

SHG-BANK LINKAGE PROGRAMME: A STUDY ON LOAN DEFAULT AND RECOVERY

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ABSTRACT

The late recovery of loans or the default could be delay in finance/timely availability of finance, bad linkage practices diverting loans to Fixed Deposits, blocking of savings and thus not allowing internal lending by groups, delay in release of loans, pre-closure of loans and improper fixation of repayment period, non-implementation of CBRM, Housing loans, cross selling of products etc. at branch level. At SHG level the reasons could be mis-utilization by leaders, cornering of funds by few, hardships faced at member level and other reasons. Over a period of time many undesirable practices have emerged in credit flow to SHGs vitiating the entire recovery climate. This is also resulting slower growth of credit while the need of the hour is credit augmentation. This compels the SHGs to borrow loans at higher rate of interest and other costs from MFIs. In this context, the present paper "SHG-Bank Linkage Programme-Defaults and Recoveries" has proposed broadly to explore issues of default in SHGs, factors contributing to it and various mechanisms to address defaults and recoveries.

INTRODUCTION

A. Context of the study

The Self Help Group-Bank Linkage (SHG-BL) programme which was initiated in 1992 has been evolved as one of the largest financial inclusion programmes in India by covering 97 million families in the country. As on 31 March 2010, a total of 69.53 lakh Self Help Groups (SHGs) were having saving bank accounts in different banks with an outstanding savings of Rs.6198.71 crores. About 48.51 lakhs of SHGs have a loan outstanding with banks of Rs.2,803,828 lakhs. In this regard, Andhra Pradesh stood as first in the country with 14.48 lakh SHGs, of which 14.71 lakhs of SHGs have a loan of Rs.1,173,953 lakhs as outstanding. Out of 302 banks reported, majority banks have recovery performance more than 80 percent followed by 32.2% between 50 and 79 percent and 9.6% less than 50 percent. The recovery performance of banks varies from region to region and also as between SHG-Bank linkage programme and SHGs financed under Swarnajayanti Gram Swarajgar Yojana (SGSY) programme. Based on the data reported by 221 banks, non-performing assets of bank loans outstanding against SHGs as on 31 March 2010 stood at 2.94 per cent, amounted to Rs.823.04 crores which showed an increase from 2.90 per cent and Rs.625.87 crores during 2008-09 (NABARD, 2010).

According to a research study 'The Evaluation of SAGs promoted by Myrada', the average repayment rate (RR) from group to bank is 79 per cent and the portfolio at risk (PAR > 3 months) is 26 per cent. However, default becomes a serious issue in some pockets and groups (APMAS & Myrada 2010). According to another study conducted by APMAS in 2007, the repayment rate from SHGs to bank is 80.11 per cent and the average loan portfolio at risk is 34.04 percent. Raja Reddy and C.S.Reddy (2010) in their paper on 'SHG-BL: An enquiry on repayment and default management' discussed the reasons for default with reference to last General Elections to Parliament and AP State Assembly.

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According to a 'Project Report of Research Study on Loan Default by SHGs', the repayment rates of bank loans among SHGs have decreased over the last few years. It has highlighted the reasons for default as i) SHGs have departed from formation norms such as area selection, wealth ranking and members with the same socio economic condition; ii) SHGs have been coming together mainly for credit and subsidies, instead of for savings; iii) SHG leaders and members do not understand the group concept; iv) SHGs exhibit a progressive erosion in quality in terms of maintenance of attendance registers, cash books and ledgers; v) SHG members do not fully utilize group funds; vi) Paucity of funds and personnel, force small NGOs that support SHGs to leave the community; vii) Pressure on banks to disburse subsidized loans disturbs the normal process of SHG growth and maturation; viii) Group leaders often take the largest share of bank loans (Singh, J & Singh A 2010).

From the past six months, many academic institutions, bankers, non-government organizations (NGOs) and others were conducted seminars/workshops/conferences at district, state and national levels on issues and challenges of microfinance in the country. Print and electronic media have given much importance and widely covered the issues relating to recent microfinance crisis in Andhra Pradesh . In this regard, the Govt. of Andhra Pradesh has passed an ordinance "Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Ordinance, 2010.

B. Objectives & Methodology

Objectives: In the above context, the present paper "SHG-Bank Linkage Programme- Defaults and Recoveries" has proposed broadly to explore the factors responsible for the issues and defaults of the SHGs, and various mechanisms to ensure recovery and reduction of defaults. The specific objectives of the present study are i) to understand the status and performance of defaulted SHGs, ii) to assess the extent of loans borrowed by the SHGs from multiple sources, recovery of loans and default under SHG-BL programme, iii) to study the lending practices of SHGs and banks including appraisal mechanisms and reasons for defaulting, iv) to examine the impact of commercial microfinance on SHG-bank linkage and v) to understand the role of SHGs, banks and community based organizations (CBOs) in recovery and default management.

Methodology: There are more than 37,000 SHGs in all the 46 mandals of three revenue divisions in PSR Nellore district of Andhra Pradesh. About 175 branches of commercial, regional and cooperative banks are providing financial services to SHGs in the district. As on July 2010, there are 9,625 SHGs have overdue to the banks. The universe of the present study is the SHGs that have overdue more than 3 months. Based on more number of SHGs having overdue in a branch, seven such bank branches were identified in four mandals of three revenue divisions i.e. Indukurpeta and Muthukur mandals in Nellore division; Buchireddipalem mandal in Kavali revenue division; and Kota mandal in Gudur division. A sample consisting of 6-8 SHGs were selected in 3-4 villages of a branch at random. While selecting SHGs in a village, care was taken to include SHGs belonging to Scheduled caste (SC) and Scheduled tribe (ST) members availed loans during 2007- 2010 and having over due more than 3 months. Totally, the study has covered 42 default SHGs from six bank branches in four mandals in three revenue divisions of PSR Nellore district.

