

## **Selfhelpgroups - Default Management and Recoveries: A Study among the Scheduled Caste Women in Andhra Pradesh and Telangana**

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**ABSTRACT** : Andhra Pradesh is one of the pioneer states for the development of Self Help Groups in rural and urban areas. The default management of the loans is due to delay in availability of finance, and also bad linkage practices like diverting loans to Fixed Deposits or SB A/c, and not allowing internal lending to the groups, delay in release of loans and Political intervention etc. The main objective of the research is to find out the reasons for the loan default at SHG level and at member level. At SHG level the reasons are mis-utilization of the money by leaders, loan waiving by the political parties. At member level the hardships faced by the member are drought, migration and less availability of work.

**KEY WORDS:** Default Management, Women Self-Help Groups, and Micro Finance Institutions.

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### **I. INTRODUCTION**

India in 1990s saw emergence of a movement, where thousands of the poor women (and some men) organizing themselves into Self Help Groups (SHGs) to access credit and loan. Self Help Group-Bank Linkage programme is the largest financial inclusion programmes, covering about 95 million families. According SERP it is estimated that as on Feb 2014 in Andhra Pradesh there are 10.58 lakh SHGs and 1.16 crore members totally for women. The total Savings and Corpus of the SHG members are Rs.4447.63 Crores and Rs. 5720.66 crores. 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'. For Reserve Bank of India (RBI) 'A nonperforming 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'. (K. Raja Reddy, et al. 2011). The study revealed two types of default management i) genuine and ii) wilful. It is observed that the Self Help Groups have both the categories. Wilful default is seen in very rare cases, while in a genuine default it is observed rescheduling of loan or a fresh loan is given to the SHG.

### **II. STATUSES AND PERFORMANCES OF THE GROUP**

#### **Year of formation of the Groups**

The age of any SHG is an important indicator to measure the sustainability of that SHG. It is found that higher age of SHGs means these groups have performed the group activities successfully over a long period of time. It is observed that of the total 160 SHGs, the members started joining the groups from the year 1993(0.6%). The year-wise distribution shows that maximum number (19.4%) of the beneficiaries joined the groups in the year 2002. However, 71.25 percent of the beneficiaries joined the SHGs during the period of 4 years i.e., 1999-2002. The data indicate that there is continuous effort by the agencies in the formation of SHGs.

#### **2.2 Group size**

The study shows that more than 67 percent of the groups comprise between 11 to 16 members and more than 28 percent of the SHGs have 7 to 10 members. The remaining SHGs have 17 to 20 members. However, during the time of group formation the group size shows that 49.37 percent of the SHGs had 15 to 16 members, followed by 9 to 10 members (16.87%) and 25 percent of the SHGs had 11 to 14 members. The data reveals that the size of the groups has been standardized in course of time, the smaller groups increased their members and larger groups decreased their members.

### 2.3 Savings of the SHG Group

The amount of savings differs from group to group and it depends merely on savings capacity and decision of the SHG members. It is noticed that most of the SHG members have saved money on monthly basis and it ranges between Rs. 41 and 50. The members saved money ranging from Rs.20 to a maximum of Rs.100/- per month. The following table 5.2 shows the distribution of group wise amount of cumulative savings. Most of the SHGs (41.25%) have saved amount ranging from Rs.21 to40 thousands. More than one fourth of the SHGs (28.75%) have saved only up to Rs. 20 thousands and 23.12% of the SHGs have saved amount ranging from Rs.41 to 60 thousands. Only 6.87 per cent of the SHGs have saved highest amount ranging between Rs.61 and 80 thousands.

**Table: 2.3 Amount of Cumulative Savings among the SHGs**

Sl.No	Amount (Rs. in thousands)	Frequency	Percentage
1	<20	46	28.75
2	21-40	66	41.25
3	41-60	37	23.12
4	61-80	11	6.87
<b>Total</b>		<b>160</b>	<b>100</b>

The amount of cumulative savings is much encouraging among the groups as it is a major determinant to assess the performance and for getting benefits from the Government and loans from the Banks.

### III. OBJECTIVES

- [1] To understand statuses and performance of the Self Help Groups.
- [2] To see default management at SHG level and Member level.

### IV. METHODOLOGY

#### 4.1 Sampling Design

The study covers 3 districts viz. Chittoor, Mahaboob nagar and Vizianagaram in Andhra Pradesh, 16 mandals, 80 villages, 160 SHGs and 480 SHG members including 160 SHG leaders.

