
National Seminar on
Micro Finance Sector in India – Issues & Challenges
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Organized by
Gitam School of International Business
Gitam University, Visakhapatnam

Presentation on

**SHG-Bank Linkage Programme: A Study on
Loan Default and Recovery**



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Presentation by
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Context of the Study

- Largest CBMF programme in the world
- Largest FI Programme in the country
- Decreasing Repayment Rate over a period
- increasing non-performing assets (NPA)
 - *Nabard data*
 - *Research studies*
- Microfinance crisis in the state
 - *Indebtedness and suicides*
 - *Microfinance Ordinance of AP 2010*



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Objectives of the Study

- **To know the magnitude of default, reasons and its implications**
- **The specific research questions are:**
 - **Does default decline group performance?**
 - **Does multiple lending and over loaning leads to default?**
 - **Extent of default & recovery-Is it in limits?**
 - **Are vested interests lead to default?**



Research Methodology

Sampling units

- 3 Rev. Divisions; 6 Branches in 4 Mandals; 42 SHGs
- Purposive and random sampling

Data collection techniques

- FGD, Case Studies, Observation
- Interview Schedule

Nature & source of data

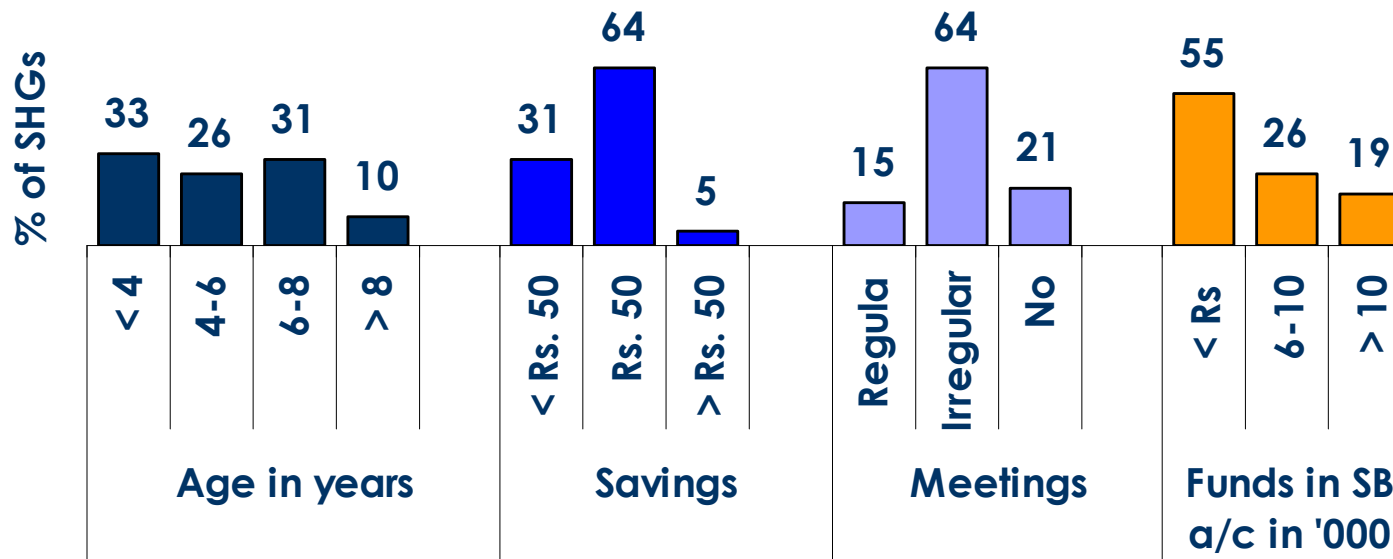
- Primary & secondary; Qualitative & Quantitative
- SHGs, BMs, Fed. & CBRM Members, IKP Staff

Period of data collection-October 2010



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Quality of SHGs



- Rs. 12.57 lakh- total corpus fund of SHGs
- Fin. Transaction outside the meeting
- Poor book keeping & accounting



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Source-wise Access to Credit