Fieldwork was conducted for data collection from 11th to 14th October 2010. Both qualitative and quantitative data were collected from SHGs through an interview schedule and focus group discussions. For an in-depth understanding individual interactions were conducted with the staff of Indira Kranthi Patham (IKP) including Project Director (PD), Assistant Project officer (APO) and Assistant Project Managers (APMs) at district level; Community Coordinator (CC) and Bank Branch Manager (BM)

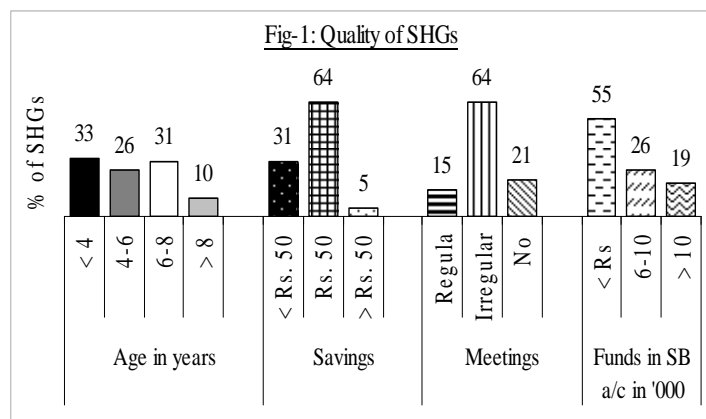
at mandal level and Community Book Keepers and Sangapriya at village level. The data were entered into computer for analysis. The data were analyzed at different levels in terms of SHG member, SHGs, Bank branches and district as units. The findings of the study are structured under four headings- i) Does a default affects group performance? ii) Does multiple lending and over loaning lead to default? iii) -Is the extent of default in limits? and iv) Are vested interests of various stakeholders leading to defaults?

FINDINGS OF THE STUDY

I. Does a default affect group performance?

The regularity of savings, frequency of meetings and attendance of the members, book keeping, process of lending, idle funds, kinds of services providing to members are the preliminary indicators to understand the performance of the group. Let's discuss the performance of SHGs having overdues to banks to assess whether defaulting has any influence on the functioning of SHGs or not.

A. Group Composition: The sample SHGs are formed with 446 members. The group size varies from 9 to 15 with an average of 11 members. However, majority of the groups are formed with 10 members (66.7%) followed by 12 members (12%). The age of the sample SHGs varies from 2.75 years to 16.67 years with an average of 5.65 years. Of the 42 sample SHGs, 33.3 percent of the SHGs are less than 4 years old, 31 per cent of the SHGs are 6-8 years old, 26.2 per cent are 4-6 years old and the remaining are > 8 years old. It reveals that the sample defaulted SHGs comprises of all ages i.e. young, matured and old groups. According to a research study majority of defaulted SHGs are > 5 years old with repeat linkages from banks and accessed to multiple credit sources (Raja Reddy and C.S.Reddy 2009).



B. Savings: All the groups have compulsory monthly savings and all the members in a group saved equal amount.

The amount of savings per month varies from Rs.20 to 100/- with an average of Rs.46. Of the sample SHGs, 64.3 per cent of the SHGs saved Rs.50/-, 31 per cent of the SHGs saved Rs.20 to 40/- and the remaining SHGs saved Rs.60 to 100/- each. The sample SHGs have a total corpus fund of Rs.12.57 lakhs with an average of Rs.28,445/-. Majority of the SHGs have a corpus of between Rs.11,000 - 30,000/- followed by Rs.30,000 - 60,000/-. No sample SHG has distributed corpus to its members in the past. However, about 30 per cent of the SHGs have distributed group savings/corpus at least once (APMAS 2009).

C. Balance in SB account: The amount of balance in SB account is one of the indicators to understand the financial performance of a SHG. The sample SHGs have an amount of Rs.3.11 lakhs with an average of Rs.7,395/- in their SB accounts which is lesser than state average (Rs.8,668) and national average (Rs.8,915). Of the sample SHGs, majority SHGs have less than Rs.5,000/- in SB account followed by Rs.5,001-10,000/- (26.2%) and more than Rs.10,000/- (19%). It is because of transfer of funds from Savings Bank Account to SHG Loan Account. (APMAS 2009).

D. Term deposits: The data show that no sample SHG has term deposits in the banks as informal collateral to the loan borrowed from banks. According to a study conducted

by APMAS, there are 30 per cent of the SHGs have term deposits in banks. However, the SHGs, got large volume of loan with large amounts in their SB accounts. It could be because of two reasons- bankers' insistence for large amount in SB account and/or not allowing withdrawing, and groups' decision to avoid problems within the group due to internal lending.

