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Economic analysis of credit and repayment capacity in women self-help groups and cooperatives in Tamil Nadu, India

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ABSTRACT

A study was conducted in Tamil Nadu to assess the impact of self-help groups and cooperatives on poorer sections of the rural populations through analyzing cost of credit and recovery performance of loans received by SHGs and PACB beneficiaries, finding out causes of defaults in repayment of loans by the beneficiaries of SHGs and cooperatives and suggesting suitable policy measures. All the beneficiaries of cooperatives availed more than Rs 6,000 as loan while only 15.56 per cent of the SHG beneficiaries were able to borrow a similar amount. Among SHGs, 86.66 per cent of the beneficiaries were regular repayers of loan whereas in cooperative societies only 40.00 per cent of the beneficiaries were regular repayers and the rest were irregular in repay. Majority of the members of PACB availing loans were willful defaulters. The debt asset ratio, educational level of the beneficiaries and membership of SHGs significantly influenced the overdue position. The beneficiaries of SHGs incurred only interest charges for obtaining the loans while the beneficiaries of cooperatives incurred expenses on traveling, documentation, unaccounted payment and loss due to interest on these capitals. It was recommended that subsidies can be routed through SHGs to minimize the cost of credit. Policy measures can be initiated for promoting the SHGs credit to help the weaker sections.

Keywords: SHGs; cooperatives; credit; repayment; loan; cost of credit

INTRODUCTION

The key to economic development in general and rural development in particular lies in identifying the sources of growth and efforts to push up the growth, the benefits have been made to step up the rate of growth and the benefits have not been equally distributed among the poor and rich. The due share of economic development benefits has not been reaching the poor and the poor have not been able to significantly contribute to the development (Ramath and Preethi 2014).

The concern for poverty and unemployment can be seen in the formulation and implementation of plethora of schemes and programmes for the poverty alleviation. As poverty has been attributed mainly to unemployment or lack of income yielding assets, poverty alleviation programmes hinge around provision of productive assets and creation of wage employment. The integrated rural development programme (NREP) and rural literate employment guarantee programme (RLEGP) introduced during the past one and a half decades are yet to make an impressive dent on the rural poor (Kumar et al 2010). The eligibility for assistance under these programmes has been restricted (Balamurgan and Selvaraj 2014). The norms of identification do not permit each and every poor being brought under the schemes. Evaluation studies of such programmes have highlighted deficiencies like improper identification, political interference, poor quality of assets and their management, inadequate technical support, loan mastication, default in loan repayment etc (Singh 2009).

Among the harsh realities constraining access of the poor to banks is legal or conventional requirement for the extension of credit including the need to offer physical and formalities of documentation which they find difficult to satisfy (Manohar 2015). The extent of documentation at bank level reflects its eagerness to assess the credit risk. Social and physical distance between banks and the poor contributes to banks difficulties in associating credit worthiness.

The aspect of exploitation of the rural poor is well documented. In order to release the rural poor from the clutches of money lenders cooperative movement was considered as the best solution (Sarumathi and Mohan 2011). However the poor could not derive the intended benefit mainly because the membership of a cooperative society was too large and people of diverse interests were grouped together. The economic and the caste barriers were too strong for all the people to work as one cohesive unit. Added to that the movement was sponsored, managed and supervised by the state giving the impression that it was one of the government's function.

With the passage of time the natural resource base of the villages is diminishing. The land and the people are becoming poorer now which drives them to seek alternative sources of income and diversify their production base and need mobilization of all resources for self reliance. One of the greatest strengths that still remains largely untapped is the organising potential of a united group (Srinivasan 2009).

SHGs are an outcome of the neo-liberal paradigm of development where the poor take charge of their lives and fashion new improved future through self-reliant and socially sustainable efforts.

In order to remedy these defects a number of non-governmental organizations (NGOs) have embarked upon the task of motivating the rural poor to form self-help groups (SHGs). Chitagubbi et al (2011) reported that self-help group formation is one of the such efforts which enables the poor to participate in the process of development. Economic and social marginalization of poor by formal credit agencies including cooperatives led to the emergence of SHGs. Such groups were trained to build up financial resources through regular savings so that needy members could be given loan quickly for meeting any pressing requirements (Swami and Tulasimala 2013).

