

SELF HELP GROUPS-BANK LINKAGE PROGRAMME: An enquiry on repayment and default management¹

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1 Back ground of the study

According to National Bank for Agriculture & Rural Development (NABARD, 2008), out of 329 banks, which have reported the recovery data, 223 banks (67.8%) have more than 80% recovery of SHG loans as on 31 March 2008. The non-performing Assets (NPAs) in respect of bank loans to SHGs amounted to Rs. 422.93 crore that are 2.9% of the bank loans outstanding. As per the study conducted by APMAS in 2007, the average repayment rate (RR) from group to bank is 79% and the portfolio at risk (PAR > 3 months) is 26%. After the announcement of General Elections to Indian Parliament and AP State Assembly, the repayment rate from SHGs to banks has gone down between 50% and 60%. During monthly review meetings of APMAS, Indira Kranthi Patham (IKP) and State Level Bankers Committee (SLBC) have debated on the downfall of repayment rate to bank linkage. However, even in some pockets and groups, default is a serious issue.

2 Objectives of the study

Objectives: In the above context, the present study has proposed to assess the repayment rate from members to group to bank and the strategies being followed to ensure repayment and manage default at various levels. The present investigation specifically addresses the research questions: i) What is the repayment rate from members to group and from group to bank. ii) Who are the defaulters and their socio-economic background? iii) What are the reasons for defaulting? iv) What are the strategies followed by groups and banks to ensure repayment and manage default?

Methodology: The study was covered 24 SHGs, those are defaulted, from 3 mandals⁴ in Chittoor district of Andhra Pradesh. Further, 45 default SHG members were selected at random, two from each sample default SHG, for individual interviews to understand the socio-economic profile of SHG members contributed for defaulting. The data was collected at two levels -i) SHG level and ii) individual level. Data was collected with both quantitative and qualitative techniques such

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⁴ Mandal is an administrative territorial unit, which is smaller than a block, consisting of 20 to 25 Gram Panchayats or revenue villages.

as individual interviews and group discussions. The findings of the study broadly presented under the headings profile of default SHGs, SHGs access to credit, magnitude of default, which includes repayment rate, who are the defaulters, reasons for defaulting, action taken against defaulters, default management strategies at various levels and conclusions of the study.

3 Profile of default SHGs

Group size: The group size varies between 8 and 15 members with an average of 11. The data shows that of the 24 sample groups, one-half of the groups have 8 to 10 members and the other half of the groups have 12 to 15 members. However, 29.2% of SHGs have less than 10 members.

Age of the group: The age of the group varies from 1.7 years to 14.2 years with an average of 6.1 years. Of the 24 sample SHGs, two-third of SHGs are 5-8 year old, one-fourth of SHGs are 1 to 5 year old and the remaining SHGs are more than 10 year old. It shows majority of SHGs are more than 5 year old.

Social composition of SHG members:

The data shows that all the 24 sample SHGs formed with 267 members. Of all SHG members, 38.95% are Scheduled Castes (SC), 26.22% are Backward Classes (BCs), 18.35% are Open Category (OCs) and the remaining are Minorities (Min) (12.5%) and Scheduled Tribes (STs) (3.37%).

Category	Members		SHGs	
	F	%	F	%
1. ST	9	3.37	1	4.2
2. SC	104	38.95	10	41.7
3. BC	70	26.22	6	25.0
4. Min	35	13.11	3	12.5
5. OC	49	18.35	4	16.7
Total	267	100.00	24	100.0

Homogeneity of SHGs: To know the homogeneity of the SHGs, based on the numerical dominance of members of a particular social category in the group, all the sample SHGs categorized into six types namely i) 'ST', ii) 'SC', iii) 'BC', iv) 'Minorities', v) 'OC' and vi) 'Mixed' SHGs. If no social category has majority members in their group, that group has categorized as 'Mixed SHGs'. Like social category of the SHG members, two-third of SHGs belongs to SC and BC categories. The data also shows that 16 out of 24 groups were formed with members belong to the particular social category.