E. Meetings and Book keeping: Monthly meetings are common. Of the sample SHGs, 64.3 percent conducted meetings irregularly, 21.4 percent conducted meetings regularly and the remaining have not conducted any meeting. This indicates low attendance of members in meetings, poor book keeping, decisions and financial transactions, poor savings and the like. However, the books, except 'minute's book', are not updated since past two years. Though Sangapriyas and Community Book Keeper (CBK) system was introduced about one and half years ago still SHG book keeping is poor due to i) lack of proper understanding and skills, ii) complexities in accounting and book keeping, iii) irregular group meetings, iv) no follow up by officials and v) absence of book keepers.

According to a Study conducted by APMAS in 2010, on an average an SHG member saves Rs.60 per month and the average cumulative savings of an SHG is Rs.42,714/-. Majority SHGs have regular savings (96%), meetings with 60 to 70 per cent member attendance and moderate book keeping. It shows that the performance of default SHGs is low compared to the regular SHGs. It is evident that defaulting declines the functional as well as financial aspects of a group over a period.

II. Does multiple lending and over loaning leads to default?

Among the SHG promoters there is a prevailing notion that multiple lending and over loaning without financial discipline has multiple implications on the performance of SHGs and their member households. Defaulting is one of those implications. In the above context, the present discussion is mainly centered on to understand what extent the SHGs and their members borrowed multiple and large volume of loans from village organizations (VOs), banks and commercial microfinance institutions (MFIs).

A. Internal lending: It is observed that in most of the SHGs from the past one to two years, there is no lending from group funds. During focus group discussions, members have explained several reasons such as i) no repayment from members to group, ii) banks not allowing groups to withdraw savings, iii) small corpus fund in SHGs, iv) no or irregular savings due to large volume of loan installment, v) getting large volume of loans by creating confidence among bankers by keeping large amount in SB account. As there is no internal lending, many SHG members are still depending on informal financial sources and commercial microfinance institutions, whose interest rates are comparatively high, to meet emergency expenses and other household needs.

B. Community Investment Fund (CIF): CIF is provided to groups that have formulated investment plans covering activities such as income generation activities (IGA), land purchase, skill development or enterprise development for securing jobs in private sector, social welfare activities, marketing interventions, physical productive infrastructure, and rice credit line (RCL) to enable the poor expanding their livelihood options and improving their quality of life. Of the sample SHGs, 54.8 per cent of the SHGs have received CIF from VOs. Of the 245 members of SHGs availed CIF, 121 (49.38%) members have borrowed a total loan of Rs.11 lakhs with an average of Rs.26,255/- per SHG and Rs.9,090/- per member. Of the 23 SHGs got CIF, majority SHGs (69.6%) sanctioned loans to 1 - 5 members followed by 6 - 10 members (30.4%). Further, of the total 446 SHG members, 27.13 per cent of the members availed loans from CIF. It shows that little more than a quarter of the SHG members availed credit from CIF.

C. No. of SHG-Bank Linkages / doses of credit: The data in table-1 show that the sample SHGs have borrowed a total loan of Rs.90.32 lakhs with an average of Rs.1.32 lakh and Rs.20,251/- per SHG and member respectively. The amount of loan varies from Rs.30,000/- to Rs.4.80 lakhs depends on nature of linkage, No. of bank linkages, utilization of funds from other sources etc. Of the sample SHGs, 42.9 per cent of the SHGs borrowed credit once, 40.5 percent of the SHGs borrowed twice, 9.5 per cent of the SHGs borrowed thrice and the remaining SHGs have borrowed four (4.8%) to five (2.4%) times. It illustrates that even the SHGs that were bank linked at 1st time also became default. Further, 21 out of 42 SHGs, borrowed loan currently under total final inclusion (TFI). Of the 21 SHGs bank linked under TFI, majority groups are credit linked twice, where as majority non TFI SHGs are 1st time credit linked. As per the guidelines of SHG-BL under TFI, those SHGs that have repaid 2nd dose of loan are eligible for loan. It shows that more than 80 per cent of the loans sanctioned under TFI are ineligible SHGs. It could be to meet targets fixed by the apex bodies of banks, IKF and the Government. However, the average loan size of SHGs bank linked under TFI is more than double with Rs.2.96 lakhs when compared to non-TFI SHGs (Rs.1.33 lakh).

Credit sources	Percentage of SHGs	Loan Amount			Percentage to total loan
		Total Rs. in lakhs	Avg. to SHG	Avg. to member	
1. SHG-BL	100.00	90.32	215,048	20,251	58.74
2. IBL-Housing	45.24	9.66	50,842	10,977	6.23
3. CIF	54.76	11.00	47,826	9,091	7.15
4. MFIs	64.23	42.78	158,444	26,085	27.88
Total		153.76			100.00

D. Indiramma Housing Loans: The data in table-1 show that out of 42 SHGs, 19 (42.24%) have availed housing loan of Rs.9.66 lakh with a minimum and maximum of Rs. 20,000 and Rs. 1.2 lakh respectively. Of the total 203 members of SHGs availed housing loan, 43.35 per cent of the members have availed loan with an average of Rs.10,977. Of the total SHG members, 19.73 per cent of members have availed loans under housing programme. It shows that about one-fifth members of the sample SHGs availed housing loan besides regular SHG-BL programme.