SHGs need to be linked with banks once their activities and operations stabilize. This facilitates smoother and meaningful banking with poor (Raghavendra 2001). A pilot project for linking SHGs with this approach was launched by NABARD in February 1992 itself and intensified after year 2015 with commercial banks to actively participate in the linking programme.

There is now increased realization of the role of SHGs in 2020 in meeting the credit needs of the poor both for consumption and productive purposes. Cohesiveness, mutual regard, identity of mutual interest, compliance to group discussions etc have been acknowledged as the needed social requirement for rural development programme.

Problem focus

Despite the vast expansion of the formal credit in the country, the dependence of the rural poor on money lenders continues in many areas especially for meeting credit requirements. Such dependence is pronounced in the case of marginal farmers, landless laborers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons credit to these sections of the population has not been institutionalised.

Based on the conditions prevailing in the country in regard to the credit availability to the poor it is apparent that the SHGs have to play a crucial role in the process of economic upliftment and make a way from the vicious circle of poverty (Narang 2012). It is also essential to have a comparative assessment of the SHGs with the cooperatives which have made rapid progress in providing finance to the rural population with a well developed network in rural areas. Further cooperatives have been considered as an instrument for economic development of the disadvantaged particularly in the rural areas. Under the circumstance cited above it would be appropriate to take up a study on the lending programmes organized by the NGOs and cooperatives for the rural poor. The present study highlights the impact of cost of credit and recovery performance of loans received by SHGs and primary agricultural cooperative bank (PACB) beneficiaries. The study was conducted to assess the impact of self-help groups and cooperatives on poorer sections of the rural populations through analyzing cost of credit and recovery performance of loans received by SHGs and PACB beneficiaries, finding out causes of defaults in repayment of loans by the beneficiaries and suggesting suitable policy measures.

METHODOLOGY

Two NGOs (PRADAN and ASSEFA) which had the maximum coverage in the Madurai district of Tamil Nadu were selected for the study. Three villages covered by each of these NGOs were selected by simple random sampling technique. In each village fifteen beneficiaries were selected at random from the list of beneficiaries availing financial assistance in the SHGs functioning in the village. Five primary agricultural cooperative beneficiaries in each selected village were also randomly selected. The ultimate sample size was 120 beneficiaries including 45 beneficiaries from SHGs organized by PRADAN, 45 beneficiaries from SHGs organized by ASSEFA and 30 beneficiaries from cooperatives.

Conventional percentage analysis and multiple regression model were used to predict the factors responsible for cost of credit and recovery performance of loans received by SHGs and PACB beneficiaries

RESULTS and DISCUSSIONS

The data collected from the sample respondents were analysed with reference to the specific objectives of the study. The attention was focused on the impact of SHGs on the living conditions of the beneficiaries as compared to cooperative beneficiaries, factors influencing the recovery of loans from these beneficiaries, problems faced by the beneficiaries in availing the loans and their solutions to solve them. To study the factors influencing over dues of the beneficiaries following three variables namely debt-asset ratio, educational level of the respondents and members of SHGs were identified as likely causes. The debt-asset ratio was dependent on the size of the family members, earning-dependent ratio of the households, educational status, transactional cost and occupational pattern.

Size of households: The size of the beneficiaries' households had a large bearing on their need for and ability to use credit. Large families with high dependency ratio might have little savings and so larger demand for credit. Most of the time it may need consumption loans as well. But a large family may also have a large work force and credit may increase employment opportunities.

It can be observed from the data given in Table 1 that in the case of SHG beneficiaries the average number of male adults was 2.11 and in case of female adults it was 1.77 while among cooperative society beneficiaries the corresponding figures were 3.76 and 2.33 respectively. The average number of adults per family was 3.88 in the case of SHGs and 6.09 in cooperatives.

The average number of children in case of SHGs was 2.22 and in cooperatives it was 3.73. So total members per family in case of SHGs was 6.00 and in cooperatives it was 9.82.

In case of SHG households the average number of earning persons was 2.56 and it was 1.22 for beneficiaries of cooperatives. Earner dependency ratio was higher for members of cooperatives compared to SHGs. This might be due to the low earning potential of the beneficiaries of the SHGs.

