ORIGINAL RESEARCH PAPER

Management

A STUDY TO ANALYZE AND IDENTIFY THE FACTORS INFLUENCING LOAN DEFAULTS OF THE SHG MEMBERS WITH SPECIAL REFERENCE TO COIMBATORE DISTRICT

KEY WORDS: .

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ABSTRACT

This study uses a structural equation approach to assess the presence of a credit supply effect in the commercial mortgage market and the lenders' ability to incorporate expectations about this effect into their lending policies. A credit supply effect is defined as the effect of mortgage supply on the level of loan defaults. The empirical analysis shows two important results. First, changes in loan defaults appear to be followed by changes in commercial mortgage supply with a lag of approximately four to five years. Second, lenders tend to behave myopically, failing to incorporate expectations about the credit supply effect into their lending policies. Additionally, a simulation suggests that adequate timing of the mortgage supply cycle is crucial in limiting the incidence of mortgage default.

INTRODUCTION

Microfinance emerged as a noble substitute for informal credit and an effective and Powerful instrument for poverty reduction among people, who are economically active, but financially constrained and vulnerable in various countries. Microfinance covers a broad range of financial services including loans, deposits and payment services and insurance to the poor and low-income households and their micro enterprises. Microfinance institutions have shown a significant contribution towards the poor in rural, semi urban or urban areas for enabling them to raise their income level and living standards in various countries.

In developing countries like India the structure of economy is dualistic. The rich get richer and the poor get poorer. This worsens the access of poor to economic opportunities and reaches for formal financial services. Small enterprises in India suffer from a great deal of indebtedness and are subject to exploitation in the credit market through high interest rates and lack of convenient access to credit. They need credit to fund their working capital needs on a day-to-day basis as well as long term needs like emergencies or other income related activities.

So the need for financial assistance and business development services for the micro and small enterprises is essential to alleviate poverty for consistent economic growth. The focus of the study is to find out whether these micro and small enterprises in and around Coimbatore city of Tamil Nadu were able to access Micro Finance Institutions (MFIs) for capital loans and services and utilize it for their growth and development.

REVIEW OF LITERATURE

Sam Afrane (2012) conducted a study on Impact Assessment of Microfinance Interventions in Ghana and South Africa Synthesis of Major Impacts and Lessons. Delivery of microcredit to operators of small and microenterprises (SMEs) in developing countries is increasingly being viewed as a strategic means of assisting the so-called "working poor" (ILO, 1973). Like all development interventions, donors, governments, and other interested parties demand evaluations and impact assessment studies to ascertain the achievements and failures of these programs. This paper reviews two such studies conducted in Ghana and South Africa that focused mainly on impact results. The outcomes of the two case studies have established that microfinance interventions have achieved significant improvements in terms of increased business incomes, improved access to life-enhancing facilities, and empowerment of people, particularly women.

Vogelgesang (2013) the rising number o f microfinance providers have led to a drastic increase in competition. On one hand, this has enabled microfinance clients to have a wider choice of services as from which MFI to take a loan. On the other hand, anecdotal evidence and our own observation show that the increasing number of MFIs has tempted clients to take more than one loan at the same time resulting into multiple loans. Incidences of one client with five different loans at the same time are not uncommon. Literature shows that multiple borrowing for low-income clients is said to increase incidences of over-indebtedness and consequently default on loans. As such, multiple borrowing can sometimes make clients poorer and at the same time threaten the sustainability of MFIs.

STATEMENT OF PROBLEM

The primary objective of MFIs is to provide financial services (credit and saving) to the poor in order to relieve financial constraints and help alleviate poverty. Each MFI tries to maximize its repayment performance, whether it is profit oriented or not. One indicator of effective MFIs is the loan repayment performance of the borrowers.

There are many socio-economic and institutional factors influencing loan repayment rates in the MFIs. The main factors from the borrower side include socio-economic characteristics such as age, gender, educational level, marital status and household income level and peer pressure in group based schemes. However, loan delinquencies have continued to cause serious challenge to most microfinance institutions. It is in this regard that this study was designed to determine factors influencing loan repayment default among the Micro-finance clients in Coimbatore District.

SCOPE OF THE STUDY

This research leads to the analysis of various demographic, socio-economic factors that influences the repayment performance of the MFI clients. It also analyses the business characteristics and its impact on the repayment level of the borrowers. It helps in improvising the relationship between the MFIs and its clients.

OBJECTIVES OF THE STUDY

The study has been taken with a view to attain the following objectives:

- To analyze and identify the factors influencing loan repayment default of the SHG members with special reference to Coimbatore district.
- To study the major socio-economic factors that influence loan repayment rate of the borrowers.
- To study the businesses and loan related a factor that influences the repayment performance of the clients.
- To study the institutional factors that affects the loan repayment.
- To offer suitable suggestions and recommendations based on findings of the study.