Fig-1: SHGs and Credit Sources

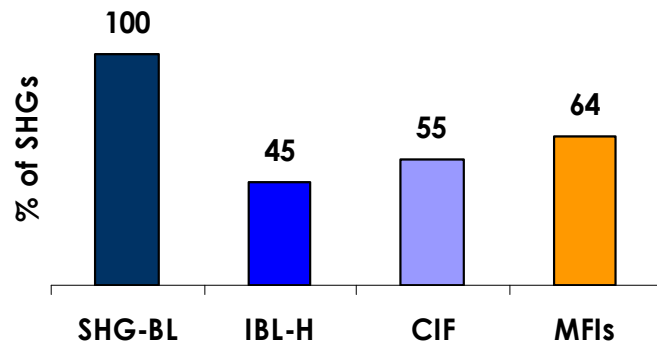


Fig-2: Source-wise Credit Share

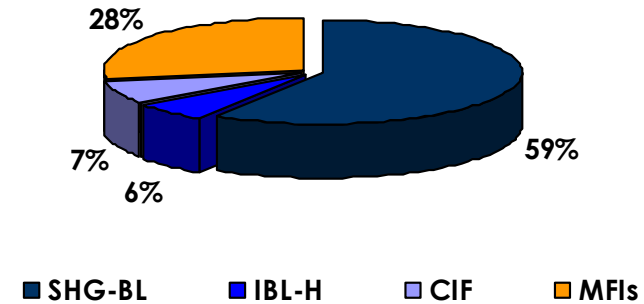


Fig-3: Source-wise Average Loan Per Member

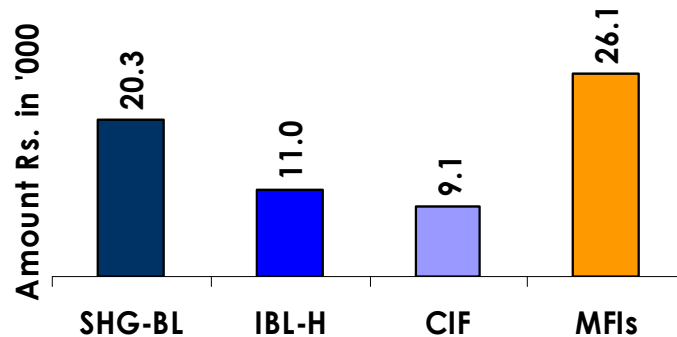
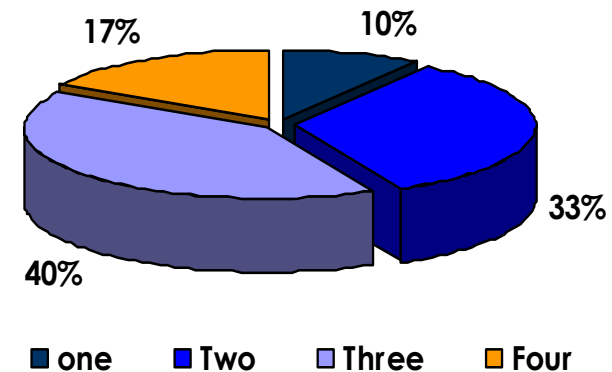


Fig-4: No. of loans



SHG-BL-SHG Bank Linkage; IBL-H- Indiramma Bride Loan for Housing; CIF-Community Investment Fund; MFI-Microfinance Institutions



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Default at District Level

- 250 branches of 13 banks providing services
- > 37000 SHGs have loan outstanding
- 27 percent have overdue of Rs. 1453.4 lakh
- Percentage of SHGs defaults is low in CBs
- Percentage of OD is more in CB less in RRBs
- Disparities in SHG promotion and over dues
 - Between cluster areas; High in Gudur-42%, low in Udayagiri-16%
 - Between mandals; > 50% of OD SHGs-Kaluvoy, kota, Vakadu and Anantasagaram



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SHG Loans & Recovery-Branch Level

Name of the Bank & Branch	% of SHG Account	% of SHG Loan Portfolio	RR in %
APGB, JD Pet	52	19	70
APGB, Muthkur	55	83	77
SYB, B.Palem	34	16	63
SYB, Kota	84	20	68
AB, B.Palem	87	18	73
SBI, V.Nagar	91	16	70

APGB-Andhra Pragathi Grameen Bank, SYB-Syndicate Bank, AB-Andhra Bank; SBI-State Bank of India; RR-Recovery Rate



