

Repayment Performance of SHGs microfinance borrowers: A Review of Literature

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Abstract

The traditional Indian society functioned mainly on the basis of self-help and mutual aid. However, in recent years, they have been emerging as a major strategy for the promotion of informal credit to the poor. Self-help groups are expected to make a significant contribution to poverty alleviation and empower the members in economic, social and political spheres. The objective of the study is to review previous literature, which studied the influence of socio-economic factors on loan repayment performance of SHG (microfinance) loan borrowers and the evaluation of loan repayment performance to achieve financial inclusion through SHG (microfinance). These study revealed that social-economic factors influenced loan repayment as well as achieved financial inclusion through SHG (microfinance). SHGs also helped poverty alleviation and that women were empowered psychologically and physically.

Introduction

Microfinance is the best intervention and well-recognized all over the world and stands as an effective tool for poverty alleviation and for improving socio-economic conditions of the poor and low-income people. It is a vital role form in different countries and its main objective for the empowerment of women. In olden days women are not empowered but now they empowered through self-help groups. Microfinance is measured as both poverty alleviation and sustainability. Microcredit can be defined as "the provision wherein debtor takes money either from formal or informal sources of credit on unilaterally decided terms by the creditor". Microfinance characteristics of the Low rate of interest, easy and periodical repayments with moratorium period, credit for income-generating activities, easy process of disbursement, no collateral or security and less paperwork, etc. Microfinance changed as an economic development approach future to benefit low-income women and men. The term refers to the provision of financial service to low-income clients including the self-employed. Financial services include savings as well as credit and many micro-financial organizations provide insurance and payment services, such as group formation

development of self-confidence and training in functional literacy and management capabilities, among the members of the group

Concept of Self-help group

SHGs defines as a small economically homogenous affinity group of rural poor, voluntarily formed to save and contribute to a common fund to be lent to its members as per group decision and for working together for the socio and economic uplift of their family and community. (TNCDW)

Role of Self-Help Group Members

- To promptly attend SHG meeting.
- To fully participate in SHG meeting and voice opinion clearly and freely.
- To share the responsibility of SHG collectively like going to banks by rotation.
- To prompt repayment of SHG loan.
- To participate in village and social action programmers.
- To ensure unity and mutual trust between all members and adopt the principle of ‘give and take’.
- To ask questions/doubts openly and ensure that the SHG functions transparently.
- To ensure the prompt annual reelection of at least representatives and also animators.
- To promptly attend training programmers and ensure the implementation of good practices.
- To share problems, experience, feelings and ideas with all members of the SHG.

Repayment performance

Ghatak and Guinnane (1999) identify four tasks that financial institutions, in general, must accomplish in order to lend efficiently:

1. Ascertaining the level of risk of default of the borrower (the problem of adverse selection)
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2. Ensuring that the borrower will use his or her loan in a prudent manner, so as to maximize the probability of repayment (the problem of moral hazard)
3. Monitoring the degree of success of the borrower’s project, so as to determine whether the borrower can repay the loan in the case that the borrower claims inability to repay (the auditing problem)
4. Enforcing repayment of the loan when the borrower (strategically) attempts to default (the enforcement problem)

The objective of the study

1. To review previous literature, which studied the influence of socio-economic factors on loan repayment performance of SHG microfinance borrowers.
2. To evaluation of loan repayment performance to achieve financial inclusion through SHG microfinance borrowers.

Umara Noreen and M. Iqbal Saif (2013) examine the repayment problem of women borrowers of microfinance the sample consisted of 100 from 20 groups were used and data is collected through the collected interviewed method. The data analysis is done by using correlation matrix and OLS regression. The groups utilize self-selection of members so that a strong degree of promise trust and consent is taken up. Unpredictably the group members belonging to the different level of education and income had lesser repayment problem result indicate MFI in targeting the women should improve and smoothen the loaning procedure extend higher credit to society heterogeneous group.

Alex Addae-Korankye (2014) analyzed the causes and control of loan default/delinquency in MFI in Ghana the researcher used random sampling techniques with 25 MFI 250 client for this study and found the causes of loan size, poor appraisal, lack of monitor and improper client selection. The paper concludes that measures to control default were found to include training before and after disbursement, reasonable interest rate, monitoring of clients and proper loan appraisal MFI should have clear and effective credit policies and procedures and must be regularly reviewed by the government and hence Bank of Ghana should regularly monitor and supervise the MFI to ensure safety of client deposits and customers confidence.