Age and educational level of heads of the households: Age and education have a strong influence on someone through changes in one's perception and attitude. In case of borrowers it helps them to choose the source of finance and decide on the amount to be borrowed for the purpose chosen.

The age and education level of the heads of the households are given in Table 2. It can be observed that the average age of the heads of the households in case of SHGs and cooperatives was 41.36 and 39.56 years respectively.

The cooperative beneficiaries had a better educational level than those of the SHGs. In case of cooperative beneficiaries the literacy percentage was 90.00 per cent while it was 84.44 per cent among SHG beneficiaries. Only 16.67 per cent of the SHG beneficiaries were educated beyond primary level whereas it was true for 40.00 per cent for cooperative beneficiaries. This might be due to low economic status of SHG beneficiaries.

Occupational pattern: The occupation pattern is a likely variable to influence borrowings and repayments. Occupation pattern of sample beneficiaries is presented in Table 3 with the occupation defined based on their major activity. The data show that the occupational pattern of the sample respondents was not the same in both the groups. In the case of SHGs, 41.11 per cent of the households were engaged in crop activities, 37.78 per cent in milk production and 21.11 per cent in petty shop business.

Table 1. Family size, family composition and earning members per household

Particulars	SHGs	Cooperative societies
Adults		
Male	2.11	3.76
Female	1.77	2.33
Total adults	3.88	6.09
Children		
Male	1.22	1.33
Female	1.00	2.40
Total children	2.22	3.73
Total family members	6.00	9.82
Earning members	2.56	1.22
Dependent members	2.45	3.53
Earner dependency ratio	0.95	2.89

Table 2. Age and educational level of the households heads

Component	SHGs	Cooperative societies
Age (years)	41.36	39.56
Educational level		
Primary school	61.00 (67.78)	15.00 (50.00)
Middle school	9.00 (10.00)	8.00 (26.67)
High School	6.00 (6.67)	4.00 (13.33)
Total literate	76.00 (84.44)	27.00 (90.00)
Illiterate	14.00 (15.56)	3.00 (10.00)

Figures in parentheses indicate per cent values to the total

Table 3. Occupational pattern of sample households

Occupation	SHGs	Cooperative societies
Crop enterprise	37 (41.11)	30 (100.00)
Milch enterprise	34 (37.78)	12*
Petty shop owners	19 (21.11)	-

Figures in parentheses indicate per cent values to the total;
*Household has both crop and mulch enterprise

All the beneficiaries of cooperatives were mainly engaged in crop activities. As such it the income and employment potential of the members of the two groups differed widely.

Amount borrowed by sample beneficiaries: The data on the pattern of borrowings by the members of the two groups are presented in Table 4. All the beneficiaries of cooperatives availed more than Rs 6,000 as loan while only 15.56 per cent of the SHG beneficiaries were able to borrow a similar amount. More than 62.00 per cent of SHG beneficiaries were able to avail loan between Rs 1,000 to 4,000. Only 13.33 per cent SHG beneficiaries availed loan below Rs 1,000 which is perhaps another indicator of the low income earning potential of this group. Average borrowing per household was Rs 4,527.93 and Rs10,065.40 for the beneficiaries of SHGs and cooperatives respectively.

Transaction cost: Transaction cost has been studied with reference to the borrower. In general the cost of credit is identified with the interest charges. However the rate of interest formed only a part of the cost as it included a number of other items of expenses incurred by the borrower in travel to the institutions, documentation charges, commissions and unaccounted payments. The transaction cost of credit incurred by sample beneficiaries was arrived at the cost per Rs 100.00 of borrowings and is presented in Table 5.

The beneficiaries of SHGs incurred only interest charges for obtaining the loans while the beneficiaries of cooperatives incurred expenses on traveling, documentation, unaccounted payment and loss due to interest on share capital. Despite these additional cost items, beneficiaries of cooperatives incurred Rs 17.45 as against Rs 24.00 by the beneficiaries of SHGs. These high rates of transaction cost of SHGs beneficiaries might be attributed to low asset status of these beneficiaries and the rigid interest rates fixed by the SHGs.

Repayment of loans: The distribution pattern of loan repayment by the beneficiaries of SHGs and cooperative societies is shown in Table 6.

