Incidence of Loan Default in Group Lending Programme

Microfinance Researchers Alliance Program

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Executive Summary

The paper explores the reasons and costs of hidden loan delinquency, despite high group repayment rates prevalent in the group lending mechanism. In a Joint Liability Group, if one of the members fails to repay a loan fully, the responsibility falls on the other members of a group to repay the remaining amount; the risk is, thus, fully shared by the borrowers. The group lending model of a microfinance institution, located in a peri-urban region of Uttar Pradesh in North India, was studied.

The study found that 22 percent of the clients from 27 centers were defaulters. Of these, 27 percent were wilful defaulters, some of which defaulted deliberately in the second loan cycle after gauging the repayment and recovery process. It was also found that some clients were from better economic backgrounds and depended on such loans on a short-term basis, and thus, defaulting would not greatly affect their financial means in the future. This accounted for 17 percent of the defaulters. Further investigation reveals that 13 percent and 12 percent of the defaulters had run away or moved away, respectively, without repaying the full loan amount. 7 percent of the cases were found to be due to collusions formed among members. Finally, 3 percent were cases of widows remarrying and leaving the village without fulfilling loan obligations.

The paper presents an analysis of the financial and non-financial costs of such defaults. The researcher found that there are no financial costs faced by the MFI, as a result of the joint liability feature. However, the cost of borrowing for the repayment clients increased from 18 percent to 30 percent when there was joint center liability. The average cost for each repayment client was found to be INR 49.70 per week. Non-financial costs include personal hardships in pulling together money to repay the defaulter's share, unpleasant exchanges between members and time and energy lost in unsuccessful attempts to track down the defaulters who had run or moved away.

The paper concludes by suggesting factors which played a role in this hidden delinquency among borrowers from MFIs including lack of group cohesion and lack of information about peer group members.

Introduction

Grameen Bank, which lends to the poor in Bangladesh, has been credited with a repayment rate in excess of 95 percent. The success of the Grameen model of group lending set in motion the replication of Grameen style Joint Liability Groups (JLGs) by a growing number of microfinance institutions in India. The joint liability feature of the group lending programme means that if any one member of the group fails to repay her loan, all group members are treated as jointly being in default. In short, an individual's risk of default is shared by the individual's peer group members. This creates an incentive to borrow for riskier projects in a group based contract than the member would have chosen with an individual loan contract.

In formal lending, banks assess the probability of loan recovery by evaluating the credit worthiness of borrowers based on the borrowers' income, alternative sources of financing, economic activity, location and other debt. These indicators are also used to determine repayment capacity in group lending. In a group lending programme, the functions of screening, monitoring, and enforcement of repayment are to a large extent transferred to the group members themselves. Several studies point towards the influence of group characteristics and dynamics in achieving high repayment rates in group lending programmes.

Theoretically, there are several features and dynamics that affect the repayment process. They include the Domino effect[1], group solidarity[2], peer pressure, group member homogeneity, variations in group repayment performance through different loan cycles, etc. Group members can obtain information about the reputation, indebtedness and character traits of other members, as well as local knowledge about each other's assets and the capability and effort of each loan applicant to ensure the repayment of the loan. Group members also have a relative advantage in the enforcement of group loans and may be in a better position to assess the reasons for default. They can then provide mutual insurance to members experiencing shocks beyond their control, while also penalizing wilful defaulters.

However, numerous factors may weaken the repayment performance of group lending under joint liability. Huppi and Feder (1990) indicate that when performance is mixed with repayment rates, group lending shows mixed results.[I] Evidence indicates that repayment incentives for a good borrower disappear under joint group liability when the borrower expects that a significant number of group members will default. Besley and Coate (1995) demonstrate how the default of one group member can lead to a secondary default of a member who otherwise would have repaid an individual loan. They show that the success of group lending is tied to the ability to harness social collateral (peer pressure) to enforce loan repayment through social sanctions/penalties.[II]

Research indicates that if one individual is more likely to default than others, then her peers, who share the risk of default under joint liability, effectively subsidize that member. Therefore, in a group based contract an individual with low risk exposure would like to form a group with other low risk individuals. In practice, members of a group are denied access to a future loan if one of

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[1] The Domino effect is a negative externality associated with group lending.

