

EXECUTIVE SUMMARY OF THE MINOR RESEARCH PROJECT

A STUDY ON THE EFFECTIVENESS OF RISK MITIGATION MECHANISMS OPERATED IN SELF HELP GROUPS IN ALAPPUZHA DISTRICT IN KERALA

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INTRODUCTION

Indian economy is at present going through a phase of transition from the state of underdevelopment to development. There are various problems which it is facing during this transition phase namely insufficient growth and development of the economy, serious population pressure, massive unemployment and poverty. Every seventh unemployed person in the world is an Indian and every third poor person in the world is also an Indian. The statistics speak about the gravity of the problems of unemployment and poverty which demand an immediate solution. The rural poor are in perpetuating poverty and are the victims of the 'vicious circle of poverty'. Therefore the established policy prescription tries to break this circle of poverty through the supply of credit. As a remedial measure for these depressed conditions existing in India and with the objective of enhancing the saving habit of rural people, India adopted Micro finance programme, promoted by Nobel Laureate Dr. Muhammad Yunus. There may be various mediums of micro finance; however the most prominent among them is the medium of SHGs. After the implementation of the programme, the micro finance sector has grown rapidly and attains

incredible achievements. A major effort to provide banking services to the weaker and unorganised sector was the Self Help Group - Bank Linkage Programme which was launched by NABARD in 1992 with 500 SHGs. It has become the largest micro finance in the world. Notwithstanding the massive expansion of SHG-BLP , it has suffered from weakness and distortions in various ways. Many of the SHGs make delay and default in loan repayment which expose the banks to varying levels of risks. Some of the institutions who are offering loans to SHGs are facing recovery problems. As a remedial measure for this condition, Government, Banks and other bodies jointly decided to implement Risk Mitigation Mechanisms to improve the confidence and comfort of banks in financing of SHGs.

In such a context an analysis of the risk mitigation mechanisms will help to know how far its objectives are achieved will also help to design new measures to improve the performance so that SHG-Bank linkage programme can succeed in all aspects.

OBJECTIVES

1. To investigate in to the Risk Mitigation Mechanisms operated in SHGs in Alappuzha Dist
2. To study the extent to which the Risk Mitigation Mechanisms are effective in achieving its purpose
3. To study the operational viability of implementing Risk Mitigation Mechanisms in SHGs

RESEARCH METHODOLOGY

Types of data

The study is making use of both primary and secondary data.

Source of data

Primary data for analyzing the effectiveness of Risk Mitigation Mechanisms were collected from SHG members and banks that are engaging in SHG lending. The data are collected through the sample survey among the selected SHGs using interview schedules and issuing pre-tested questionnaire among the officials of various banks who offering loan to SHGs.

The secondary data were collected from various books , journals, reports, newspaper & web site ,etc

Tools of Analysis

For the purpose of analyzing and interpreting the data percentage method was used

Population & Sample design

1. More than 2, 70,000 SHGs are functioning in the Alappuzha District. From different parts of Alappuzha district 100 SHGs who passes through the Risk Mitigation Measures of banks and Govt. were selected for this study on a convenient sampling basis. From each SHG one member is selected on a random basis. Thus a sample of 100 members were interviewed in total to elicit the data required for the study
2. Almost all banks in Kerala are engaged in SHG lending. From among them 10 banks were selected at random for collecting data for this study

FINDINGS

The following are the findings of the present study.

- 1) Majority of respondents are in the age group of 35-45. It indicates they are more productive and active.
- 2) Most of the respondents are married. Respondents does not includes any unmarried people
- 3) Almost all respondents are literate .It indicate that they are capable of taking decisions and solving problems
- 4) Almost all respondents are aware of the bye-laws and participatory decision making
- 5) Majority of the SHGs handle cash effectively i.e., rotated among all members
- 6) Most of the SHG members repay the loan in time i.e. usually they do not make delay
- 7) Almost all SHGs meet four times in a month for discussing their operations
- 8) Majority of the respondents haven't made any loan default after attending the guidance programs of banks
- 9) Respondents are of the opinion that the motivation from peer pressure and counseling from the banks can positively influence their early repayment attitude
- 10) Almost all respondents are satisfied with the allotment of credit in their group

- 11) Most of the SHGs handle the loan request in a democratic way, ie, as per the rules . This indicate that all members get availability of credit
- 12) Majority of the respondents agree with the ‘Grading of SHGs’ for sanctioning loans by banks
- 13) There is enough monitoring and review by banks
- 14) The training and advices from banks can positively influence the prompt payment attitude of the respondents
- 15) The respondent members of SHGs make prompt payment due to the peer pressure from their group
- 16) The subsequent or next loan from the bank will act as a motivational factor for prompt payment
- 17) The financial guidance and training from banks to SHG members will positively influence the respondents to make prompt repayment of other external loans also.
- 18) All respondent banks are providing loan to SHGs
- 19) All respondent banks make adequate visit to SHGs
- 20) In the opinion of respondent banks, all SHG members support the Risk Mitigation Mechanisms of Banks
- 21) Respondent banks are of the opinion that financial guidance given by them have high influence on the prompt repayment attitude of the SHG members
- 22) Participation of the SHG members in the Risk Mitigation Programs of the banks are satisfactory
- 23) Respondent banks are of the opinion that there is a positive change in the loan default rate of SHG members after implementing Risk Mitigation Programs
- 24) The various Risk Mitigation Mechanisms of the banks and Government are the following
 - i. Grading of SHGs
 - ii. Frequent visits/monitoring
 - iii. Capacity Building and Training
 - iv. Monitoring and Review of SHG Lending
 - v. Financial Literacy Campaign
 - vi. Interest Subsidy

- vii. Auditing of accounts and checking of records

CONCLUSION

SHG- Bank Linkage programme introduced by NABARD as a supplementary credit delivery mechanism to reach the poor in a cost effective and sustainable manner is growing to be a successful programme of the Government in terms of making available cheaper credit to poor, bringing them to the main stream of development, improving the standard of living etc through their diversified activities. Even though the credit is given to the group after assessing the repayment history, the delinquency in SHGs is starting to attract the attention of Government and Banks that lend them. One of the recommendations of NABARD to overcome this condition was the improvement of Risk Mitigation Mechanisms. The present study titled “A study on the effectiveness of risk mitigation mechanisms operated in self help groups in Alappuzha district in Kerala” addressed the various risk mitigation mechanisms taken by the banks like Grading of SHGs, Frequent visits/monitoring, Capacity Building and Training, Monitoring and Review of SHG Lending, Financial Literacy Campaign, Interest Subsidy, Auditing of accounts and checking of records etc. The participation level of SHG members, positive influence of these mechanisms on the repayment attitude of the members, influence of peer pressure, reduction of loan default rate etc indicates that the risk mitigation mechanisms taken by the banks are proving to be successful in achieving its purposes and the implementation of the programme was also get a warm welcome as the SHGs are ready to go with these measures not only for their own benefit but also for their country’s benefit.