

## “A STUDY ON THE REPAYMENT STRATEGY OF SHG’S IN TRICHY DISTRICT”

**Dr. K. Raja Alias Pranmalai**

*Professor, Department of Rural Industries & Mgt.*

*Gandhigram Rural Institute - Deemed University - Gandhigram - 624 302 (Dindigul District)*

**P.SARAVANAPANDI**

*Assistant Professor (Finance)*

*SNMV – Institute of Management – Coimbatore*

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### ABSTRACT

**Purpose** - The momentous intention of this study is to find out the repayment strategy of self help groups. SHGs enable women to grow their savings and to access the credit which banks are increasingly willing to lend. This paper attempts to explore the financial management skill, repaying capacity, sustainability etc

**Findings**- the study was conducted in Trichy district. It is inferred that the Self Help groups are borrowing less amounts from the banks and they are successfully repaying it within a short period of one year. The amount which is been invested by them is mostly used for their personal purposes rather than investing in business etc as SHGs they are successful in repayment.

**Value**- Government always projects the positive aspects of SHGs but this paper brings out the major problem faced by SHGs i.e. its limited financial strength and how far SHGs are effective in managing their financial transactions and repaying their loan syndication with banks for term loan / working capital loan.

**Keywords**- Self Help Groups, repayment strategies, loans, self sustained, Trichy

**Paper type**- Research paper

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### INTRODUCTION

This study attempts to understand the repayment strategy of self help groups which are located within the Trichy district. This study further examines the level of fund borrowed by the SHGs and how far they are repaying the fund without letting themselves in trouble. The government is spending a very huge amount for the women empowerment in the name of SHGS. This study was conducted to analyze whether the members are really benefitted through this SHG and also to understand whether the loan amounts are properly deployed by the members. It also reviews the participation banks and MFIs cooperatives in the SHG-Bank Linkage Program across the groups which are in and around Trichy district. The analysis is made on the education level of group members and composition of the groups. The study further proceeds by examining the participation of government to develop the SHG and the role of banks in helping the SHGS during the time of crisis.

## METHODOLOGY

The research design adopted for this study is exploratory type. The population for the study is nearly 850 SHGs in Tiruchirappalli out of which 140 SHGs are chosen for the study using simple random sampling. The study was conducted in Tiruchirappalli district (Pappakurichi, Ellakudi, Solanmadhevi, Police colony, Navalpattu, Ambikapuram). Relevant information was collected by visiting to the SHG. The study SHG leaders and members were interviewed and a questionnaire was filled for each group, which included details about their age, educational qualification, and monthly income and repayment methods. Out of 140 responses 120 are found to be usable and hence the sample size for this studies is 120. The questions are prepared with the aid of literature and consultation with NGOs and the Bank managers. Totally 30 questions were gathered as a pilot study. Those 30 questions were sent to the NGOs and the Bank managers for their valuable opinions and suggestions. The NGOs and the Bank manager's opinions were taken in to account on the basis of their remarks, some questions were reworded, modified and eliminated. Finally 27 questions were selected for the questionnaire. The data were collected from the respondents through structured questionnaire and also through interview.

## REVIEW OF LITERATURE

**Mahila Abhivruddhi Society, Andhra Pradesh [APMAS]** conducted the study of **SHG movement in Adilabad, Cuddapah&Vizag** districts. The groups studied rate high on quantity parameters like savings, lending and bank-linkage, but score a depressing low in terms of quality parameters. High levels of distrust are the cause for equal distribution of funds and conflicts as a consequence. Lack of direction and guidance are the cause for increasing number of defective groups.

A study on SHGs named "**Lights and Shades**" conducted by **EDA Rural Systems**. This study focused on monthly repayments of SHGs. Study inferred that the members repay their loans flexibly based on available cash flows, which did not necessarily correspond to monthly loan installment schedules, resulting in a high delinquency. However, most SHG loans to members are eventually repaid, with low eventual default rates. Thus the high level of late repayments in SHGs, do not always translate into defaults.

**Hema Bansal**, Assistant Professor in Banking and Business Finance at the M. S. University of Baroda, Gujarat, India conducted a study named "**SHG-Bank Linkage Program in India**". This paper made an attempt to review the performance of the program in different states of India and across three major institutions—commercial banks, cooperatives, and the regional rural banks. The formal financial institutions in India have ventured into microfinance in a massive way by adopting the SHG-Bank Linkage Program model. The study also presents vital information about the leading NGOs with major credit linkages in Indian states.