[2] Group solidarity refers to the willingness of the lending group to repay for one of its group members when repayment difficulty is experienced due to personal shocks.

the group members defaults on a repayment. This creates an incentive for the group to either use peer pressure to force the defaulter to repay, or to repay the defaulter's contribution. Wenner (1995) demonstrated that 75 percent of his sample groups in Costa Rica had members who defaulted on their loans, but by using group savings or by forcing the co-signor of the loan to repay for the defaulter, more than half of these groups managed to fully repay the loan to the financial institution.[III]

The fast track growth of JLGs as a method of group lending by MFIs in recent years in the Indian microfinance sector has been accompanied by concerns about the sustainability of group lending, due to reported instances of individual and mass defaults in some southern states in India. Although the high repayment rates come from the unilateral focus of Indian MFIs on the *group* repayments, the same MFIs care little or not at all about the repayment behavior of individual members within groups. For instance, according to MIX data, the average repayment rate of leading MFIs in India is 98%.[IV] On the other hand, an estimate by Sadhan, an industry association, indicates that the outstanding microloans in India, which total $1.24 billion, grew 72 % in the financial year that ended March 31, 2008.[V] One issue of concern is whether the emphasis by MFIs on high group repayment rates has led to a steady rise of hidden delinquency among borrowers.

The purpose of this paper is to explore the extent of loan delinquency that accompanies 'high' (group) repayment rates in the group lending mechanism. This study explored the reasons for default among group members, the triggers behind delinquency and sought to identify drivers and insights from the perspective of each player in the group lending method (groups, group members and MFI/s) that could help to minimize the problem of hidden delinquency. This paper presents both the findings gathered from a field survey, and the knowledge and insights gained from the clients and personnel of MFIs.

Study Methodology

Brief Overview of Leading MFI in North India

The group lending model of a leading Microfinance Institution[3] in a peri-urban region of Uttar Pradesh in North India is patterned along the Grameen model, with some local adaptations. It operates in the following way:

- After a Center Manager (akin to a loan officer) assigned to a specific area collects information about the income and asset level of the clients through background checks, clients are organized in groups of five based on a self targeting mechanism.
- The selection of clients is verified by some proof of identity that includes a photo (ration card, voter ID, a certificate from Gram Pradhan / Government Official).
- At the time of disbursement, each borrowing client signs the loan agreement form. The clients targeted are women aged 18 to 52 years, with a household income of Rs.4,200 per month. Though the target clients are low-income women, single women (widows/divorcees/separated) as well as women from agricultural households are deliberately not included in groups.
- A group should not have any direct kin relations, but there can be kin relations[4] within the Center.
- Loans are given at a flat interest rate of 18% (33.4% EIR).
- The clients are given individual loans for income generating activities, but the group members take joint responsibility for each other.
- An interesting feature of the adopted JLG model is that the joint liability of members in a group is coupled with joint responsibility of all members of all groups that belong to a Center.[5]

Loan Cycle

First cycle loans are of INR.5,000, INR.8,000 and INR.10,000 and second cycle loans are of INR.12,000 and INR14,000. The loan must be repaid on a weekly repayment schedule with fixed payments for 52 weeks. Before being admitted to a microfinance program, clients are provided a five-day Compulsory Group Training (CGT) by the field staff, covering the products, rules and regulations of the Center as well as its policies and procedures. After the training, the group members are tested on their understanding of the group lending method in a Group Recognition

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[3] Though the name of the MFI is not revealed, it is suffice to state here that it is a professionally managed and public listed NBFC since 1990. It has grown impressively since 2005. Its customer base has increased by over 1080 % and though it has a dominant urban presence, its rural operations began in the second half of 2008 and it had reached 70000 loan clients and INR 44 crore outstanding portfolio in less than 18 months. Its disbursement increased from INR 19.93 crores in 2005-2006 to INR 74.6 crores in April – September 2009.

[4] Number of kin relations in a center should be equal to the number of groups minus one. That is, if the Center has five groups then it can have at the most four kin relations.

[5] This feature implies that if there are 4 groups with 5 members in each group in a Center, then all 20 members are held jointly liable to repay the overdue loan instalments of a defaulting member of any group in the Center.

Test (GRT). Once the clients successfully complete the GRT, the group's enters into the MFI's microfinance programme with their first loan disbursement.

The systems and processes for loan collection and repayment and recovery are well explained to ensure 100% recovery on the part of Branch Managers and Center Managers, and operational procedures indicate no divergence from these established procedures. Both the Divisional and Head Office also make good use of technology for accounting purposes, as well as for MIS records used for tracking and control of clients.