E. MFI loans: There are four big MFIs namely Spandana Sphoorty Financial Ltd., Share Microfin Ltd., Asmitha Microfin Ltd., and SKS Microfinance Pvt. Ltd. are operating business in the study area. Of the sample SHGs, 64.24 per cent of the SHGs have borrowed a total loan of Rs.42.78 lakhs from MFIs with an average of Rs.1.6 lakh (see table-1). Of the 27 SHG-MFIs, majority SHG-MFIs (59.26 per cent) have borrowed loans from more than one MFI. 59.26 per cent of the SHGs availed loan under TFI programme; 40.7 percent of the SHGs availed housing loan and 65.4 per cent of the SHGs availed loans under CIF from VO. Further, majority SHGs borrowed 2nd loan (51.9%) from banks followed by 1st loan (37%). Of the 289 members of SHG-MFIs, 164 members (56.75%) have borrowed an average loan of Rs 26,085/-. Of the total sample SHG members, 36.77 per cent have borrowed loans from MFIs. It clearly shows that more or less half of the SHG members who availed loans under CIF, Housing loan and TFI from banks also availed loans from MFIs..

F. Multiple Loans: Majority SHGs have availed 3 to 4 loans (57.2%) followed by two (33.3%). However, 9.5 per cent of the SHGs don't have any loans other than SHG-Bank linkage. Of the total loan of Rs.153.76 lakhs, 64.97 percent of the loans borrowed from banks under SHG-bank linkage and Indiramma Housing programmes, another 7.15 percent of the loans from village organizations under CIF at low rate of interest ; where

as 27.88 of the loan amount borrowed from MFIs charged at exorbitant rate of interest between 36 and 48 percent per annum (see table-1). The average loan size of MFIs is high with Rs.26,085/- than the loans taken from other credit sources. It shows that MFIs have provided large volume of loans to the members of majority SHGs. The foregoing discussion is an apparent example to think about the prevailing notion-'over loaning of SHGs by multiple sources leads to default'.

III. Extent of Default and Recovery- Is it in limits?

According to the National Bank for Agriculture and Rural Development (NABARD) guidelines 'even one installment unpaid without authorization by the group/bank is treated as 'dues not recovered'. According to Reserve Bank of India (RBI) 'A non-performing asset (NPA) is a loan or an advance where the interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan or the account remains 'out of order' in respect of an overdraft/cash credit account. Any amount due to the bank under any credit facility is 'overdue' and it is not paid on the due date fixed by the bank. When the borrower fails to repay the loan installment amount as per the repayment schedule for more than 3 months, then that loan is considered as default and the borrower as 'defaulter'. The following discussion is on the extent of default at district, branch and SHG levels; who are the defaulters in terms of area, type of bank, type and source of loans, association with MFIs; and would it be a serious grave.

A. District Scenario

An Overview of SHG-Bank Linkages and Overdue: As on July 2010, of the 34,714 SHGs with loan outstanding, 26.69% of the SHGs have an overdue amount of Rs.1453.4 lakhs with an average of Rs.15,687/- per SHG. About 250 branches of 13 banks consisting of 11 commercial banks (CBs), 1 regional rural bank (RRB) and 1 Mutually Aided Cooperative Thrift Society (MACTS) have extended credit linkage to 34,714 SHGs. The commercial banks include State Bank of India (SBI), State Bank of Hyderabad (SBH), Syndicate Bank (SYB), Andhra Bank (AB), Bank of Baroda (BOB), Bank of India (BOI), Central Reserve Bank (CRB), Punjab National Bank (PNB), Union Bank of India (UBI) and Vysya Bank (VYB). Andhra Pragathi Grameen Bank (APGB) is the regional rural bank in the district.

Bank-wise default: Of the overdue SHGs, 65.86 per cent of the SHGs have credit linked with CBs and the remaining with RRBs (34.14%). Among the CBs, more number of SHGs having overdue in SBI (26.10%) followed by SYB (22.81%), AB (9.24%) and other 8 CBs (7.71%). However, the percentage of SHGs overdue to CBs is more (65.86 / 73.89 per cent) when compared to RRBs (34.14 / 26.11 per cent). Further, the average amount of overdue of SHGs credit linked to CBs is more with Rs.17,606/- when compared to RRBs (Rs.15693). It reveals that the recovery rate of RRBs is better than CBs. It could be because of less volume of loan and close monitoring as the bank branches of RRBs are located in the vicinity of SHGs (APMAS 2007).

Area-wise default: Of the eight mandals studied in the district, the percentage of overdue SHGs is high in Gudur (41.74%) and low in Udayagiri (15.94%) when compared to Atmakur (34.91%), Kovur (29.15%), Venkatagiri (28.04%), Sullurpet (23.43%), Kavali (21.92%) and Nellore (18.92%). However, the average amount of overdue per SHG is more in Udayagiri with Rs.23,815/- and low in Venkatagiri with Rs.10,237/- compared to all other mandals. There is a wide disparity in promotion of SHGs between mandals in the district. The no. of SHGs in a mandal varies from 229 to 1,689 with an average of 754. Of the 46 mandals in the district, majority have between 500-750 SHGs (50%) followed by 750-1,000 (26.1%). The percentage of overdue SHGs in a mandal varies from 6.17 to 71.45 with an average of 27.57 percent.

The highest percentage of overdue SHGs is in Anantasagar mandal and the lowest is in VK Padu mandal compared to other mandals in the district. Of the 46 mandals in the district, 37 per cent of the mandals have less than 20 per cent of overdue SHGs, followed by 20-30 per cent of the SHGs (28.3%), 30-40 per cent of the SHGs (21.7%) and more than 40 per cent of the SHGs (13%). In some mandals like Kaluvoy, Kota, Vakadu and Anantasagaram, the percentage of overdue SHGs is more than 50 percent. It is because of high concentration of SC population and presence of more no. of MFIs in these mandals. The percentage of SHGs having overdue across the district shows that there is a wide disparity between mandals in the district.