Among SHGs, 86.66 per cent of the beneficiaries were regular repayers of loan whereas in cooperative societies only 40.00 per cent of the beneficiaries were regular repayers and the rest were irregular in repay. This shows that among the self-help group members repayment of loan was regularly insisted upon so that they could avail loan in future otherwise the group became ineligible for future credit.

Factors influencing overdue position of households

Majority of the members of PACB availing loans were willful defaulters which denied them future loans but also affected the regular repayers. This tendency was not observed in SHGs. To study the

Table 4. Amount of borrowing by sample beneficiaries

Range of borrowing (Rs)	SHGs		Cooperatives	
	Number	Average amount (Rs)	Number	Average amount (Rs)
<1,000	12 (13.33)	805.00	-	-
2,000-4,000	44 (48.89)	3,284.19	-	-
4,001-6,000	20 (22.22)	5,550.00	-	-
Above 6,001	14 (15.56)	8,042.85	30 (100.00)	10,065.40
Average	-	4,527.93	-	10,065.40

Figures in parentheses indicate percentage values to the total

Table 5. Transaction cost of beneficiaries (Rs/Rs 100 of amount borrowed)

Component	SHGs	Cooperatives
Interest charge	24.00	14.90 (84.39)
Loss due to interest on share capital	-	1.05 (6.03)
Traveling cost	-	0.35 (3.00)
Documentation cost	-	0.40 (2.29)
Unaccounted payment	-	0.75 (4.29)
Total	24.00	17.45 (100.00)

Table 6. Distribution of beneficiaries according to loan repayment

Repayment of loan	Respondents			
	Number		Percentage	
	SHGs	Cooperatives	SHGs	Cooperatives
Regular	78	12	86.66	40.00
Irregular	12	18	13.33	60.00
Total	90	30	100.00	100.00

factors influencing overdues of the beneficiaries following three variables namely debt-asset ratio, educational level of the respondent members of SHGs were identified as likely causes.

A linear multiple regression function of the following form was estimated:

$$OD = 4359.2964 + \underset{(1608.3312)}{9907.7246}\, X1^{**} - \underset{(75.2930)}{77.6446}\, X2^{**} - \underset{(492.2480)}{4193.3623}\, X3^{**}$$

R^2= 0.5293, N= 120, F= 43.4972**; **Significant at one per cent level, *Significant at five per cent level, NS= Non-significant

The coefficient of determination was 0.53 which indicated that 53 per cent variation in overdue position was explained by the above included explanatory variables. The function as a whole was significant at one per cent probability level. The signs of regression coefficients were as per the a priority expectation. The debt asset ratio, educational level of the beneficiaries and membership of SHGs significantly influenced the overdue position.

The increase in debt-asset ratio by one unit significantly increased the overdue position by Rs 9,907.72 which shows that debt could be effectively utilised by creating increase in income generating assets and productive use of availing capital. The SHG members properly repaid the loan because of group guarantee system and inoculation of thrift concept among members and hence there was significant reduction in overdue position of SHG beneficiaries by Rs 4,193.36 over the non-members.

Summary and policy suggestions

The beneficiaries of SHGs incurred only interest charges for obtaining the loans while the beneficiaries of cooperatives incurred expenses on traveling, documentation, unaccounted payment and loss due to interest on these capitals. Despite these additional cost items beneficiaries of cooperatives had to incur only Rs 17.45 as against Rs 24.00 by the beneficiaries of SHGs because of high interest charges by the SHGs.

Debt asset ratio, educational level and the membership of the SHGs significantly affected the overdue position of the beneficiaries. While debt-asset ratio exerted a positive impact on over dues, educational status and membership in SHGs significantly reduced the overdues. Of the SHGs 86.66 per cent beneficiaries were regular repayers of loans which showed the internal pressure of the group among borrowers while this was absent in cooperatives. Hence percentage of irregular repayments was more in the case of cooperative beneficiaries. The study recommends that subsidies can be routed through SHGs to minimize the cost of credit which stands at 24 per cent for the SHG beneficiaries and reduces the overdues. Policy measure can be initiated for promoting the SHGs' credit to help the weaker sections.

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