Organisation Structure

Each borrowing group of five clients belongs to a Center, which has three to six such groups. Each Center has a Center Leader (CL)[6] who is nominated by the Center's Group Leaders. All clients who belong to a particular center meet every week at a designated time, even if they do not belong to the same group. A Center Manager, who is primarily responsible for meeting groups regularly and collecting loan repayments, also attends these meetings. If the clients in a group want to meet informally, they can also do so. Each Center is attached to a branch with a Branch Manager and has up to 8 Centre Managers (CM).

Outreach

By December 2009, 18 months after its rural business operations began, the MFI reached 70,000 borrowers and INR 44 crore portfolios with a 100% on time repayment rate (OTRR). It intends to reach 1,000,000 borrowers by March 2013.

Research Objective

The objective of this study is to understand the extent of hidden loan delinquency within the high repayment rates characteristic of the JLG lending mechanism. Although the JLG method is now a popular method used by MFIs to reach larger numbers of the poor, exploring this issue will provide insights into understanding the degree of hidden loan delinquency, and help identify the factors that cause default among borrowers in spite of outstandingly high on time recovery rates of the MFIs.

The study explores the following three research questions:

1) What is the actual ratio of defaulter clients to repayment clients?
2) How many borrowers among the groups' poor defaulted? What were the reasons for default, and what were the difficulties and costs to the members in the groups where defaults took place?
3) How do other group members respond to defaulters and what are the systems of recovery? Alternatively, how do groups and MFI personnel try to ensure recovery of dues?

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[6] The Center Leader is responsible (along with the Group Leader) for ensuring 100 percent attendance, 100% repayment and loan utilization in her Center.

Study Area and Research Methodology

The author carried out fieldwork for the study from April to June 2010. The location of the study was a peri-urban area in Loni, Ghaziabad district in the state of Uttar Pradesh. The area is on the fringe of the Delhi-Uttar Pradesh border area and has a large number of small enterprises such as garment making, embroidery, accessories, cosmetic jewellery, paper plates, dona (moulded leaf plates) making, etc. Products manufactured in this area are largely sold to wholesale retailers in Delhi and the NCR region.

For this study, 48 JLGs with a total number of 199 group members in 17 centers were randomly selected. Information was gathered through Focus Group Discussions (FGDs) and interviews as well as personal discussions with group members and leaders. Data gathered from personal discussions with key functionaries of the rural microfinance division of the MFI, interviews with Branch Managers, Center Managers and in depth questions to field staff, as well as information gained from available records,[7] are also presented in the study.

[7] No specific records on default rates or defaulting clients are maintained by the sampled MFI. Available records pertain to scheduled loan collection details for each centre and as per the records, recovery of weekly instalments for every center is available and the loan collection is 100 percent by the field staff.

Research Findings

Out of the 17 centers visited, 4 centers had heterogeneous[8] groups, and 13 centers had homogeneous groups (8 centers had only Muslim groups and 5 centers had only Hindu groups). Out of 239 active[9] clients in these centers, 83 percent (199 members) were present during the author's visit. The total number of clients during the field survey period was roughly 4174, 4000 of which were active clients. A total number of 835 groups in 298 centers were functional during the period (See Appendix 1).

Defaulting Clients

A defaulting clients is defined as a client who, after repaying the loan instalments (EMI) for a few weeks (ranging from a minimum of 4 instalments to a maximum of 44 instalments) during the 52 weeks loan repayment cycle, either failed or refused to repay the remaining loan instalments in spite of efforts by the groups in a center to force them to fulfil the loan obligation. The onus of repaying the unpaid EMIs of the defaulting client(s) then fell compulsorily on the remaining members (called repayment clients) in the center. This phenomenon of delinquency is distinct from the difficulties of repayment experienced by a few clients due to personal shocks or irregularity of income. In fact, when such difficulties were experienced by a member in a group, a friend or a peer group member volunteered to repay the distressed member's pending share of EMI(s). There was, effectively, an implicit mutual insurance between the members.

This study found that since the MFI began to operate in the Loni region, 27 centers had problems of hidden delinquency over a period of one year. Among the 69 groups[10] (with a total of 334 active clients) in the 27 centers, 274 members were repayment clients and 60 were defaulting clients. Considering that there were a total of 60 defaulter clients and 274 repayment clients in the 27 centers, the proportion of defaulter clients to repayment clients was as follows:

$$= 60 / 274 * 100$$

$$= 21.89 \text{ or } 22\ \% \text{ for those 27 centers.}$$

The number of EMIs that were repaid by the defaulting clients ranged from as low as 4 EMIs to as high as 49 EMIs. One third of the defaulting clients belonging to 16 centers had repaid 45 percent of the loan instalments, but failed to repay 55 percent of the overdue loan. On average, defaulting clients repaid 23 EMIs and left 29 EMIs unpaid.