B. Bank Branch Level

SHG loan Portfolio: The data in Table-2 show that the SHGs' loan portfolios of sample bank branches range between 16 to 20 percent. However, in APGB, Muthukur branch, the SHGs share is very high 83 per cent in its total loan portfolio. The average SHGs' loan portfolio of RRBs is high (42%) when compared to CBs (17%). However, there is no significant variation in SHGs loan portfolios among the commercial bank branches. It indicates that SHG-BL programme could be one of the profitable business opportunities of RRBs. During individual interactions, the Branch managers have reported that the SHGs loan portfolio of a branch depends on the location of the branch, no. of SHGs in the service area, branch managers understanding on SHG and bank linkage programme and the like.

Recovery Rate: The data in table-2 show the loan recovery rate of SHGs at bank branch level. The loan recovery rate varies from 62.9 percent to 76.6 per cent. The recovery rate of RRB branches is high (73.3%) when compared to CB branches (68.47%). It was also revealed by APMAS study that in majority of the SHGs financed by RRBs, the loan recovery rate was much better than the SHGs financed by commercial banks (APMAS 2007). It could be due to close monitoring and locational advantage of the RRB branches.

Name of the Bank and Branch	No. of accounts in the branch	Out standing loan amount in Lakhs	Share of SHG Portfolio SHG Loan in lakhs		Recovery rate
			No. of SHGs	Loan in Lakhs	
1. APGB, Jagadevipet,	531	979.38	275	188.10	70.0
2. APGB, Muthukur	220	565.20	120	468.00	76.6
3. SB, B.Reddy Palem	836	1748.00	286	277.37	62.9
4. SB, Kota	652	2498.05	549	489.25	68.0
5. AB, B. Reddy Palem	408	2573.50	356	453.32	73.0
6. SBI Vidya Nagar	748	4915.00	677	798.91	70.0

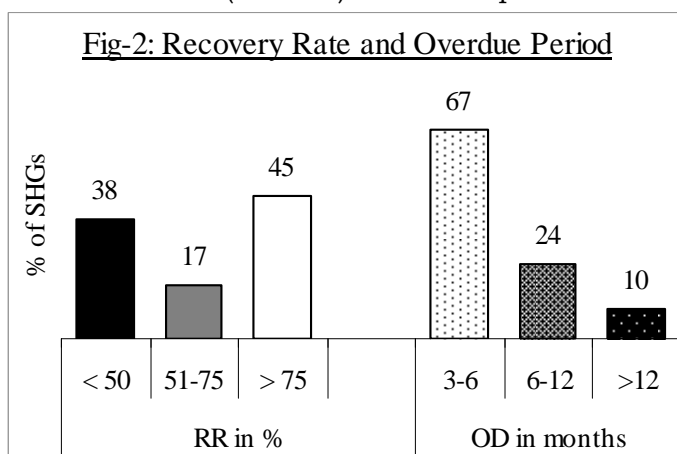
Note: APGB - Andhra Pragathi Grameen Bank, SB - Syndicate Bank, AB - Andhra Bank, SBI - State Bank of India

A case study of APGB, Jagadevipet: There are 531 accounts in APGB, Jagadevipet branch in Indukur Mandal of Nellore District. Of the total accounts, 51.78 per cent belongs to SHGs with a loan portfolio of Rs.188.1 lakhs. However, the SHG loan portfolio in the branch is low with 19.2%. As on September 2010, 159 (57.81%) out of 275 SHGs of APGB, Jagadevipet, have a loan over due of Rs.9.44 lakhs with an average of Rs.5,942/-. Majority SHGs have an over due of less than 3 months (81.76%) with an amount of Rs.3.32 lakhs (35.2%) followed by 3-6 months (8.18%) with Rs.1.89 lakh (20.06%), 6-12 months (8.18%) with Rs.3.56 lakhs (37.7%) and above 12 months (1.9%) with Rs. 0.66 lakh (7.02%). Two out of 159 over due accounts have a loan

outstanding of Rs.62,344/- with a notional NPA of Rs.3,486/-. It shows that majority SHGs became defunct recently.

C. SHG Level

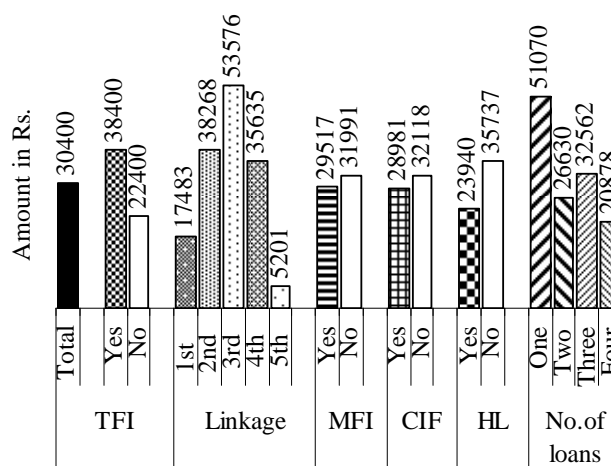
Repayment rate: The repayment of loans by the SHGs to banks varies from zero to more than 90 per cent with an average of 64.21 per cent. The data in Fig-1 show that 45 per cent of the SHGs have recovery rate of more than 75 per cent, but 38 per cent of the SHGs have recovery rate of less than 50 per cent. The average repayment rate of the SHGs having borrowed loans from MFIs is low (57.56%) when compared to SHGs having no borrowed loans from MFIs (76.2%). Further, the average repayment rate of SHG having borrowed loans under TFI is higher than the regular SHG-BL programming (59.52%). The average loan recovery rate and the no. of linkages are positively correlated i.e. when the number of linkages increases the average loan repayment rate also increases.



