

FINANCIAL PRUDENCE AMONG SHGs IN KARNATAKA: AN EMPIRICAL STUDY OF MYSORE AND DAKSHINA KANNADA DISTRICTS

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ABSTRACT

This study is carried out in the two districts of Karnataka-Mysore and Dakshina Kannada. The hypothesis that SHGs exhibit a sound financial prudence is tested in the study. The purposes for which loans are extended by the SHGs, the source of loan funds, repayment of loan and related issues are statistically tested. As far as the purposes for which loans are extended, the summed up total appears statistically significant. The individual heads under which loans are sanctioned do not exhibit statistical significance at all. The overall position also does not exhibit any statistical significance. But, the micro credit segment, taken apart, exhibits substantial statistical significance with regard to financial discipline of SHGs. Direct loans availed by groups, funds secured from NGOs, loans disbursed, loans repaid by members, direct loans settled by SHGs, Bank interest and expenses show statistical significance.

Keywords: SHGs, Micro-Credit, Financial Prudence

INTRODUCTION

Much of micro-finance in India is built upon the grassroots infrastructure of a self help group (SHG). It is important that the SHGs adopt a balanced financial portfolio and also manage their finances prudently. Similarly, the SHG members too need to use credit for the right purpose and in a right manner. Only then the micro credit mechanism becomes useful, successful and sustainable. Therefore, an attempt is made in this study to analyze the financial portfolio and financial prudence of SHGs.

In the micro credit domain it is a common practice that SHGs are linked to a bank branch or a co-operative society for the purpose of augmenting credit. The mechanism of this linkage is standardized and implemented as per NABARD guidelines. Generally, each SHG deposits its savings with the financial institution it is linked to. Then the financial institution lends to the SHG an amount proportionate to deposits. The linkage is quite often facilitated by the NGO which promotes the SHG.

It was in Mysore, the first ever pilot project of NABARD which was aimed at studying the possibility of linking the Self Help Groups with banks was carried out. This study was undertaken by MYRADA, for NABARD. The study advocated linkage of SHGs with banks and NABARD implemented the same with due deliberations. Today, the SHG-Bank Linkage is known as a well known practice of financial inclusion practiced in India.

On the other hand, Dakshina Kannada district also enjoyed a share in the history of practice of micro finance in general and linkage in particular. Dakshina Kannada is considered to be the cradle of banking where seven major banks were born. The “Pigmy” scheme, one of the earliest traces of micro finance has found its origin in Dakshina Kannada. Thus both these districts had historic association with banks and bank linkage. The nature of linkage of sample SHGs with banks depict that the lead banks of the districts played a predominant role in linkage.

It has been rightly argued that since some credit programmes foster group formation and enable women to generate income, they offer potential for both political and economic empowerment” (Burra et.al, 2005). Micro credit has been looked at as an important tool for revival of Indian rural credit system. Karmakar (1999) espouses SHGs which are simple organizations based on thrift and savings of its members as an alternative to rural credit. Churchill and Craig (2000), have analyzed 141 microfinance institutions and observed that it is possible to provide very small loans and be financially self sufficient. “Some of the most profitable MFIs serve the poorest clients. The challenge for micro finance is to couple smart interest rate policies with new ways of doing business to ensure good incentives for customers” (Armendariz and Morduch, 2010).

HYPOTHESIS

The hypothesis that SHGs exhibit a sound financial prudence is tested in this paper. The purposes for which loans are extended by the SHGs, the source of loan funds, repayment of loan and related issues are tested statistically.

METHODOLOGY

The details of the methods of sampling and the number SHGs participating in the study have all been described by Prabhakara (2012). Student’s t test has been applied to the data and significance levels of < 0.01 % have been determined.

RESULTS AND DISCUSSIONS

Financial Portfolio of Sample SHGs

It is important that the SHGs adopt a balanced financial portfolio and also manage their finances prudently. Similarly the SHG members too need to use credit for the right purpose and in a right manner. Only then the micro credit mechanism becomes useful, successful and sustainable. Therefore, an attempt is made in this chapter to analyze the financial portfolio and financial prudence of SHGs and SHG members.

Interest on Loan

SHG is a mini bank. Lending through SHG is a type of banking. The capital to lend comes in the form of member’s savings and bank loans. Lending usually takes place from 6th month onwards. The interest charged on these loans by SHGs varies from group to group. There is

also no uniformity with regard to rate of interest charged between different NGOs. It can range from 10% to 48%, under normal circumstances. There are extreme cases being reported which mentions of 100% to 300% interest rates on group loans in some parts of the world. Such extreme cases are not found in the present case.