4 SHGs access to credit

Cumulative loans from banks: The data shows that of the 24 sample SHGs, 54.2% of SHGs bank linked 3 to 4 times, 40.8% of SHGs bank linked 1 to 2 times and 4.2% of SHGs bank linked only once. On an average, an SHG bank linked 2.75 times with a minimum of one (1) linkage and maximum of five (5) linkages. It shows that most of the SHGs have repeat linkage. All the 24 SHGs have borrowed a cumulative loan of Rs. 59,11,500 from bank under SHG-Bank linkage with an average of Rs. 2,46,312.

Status of current loans: The sample SHGs has mobilized funds from both internal as well as external sources for lending. The data shows that the sample SHGs have mobilized a total fund of Rs. 11,14,593 from various sources, and disbursed 524 loans to 267 members. Of the total amount disbursed to its members, 60.3% of the funds were mobilized from bank, 15.3% of funds from banks under Indiramma Housing Loan Programme (Bank-IHL) and the remaining funds mobilized from members in the form of savings (13.5%)

S. No.	Source of Loan	Total loan	Avg. loan per SHG	Avg. Loan per Mem	% of Loan
1	Savings	150,200	5,364	849	13.5
2	Bank	672,072	16,802	3,097	60.3
3	IHL	170,666	12,190	2,586	15.3
4	VO	121,655	8,110	1,931	10.9
	Total	1,114,593	24,769	2,127	100.0

and funds as loans from village organizations (10.9%). On an average, each SHG has disbursed a loan amount of Rs. 24,769 to its members with an average loan of Rs. 2,127 per member. It shows that of the total funds disbursed to their members, major chunk of funds were mobilized from banks.

5 Magnitude of default⁵

No. of defaulters: The data shows that the 24 sample SHGs have disbursed 524 loans to 267 members. Of the total no. of loans disbursed, 64% of loans are bank funds, 33.8% of loans are from SHG funds/ member savings, and the remaining 12% of loans are from village organizations. It shows that majority of loans disbursed by the SHGs are funds mobilized from banks followed by the savings of members. On an average, SHG has disbursed 22 loans from all sources of funds to its members. Of the 524 loans, 60.11% of loan borrowers are defaulters. Of the total 315 default loans, 36.6% are loans from member savings, 29.5% are loans from bank funds, 18.4% are loans from banks-IHL, funds and the remaining 15.5% are loans from funds borrowed from VOs.

On an average, an SHG has reported 14 out of 22 loans as defaulted loans. The data on the percentage of loans defaulted against to the total no. of loans disbursed from each source of funds shows that the highest percentage of loans defaulted is loans disbursed from the funds of banks under IHL

Source	Loans		
	Total	Default	%-Default
1. Savings	177	115	64.97
2. Bank	217	93	42.86
3. Bank-IHL	66	58	87.88
4. VO	63	49	77.78
Total	524	315	60.11

followed by VO (77.78%) and savings (64.97%). Further, the lowest percentage of loans defaulted is loans disbursed from bank funds under SHG-Bank Linkage

⁵ The term default defined as those loans not repaid as per the repayment schedule, those loans have dues.

programme. It shows that the risk is more in case of loans disbursed from bank loans under IHL programme, member savings and village organizations relatively to the loans disbursed from banks under SHG-BL programme.

Period of default: The period of default varies from 3 months to more than a year depends on the funds sources of loans. During discussions with SHGs, many groups have reported that the period of default is low to bank compared to all other credit sources. They said that to avail interest subsidy on SHG-BL loans under 'Pavalavaddi Programme' they have been paid to bank regularly on priority basis.

6 Repayment Rate⁶ (RR)

The repayment rate of loans from member to SHG and from SHGs to external agencies has analyzed. Further, the repayment rate was analyzed in terms of source of funds.