Period of overdue: The period of overdue varies from 3 to 24 months with an average of 7.17 months. The data in figure 1 show that majority SHGs have an overdue between 3-6 months (66.7%) followed by 6-12 months (23.8%) and 13-24 months (9.5%). The average period of overdue of SHGs-bank linked under TFI is more (8.9 months) when compared to non-TFI SHG bank linkages. The average period of overdue of 2nd linkage SHGs is high with 9.56 months when compared to all other linkages. Again, the period of overdue also depends on the nature of SHG-bank linkage and the no. of linkages. It reveals that the amount of overdue and period depend on the volume of loan, nature of linkage and number of linkages or doses of credit.

Amount of overdue: The data in fig-3 show that the sample SHGs have an overdue of Rs.12.76 lakhs with an average of Rs.30,400/-. The average amount of overdue of TFI-SHG is more (Rs.38400) when compared to non-TFI SHGs (Rs.22,400). The amount of overdue is high among 3rd linkage SHGs with Rs.53,576/- and low among 1st linkage SHGs with Rs.17,483/- compared with 2nd, 4th and 5th linkages.

Fig-3: Average Amount of Overdue



The amount of overdue and the amount of average loan of each linkage are positively correlated. The volume of loan and the overdue are also positively correlated. The large volume of loans leads to overdue. The average amount of overdue is high among the SHGs having single loan (Rs.51,070) and low among the SHGs having four loans (Rs.20,878) compared to the SHGs having two and three loans. It is because, 16 out of 17 first time bank linked SHGs, and 16 out of 18 second time

bank linked SHGs have multiple loans. The figure 3 also shows that the average overdue amounts is low among the SHGs borrowed loans from VO, CIF, MFI, and bank (housing loans) bridge loan from banks compared to the SHGs not borrowed loans except SHG-BL. It shows that the SHGs have mobilized loans from other sources to repay the SHG-BL loan installments.

IV. Are vested interests of stakeholders leading to default?

Any lending agency whether it may be an SHG, VO, bank or MFI has formulated norms for lending to their members. Accordingly, the borrower has to fulfill some prerequisites. The lending agencies and the borrowers knowingly or unknowingly bypass these norms and/or explore shortcuts in order to achieve stated or unstated ends. The subsequent discussion is on how far the lending norms and shortcuts have been providing opportunities to SHG members and pushing them into risks.

A. Lending Norms

The lending norms of banks to SHGs and SHGs to members influence loan recovery. The lending norms include the term of loan, volume, mode of repayment, rate of interest, collateral security and penalties in case of delay in repayment. Let's discuss the details of lending norms of banks and MFIs, issues and problems and why did SHGs enroll with MFIs.

<u>Norms</u>	<u>Banks</u>	<u>MFIs</u>
1. <i>Loan term</i>	: 12-60 months depending on loan size	12 months irrespective of loan size
2. <i>Loan volume</i>	: Depends on loan cycles; loan size varying from Rs.50,000 to Rs.5 lakhs per group depending on linkage; single loan; rarely housing loans	Depends on loan cycles; Loan up to Rs.30,000 per member; other loans 3-4 weeks even before clearing previous loan; multiple loans
3. <i>Installments</i>	: Monthly installments	Weekly installments
4. <i>Rate of interest</i>	: 9 to 12 per cent per annum; diminishing rate of interest; entitled for interest subsidies	24 to 36 per cent per annum; flat rate of interest; no interest subsidies
5. <i>Mode of repayment</i>	: Mostly fixed amount includes both principal and interest	Fixed amount includes both principal and interest
6. <i>Collateral / surety</i>	: No collateral; inter-se-agreement between bank and groups; informal collateral- large funds in SB account, FDs	No collateral; formal agreement between MFI and JLG; informal collaterals-signed blank cheques and promissory notes
7. <i>Penalties</i>	: Compound interest for every 3 months	Heavy fines & zero tolerance

Problems and Issues: During focus group discussions, the SHG members have reported the problems that they have been facing while repaying the loans, as the repayment norms are decided by the lending agencies without taking the opinion of SHGs. It is also observed that most SHGs don't aware the rate of interest and method of its calculation by banks and MFIs. The groups have reported the problems of lending norms of banks and MFIs are as under.

<u>SHG-Bank Linkage</u>	<u>MFIs</u>
1. Inadequate loan volume	1. High interest rates and other charges
2. Lengthy procedures	2. Weekly installments
3. Loans are untimely and delayed	3. Harsh loan recovery methods

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|-----------------------------------|---|
| 4. Too much delay-long term loans | 4. More admin/service charges |
| 5. Payment to staff | 5. Strict implementation of repayment norms |
| 6. Insist for FDs and Insurance | |

Why did the SHGs approach MFIs?