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[8] Heterogeneous refer to groups with women from different religious and social backgrounds. Homogeneous refer to groups with women drawn from only one religious background/community.

[9] Active clients refer to those who borrowed during the loan cycle.

[10] One Center had only 9 members because one of the members had foreclosed her account earlier.

The distribution of unpaid loan instalments by the 20 defaulter clients[11] in 16 centers presented in Table 1 indicates that 40 percent of defaulters failed to repay between 37 to 50 loan instalments, followed by 25 percent who failed to repay between 21 to 36 loan instalments. In comparison, while 25 percent failed to repay up to 10 loan instalments, 10 percent of defaulter clients failed to repay between 11 to 20 loan instalments. Appendix 2 shows detailed information about the defaulters' profile and major reasons for defaulting.

Table 1: Number of Loan Instalments Unpaid

Number of Loan Instalments Unpaid	Number of Defaulters	Percent
Up to 10 loan instalments	5	25
11 to 20 loan instalments	2	10
21 to 25 loan instalments	3	15
26 to 36 loan instalments	2	10
37 to 50 loan instalments	8	40
Total	20	100

As shown in Appendix 2, 82 percent of the defaulter clients were group members and 18 percent were either center or group leaders. In terms of social composition, the defaulters hailed from both Hindu and Muslim communities, though the proportion of defaulters was higher in the latter, at 38 and 62 percent respectively (Figure 1 and Figure 2).

Figure 1: Membership status of defaulters

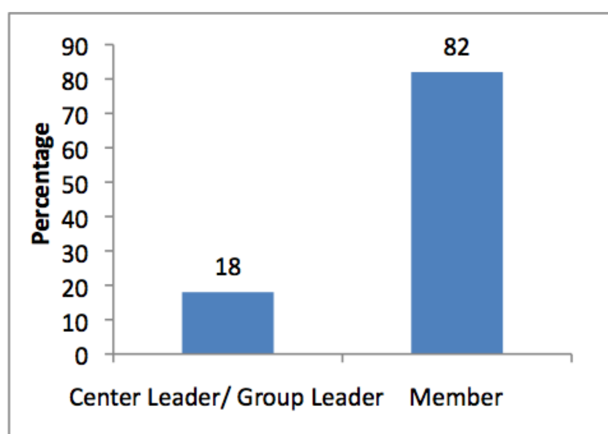
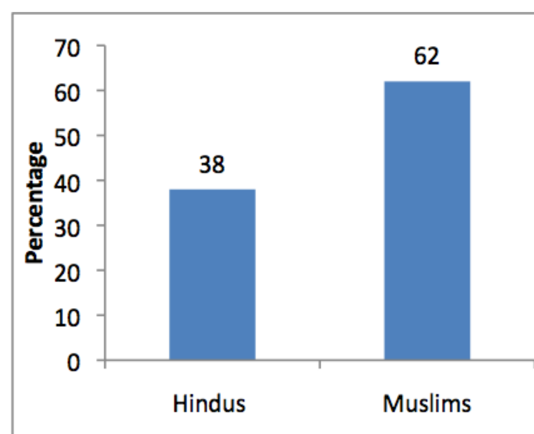