6.1 Members to group: The data shows that the average repayment rate from member to group, of all the credit sources of funds, is high to VO (70.5%), banks (68.9%), low to group (36.8%), and Bank-IHL loans (34%). The data shows that in case of group funds, of the 19 sample SHGs, repayment rate of majority SHGs is less than 50 percent. Like repayment rate

of group funds, repayment rate of loans from Banks-IHL, majority groups (62.5%) have less than 50 percent. Unlike loans from group savings and Bank-IHL, majority of the groups have repayment rate more than 50% in case of

S. No	RR (in %)	Savings (N=19)	Bank (N=22)	IHL (N=8)	VO (N=11)
1	< 25	26.3	13.6	50.0	0.0
2	26-50	42.1	13.6	12.5	18.2
3	51-75	26.3	18.2	25.0	36.4
4	> 75	5.3	54.5	12.5	45.5
Total		100.0	100.0	100.0	100.0
Avg.		36.8	68.9	34.0	70.5

loans from banks (72.7%) and VO (81.9%). However, the repayment rate to banks shows that majority member's repayment rate is more than 75 percent. It shows that the repayment rate from member to group is low in case of group funds and bank-IHL compared to VO and SHG-BL loans.

6.2 SHG to Bank, Bank-IHL and VO: The repayment rate from SHGs to various external credit agencies is varying. The data on the average repayment rate of SHGs to banks, bank-IHL and VO shows that relatively the repayment is high to bank (78.9%) and VO (74.3%) and low to bank-IHL. The data on the repayment rate from SHGs to Bank shows that of the total 23 SHGs, 60.9% of SHGs have the repayment rate more than 75 percent, 30.4% of SHGs have the repayment rate between 51 and 75 percent and the remaining 8.6% SHGs have the repayment rate less than 50 percent. However, the repayment rate from SHGs to Bank-IHL shows that two-third of SHGs have less than 50 percent of repayment rate and the other one-third have

⁶ Repayment rate (RR) defined as the amount paid compared to the amount due or expected during a specific period. In other words, amount received (current and past due) minus prepayments divided by expected to amount receive or demand into hundred.

the repayment rate between 51 and 75 percent. The repayment rate from SHGs to VO shows that like SHGs to bank, 58.3% of SHGs have the repayment rate more than 75 percent, 25% of SHGs have the

repayment rate between 51-75 percent and the remaining have the repayment rate less than 50 percent. The repayment rates of

SHGs to banks, bank-IHL and VO shows that relatively the repayment rate is high to bank and VO and low to bank IHL. The reasons for low or the high repayment rate are vary and multiple. The data on loan sources- wise repayment rates shows that in all the three sources of loans (bank, bank-IHL and VO) the repayment rate from member to SHG is low compared to repayment rate from SHGs to bank, bank-IHL and VO. During focus group discussions, the groups have reported the reason for delayed repayment or default as:

S. No	RR (In %)	Bank (N=23)	Bank-IHL (N=9)	VO (N=12)
1	< 25	4.3	44.4	0.0
2	26-50	4.3	22.2	16.7
3	51-75	30.4	33.3	25.0
4	> 75	60.9	0.0	58.3
Total		100.0	100.0	100.0
Avg.		78.9	35.6	74.3

i) Loans from bank funds

- Promises of political parties regarding the waiving of SHG loans
- Less milk yield during summer; death of cattle/sheep; no insurance coverage
- Pressure from informal lending sources for the repayment their loans
- Stopped repayment of bank loans to recover loans disbursed from SHG funds

ii) Loans from bank funds under Indiramma Housing Loan (IHL) Programme

- Promises of political parties regarding the waiving of SHG loans
- No action on earlier loan borrowers who were not repaid
- Members think that they will repay after completion of house construction

iii) Loans from VO funds

- Promises of political parties regarding the waiving of SHG loans
- No regular follow up of IKP-staff
- Members have the opinion that it need not repay as these loans are from government

iv) Loans from SHG funds

- It is our money; no one asks; we will repay later.
- SHGs not rigid on the repayment of loans disbursed from SHG funds
- Misuse of funds by the leaders and long default of loans

7 Who are the defaulters?

Are the defaulters belonging to lower social categories? What is their primary source of household income? Does the defaulters have multiple and large loans within and outside SHGs? To know who the defaulters in the group are, data was collected from 45 default members of 24 SHGs, two in a group at random, based on the availability of respondents.