Despite the fact that there are problems in borrowing loans from MFIs, there are no savings and meetings, easy access to large volume of credit at door step with out physical or collateral security. Many SHG members are formed as joint liability groups (JLGs) for availing credit i) to clear old loans, ii) to repay installments of other loans from MFIs and banks, iii) to meet health expenses, iv) to take up income generation activities and v) to procure household gadgets and recreational assets like TV, dish connections, furniture, gas connection, etc.

B. Reasons for default

The SHG members, SHPI staff and the bankers have reported variety of reasons for default. These are of two types- i) genuine and ii) willful.

Genuine defaulting: is because of poverty, vulnerability and risks which includes an accident, illness or death in the family, crop failure etc.

- *Large volume of loan from multiple sources and low repaying capacity:* In many SHGs members borrowed loans from multiple sources - i) SHG bank linkage, ii) housing loan, iii) CIF from VO and iv) 2-4 loans from MFIs. As MFIs are much concern of repayment, many SHG members pay to them by meager household earnings and defaulting to banks and others because of helplessness in mobilizing funds to pay installments of all the loans. If other agencies pressurize as MFIs, explore for another credit opportunity. One has to go for another loan to repay the earlier loan as there are no sources of income.
- *Loan utilization:* A major portion of loan was used for unproductive assets like housing, social needs like marriage and other life-cycle ceremonies, and for building social capital such as health and education rather than on income generating activities.
- *Less availability of work and low earnings:* Majority of the SHG members depend on labour and agriculture with low household incomes. The failure of agriculture and low earnings and non perennial cash flows cause irregular repayment of loan installments or short term default of 3 to 6 months.
- *Unexpected incidences in the family:* In case of sudden ill health, accident and death of a member or earning members in the households, the SHG members became default.
- *An hour of high demand for investments & credit:* During May to July households need large investments for agriculture inputs, children's educational expenses (fee, uniforms, books etc at the beginning of the academic year) and compulsory repayment of MFI loan installments. To meet the situation all the household earnings and the funds mobilized from various credit sources diverted to it and become default to SHG-BL.
- *Credit opportunities:* As credit is liberally available, some members have borrowed without any specific purpose and repayment plans. They have utilized the amount for comforts and social functions. This leads to defaults.
- *Poor systems and monitoring:* From the past two to three years the project staff has lost touch with the community as they are mainly depending on 'Community Facilitators' (CFs) in discharging their roles at community level. The CFs are not

that skilled in motivating SHGs; not visiting SHGs regularly; spending most of their time in information collection instead of strengthening the SHGs and they too are in the list of defaulters.

All the SC groups in a habitation were formed as one VO; the SHGs other than SCs are not in VOs and MS. The default SHGs that are not the members of VO/MS have been questioning the CBRM sub-committees during their visits as they are not the members of the organization.

Willful defaulting: is often related to lack of discipline in the group. If group leaders or any members do not repay the loan then other members who are capable to repay also follow them as bad precedent. Some times SHGs don't repay willfully with an intention to avail benefits from government and to recover over due from default members within the groups.

- *False promises of political parties on loan waiving schemes:* To win the support from the SHG women during the last general elections, the political parties have discouraged the SHGs in repayment of their loans by campaigning that 'after coming to power they waive their loans'. As a result, there is no repayment of loan installments which led to mounting of overdue over a period of time.
- *Absence of peer pressure and willful default of members:* As there are many defaulters within the group, the members who can repay loan also becoming defaulters willfully because of group norms and its members' philosophy. Thus, there is no peer pressure on defaulters at group level.
- *Poor implementation of policies:* As there is no regular reimbursement of pavalavaddi to the SHGs that have good repayment, those SHGs also became irregular on account of demonstrated effect or other added advantages when compared to irregular/default SHGs.
- *Targets and over loaning:* The banks, promoters of MFIs have been followed an informal means or shortcuts such as a) bullet repayment of loans, b) prepayment of loans, c) large loans, d) harassment for fixed and recurrent deposits on the name of large volume of loan, e) non-observance of procedures such as rating/grading, preparation of MCP, TFI guidelines, and f) multiple loans on the name of special loans by the MFIs to keep clients with them etc. to reach targets.

C. Loan Recovery & Default Management Mechanisms

During discussions with the SHG members, bank branch managers and IKP staff, it was reported that the criteria followed before sanctioning the loan to members or groups, various practices followed during the loan period and the strategies followed after default, if any, to ensure good repayment or to avoid default as under.

<u>Groups</u>	<u>Banks</u>
<i>A. Strategies Before Loaning</i>	
1. Loans based on member savings	1. Grading of SHG by using CRI Tool
2. Repaying capacity of borrower	2. Loan volume based on savings and MCP
3. Loan for IGA	3. Repayment period based on loan volume
4. Current loan outstanding	4. Repayment track record
5. Loan repayment track record	5. Large funds in SAG-SB a/c
6. Purpose of loan/need based	6. Fixed deposits on the name groups
7. No. of loans	7. Insurance products

B. Strategies- After loaning

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| <ol style="list-style-type: none"> 1. Monthly - fixed amount 2. Fines with penal interest 3. Adjustment of group funds/ savings to loan installments 4. To avail subsidies 5. Rescheduling of loans 6. Bullet payments 7. Sharing defaulters list with self help promoting institutions (SHPIs) 8. Review on SHG-BL repayment in federation meetings | <ol style="list-style-type: none"> 1. Fund transfer from SB A/c to loan A/c 2. Sharing overdue list with SHPIs 3. Formal letters to SHGs 4. Personal visits to SHGs 5. Compound interest 6. Ceiling on the withdrawal of savings 7. Repeat loans with large amounts 8. Seeking assistance from Mandal Development Officer (MDO) 9. Review on SHG-BL repayment in Community Based Recovery Mechanism (CBRM) Sub-committee meetings |
|--|--|

The banks, SHPIs and SHGs are well aware of the negative implications. However, they have been followed because of varied reasons- targets, pressure, vested interest of stakeholders etc. As a result, on one hand all are benefitted and on the other pushed into risks (see table below). Let's discuss how far the SHGs, banks and MFIs grabbed opportunities and pushed into the kind of risks.