The study districts also go with different rates of interest. It should be understood here that there are no external agencies to regulate interest rates. Though NGOs give broader guide lines in this regard, it is ultimately left to each group to decide how much to charge for loans. Therefore no uniformity is found in the interest rates charged in these districts. In DK district the lowest rate of interest charged is 10% and the highest is 14%. In a particular case 24% interest is charged for a loan of 10 months. Longer the duration of the loan, lesser is the rate of interest. Almost a near similar situation is found in Mysore too. The least percentage here is 9 and the average is 12. About 4 groups had opted to charge 36% for loans of 1 – 2 years duration. About 27 groups charged 24% interest. The rates of interest charged changed viciously in Mysore and is comparatively high in that district. In one of the cases, 36% interest is charged, a clear case for exploitation of a helpless member.

It is now a well adopted practice that banks lend to SHGs as a part of the priority lending. Even these banks charge different rates of interest to SHGs. In the study area these rates have changed from 8% to 15%. The Syndicate Bank offered a loan at 8% p.a. to one group. About 21 groups obtained loan at 9%, 15 groups at 10%, and 11 groups at 11%. A majority of SHGs obtained bank loans at 12%. It should be noted that NABARD refinances the bank's lending to SHGs at concessional rates.

Charging very high rates of interest either by banks to SHGs or SHGs to members is unjustifiable and beats all logic because, these funds are meant for poor who do not have a steady source of income and are desperately trying to come out of the poverty trap. Also, SHGs are a counter measure against exploitative money lenders and their usurious methods of lending. Therefore it is said that the poor man trapped in poverty is now also trapped in debt. In many of the cases it has been noticed that the loans are never used for productive purposes, hardly leading to any increment in income. High interest rate is anti-human, anti-poor and bereft of ethics. Cost of loan servicing, cannot justify these exorbitant rates being charged upon poor members.

Repayment of Loan

SHGs world over have recorded extremely high rate of repayment. It has been above 90% everywhere. The joint liability concept and the resulting peer pressure being exerted on fellow borrowers to repay has been one of the factors responsible for such a positive performance. The integrity and honesty exhibited by poor men and women are the real factors for such a success. Yunus (1999) has argued saying "Poor are bankable", especially keeping this factor in mind.

In DK district 32 groups practiced repayment on weekly basis. 18 groups in Mysore also repaid on weekly basis. 21 SHGs in Mysore paid on monthly instalments. Overall, about 50 groups repaid on weekly basis. With a closer look at the data, it becomes very clear that 90% of the organizations which charged 24% rate of interest are those which also opted for monthly repayment. This is obvious.

Purpose wise Loan sanctioned by SHGs

Loans of SHGs are meant for productive use. How the funds are utilized by the members makes an interesting study. How much of the funds go towards income generation activities, how much go to consumption purposes, how much to agriculture, how much towards micro enterprise development and how much towards settlement of old debts and what are the intricacies of different avenues of loan utilization is discussed here.

Table 1. Details of SHG Loans (in Rupees)-Mysore District

Parameter	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Agriculture	115500	82900	419693	748254	591240	87770	2045357
Housing	1200	170750	133365	373380	465416	198450	1342561
Children's Education	22400	69000	167070	307504	154216	54284	774474
Marriage	13000	140450	363540	450587	431384	85228	1484189
Purchase Gold	3000	29170	83565	204750	38930	6000	365415
Repay Old Loan	10700	130751	505740	325297	424346	135560	1532394
Others	248470	332517	1434146	1738158	1697329	628132	6078752

Table 2. Details of SHG Loans (in Rupees)-DK District

Parameter	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Agriculture	49000	13300	324750	289420	250815	93716	1021001
Housing	31000	70700	311100	575462	701470	228500	1918232
Children's Education	17500	15380	58670	126450	159000	60500	437500
Marriage	0	16100	125500	150580	214332	106461	612973
Purchase of Gold	44000	34405	117400	285385	206073	102540	789803
Repay Old Loan	11000	76000	140445	270823	327287	87440	912995
Others	65000	126475	566982	460912	667405	151635	2038409

Table 3. Aggregate loan details for both the districts

Purpose	Mysore		DK	
	Rs.	%	Rs.	%
Agriculture	2045357	14	1021001	13
Housing	1342581	9	1918252	25
Children's Education	774474	5	437500	6
Marriage	2251246	16	612973	8
Purchase of Gold	365415	3	789803	10
Repay Old Loan	1532394	11	912995	12
Others	6078752	42	2038409	26

Table 1 and 2 enumerate the purpose wise loan sanctioned by SHG in the districts of Mysore and DK in six years of duration. There is a wide spread belief that SHG loans are by and large unproductive. While comparing loans sanctioned in both the districts, among the identified purposes for which loan was sanctioned by SHGs, Marriage leads the table in Mysore. Investment in agriculture secures no. 2 position. Taken independently, Mysore invested more on agriculture while for DK Housing was a priority. Repaying old loan comes within top three priorities in both the districts is a matter of concern.