7.1 Social category

The data shows that of the 45 sample default SHG members, 44.4% are SCs, 26.7% are BCs, 17.8% are Minorities and the remaining are OCs (6.7%) and STs (4.4%). If we compare the social composition of sample SHG default members with the social composition of the sample SHG members, the percentage of STs (1%), SCs (5.5%),

BCs (0.5%) and Minorities (4.7%) is high. Where as the percentage of OCs is significantly low (-11.5%). It shows that the defaulting is low among OCs compared to all other social categories.

Of the 45 sample default members, 15.5% of the

members are widowed / separated. However, the female-headed households are only 6.7%. Majority of the default members are illiterate (57.8%) and married (84.4%).

Table-6: Social Composition of Default members (in %)

Social category	SHG member (N=267)	Default members N=45	Difference
1. ST	3.4	4.4	1.0
2. SC	38.9	44.4	5.4
3. BC	26.2	26.7	0.5
4. Min	13.1	17.8	4.7
5. OC	18.3	6.7	(-)11.6
Total	100.0	100.0	

7.2 Economic status

Economic Activities: The primary economic activity of the households of the sample default SHG members shows that 42.2% of the members depend on labour, 37.8% of the members depend on agriculture & allied activities and the remaining households on business (both seasonal and petty), jobs and other traditional caste occupations. However, the secondary economic activity of the sample default SHG members shows that majority of the households depend on dairying (42.3%) and labour (44.9%). It shows that labour, agriculture & allied activities especially dairying are the main sources of household income.

Landholdings: Of the 45 sample default members, 37.8% are landless, one-third of members having less than one acre of land, 15.6% of members have 1

to 2 acres of land and the remaining (13.3%) members have more than 2 acres of land. It shows that most of the sample default SHG members are marginal farmers, whose landholdings are < 3 acres, and landless.

Household income: The household income of the default SHG members varies between Rs. 10,000 and Rs. 2,04,000 with an average of Rs. 48,764. Of the 45 sample

Table-7: Occupations of Default Members

Occupation	Primary	Secondary
1. Agriculture	26.7	10.5
2. Agriculture labour	28.9	34.2
3. Construction labour	13.3	2.6
4. Dairying	11.1	42.3
5. Sericulture	--	2.6
6. Seasonal business	6.7	2.6
7. Petty business	8.9	2.6
8. Job-Private / Govt.	2.2	--
9. Other	2.2	2.6
Total	100.0	100.0

default SHG members, nearly 50% of the members' household income is between Rs. 25,000 to Rs. 50,000, 31.1% of the members' household income is more than Rs. 50,000 and the remaining members' household income is less than Rs. 20,000. It shows that majority of the households fell under below poverty line (BPL) category, whose income is less than Rs. 70000 per annum as per the Govt. of Andhra Pradesh.

7.3 Household Debts

Volume of debt: The households of sample default SHG members have a total debt of Rs. 23,31,593 with an average of Rs. 51813; it varies from household to household between Rs. 1,000 to 170,650. The data shows that of the 45 sample default SHG members, one-third of the members' households credit is between Rs. 25,000 and Rs. 50,000, 26.7% of members have the debts of less than Rs. 25,000, nearly one-quarter of households have the debts of between Rs. 50,000 and Rs. 1,00,000 and the remaining households have a credit more than one lakh.