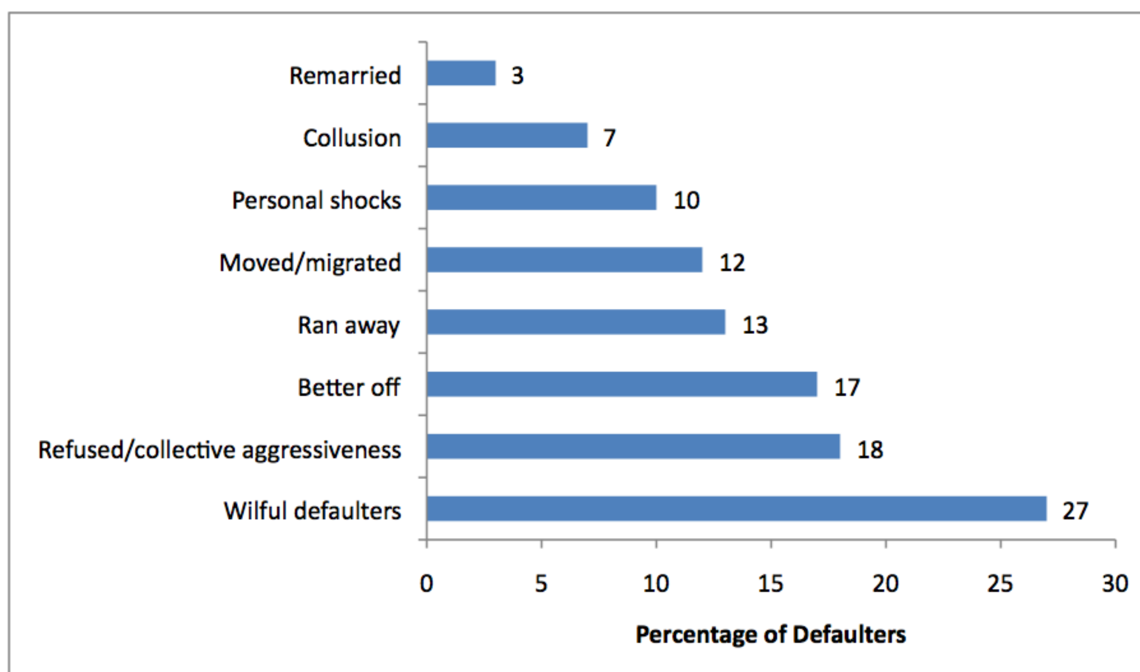
Figure 2: Religious profile of defaulters



[11] This includes only those clients for whom all the relevant information could be obtained.

Reasons for Defaulting

Figure 3: Reasons for defaulting



27 percent of the 60 defaults were due to 'wilful intention to default' by the defaulters. It should be mentioned here that among the wilful defaulter category also includes another kind of defaulters, those who 'defaulted by design.' This means the defaulter gauged the repayment and recovery process of the MFI and deliberately defaulted in the second loan cycle period. A few of the Center Leaders who ran off belonged to this category. This highlights a potential issue: as groups enter the second loan cycle phase, those who understand the design of the repayment process might take advantage of the system and leave the other group members to bear the repayment burden of their defaulted loan share. 18 percent of the default cases were due to 'obstinate refusal to repay' or collective aggressiveness on part of the loan clients.

17 percent of the defaults came from the better economic background of some group members who fearlessly defaulted despite group pressure. The better off among the group members were more likely to default than the poor members. Poorer members tend to be more dependent on such loans on a continuous basis and most diligently made all efforts to repay their loan instalments. The better off, on the other hand, must only depend on loans in the short term; therefore, defaulting does not have much of an effect on their future financial situation.

Nearly 13 percent of the defaulters had run away, leaving virtually no trace behind. Though the group members tried to track down the whereabouts of these defaulters, they usually received no help from the uncooperative and indifferent acquaintances and families of the defaulters. Again, these defaulters were often the better off ones of the group.

About 12 percent of the defaulters had moved away from the area of the center, resulting in either a deliberate avoidance or careless disregard toward fulfilling their loan repayment obligations, despite the group's efforts to find them and collect the overdue payment. Another

cause was personal shock, which accounted for 10 percent of the loan delinquency cases. This included death of an earning member of the family and health shocks.

About 7 percent of default cases in the sample were due to 'collusion' amongst members. One member would act as a conduit to get membership for clients in exchange for monetary compensation from the new members, either as a onetime fee or a portion of the loan amount. In fact, this phenomenon was described by some field staff as a case of '*mili bhagat*,' literally collusion, which led to either delayed repayments or even defaults, as happened in a few centers. When 'dalals,' meaning agents or ringleaders, form groups, the groups tend to suffer from poor discipline; such groups also tend to be more likely to default. When groups were formed by such 'ringleaders,' many of their new recruits tended to be members of other MFIs with track records of delayed repayments or wilful defaults. Lastly, 3 percent of clients who defaulted did so because they had remarried and left the village without fulfilling their loan repayment commitments.

Costs of Defaults

The findings indicate that after a default, stakeholders bear both financial and non-financial costs.