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Default at SHG Level

Fig-1: Recovery Rate and Overdue Period

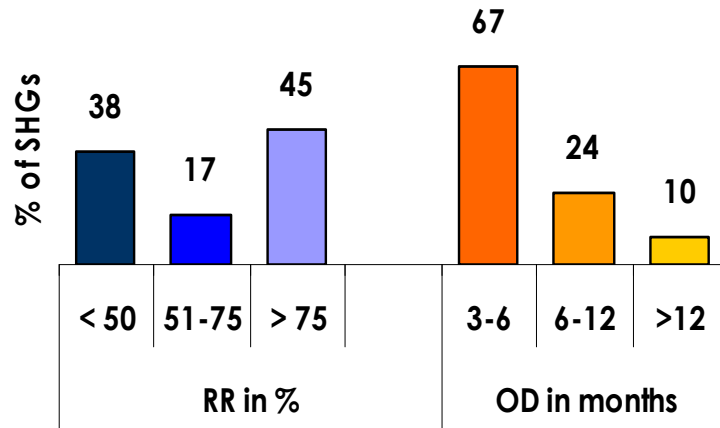
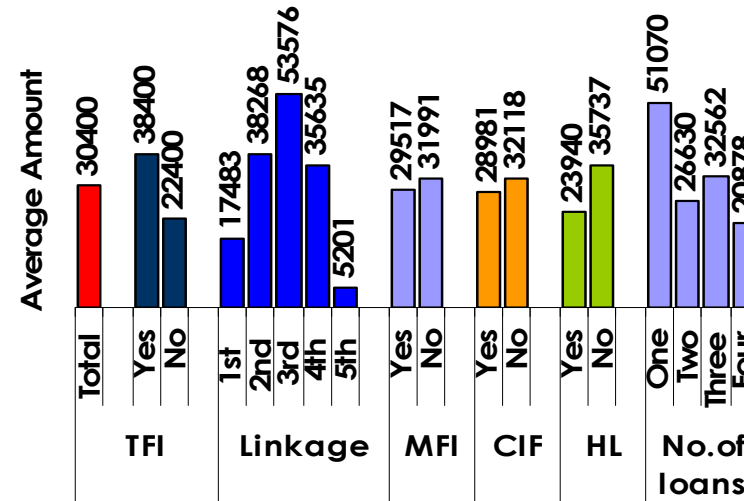


Fig-2: Amount of Overdue



- About 64% - Avg. Repayment rate (RR)
- RR of SHG-MFI is low compared to others
- 7 months - avg. period of over due
- About Rs. 13 lakh – total amount of over due



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Lending Norms and Problems

Banks

Inadequate loan volume

Loans –untimely

Too much delay

Lengthy procedures

Payments to staff

Insist for FDs & Insurances

MFIs

High interest rate

More admin charges

Harsh loan recovery

Weekly installment



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Lending Norms and Problems

A. Norms	<u>Banks</u>	<u>MFI</u>s
• Loan term	12-60 months	12 months
• Volume	R. 0.5-5 lakh-SHG	Rs. 30,000-Mem.
• Installments	Monthly	Weekly
• Interest rate	12% pa; Diminishing	24-36% pa; Flat
• Mode-repay	Fixed amount P+I	Fixed amount P+I
• Collateral	No; but informal	No; but Informal
• Penalties	CI; 3 months	Fines; '0' default
B. Problems	Small loan, delay, untimely, payments	Interest, WI, Harsh recovery



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Why do they shift from SHGs to MFIs to SHGs?

- Large loans, no savings & meetings
 - Credit is easily available at door steps
 - No other alternative credit source
 - To clear old loans
 - To repay other loan installments
 - To meet health expenses
 - To take up income generation
 - To procure household gadgets
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Types of Default & Reasons...

- **Two types of default**
 - *Genuine and*
 - *Willful*
- **Reasons for genuine defaulting**
 - *Large volume of loan –multiple sources*
 - *Loan utilization-unproductive purposes*
 - *Less availability of work and low earnings*
 - *Unexpected incidences in the household*
 - *An hour of high demand for investment & credit*
 - *Credit opportunities and comforts*
 - *Poor monitoring system at project level*



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Types of Defaulting & Reasons (2)

- **Willful defaulting**
 - *Lack of discipline*
 - *To recover from defaulters within SHG*
 - *To avail benefits from Govt.*
- **Reasons for willful defaulting**
 - *Political promises on loan waiving*
 - *Absence of peer pressure*
 - *Poor implementation of policies*
 - *Targets and over loaning*



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Default Management- SHGs

Before Loaning

- Member's savings
- Repaying capacity
- Preference to IGA
- Loan outstanding
- No. of loans
- Earlier track record
- Cumulative savings

After Loaning

- Monthly P & I
- Fines & Penal interest
- Corpus/PV to loan inst
- Subsidies to loan
- Bullet payments
- Defaulters list to SHPI
- Review in fed. meeting