Dula Abebe (2012) explored the socio-economic factors influencing loan repayment performance of microfinance clients with a sample of 350 respondents from 23 branches. The study both qualitative and quantitative methods of data collection analyze was done using chi-square, multivariable analysis, and linear regression. The paper concludes that most of the female defaulters were higher defaulters age of the borrowers is also significant determinate of loan repayment performance those who are having extensive experience in business activity and educated once she better repayment record than other alternative source is expected to show better loan repayment.

J.T.O. Okeet al., (2007) attempted the microfinance repayment in Southwestern in Nigeria. The selected multistage stratified random sampling procedure was used to collect data from 200 members of MFI and linear multiple regression was used to determine the variable that affects microcredit repayment than the F value indicated that microcredit repayment model had a good fit. The finding of the study indicates that the microfinance groups are creditworthy. The paper concludes that belonging to MFI will improve the status members.

Munene et al., (2013) carried out to establish the causes of such repayment defaults in Imenti North District, Kenya the researcher used descriptive survey design individual microfinance loan beneficiaries and MFI. This study used cluster sampling to collect data from 400 respondents the questionnaire prepared a structured and unstructured questionnaire. The analysis was done using chi-square. This concluded that the stakeholders in the microfinance divisions should ensure that the loan borrowers access to adequate relevant technical training in entrepreneurial MFI.

Hosea Mpogole(2012). Indicated that multiple borrowing has a positive effect on loan repayment and sustainability of MFIs while others show that it leads to over-indebtedness and consequently deficient on loan. The result showed that occurrence of multiple borrowing at Iringa in Tanzania was very high over 70% of the 250 of the microfinance clients had at least two loans from different MFIs at the same time 16% of borrowed from the individual leader. Major reasons for multiple borrowing were an insufficient loan from MFIs. Loan recycling and family obligations therefore 70% of the borrower have this much of problem with pending loan. (They have must education level and many dependents of the respondent significantly influenced the number of loan contracts. Recommendations are also provided).

Havon Moti (2012). Forced at assessing the effectiveness of credit management systems on loan performance of MFI specifically they sought to establish the effect of credit terms, client appraisal, credit risk control measures and credit collection policy on loan performance. This study used descriptive research design. The respondents were the credit officers of the MFI which means the data analysis was done using chi-square. The result suggested that informative in terms of public policy adjustments and from true competencies required for better operation of MFI.

CyresMunyva (2016) Identified the main objective of the study is to find out the factors affecting of loan default in MFI in Kirinyaga country. It formed two types. On the independent variables

under this study were loan collection procedures, loan diversion, financial management practices and the amount of loan borrowed by members of known groups affiliated to MFI's under was the research used sample random sampling, a target population of 300 employees was used these study findings the research said MFI should follow, strong policies, by the borrowers, the institutions should put up efficient loan collection procedures which are easy to follow for both employee and the borrower. That should be omitted of loan diversions efficiency in film amount of loan borrowed should be strictly monitored and evaluated by the MFI from time to time.

MarritVanden Berg (2015) analyzed the paper studies the role of loan officers on loan repayment with a special focus on gender. They used survey data for a sample of 57 loan officers and 406 borrowers of Promujer Mexico suggested that loan officers play a crucial role in improving repayment rates in microfinance and that male loan officers are better able to induce borrowers to repay than female loan officers. Why female can't take fewer problems working late, traveling through unsafe places and combining a position as a counselor with enforcing repayment.

Suraya Hanim Mokhtar (2012) investigated that determinant of loan repayment problems in Malaysia. The analysis was done using logistic regression model. Revealed that borrower's characteristic age, gender, and types of business involved and micro-credit loan's characteristics mode of repayment one among the factors contribute to microcredit loan repayment problem among TEKUN and YUM borrowers in Malaysia.

Norhaziah Nawai (2012) identified that there are ten factors affecting loan repayment they are age, sexual category, industry experience, spiritual education, household income, sales, far way lender office, the procedure of business, period of loan approval and loan monitoring. Providing training to the borrowers being how to develop the market products, TN gave a discount to good borrowers to boost them to repay their loan on agenda without pending.