SHGs: As there is no practice or strict implementation of lending norms by the groups and the practices like manipulation of group books, creating faith among bankers by keeping large amount of funds, equal distribution of external loans, prepayment /bullet payment/ pre-matured loans to avail subsidies on interest and large volume of subsequent loans, adjustment of savings to loan amount etc. have helped SHGs and their members in accessing large volume of loans and ensuring good repayment. Nevertheless, in reality it has weakened group performance, limiting groups to saving and credit activities and increasing dependency on the traditional money lenders and commercial microfinance institutions.

Table-3: Stakeholder-wise Opportunities and Risks			
Particulars	SHGs	Banks	MFIs
Opportunities	<ul style="list-style-type: none"> - Access credit - Large multiple loans - Low interest - IGA/Employment - Comfort life 	<ul style="list-style-type: none"> - Bringing poor into formal banking system - Profitable business - Social responsibility 	<ul style="list-style-type: none"> - Credit access to poor - More business - Profits
Risks	<ul style="list-style-type: none"> - Indebtedness - Over loaning - Dependency on MLs - Tensions - Defaulting 	<ul style="list-style-type: none"> - Defaults - NPA - Dependency on SHPI and CBOs 	<ul style="list-style-type: none"> - Unhealthy competition - Membership and retention

Banks: No group and banker is serious about rating and micro credit plans of groups. The observance of shortcuts like encouragement of prepayments and less no. of installments on the name of large volume of loan in the repeat linkages, adjustment of savings to loan, fixed deposit, ceiling on withdrawal of savings etc by many banks and SHPIs in reaching targets especially in disbursing loans and recovery leading to over loaning to ineligible groups. Consequently, groups have been adopting shortcuts and pushing towards debt cycles. Thus, on one side the short cuts of SHGs, banks and

SHPIs are providing opportunity to access large volume of loans for meeting household credit needs. On the other, SHGs facing risks in repaying loans on account of low utilization patterns, low returns, lending norms, much more pressure from traditional credit sources and MFIs than from SHGs and banks on repayment of loan installments, etc.

CBOs-Village Organizations and Mandal Samakhyas: To pursue the SHG-BL activities a sub-committee was formed with office bearers at VO and MS level called Community Based Recovery Mechanism. The sub-committees were formed at both VO and MS levels. The role of CBRM Sub-committee is to collect the list of default SHGs prepared by the Branch Managers through APM for follow up in MS meetings. The Committee members in association with community facilitators attend the VO meetings and make visits to default SHGs for recovery. During interactions, the Committee members said that there is no regular follow up to ensure recovery. However, these Committees visit once or twice if the branch manager and APM express grave concern about recovery. Some times Branch Managers take the help of Mandal Development Officers and Revenue Officers in visiting villages, if the situation is even shoddier. So the SHGs, VO, MS, Banks and SHPI staff are prepared to use various means including both regular and shortcuts in pursuits of their ends.

CONCLUSIONS

The broad objective of the study is to understand the magnitude of default, reasons and its implications. The performance of default SHGs is low when compared to non-default SHGs. Over a period, defaulting has been causing poor performance of groups particularly in the regularity of savings, meetings, book keeping, group corpus, savings in group SB a/c, discipline of the group etc. The prevailing notion of 'large volume of loans with multiple credit sources without financial discipline leads to default' has been proved. The percentage of MFI contribution to SHG credit is significant. The percentage of SHG defaulting in the district is alarming. There is a wide disparity in defaulting of SHGs between clusters and mandal in the district. Though there are notable percentage of SHG loan accounts in a branch, the SHGs loan portfolio is not that much exciting. The RRBs are relatively better than CBs in the recovery rate of loans.

The volume of loan is highly associated with the percentage of SHGs defaulted and the amount of overdue. The credit association of SHGs with MFIs has mixed effect on SHG-BL. On one side, reducing the recovery rate of SHG-BL and increasing overdue even 6-12 months. On the other, MFIs encourage SHGs to clear overdue of SHG-BL by extending special and large loan in the repeat linkage from MFIs. The lending norms, the shortcuts in practice in order to achieve both stated and unstated ends of banks, MFIs and groups; poor absorption and repaying capacity of the poor; vested interest of the political parties; poor implementation of policies; and poor systems and institutions have been significantly contributed to defaulting. The MFIs and banks have been benefitted more with SHG-Bank Linkage programme even though there is some amount of risk in the form of delayed payment or default, which is temporary and overcome by shortcuts of all the stakeholders. However, in case of SHG members the invisible danger of debt cycling is high compared to development. In conclusion, whether it is a bank or MFI, responsible lending would alone optimize development and minimize risks of SHGs.

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