## ANALYSIS OF DATA

From the data collected, it was found that some of the responses which were received was not usable for the calculation purposes so the main areas of the study relevant to the objectives are taken and an analytical has been made by us.

**Table No: 1 Average Groups members' ratio**

Group size	Frequency	Percentage	Cumulative %
Groups with 09 to 12 members	14	11.7	11.7
Groups with 13 to 16 members	36	30	41.7
Groups with 17 to 20 members	50	41.7	83.3
Groups with 21 to 24 members	20	16.7	100
Total	120	100	

From the survey around 41.7% of groups are formed with members of around 17-20. So majority of the Self Help groups are with the members' ratio of 13 to 20.

**Table No: 2 Group members and Educational Qualification**

Educational Qualification	Frequency	Percentage	Cumulative %
No formal schooling	12	10	10
Primary school	60	50	60
Senior secondary	44	36.7	96.7
Post secondary	4	3.3	100
Total	120	100	

From the sample around 10% of members in the group have not done any formal schooling. Around 50% of members have completed their primary schooling and 36% of members have completed their senior secondary. Only 3.3% of people in the SHG have completed their post secondary. So some care must be taken either by the government or by the NGOs to educate the Self Help group members on the values of education.

**Table No: 3 Value of the Borrowings (Loan)**

Loan size	Frequency	Percentage	Cumulative %
Less than Rs 100000	18	15	15
>Rs 100000 and < Rs 200000	34	28.3	43.3
>Rs 200000 and < Rs 300000	46	38.3	81.7
Above Rs 300000	22	18.3	100
Total	120	100	

From the survey more number of groups borrowed the amount around 200000 to 300000. Almost some groups borrow fund between 1 to 2 lacs. Only very less number of groups borrowed amount more than 300000. It shows that the most average range of borrowed amount fall under 2 to 3 lacs.

**Table No: 4 Deployment of the loan Amount**

Purpose	Frequency	Percentage	Cumulative %
Relending among members	12	10	10
Small Business	24	20	30
Agricultural purpose	36	30	60
Others	48	40	100
Total	120	100	

From the survey around 10% of groups are using the borrowed funds for relending either within the group members are with general public. 20% of groups are investing it in agricultural purpose. Around 30% of groups are using the borrowed fund for small business. But 40% of groups are using the borrowed fund for their self purpose like member's family welfare, health and educational purpose. So it is clear that the amount which is been borrowed is not properly utilized for the specific purpose for which it is borrowed.

**Table No: 5 Duration of the loan fund utilized**

Time Period	Frequency	Percentage	Cumulative %
Less than 3 months	6	5.0	5.0
>4 months and <6 months	36	30.0	35.0
>7 months and <9 months	32	26.7	61.7
>10 months and <12 months	28	23.3	85.0
Above 12 months	18	15.0	100.0
Total	120	100.0	

From this table we can find that all the SHGs which get loans from the banks and others normally repay it within a short span of one year. Almost 30% of groups have repaid their borrowed loan amount with in a period of 4 to 6 months. 26.7% of groups are repaying within 7 to 9 months and around 23.3% of groups have repaid the amount within 10 to 12 months. So from above information it is clear that self help groups borrow less money which is repayable by them within a short span of one year.

**Table No: 6 Monthly income of the SHG**

Monthly income (Rs)	Frequency	Percentage	Cumulative %
Less than Rs 1000	12	10.0	10.0
>Rs 2000 and <Rs3000	36	30.0	40.0
>Rs 3000 and <Rs4000	62	51.7	91.7
More than Rs 4000	10	8.3	100.0
Total	120	100.0	

From the figure around 51.7% of groups are earning the monthly income nearly 3 to 4 thousand per month. 30% of groups are earning around 2 to 3 thousand per month. 10% of groups are earning only less than 1000 rupees per month. Only 8.3% of groups are earning more than 4000 rupees per month. But 40% of groups are using the borrowed fund for their self purpose like member's family welfare, health and educational purpose.

**Table no: 7 Group Savings Rate**

Value of Savings per month	Frequency	Percentage	Cumulative %
Less than Rs 500 per Month	15	13	13
>Rs 500 pm and < Rs 1000 pm	57	51	64
>Rs 1000 pm and <Rs 1500 pm	33	23	87
More than Rs 1500 pm	20	13	100
Total	120	100	

**Note: pm – Per Month**

From the surveyed data it is inferred that 51% of the groups have a monthly income of rupees 500 to 1000. And only 13% of the groups survived had a monthly income of more than 1500 per month. Proper awareness has to be given to the group leaders and members in deploying the funds so that they will have a good monthly return for them.