Financial Costs – Lender's Angle

From the point of view of the MFI, defaults do not result in financial losses. The procedures followed at the field level ensure that the Center Manage collects the weekly loan dues owed by the each center's group members from the Group Leaders/Center Leaders during each scheduled group meeting. This system of loan repayment collection is clearly spelt out to the field level and branch office personnel to ensure a 100% on time repayment rate (OTRR).

For example, assume there are two groups at a center and each group consists of 5 members.

Total collection from center = INR 2270 per week

Amount paid by each member in the center (EMI) = INR 227 per week

If one client defaults, the other members from both groups in the center are required to repay that member's share (INR 227). The total amount collected still remains INR 2,270 per week. The joint liability feature enables the field staff to use different strategies to ensure that other repayment clients share the defaulting member's EMI. If there is still resistance, the Center Manager can resort to stronger methods, like refusing to sign the attendance register or loan cards of individual members and giving them a time deadline on the same day to ensure that the total loan amount from the center is handed over to him. This process of the MFI explains the 100% OTRR; these practices guarantee that the MFI incurs no financial cost due to defaulting.

Financial Costs – Repayment Clients' Angle

In a normal scenario, suppose all members of say 2 groups (Group A and Group B) in a center repay regularly.

Principal amount borrowed by a member = INR 10,000

Total repayment amount to be paid over 52 weeks = principal + interest = 10,000 +1800 = INR11,800

Weekly EMI paid by each member = INR 227

For example, the Vikas Nagar center has 2 groups of 5 members each. Hypothetically, one can imagine that one of the members from Group A defaulted after repaying 4 of 52 EMIs. This MFI follows a methodology of Group Liability and Center Joint Liability, meaning that the 4 remaining members of Group A and the 5 members of Group B are jointly liable to repay the defaulting client's unpaid loan dues for 48 weeks.

Costs for Repayment Clients at Center Level

Unpaid loan instalments of defaulter for 48 weeks = 227 x 48 = INR10896

Unpaid share of defaulter to be contributed by each of the 9 repayment clients over 48 weeks = INR1210.67

Total amount repaid by each repayment client over 52 weeks = Principal amount + interest amount of her share of loan + share of defaulting client's unpaid dues

= 10,000 + 1800 + 1210.6 = INR13010.67

The cost of the loan for each repayment client increases from 18% to 30%. The implication is that the design of JLG programme adopted by the lending MFI is loaded against the clients in the other group(s) in a center, because they are also required to repay the loan share of a defaulting client who was not part of their group.

Costs for Repayment Clients at the Group Level

Normally, as per group lending mechanism, the repayment clients/members belonging to Group A alone would be required to repay the defaulter's share of loan overdue. Consequently, they would pay a higher price than what was repaid by them as shown above because the non-group (Group B) members in Vikas Nagar Center were compulsorily required to share the defaulter's share as well.

If only 4 members of Group A were required to repay the defaulter's unpaid loans, the financial cost of the defaulter's behaviour in their group would have been as follows:

Unpaid loan instalments of the defaulter for 48 weeks = INR10,896

Unpaid share of defaulter to be contributed by each of the 4 repayment clients of Group A over 48 weeks = 10896 / 4

= INR2,724

Total amount repaid by each repayment client over 52 weeks = Principal amount + interest amount of her share of loan + share of defaulting client's unpaid dues

= 10,000 + Rs.1800 + Rs.2724 = INR 14,524

Therefore, the cost of the loan for each repaying client of Group A would have risen from 18% to 45% in a scenario where the 5 repayment clients of Group B were not made to bear the cost of the defaulting client. In comparison, the JLG methodology adopted by the studied MFI reduces the cost of defaulting for each repayment client.

Average Cost for Repayment Clients

In the sample, there were 60 defaulting clients, 274 repayment clients and an average of 29 unpaid weekly instalments. Assuming they were in the first loan cycle and the average EMI per week that was not repaid was INR227, then the total amount of unpaid EMIs that would have been shelled out by 274 repayment clients would have been as shown by the following.

Total EMI amount to be shared by 274 repayment clients = 227 X 29 X 60 = INR 3,94,980

EMI amount paid by each repayment client = 3,94,980/274

= INR1441.5 over 26 weeks = INR49.70 per week

Non-financial Costs

When some members of a group lending programme abdicate their repayment responsibility, it impacts not only the cost of borrowing but also leads to dysfunctional consequences at both the individual and group level. At the individual level, as evidenced in various extant research, there are extreme personal hardships for the poor members who must pull together a certain sum of money (to contribute the share of defaulters' EMIs) at the cost of family welfare (for instance, reduction of basic expenses especially on food by poor clients) or by borrowing from someone or somewhere else to fulfil the group liability condition.

