pressure (PP)	0.012	0.024	0.607
Peer support (PS)	0.004	0.024	0.881
Dynamic incentive (DI)	0.018	0.027	0.517
Group size (GS)	-0.007***	0.002	0.001
Dependency ratio (DR)	-0.024	0.147	0.873
Female percentage (FP)	-0.640***	0.117	0.000
Loan amount (LAMNT)	3.22E-07***	7.58E-08	0.000
log likelihood	= 65.190		
Wald Chi-square (10df)	= 445.160**		
Pseudo R squared	= -71.874		
Observations	= 60		

Note: \*\*\*=P≤0.01; \*\*=P≤0.05 in a two tail test.

The signs of almost all the correlation coefficients satisfied the *a-priori* theoretical expectations. In other words, the data provided support to the postulated hypotheses about the relationship between the delinquency rate and the explanatory variables. The correlation coefficients (r) of 7 explanatory variables with the delinquency rate (DELQR) were found significant.

### Regression Results

In this section the empirical nature of relationship between delinquency rate and its determinants has been examined. The estimated Tobit coefficients for loan delinquency have been presented in Table 4. It was found that homogeneity, peer monitoring, group size, female percentage and loan amount were the factors which influenced the repayment performance of the SHGs in the study area.

The sign of the coefficient for homogeneity was found to be positive and was significant at 5 per cent level, which implied that the homogenous groups were more prone to defaults. A similar trend has been reported by earlier researchers also (Wydick, 1999; Verhelle and Berlage, 2003; Von, 2004).

As expected, the sign of coefficient for peer monitoring was negative and was statistically significant at 1 per cent level. It meant that a higher number of

group meetings ensured better repayment of external loan by the sample SHGs in the study area.

Contrary to the general belief, the group size had a negative influence on the delinquency rate (significant at 1% level); Zeller (1998) had also reported similar findings in his study on repayment performance of the credit groups of Madagascar. It can be explained by referring to the delinquency rate which was higher in the case of groups under SGSY in comparison to the groups formed by NGOs (Table 2). Moreover, it has already been mentioned that groups under SGSY were smaller in size than the groups formed by NGOs, hence, leading to such an outcome. A glance at the data collected from the Fatehabad district showed that 50 per cent of the SHGs under SGSY had 10-11 members only. While interviewing the DRDA officials it was revealed that the subsidy provided to the groups under SGSY acted as an incentive for the formation of groups. Without being motivated by the goals and objectives of microfinance, 10-11 villagers join together with the main interest of availing the subsidy. They take up the economic activity as a formality to get bank loans and after some period, they stop repayment of monthly installments.

As per our hypothesis female percentage turned out to be negatively associated with delinquency rate and was statistically significant at 1 per cent level. It



indicated that with increase in the number of female members per group, the repayment performance of the group improved. This outcome was in consonance with the findings of Sharma and Zeller (1997) and Von (2004). Women participate in the SHGs after much persuasion to the family, so, they cannot afford to lose reputation by defaulting.

The sign of term-loan was found positive and it was statistically significant at 1 per cent level, which was in accordance with our hypothesis. The positive sign indicated that larger the term-loan, higher was the chance of default.

Contrary to the general belief, the sign for the coefficient of self-selection turned to be positive, but it was statistically non-significant. It implied that larger the degree of self-selection, higher was the chance of default in our study area. Verhelle and Berlage (2003) have also reported that self-selection raised the probability of arrears in their study conducted on SHGs in Chhattisgarh. The NGO personnel could indirectly influence the selection process of group members. Preference was given to the persons who were marginally better off to avoid the risk of default and discontinuance as they were concerned about the success of SHGs formed by them. It ultimately affected the performance and reputation of the NGO involved.

The inverse nature of relationship of peer pressure and peer support with delinquency rate in regression equation had its roots in the collinearity of these explanatory variables with other independent variables. Therefore, despite negative correlation coefficients, signs of coefficients were positive. However, they turned out to be non-significant in the regression equation.

The subsidy and promise of future enhanced outside credit acted as an incentive for the better performance of a group. But the dynamic incentive turned out to be positively associated with delinquency rates, which meant that it had failed to induce or improve repayment performance. The estimated coefficient of dynamic incentive turned to be positive but insignificant. It was contrary to the findings of negative association between repayment of outside credit and dynamic incentive by Verhelle and Berlage (2003) but another study conducted by Von (2004) in Russia and Georgia revealed non-association between these two variables. The members of SHGs under SGSY scheme mainly

formed the groups with an eye on the subsidy provided by DRDA and they were least concerned about the performance of the groups which was unlike with the groups formed by NGOs in the Mewat district. Moreover, they considered the scheme to be temporary which led to non-repayment of the later installments.

The interaction amongst the independent variables has led to different signs of regression coefficient vis-à-vis correlation coefficient. But, the non-significance of the coefficients of mean dependency ratio implied that mean dependency was not a deciding factor in the repayment of loans in the study area.

## Conclusions

This study on the repayment performance of the loan, delinquency rate has computed as the proportion of total loan amount in arrears on the promised date. The influence of different factors on delinquency rate has been estimated using the Tobit maximum likelihood technique. The coefficients have confirmed as well as contradicted the views generally stated in the literature. Peer monitoring, group size and female percentage have been found to have a positive influence on the repayment performance of the SHGs, whereas homogeneity and loan amount negatively influence the repayment performance of the SHGs. It is true that lending is always a risky enterprise as the repayment can seldom be guaranteed (Sharma and Jeller, 1997). But the present study has shown that microfinance is of different genre with good repayment record. The only precaution to be followed is to adhere to the basics of prudential banking while lending. Due importance should be attached to deep analysis of each factor determining repayment performance starting from the screening of clients to the size of loan. The study has concluded that if the essence of self-help and cooperation is fostered and monitored properly, the poor can also repay.

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