#### 4.2 Collection of data

The data were collected through both Primary and Secondary sources. a) The Primary data were collected through anthropological field work, using an interview schedule, observation, structured interviews, unstructured interviews, focus group discussions (FGDs) and case studies. b) Secondary data relating to policies, programmes, development of SHGs and process of implementation are collected through Internet, Journals, Books, records of the SHGs, Federations, Offices of Mandal Revenue officers, Mandal Development Officers and District Planning Officers and the Project Officer, DRDA.

### V LENDING NORMS OF BANKS, VOS AND MFIS

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. Majority of the SHG groups showed equal distribution of loan amount and it was found in the loans borrowed from government under subsidy programme. Lending is done only to SHG members and not to non- SHG members. There are two types of loans given to the SHG members i) large loans for IGA and ii) small loans for emergencies and consumption purposes .

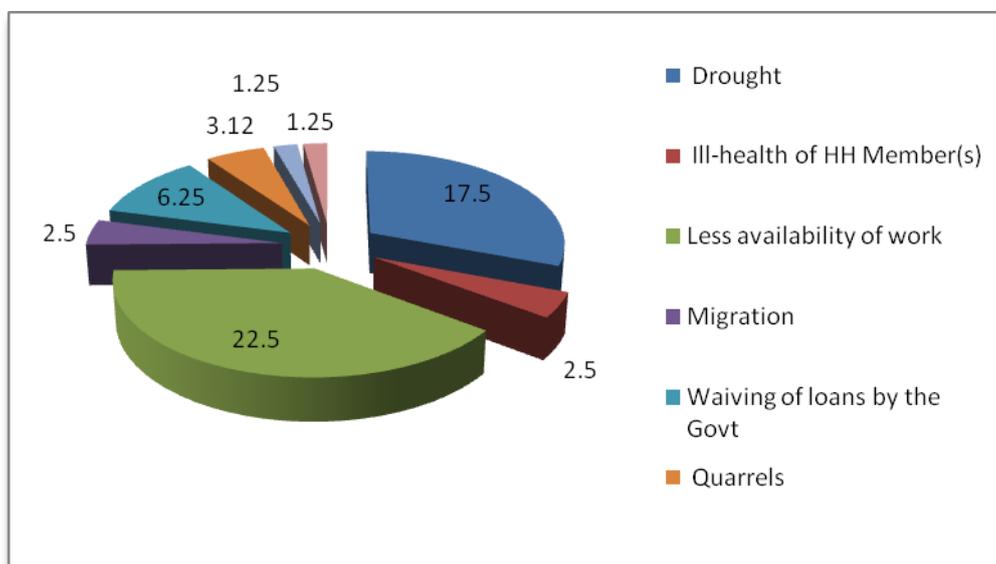
**Table: 5.1 Lending norms of the SHGs**

Sl.No	Lending norms	SHG to members	Bank	VO	MFIS
1.	Loan Period	3-60 months depends on the loan size	12-60 months	2-50 months	12 months
2.	Instalment frequency	1-12 months	Monthly	1-3 monthly	Weekly
3.	Rate of Interest	12-24 percent	9-12 percent	12-24 percent	24-36 percent
4.	Mode of repayment	Interest and principal	Both Principal and Interest	Principal and Interest	Both principal and Interest
5.	Surety/ collateral	No collateral	No collateral	No collateral	No collateral

## VI. REASONS FOR DEFAULT AT MEMBER LEVEL

One of the main reasons for the default management at member level is drought. Andhra Pradesh is one of the states in India which has been severely affected by drought. The failure of monsoons has had a disastrous effect on the agriculture sector and a large share of the population is dependent on agriculture for livelihood. This is one of the main reasons as to why people migrate to towns or cities in search of their Livelihood.

Chart 1 Reason for Default Management



The data reveals that about 22.5 percent of the groups have reported non availability of work followed by 17.5 percent due to drought and 2.5 percent due to migration. In addition to economic reasons, ill health and death of the head of the family members are also the reasons for default or delayed loan repayment. However, the reasons for the wilful delay in repayment of loan are the promises of the political parties to waive SHG loan amount at the time of election (6.25%).

## VII. CRITERIA FOR LENDING LARGE LOANS

The study examined the criteria for lending large loans for income generation activity and social activity. The members have to fulfil the following conditions to get a large amount of loan.