It is always possible that these independent areas of loan investment is inter linked with each other and many times influence one another.

Agriculture

Higher sums are loaned and utilized for agriculture in DK district during the years 2007-2010. In 2007-08 Rs. 3, 24,750/- was sanctioned by SHGs. In 2010-11, Rs. 93,716/- was sanctioned. In comparison to this the highest amount of loan drawn from SHGs in Mysore district is Rs.7, 48,254/- during 2008-09. Total loan for agriculture in DK district is Rs.10,21,001/- while in Mysore the amount is Rs.20,45,357/-. Agriculture is not the prime occupation in DK district and land possessed also is less per head. Mysore provides a contrasting picture and hence the loan availed in Mysore is naturally more.

Housing

Housing loan drawn in DK district is very high during 2008-2010. The situation is similar even for Mysore. The sudden increase may be due to the dawn of new awareness among the members to have a roof on their heads. This also is an indicator for increased income generation capacity of the members which makes them think beyond food and go for asset creation. SHG loans must have come handy to serve the purpose.

Children's education

As is evident from the table, loan drawn towards the education of children in both districts is not promising. It greatly differed from the loans availed for other purposes. In DK district spending under this head through SHG loans was the least of all. In Mysore it is in last but one place. Of the total loan availed by members only 6% went towards children's education in DK district as against 5% in Mysore district. The level of illiteracy prevalent among SHG members may be one of the causes for this type of reaction by them. Perhaps an awareness campaign by the NGOs would do well under the circumstances. It is time to make the members understand that spending on Children's education is a most remunerative long term investment. This is not to undermine the wisdom of the members who may have their own compulsions to spend or invest in a way that suited them.

Marriage

In true economic sense spending for marriage can only be considered as unproductive. However its social relevance cannot be undermined. In DK district in the beginning of the study period, no loan is availed for marriage purpose. It gradually increased in the next four years and in the year 2010-11 there is a decline. Other things remaining the same, this is a positive trend, though, it is difficult to ascertain the real reason behind such a trend. In Mysore district a total sum of Rs. 22.5 lakhs are spent during the study period for marriage purposes, it is calculated.

Purchase of Gold

Investing in gold is a safest investment and Indians are traditionally enamoured of yellow metal. Loans are availed by SHG members to buy gold. But the trend in both the districts is that in the later years there is a declining trend in gold rush. However in absolute terms the district of Dakshina Kannada is more after spending on gold.

Repaying old loan

This is a case of loan breaching loan. SHG loans are basically meant for productive purposes. But using SHG loans for paying off existing loans reflects the poor state of affairs of the economic conditions of the SHG members. This tendency could precipitate the gullible SHG members to a debt spiral which is against the very principle of SHGs and micro finance. Under tragic circumstances money lenders' loans are cleared through SHG loans. Ideally this situation should be overcome. Economists have cautioned against dilution of Self Help concept owing to diversion of loan money towards this end. During the study period it was observed that spending on debt clearance was as high as Rs.9, 12,995/- in Dakshina Kannada district and for the same period it was to the tune of Rs.15, 32,394/- in Mysore District. This is more than 10% of overall loan sanctioned by the SHGs.

Other purposes

The purposes of loan availed from SHGs could be as many. Under the present case loans were availed for purposes other than what is listed earlier. In fact loans thus taken when accumulated beats each of those discussed here, if taken independently. In Dakshina Kannada district this amounted to Rs.20, 38,409/-. In Mysore district the amount is Rs.60, 78,752/-. These figures are comparatively very high and therefore, SHGs would do better by specifying the purpose of loans in detail.

Micro Credit as Micro finance

Micro finance has a variety of financial services, such as micro credit, micro insurance, savings and remittances that are provided to clients. The most significant form of micro finance is micro credit. Small, and, at times very small loans are given to resource poor low income entrepreneurs, under micro finance. They are less privileged people who are generally considered by formal financial institutions as non-bankable. The historical first loan given by Grameen to Sufia Begum and 41 others in Jobra village in Bangladesh was of \$ 27.