No. of loans/ Multiple loans: The data shows that of the 45 sample default members, 40% of the default members have borrowed two loans from SHGs, 35.5% of the members have borrowed > 2 loans and the remaining (24.4%) members have borrowed only one loan. It shows that majority of the SHG members have borrowed multiple loans from SHG. Further, of the total 45 default SHG members, 31.1% of members have 3 to 5 loans outside the SHG, 24.4% of members have two loans, 17.8% of members have only one loan, and the remaining 26.7% have no loans outside the SHG or at traditional credit sources. It shows that as the credit is available at SHG, dependency on money-lender has been decreased. Of the total 190 loans of default SHG member's households, little more than half (51%) of the loans borrowed from SHGs and the other half of the loans from traditional credit sources like friends, relatives, rich farmers and money lenders.

Table-8: Default HH & no. of sources of credit

Number of loans	SHG		other	
	F	%	F	%
1. No loans	--	--	12	26.7
2. One	11	24.4	8	17.8
3. Two	18	40.0	11	24.4
4. Three	16	35.5	14	31.1
Total	45	100.0	45	100.0

7.5 SHG contribution to household debts/credit

The data on the contribution of SHG to household credit shows that of the total 45 sample default SHG members, 28.9% of members have borrowed more than 80 percent of household credit from SHGs; 13.3% of members have borrowed 60-80 percent of household credit from SHGs; 22.2% of members have borrowed 40-60 percent of household credit from SHGs; and the remaining 35.6% have borrowed less than 40 percent of their household credit from SHGs. It shows that SHGs have made a significant contribution to the household debts of default SHG members. On an average, a default member has borrowed a loan of Rs. 27,242 from the SHG.

8 Reasons for defaulting

During individual interviews, members, the members have reported multiples reasons for default as i) socio-economic conditions of the households, ii) SHG functioning and iii) political parties and their election promises. The economic reasons includes less availability of work (46.7%), less income or cash flows during slack seasons (24.4%), loss of income generating assets (26.2%) and drought (20%). Social reasons include ill health of household members (26.7%), children marriages (15.6%) children education (11.1%) and repayment of loans borrowed from

Reasons		F (N=45)	% mem.
Economic	Less availability of work	21	46.7
	Slack season/less income	11	24.4
	Loss of assets	12	26.2
	Drought	9	20.0
	Migration	4	8.9
Social	Ill-health	12	26.7
	Children - education	5	11.1
	Children - marriages	7	15.6
	Repaid loans outside SHG	11	24.4
Political	Political promises on loan waiving	20	44.4
Group	Quarrels within the SHG	17	37.7

traditional credit sources on high interest rate out side the SHG (24.4%). Some members have mentioned that not repaid the loan installment due to quarrels within the group (37.7%) even though they have loan repaying capacity. Besides, nearly half of the sample default SHG members have reported that the political parties have made promises during election campaign that don't repay loans, we are going to form the government and we will waive all the SHG loans borrowed from banks (44.4%). As most of the sample default members are SCs and BCs believed the promises of the politicians, there past experience on waiving of farmer loans by the Government, stopped repayment of loans. It shows that of all the multiple reasons for default, the political reason contributed more for default of loans. It shows that the default is of genuine and willful.

During informal interactions with the men of Pedda Velgatturu, the villagers have reported that of the total 12 to 14 SHGs in the village, only 2 to 3 SHGs are functioning i.e. conducting meetings and collecting savings. Remaining all the 10 to 12 SHGs in the village are not functioning from the past one to one and half years and are not paying any loan installment to bank. They have reported the reasons for not to functioning and repaying loan installments to bank as that most of the SHG members have borrowed Rs. 15,000 to Rs. 20,000 from Share Micro Finance Ltd, Spandaana, Amma MACs, who have started their operations a couple of years back. They also said that all the SHG members regularly repaying the weekly

installments to MFIs because of regular monitoring and pressure and defaulted to SHGs. This is one of the good for over loaning from multiple sources leads to default.