- i). Repaying capacity
- ii). Size of Savings
- iii). Loan repayment track record.
- iv). Loan record
- v). Current loan outstanding.

## VIII ACTION TAKEN AGAINST DEFAULTERS

The group leaders reported that type of action taken against defaulters depends on the reasons for default, period of default, and amount of loan overdue etc. Of 160 sample only 30 per cent collected fines and repeated visits by the group is 9.35 per cent and informed to IKP/VO is 2.5 per cent.

## IX DEFAULT MANAGEMENT AND LOAN RECOVERY MECHANISM IN THE SHGS

The criteria followed before sanctioning the loan to members or groups, various practices are followed during the loan period and the strategies followed after default, is to ensure good repayment or to avoid default.

### Groups

#### A. Strategies Before Loaning

1. Loans given to the members are based on member savings
2. It depends on repaying capacity of the borrower
3. Loans are mainly for Income Generation Activities
4. Current loan outstanding

### Banks

1. Rating of the Groups
2. Loan volume is based on savings
3. Repayment period is based on the loan volume
4. Loan repayment track record

5. Loan repayment track record
6. Purpose of the loan
7. Regular savings

5. Large funds in SHGs SB A/c
6. A portion of loan as fixed deposit

**B. Strategies- After loaning**

1. Monthly – principle and interest
2. Fines with penal interest
3. Adjustment of group funds or savings to loans
4. Rescheduling of loans are done
5. Bullet payments is seen
6. Sharing defaulters list with SHPIs.

1. Fund transfer from SB A/c to loan A/c
2. Sharing overdue list with SHPIs
3. Formal letters send to SHGs
4. Personal visits to Self Help Groups
5. Compound interest is paid
6. Ceiling on the withdrawal of savings
7. loans with large amounts are repeated

**9.1 Pre-requisites for external linkages at SHG level**

Pre requisites for an external Linkages at SHG levels are i) rating of groups ii) large amount of funds in bank A/C iii) less volume of loan and iv) a portion of loan as fixed deposits.

**Table: 9.1 Pre-requisites for an external linkage**

Sl.No	Pre-requisites for an external linkage	SHG members	
		F	%(N=160)
1.	Rating of groups	121	75.62
2.	Large amount of funds in SB A/C	117	73.18
3.	Less volume of loan	84	52.5
4.	A portion of loan as fixed deposit (FD)	3	1.87
<b>Total</b>		<b>325</b>	<b>-</b>

Groups reported that the following strategies are followed by banks before lending and they are i) rating of groups 75.62 per cent ii) large amount of funds in banks 73.18 percent, iii) less volume of loan 52.5 per cent, and iv) a portion of loan as a fixed deposit 1.87 per cent.

**9.2 At Individual level default management**

The members use the following ways to overcome default management i) Groups fund adjusted ii) Funds transfer -SB A/c to Loan A/C iii) Savings diverted to loan instalment iv) Fixed deposits adjusted to loan v) Formal letters and personal visits vi) Informed to MFI/VO.

**Table: 9.2 Default Management**

Sl.No	Particulars	SHG Members	
		F	%(N=160)
1.	Group funds adjusted	13	8.12
2	Funds transfer-SB A/c to Loan A/C	3	1.87
3.	Savings diverted to loan instalment	5	3.12
4.	Fixed deposits adjusted to loan	2	1.25
5.	Formal letters and personal visits	9	5.62
6.	Informed to MFI/VO	8	5.00
<b>Total</b>		<b>40</b>	<b>-</b>

The data shows that 8.12 per cent SHGs Groups funds are adjusted to the outstanding loan amount, 1.87 per cent Funds are transferred from SB A/c to Loan A/c, 3.12 per cent of savings are diverted to loan instalment, and 1.25 per cent fixed deposits adjusted to loan. Of these 5.62 per cent of the SHGs received formal letters and 5.00 per cent were informed to MFI/VO.

### **X. CONCLUSION**

The access to credit to the SHGs has been increased even in remote rural areas in Andhra Pradesh. The amount of savings of SHG members has increased considerably. To overcome the default management, the groups have adjusted group funds and savings towards the loan amount. Majority of the SHGs have reported that the reasons for default is less availability of work, drought, promises of the political parties in the general elections on waiving of SHG loans, ill health of household members, children education, and life cycle ceremonies. The Largest part of the defaulters is agriculture labourers and they have dairy as secondary occupation.

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