Table 4. Micro Credit in DK district

Credit details	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Total
Funds from Parent Institution	50000	117000	631000	1058925	781876	209000	2847801
Direct Loan	30000	25000	265000	338337	840420	100000	1598757
Loan distributed to members	166500	314144	1338817	2101169	2467497	861021	7249148

Table 4. Micro Credit in DK district (Contd....)

Credit details	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Total
Loan Repaid by Members	52495	259889	670858	1610915	1964495	641501	5200153
Loan Returned to Parent Institution	20636	38848	125200	466292	440060	168481	1259517
Direct Loan Settled	11592	13735	208254	224195	375839	128294	961909
Service Charges	18705	28125	83104	150328	182426	56798	519487
Bank Interest Received	1340	2131	5472	6264	11215	9200	35622
Expenses of Bank Interest	650	2482	13109	16295	15427	7034	54997
Bank Balance as on date	34699	81903	202053	361554	505046	713520	1898775

Table 5. Micro Credit in Mysore District

Parameter	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Total
Funds from Parent Institution	160000	1003500	1250204	1520200	2481000	435000	6849904
Direct Loan	75000	922000	1214000	1691607	1529000	833250	6264857
Loan distributed to members	443370	1033278	3285149	4392199	3966911	1654116	14775023
Loan Repaid by Members	365621	1253222	2179470	3304508	3538010	1214797	11855628
Loan Returned to Parent Institution	172558	716221	909524	1306053	1489089	452890	5046335
Direct Loan Settled	75000	799000	1354270	1410129	1261531	364244	5264174
Service Charges	21096	58933	102016	281127	156937	81568	701677

Table 5. Micro Credit in Mysore District (Contd....)

Parameter	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Total
Bank Interest Received	556	1689	4844	4541	7632	1972	21234
Expenses of Bank Interest	138899	39398	62066	50210	83541	30979	405093
Bank Balance as on date	51079	110789	356408	352323	429369	685465	1985434

Revolving Funds from Promoting NGO

The sample groups have received funds from the parent institution i.e. promoting NGO as the revolving funds. The practice of providing revolving funds is common with NGO which receive donor funds. These funds act as seed money or the money to commence. Government sponsored micro finance programmes invariably have this component as the part of the scheme. The basic idea is to enable the SHGs meet the credit needs of their members and overcome the resource crunch they may have.

In DK district it can be observed from the table that a sum of 28.4 lakhs are received by SHGs over a period of six years. It registered a steady rise between 2005 and 2009; whereas showed a sudden dip next year and went down further, in the year next.

In Mysore district the trend has been on the rise from the beginning upto 2009-10. Beginning with Rs.1,60,000/- in 2005-06 the funds received from the parent institution reached a cumulative sum of Rs. 68,49,904 by 2010-11.

Needless to say these grants are grants disbursed as loans to members by individual SHGs.

Direct loans

However, much SHGs may generate internal resources and get fund assistance from promoting NGOs, it is less to meet the demand for funds. Therefore SHGs resort to bank loans. Matured SHGs are entitled to borrow from banks under priority lending initiated by NABARD.

DK district recorded a total sum of about 15.98 lakhs during the study period in this form. The corresponding figure for Mysore district is 62.64 lakhs.

Loan disbursement to members and repayment

Loans are sourced in funds from promoting NGOs, Direct loans from lending banks and other agencies and internally generated sources out of savings of members. In DK district it is observed that a gross sum of Rs. 72.49 lakhs being disbursed in the form of loans. The corresponding figures for Mysore is Rs. 1.47 crores. By the end of the study period i.e. 2010-11 Rs. 52 lakhs is repaid by members in DK district and Rs. 1.18 crores in Mysore district. These figures are not to be compared with loans disbursed because, they would hardly match owing to the fact that the repayment is received over the duration of the loans.

Return of NGO loans and direct loans

In DK district NGO loans settled amounted to Rs. 12.59 lakhs and the Direct loans from Banks are settled to the tune of Rs. 9.6 lakhs. Similar figures for Mysore district are: Rs. 50.46 lakhs and Rs. 52.64 lakhs.

Service charges and bank interest and bank expenses

SHGs charge members for the service rendered by them. It is generally fixed as a percentage of loans sanctioned or a prefixed rate per loan serviced. This is a source of income for the SHGs. The other source of income is the interest on bank deposits. Service charges in DK district showed a steady increase from a moderate beginning of Rs. 18,705/- to Rs. 56,798/- by the end of the period. Bank interest received amounted to Rs. 35,622 by 2010-11. Bank expenses amounted to a gross sum of Rs. 54,997/- by 2010-11. Mysore District service charges registered 7 lakh rupees by 2010-11 and cumulative bank interest as on that date amounted to Rs. 21,234/-. These are very moderate incomes and would do better if enhanced. Bank expenses by 2010-11 amounted to Rs. 4,05,093/-.