**Table No: 8 Successful Repayment Rate**

Successful Repayment	Frequency	Percentage	Cumulative %
Less than 2 times	12	10.0	10.0
> 2 times and < 3	38	31.7	41.7
> 5 times and < 7	46	38.3	80.0
More than 7 times	24	20.0	100.0
Total	120	100.0	

From the above information collected and tabulated it is inferred that the people have high confidence in borrowing and repaying of loans because from the study it is understood that 38.3% of the people have successfully repaid their loan amount 5 to 7 times within a short span of time.

**Table No: 9 External Borrowings**

Source	Normal Borrowings			Borrowings During Crisis		
	Frequency	Percentage	Cumulative %	Frequency	Percentage	Cumulative %
Banks	2	3	53	6		3
NGOs			59	23	19	22
MFI	4	8	87	57	49	71
Other	6	3	100	44	29	100
Total	20	100		120	100	

The survey shows that visible contradiction between the borrowing pattern of SHGs during normal process and also during the crisis. Around 62% of groups borrow amount from banks in the initial stage but during the crisis around 49% of groups borrow amount from micro finance institutions. From this data we can understand the repayment strategy of SHGs, that they borrow amount from MFIs and others so as to repay their debts during the crisis.

Even when the banks are lending the loans at a cheaper rate of interest the self help groups are not ready to borrow from the banks as the process is very rigid.

### **Hypothesis: 1 - Income Level Vs Savings Pattern**

**H0:** There is no correlation between income level and savings pattern of the members of self help group.

**H1:** There is correlation between income level and savings pattern of the members of self help group

**Table No: 10 Income Level and Savings**

S.No	Income Level	Savings
1	12	10
2	36	57
3	62	33
4	10	20

$$\text{Correlation}(r) = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{[N\sum X^2 - (\sum X)^2][N\sum Y^2 - (\sum Y)^2]}}$$

$$R = 0.53021$$

Income level and savings pattern are correlated. Hence alternative hypothesis is accepted.

**Hypothesis: 2 – Level of Education Vs The Return Level**

**H0:** There no correlation between education of group members and the return they earn from the investment.

**H1:** There is correlation between education of group members and the return they earn from the investment.

**Table No: 11 - Level of Education Vs The Return Level**

S.No	Education	Return
1	12	12
2	60	36
3	44	62
4	4	10

$$R = 0.76123$$

There is correlation between the level of education among the group members and their return they earn from their investment. Hence alternative is accepted.

**Hypothesis: 3 – Loan Amount Vs Repayment**

**H0:** There is no correlation between loan amount and repayment rate.

**H1:** There is correlation between loan amount and repayment rate.

**Table No: 12 - Loan Amount Vs Repayment**

S.No	Income Level	Savings
1	12	10
2	36	57
3	62	33
4	10	20

$$R = 0.53021$$

Hence income level and savings pattern are correlated. Hence alternative hypothesis is accepted

## FINDINGS

From the study, following observations were found out during and after the collection of data. Most of the groups have an average number of 17 to 20 members, most of the groups borrow a very less amount of Rs 2 to 3 lacks which they feel that it is the correct amount which can be repaid by them on time, most of the SHGs have repaid their funds for more than 7 times within a short span of one year. All the groups are very successful in repaying but during the time of crises they are not in a position to manage it by borrowing funds from banks hence they borrow it from local people with high rate of interest of more than 16% per annum. So ultimately the self help groups are repaying their loan debt very success fully even though the level of return which they get is very less because most of the funds are utilized for personal reason rather than productive and they are very sustainable because the numbers of members who have left the groups are very less.

The following are the things which are inferred during the time of interviewing the SHG leaders, said that they give equal importance to all the members at the time of decision making, the amount which they invest in business are less because of the marketing problem.

## RECOMMENDATIONS

The government is giving more importance for the self help groups at present but in addition to this even the following suggestions can be taken into account for the better success of the self help groups in the future

- Subsidized loans for self help groups with low rate of interest
- Training programs for making them to become good entrepreneurs
- The procedures adopted by the banks can be relaxed for the self help groups
- The local NGOs must also play a key role in lending money to the self help groups which must be monitored by the government or by the local bodies
- Awards may be sponsored by the banks when the bank loans are repaid successfully.
- Self help group people can be trained in the line of marketing of their products which will motivate them to have better returns.
- The government can have a scrutiny committee to verify the success ratio of the self help groups in each and every area.

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