At the group level, bitter exchanges between members faced with the reality of needing to contribute to the defaulter's unpaid loan amount were observed. This suggests that default results in a negative spill over of more fragile trust between members of the Center. Another important transaction cost is in the time, energy and working hours lost by those borrowers who had to unsuccessfully struggle to either track down wilful clients who ran away or exert pressure on borrowers or their families to pay the overdue loan.

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Missing Links

To conclude, this analysis scrutinizes certain factors that might generate insights into other plausible factors – missing links – that could have played a role in the hidden loan delinquency amongst borrowers of the sampled MFI. These factors may be examined from group-specific and programme-specific perspectives.

In any group lending methodology, group cohesion plays a significant role in the level of understanding between members and in nurturing the relationships that would lead the peer group members to assist a member experiencing repayment difficulties. This group cohesion, therefore, aids the repayment performance of the group. Among others, two factors that aid group members' understanding and trust and group cohesion are: a) the amount of time the members of a group spend with each other at least during the group meeting and b) whether they share similar socio-economic characteristics (ethnicity, income, social/economic activities, living in the same neighbourhood, etc.).

While Center Managers in all the centers held group meetings at an appointed venue and time, in some of the disturbed centers peer group members lacked knowledge of each other's personal information or family details. Information that would normally be known to group members who meet regularly at meetings was observed to be unexpectedly low. [12] This can be explained by lack of time and low attendance. Though many members in each center were present for the weekly meetings on time, the scheduled half hour was spent solely on getting the money collected by the CL/GL and handing over the weekly EMIs to the Center Manager.

For instance, it was observed that in two center group meetings, the majority of members sent in their weekly loan EMI through a relative or a child. Even the Center Leader was not present. Reportedly, this was generally the case, rather than an exception. Ostensibly, there was neither the time nor inclination for meaningful personal interaction between the group members. Though the scheduled meetings were held, the lack of group discipline in some of the (disturbed) centers led to a lack of group cohesion. In one center, where only two members were present, they lacked sufficient awareness of their peer members to be able to form an opinion about the prevalence of cohesion in their group.

Secondly, in a group lending programme, the socio-economic variables of the entire group can also affect repayment. In general, members were socially homogenous, meaning they were from similar communities, age groups and neighbourhoods. However, the conduct of meetings indicated that members seemed to attend the meetings to fulfil certain basic and routine obligations.

Though there was general amity within the groups, the group members tended to exhibit neither any inclination to nor had time to build the mutual understanding, trust and social ties that play a significant role in building group cohesion. Under such circumstances, group social

[12] For instance, knowledge about information about peer group members like the number of family members in the household was unknown to members in groups, and a sizeable number of group members admitted that they do not know such family details or personal information (like the village they come from) about each other because they come to the group meeting only to repay their weekly EMI .

connectedness would not aid repayment performance. Repayment clients did exert group pressure on defiant member(s), but their ability to do so was limited by tenuous group cohesion.

One important reason many women joined the JLGs was because they knew it would be easy to access loans via the group; it was cheaper to obtain credit from a group lending programme than from other informal channels. Many members candidly admitted that they formed groups to access loans because they knew each other as neighbours. This was part of the reason the group method appealed to them, and they preferred it for its convenience.

Conclusion

In theory, the effectiveness of group-lending is based on communal ties – of social fabric binding the women in lending groups together. In this case, the theories about group selection seem not to imply; women choose groups based on convenience, rather than intimate knowledge about one another's circumstances. Furthermore, while group meetings are designed to enhance group social connectedness, when they don't take place – as was the case with this MFI – it becomes harder for groups to enforce loan repayment through social means.

Although the MFIs set-up and loan collecting processes allow it to maintain a 100% repayment rate by shifting the burden of defaulters onto the entire center, 22% of clients – nearly a quarter – defaulted in the 27 centers studied. These defaults impose a financial burden on the rest of the clients, forcing them to pay back much more than they would otherwise. They also impose other, non-financial costs, including further straining social ties between the women in the center, as well as forcing them to spend valuable time and effort paying back the additional funds. These defaults, despite being hidden, present real problems that can greatly hinder the effectiveness of group lending programs.

Appendix 1

This presents some preliminary information about the sample interviewed.