Bank balances at the end of the year

Bank balance reflects financial strength of SHGs. There is no steady pattern on this count, neither in DK nor in Mysore district.

Table 6. Financial Portfolio of SHGs: Purpose wise loan sanctioned (test of significance)

Parameter	df (Degree of freedom)	P Value	t Value	Significance
Agriculture Loan	6	0.0774	2.1280	not quite statistically significant
Housing Loan	5	0.1308	1.8055	not statistically significant
Children's Education	6	0.0909	2.0122	not quite statistically significant
Marriage	6	0.0696	2.2052	not quite statistically significant
Purchasing Gold	6	0.0670	2.2334	not quite statistically significant
Repay Old Loans	6	0.0872	2.0417	not quite statistically significant
Other than the above	5	0.0149	3.6404	statistically significant
Total Loan	5	0.0182	3.4540	statistically significant

The purpose wise loan sanctioned by Self Help Groups is an important component of financial portfolio under discussion. The individual heads under which loans are sanctioned by SHGs are already discussed. The two tailed P values for each of the heads is also recorded. The above table is prepared by showing therein the corresponding t values for each of the parameters of the loan sanctioned. By this analysis, it can be seen that total loan sanctioned by SHGs have proven to be statistically significant. This outcome is important for the purpose of evaluating the effectiveness of micro credit in the regions of study. Also, statistically significant is the loans disbursed for 'other purposes' other than agriculture, housing, children's education, and marriage, purchase of gold and repaying of existing loans. The loans granted by SHGs under unspecified heads have cumulatively become significantly large. Therefore, there is a need for recording these loans for whatever purpose they are sanctioned, with a title of their own. None of the designated parameters upon which loans are sanctioned have made a statistical impact is a subject to ponder over.

Table 7. Financial Portfolio of SHGs: Micro Credit (Test of significance)

Parameter	df (Degree of freedom)	P Value	t Value	Significance
Funds from Parent Institution	5	0.0365	2.8332	statistically significant
Direct Loan	5	0.0068	4.4370	very statistically significant
Loan Distributed to Members	5	0.0112	3.9221	statistically significant
Loan Repaid by Members	5	0.0052	4.7284	very statistically significant
Loan Returned to Parent Institution	5	0.0065	4.4867	very statistically significant
Direct Loan Settled	5	0.0133	3.7520	statistically significant
Service Charge	6	0.1167	1.8320	not statistically significant
Bank Interest Received	5	0.0764	2.2280	not quite statistically significant
Expenses Bank interest	5	0.0191	3.4054	statistically significant
Bank Balance as on Date	5	0.6684	0.4547	not statistically significant
Overall Total	8	0.0054	3.7731	very statistically significant

The micro credit discussed under financial portfolio of SHGs was statistically analyzed with the help of the table given above. High statistical significance is noticed in direct loan sanctioned to Self Help Groups. Loan distributed to members is statistically significant. Loan repaid by members and loan returned to parent institutions enjoys high statistical significance. If direct loans sanctioned as well as their return are remarkably good that gives an indication towards the good financial health of the SHGs and exhibit positive practices on the part of loan utilizing members. SHGs in turn have returned loans to the parent institution to attract substantial statistical significance. Naturally, therefore, the overall micro credit operations also exhibit 'very statistically significant' picture. There are four other areas which have proved to be statistically significant, they are: Funds secured from NGOs, i.e. parent institutions, loan distributed to members, direct loan settled and expenses and bank interest.

CONCLUSION AND TESTING OF THE HYPOTHESIS

These aspects collectively resonate prudence in the financial affairs of SHGs and highlight the adequacy of resources, their proper utilization by way of loans and more importantly the settlement of loan by members. However, on the revenue side, the service charge, bank interest received and the bank balance held by SHGs do not exhibit promising results.

As far as the purposes for which loans are extended, the summed up total appears statistically significant. The individual heads under which loans are sanctioned do not exhibit

marked significance at all. The overall position also does not exhibit any significance. But, the micro credit segment, taken apart, exhibits substantial statistical significance with regard to financial discipline of SHGs. Direct loans availed by groups, funds secured from NGOs, loans disbursed, loans repaid by members, direct loans settled by SHGs, Banks interest and expenses show acceptable statistical significance. In view of the above results the hypothesis that SHGs exhibit a sound financial prudence can be accepted.

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