Farida (2016) revealed that loan repayment affected extensively by the business lines, food expenditure, and apart-time job, and additional loan sources, security. The researcher conclude that this study assumed (gender, education level, age) experience does not significantly boost borrowers to repay the loan.

Timothy Nyauch Omonywa (2015) explored the study women entrepreneurs predicted to facilitate marketing knowledge, training, group membership and financial accessibility afflicted loan repayment. The researcher used a stratified random sampling method and technical tool SEM.

The researcher conclude that women entrepreneurs may start a business for long period that may not affect loan defaults

Francis Nathan Okurut (2008) denoted that loan repayment performance in microcredit institutions the sample size was 150 from Tanzania. The result suggested that knowledge, coaching time, and allowing the importance of effects on loan repayment performance between the MFIs clients. But transaction costs with group size include unfavorable and important things on loan repayment performance.

Augustine Dampney Owusu et al (2015) focused that reducing the defaulted loan among the Micro, Small and Medium Enterprises in MFIs. MSMEs contribute 49% of Ghana's GDP in 2012 which impact well on economic growth, income, and employment. The study concludes that microfinance institutions were important things.

Munene et al (2013) concerned that influencing loan repayment default in microfinance institutions in Kenya. This study used a descriptive survey in particular microfinance loan borrower and the sample size 400 respondent. The result revealed that strong connection among technical instruction used for loan receiver.

Alex Addae-Korankye (2014) Indicated the reason and control of loan default/delinquency in MFIs in Ghana for this study the random sampling were used in 25 MFIs in 200 loan beneficiaries. This study indicated that to measure default before or after the training high-interest rate, inadequate loan sizes, poor appraisal, lack of monitoring, and improper client selection. This concludes that Ghana bank and MFIs should make sure of more confident level in MFIs loan receiver as well as deposit customers.

Beatrice Njeru Warue (2012) investigated the external factors, microfinance institutions and self-help group different factors to create which factors significantly influence default loan in MFIs and SHG in Kenya. The result indicated specific factors and external factors significantly influenced in loan default in MFIs.

Idowu Oladele and Lucky Ward (2016) examined that determined loan repayment performance among the micro agricultural financial institution of South Africa borrowers in North West province, South Africa. The simple random sample was used to select 273 respondents. Finding regression analysis inferred that each variable is significantly influenced respondents to reduce the loan repayment in the micro agricultural financial institution.

Assfaw Kebede Asgedom et al., (2015) carried out that group loan repayment in 43 percentages of past five years 2009 to 2013. The study wants to analyze the factors which influence group loan repayment credit institutions Ethiopia. The study suggested that the logistic regression method denoted Peer-monitoring, screening, peer-pressure, social ties, loan officer visit to the group, and other sources of credit to ensure statistically influenced loan repayment in borrowers.

J.T.O. Okeet al., (2007) explored the investigation of microcredit repayment in southwestern Nigeria. Multi-stage stratified random samplings used for collecting data from 200 respondents in microfinance institutions. This study used to find out the variables affected microcredit repayment with help of Linear multiple regressions. This concluded that this study analyzed the socio-economic variables that affect the microcredit repayment of customers of NGOs and Microfinance NGOs fulfill the repayment loan from the customers.

Marrit van den Berget al., (2015) explored the impact of gender of the loan officer on default rates loan to microfinance borrowers to repayment in Mexico. The researcher used multilevel analyses. The finding of this study revealed that male office is to better do repay than female loan officers because of unsafe places traveling and

Erica Field et al., (2012) carried out repayment flexibility can reduce financial stress. The researcher assumed randomly with the help of cell phones together survey with income expenditure and financial stress every 48 hours over seven weeks. Suggesting that the flexibility encouraged them to invest their loans more profitably which ultimately reduced financial stress

Munene et al., (2013) established the causes of repayment defaults in Imenti North District, Kenya. The researcher used a descriptive survey for individual loan beneficiaries' randomly selected 400 responds with the help of cluster sampling researcher defined the population. Finding of the study should stakeholders in the microfinance sector should ensure that the loan borrowers have access to adequate relevant technical training in entrepreneurial microfinance businesses.

Conclusion

This study revealed that social-economic factors influenced loan repayment as well as achieved financial inclusion. Lenders can introduce a reward system to those who paid on time. They can offer rebate or discount to stimulate microfinance borrowers to repay the loan on time. SHGs also helped poverty alleviation and thus woman is empowered psychologically and physically.

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