Serial Number	Centers*	Number of JLGs met	Number of members in each center**	Nature of Groups
1	Toli Mohalla I	4	20 (17)	Muslim
2	Prashant Vihar	3	15	Mixed
3	Laxmi Garden I	3	15	Mixed
4	Shiv Vihar	3	15	Mixed
5	Anand Vihar	2	10 (5)	Hindu
6	Vikas Nagar	2	10 (9)	Hindu
7	Jamalpura I	4	20 (16)	Muslim
8	Ashok Vihar	4	20	Muslim
9	Giri Market	2	10	Muslim
10	Jamalpura II	3	15 (12)	Muslim
11	Daburtalab	3	15	Muslim
12	Laxmi Garden II	2	10 (9)	Mixed
13	Laxmi Garden III	2	9 (2)	Hindu
14	Laxmi Garden IV	3	15 (9)	Hindu
15	Toli Mohalla II	2	10 (60	Muslim
16	Toli Mohalla III	4	20 (16)	Muslim
17	Rajeev Garden	2	10 (8)	Hindu
Total	17	48	239 (199)	

* There were more than one center in many areas.: **Figure in parentheses represent number present

Appendix 2

This presents a bird's eye view about the defaults in different centers[13] in the sample region with a few background characteristics.

Center	No.of Clients	Repayment Cleints	Number Defaulters	No.of EMIs paid	No.of EMIs pending	Reasons For default	Nature of Group	Who Defaulted? CL/GL*	Background of Defaulter
Vikas Nagar	10	9	1	4	48	Wilful	Hindu	CL	Non-poor, Rogue
Anand Vihar	10	9	1	8	44	Ran away	Hindu	CL	Non-poor
Rajeev Garden	15	14	1	44	8	Wilful	Muslim	Member	Poor
Rajeev Garden	10	8	2	22	30	Wilful	Hindu	CL	Non-poor
Naipura	15	14	1	30	22	Moved	Hindu	Member	NA
Naipura	20	19	1	30	22	Moved	Muslim	Member	Non-poor
Julie Centre	10	8	2	48	4	Wilful/moved	Muslim	Member	NA
Albi Nagar	10	8	2	12	40	Wilful, moved	Muslim	CL & Member	
Mustafabad	15	11	4	NA	NA	Wilful, refused	Muslim	GL & Members	Closed
Mustafabad	15	12	3	NA	NA	Economic, widowhood	Muslim	Members	Poor
Mustafabad	20	19	1	8	44	Ran away	Muslim	Member	-
Shiv Vihar	10	6	4	NA	NA	Wilful	Hindu	Members	Well off Closed
Ikram Nagar	10	4	6	NA	NA	Wilful	Muslim	Members	Closed
Sangam Vihar	10	5	5	NA	NA	Wilful, moved and rest refused	Hindu	GL, Members	Closed
Pooja Colony	10	9	1	NA	NA	Wilful	Hindu	CL	Non-poor
Albi Nagar	10	8	2	3	49	Wilful, Ran away with Niece's money also	Muslim	CL	Closed, then, open With new members
Budh Nagar	10	5	5	NA	NA	Wilful, ran off	Muslim	CL, Members	Closed, then open new members
Baheta Hajipur	10	7	3	NA	NA	Wilful	Hindu	Members	Closed, open with new members

[13] In the same locality or colony, many Centers exist and hence, Centers in the same locality are identified by a number in the paper.

Baheta Hajipur	10	8	2	NA	NA	Wilful, Economic	Muslim	CL, Member	Poor, Closed
Khari Kuan	15	9	6	NA	NA	Collective, Aggressive,	More muslim, few Hindu	CL, Members	Closed
Laxmigarden	9	8	1	45	7	Ran away	Hindu	Member	-
Lakshmigarden	10	9	1	14	38	Moved	Muslim	Member	Group refused, brother filled
Lakshmigarden	15	14	1	32	20	Ran off	Hindu	Member	Non poor
Lakshmigarden	15	14	1	35	17	Wilful	Hindu	Member	Non –poor
Ambica vihar	10	9	1	NA	NA	Wilful	Hindu	Member	Well off
Toli Mohalla	20	19	1	13	39	Remarried/ Kin relation	Muslim	Member	-
Saraswati Vihar	10	9	1	30	22	Moved	Hindu	Member	-Well off-
Total 27 Centres	334	274	60	463#	577#				

*CL- Center Leader, GL-Group Leader; M-Member
represents number of EMIS paid and unpaid by 20 defaulting clients in 16 centers

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