Repayment Performance and the Determinants of the Repayment Delinquency of Self- Help Groups in Andhra Pradesh, India

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OUTLINE

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INTRODUCTION

- Microfinance for the poor without collateral

- Individual lending

- Group lending mechanism
  - Social security/ collateral
  - Joint liability
  - Problems of asymmetric information partly solved

BACKGROUND

- Andhra Pradesh a state in the southeast coast of India

- Andhra Pradesh is the fifth largest state in India, with a population of 76 million, of which three fourths live, in the 26,500 rural villages

BACKGROUND

MAP OF ANDHRA PRADESH

BACKGROUND

- Five MFIs and one other organization APMAS which is a capacity building NGO -provides managerial and technical support to SHGs of women.

- Self-help groups extensively used as a primary tool of poverty alleviation and empowerment

- In Andhra Pradesh, the groups largely are the conduit through which micro credit is made available to help them out of poverty.

PROBLEM STATEMENT

- Andhra Pradesh- repayment rates are lower on loans originating from internal sources than external source like the bank-linkage programme. Thus repayment is still a major issue

- SHGs have **multiple loan sources**- reasons for loans outstanding?

- faced a crisis in which some borrowers committed suicide because they could not pay back their loans and some had outstanding loans. Allegations were made against some MFIs that the provision of loans is causing a debt trap to their clients

OBJECTIVE

- Objective of this research is to understand the social operations and interactions of members within the SHGs in India in the context of microfinance activities; and related sources of loans and how they perform in terms of repayment

RESEARCH QUESTIONS

- What is the loan repayment behaviour of the SHGs in Andhra Pradesh

- What are the determinants of the repayment behaviour in Andhra Pradesh?

LITERATURE REVIEW

- Microfinance is the provision of various financial packages such as insurance, savings, credit and other financial services as need based for the poor people

- An SHG is a small group of persons who come together with the intention of finding a solution to a common problem such as medical issues, livelihood generation or watershed management, with a degree of self- sufficiency

- Information asymmetry problem

LITERATURE REVIEW

- Moral hazard-ex- ante moral hazard "relates to the idea that unobservable actions or efforts are taken by borrowers after the loan has been disbursed but before project returns are realized".

- Ex post moral hazard is referred to the "enforcement problem" or to a situation where the lender cannot observe the borrower's profits and cannot enforce repayment

LITERATURE REVIEW

- Adverse selection-The adverse selection problem arises before the MFIs lay out the contract agreements between them and the borrower. The MFIs do not have information about the borrowers therefore they cannot differentiate between risky and safe borrowers.

LITERATURE REVIEW

- Screening- group formation stage

- Monitoring-giving responsibility to the other group members to monitor each other's activities

- Enforcement-social sanctions can be used within the group lending set-up to enforce repayment amongst borrowers

FRAMEWORK

2.3 Empirical and Theoretical framework
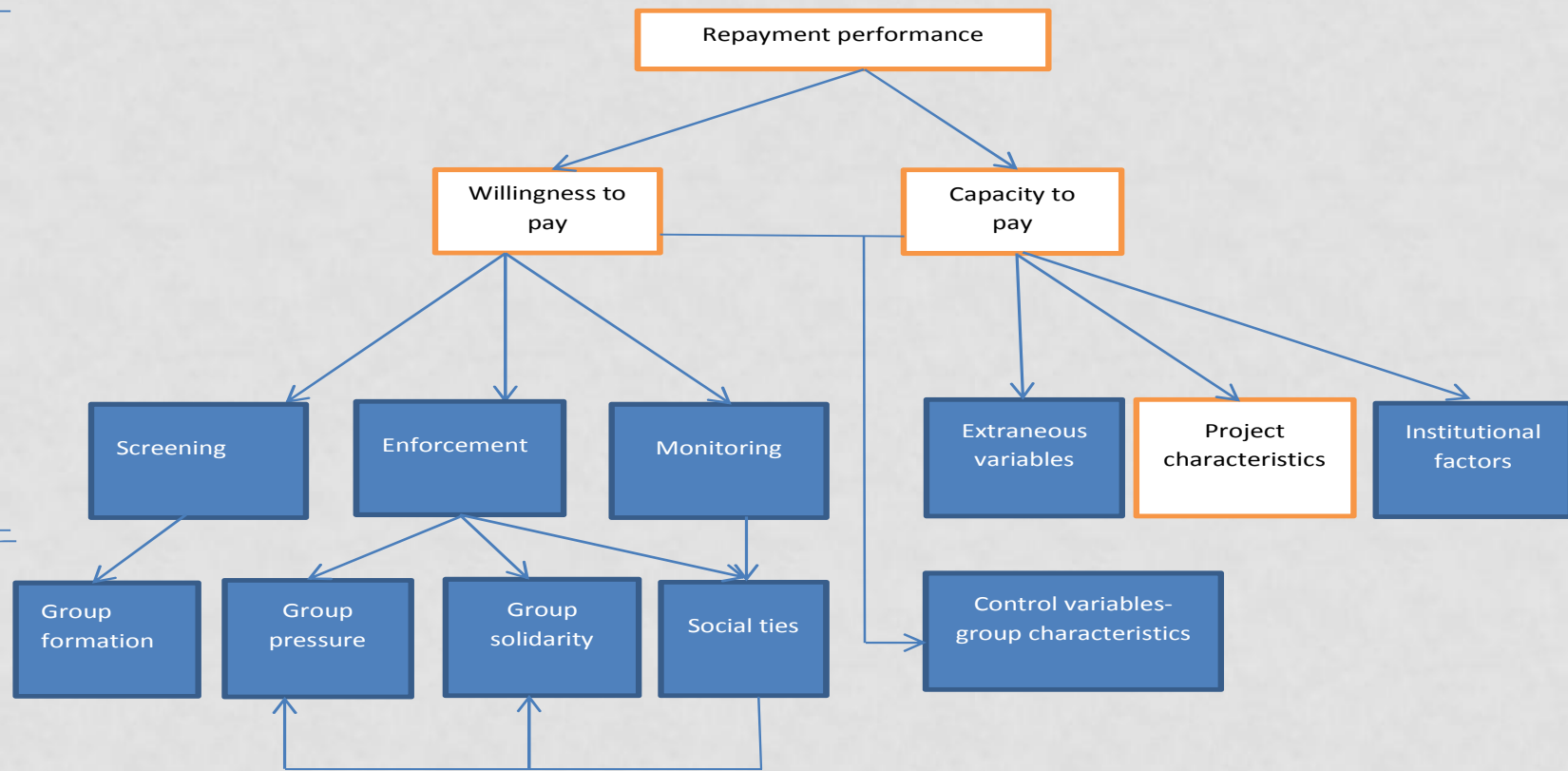
METHODOLOGY

- Stratified random sampling- 3 areas Nizambad district, Ananthapur district and Chitoor District.

- sample of 150 SHGs (leaders of the SHGs) and additionally, 2 members of the SHGs to understand social interactions within the SHG

- Secondary data-books of accounts

- Structured questionnaire, focused group discussions,

METHODOLOGY

Data analysis techniques
•Tobit –deliquency of loans

•Probit- default and non defaulters

•Conditional logit- fixed effects for institutional variables

Thank you for your time

Any questions?