9 Action taken against defaulters

The groups have taken various steps to recovery loan from the defaulters. During individual interactions, the members have reported action taken against defaulters by the groups. The action taken against defaulters includes repeated reminders and visits to defaulters' houses (68.9%); information to Indira Kranthi Patham (IKP) officials (75.6%), to banks (48.9%) and to VO (68.9%) and savings of the members adjusted to their loan installments (8.9%). Further, nearly half of the members (49%) have reported that the groups have not taken any

Particulars	% (N=45)
1. Repeated visits by the groups	68.9
2. Informed to IKP staff	75.6
3. Informed to bank officials	48.9
4. Informed to VO/MS	68.9
5. Savings adjusted to loan	8.9
6. No action against defaulters	48.9

action against defaulters, as it is the decision of the group. In some SHGs, most of the members are defaulters. The action against defaulters also shows that instead of taking action at group level, many groups have reported on default to bank/ VO/ IKP. It indicates low peer pressure on its members at group level.

10 Various strategies followed to manage default

Strategies-Before Loan	
Groups	Banks
<ul style="list-style-type: none"> Loans based on member cumulative savings Repaying capacity of borrower Loan for income generation activity Loan repayment track record Regularity of savings 	<ul style="list-style-type: none"> Rating of groups Large funds in SAG-SB a/c A portion of loan as FD Small loans Less repayment period with large equal monthly installment amount Repayment track record
Strategies- After loan	
Groups	Banks
<ul style="list-style-type: none"> Monthly principle & interest Adjustment of cumulative member savings to loan over due/ outstanding Discussion on RR in group meetings Sharing of defaulters list with SHPI Review of SHG-BL repayment in federation meeting Rescheduling as new loan 	<ul style="list-style-type: none"> Fund transfer from SB to loan A/c Sharing of info with promoters (SHPI) Formal letters & personal visits to SHGs FD adjustment to loan over due Informal ceiling on savings withdrawal Pressure from other SHGs in the village Regular following up/visits/council ling Subsidies to SHGs linked with repayment Large loans to recover old loans on the advise of promoters

Default is of two types- i) genuine and ii) willful. The groups have reported about both the categories. The recovery strategies also vary from category to category. Willful default is rare. In case of willful default, group takes member's assets into possession. Where as in genuine defaulting, there is a rescheduling of loan or renewal as fresh loan. In case of death of a group member or main supporter of the household, if the loan amount is small, loan is waived, if the diseased has a large loan with more loan outstanding, then a portion of loan will be waived. The groups have reported their experiences in dealing with default as under.

11 Conclusions

The specific objectives of the present investigation is i) to understand the loan repayment rate from member to SHG and from SHG to other external credit agencies; ii) to know who are those defaulters; and iii) to know the reasons for default and the strategies followed to recovery the loan and iv) the impact of General Election in the country and in the State of AP on SHG-BL loan repayment rate. The study has covered a sample of 24 default SHGs and 45 default SHG members, two from each SHG.

Majority of the default SHGs are > 5 year old with repeat linkages from banks and accessed to multiple credit sources. Majority of the default SHGs are homogenous in terms of caste. Majority of the SHGs are SCs and BCs. All the SHGs accessed to credit from multiple sources.

The repayment rate from members to SHG is low compared to the repayment rate from SHG to external agencies irrespective of fund sources. Of all the external credit sources, the repayment rate is high to bank and low to bank IHL. Further repayment rate also depends on source of funds for lending and the advantages to SHGs or members from each source.

The reasons for delayed repayment or default are multiple and varying. Many groups have reported the reasons for default as less availability of work, promises of political parties in the last General Elections on waiving of SHG loans, ill health of household members, children education & marriages, Majority of the defaulters are SCs and BCs, who belong to BPL category, primarily depend on agriculture and labour, and dairying as subsidiary occupation. The action taken against defaulters and the strategies followed to ensure repayment or manage default are varying at SHG, bank, VO and promoter levels.

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