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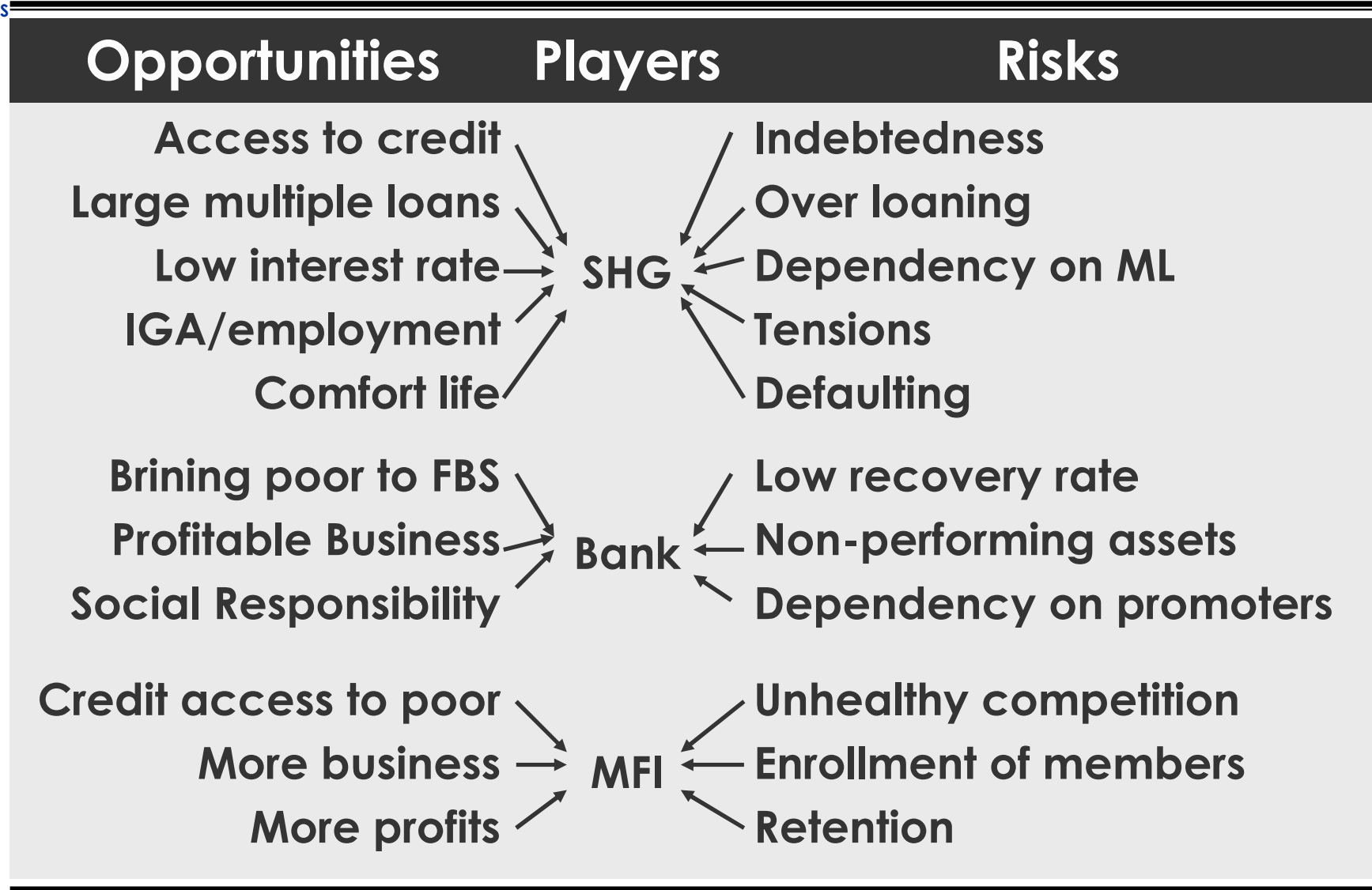
Default Management- Banks

Before Loaning	After Loaning
- Grading with CRI	- Fund transfer-SB to Loan
- Savings and MCP	- Regular savings to loan
- Large EMI amount	- subsidies/PV to loan inst
- RP track record	- Large repeat loans
- Ensure funds in SB a/c	- Defaulters list to SHPI
- Fixed deposits	- Review in fed. Meeting
- Life insurance	- Personal visits/letters



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Opportunities and Risks





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Learning...

- **The performance of default SHG is low**
- **Large volume of loans from multiple sources without financial discipline leading to default**
- **MFIs contribution to SHG credit is significant**
- **Regional differences in the magnitude of default within the district**
- **SHGs loan portfolio in a branch is not that much exiting; RRB are relatively better than CBs in RR**



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Learning

- **Magnitude of default and loan volume are associated**
- **SHGs association with MFIs has mixed effect on SHG-BL programme**
- **Vested interests of stakeholders led to defaulting**
- **Banks and MFIs are more benefitted than SHGs**
- **Responsible lending is must for optimizing development and minimizing risks**

Open for Discussion... & Thanks

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