RESEARCH METHODOLOGY

According to Redman and Mory, Research is a "Systematized effort to gain new knowledge". Methodology states how the research study should be undertaken.

Research Design

The present study is descriptive and analytical in nature.

Sampling Design

The survey is not taken from the entire population. Where only a few units of population under the study are considered for analysis, it is called as sampling. As for the present study, the population size is infinite; the adoption of sampling method was inevitable. The sampling plan consists of sample unit, sample size and sampling method.

(a) Sample Unit

The sample unit refers to the respondents who are to be surveyed. The Sampling Unit may be Geographical, Construction Unit, Social unit or it may be an individual.

(b) Sample Size

The sample size refers to the number of items to be selected from the universe to constitute a sample. A sample of 150 respondents has taken for the study.

(c) Sampling Method

This study has based on Multi Stage sampling method.

Data Source

The required data for this research work has collected from two sources, Primary data and Secondary data.

STATISTICAL TOOLS

a. Chi-Square Test
b. ANOVA

Hypothesis

The following are the null hypothesis framed in this research study:-

1. There is no association between number of dependents and default due to family obligations.
2. There is no association between level of education and default due to lack of cash management.
3. There is no association between age and default due to the influence of peer borrowers.
4. There is no association between income and default due to willful by the borrower.
5. There is no association between marital status and default due to multiple borrowing.

ANALYSIS AND INTERPRETATION

Table-1

Association between Marital Status and the Default due to Frequency of Multiple Borrowing.

Chi-Square - Table

	Value	Df	Asymp. Sig. (2-sided)	5%
Pearson Chi-Square	61.553a	12	.000	0.05

Null Hypothesis

There is no significant association between the respondents' marital status and the default due to frequency of multiple borrowing.

Alternate Hypothesis

There is significant association between the respondents' marital status and the default due to frequency of multiple borrowing.

Since the p value of X^2 (.000) is lesser than the table value (0.05) the null hypothesis is rejected. Hence, there is association between the respondents' marital status and the default due to frequency of multiple borrowing.

Table-2

Association between Marital Status and Default due to Family Obligations.

	Value	Df	Asymp. Sig. (2-sided)	5%
Pearson Chi-Square	18.485a	12	.102	0.05

Null hypothesis

There is no association between the respondents' marital status and default due to family obligations.

Alternate hypothesis

There is association between the respondents' marital status and default due to family obligations.

Since the p value of X^2 (.102) is greater than the table value (0.05), therefore the null hypothesis is accepted. Hence, there is no significant relationship between the respondents' marital status and default due to family obligations.

PEARSON CORRELATION ANALYSIS

Here the correlation analysis has been used to find out the relationship between the age and default due to the influence of peer borrowers by the respondents.

Null Hypothesis

There is no relationship between the age and default due to the influence of peer borrowers by the respondents.

Table-3

Correlation analysis- Table

CORRELATIONS			
		Age of the Respondents	Default due to the Influence of peer Borrowers
Age of the Respondents	Pearson Correlation	1	.049
	Sig. (2-tailed)		.550
	N	150	150
Default due to the Influence of peer Borrowers	Pearson Correlation	.049	1
	Sig. (2-tailed)	.550	
	N	150	150
*. Correlation is significant at the 0.05 level (2-tailed).			

We can see that the Pearson correlation coefficient, *r*, is 0.049, this is close to 0, we can conclude that there was a weak positive correlation between age and default due to the influence of peer borrowers by the respondents, we can conclude that the variables were not strongly correlated and the (p=$O.550$ > 0.0005), Therefore the null hypothesis is accepted that there is no significant relationship between the two variables.

ANOVA

Table-4

ANOVA-Association between Age of the Respondents and Default due to Lack of Cash Management Factor

	Sum of squares	Df	Mean square	F	Sig.
Between Groups	7.383	4	1.846	1.466	.216
Within Groups	182.617	145	1.259		
Total	190.000	149			

Null Hypothesis

There is no significant association between age of the respondents and default due to lack of cash management factor.

Alternative Hypothesis

There is significant association between age of the respondents and default due to lack of cash management factor.

This table shows that the output of the ANOVA analysis and whether there is significant difference between the group means.

We can see that the significance level is (p = .216), which is above 0.05. The null hypothesis is accepted and, therefore, there is no significant difference in the mean of the age of the respondents and default due to lack of cash management factor.

FINDINGS

1. Majority (30%) of the respondents are in the age group of 18-25 years.

2. Majority (32%) of the respondents have a primary level of education.
3. Most (58.7%) of the respondents' family monthly income ranges between Rs.5000- 10000.
4. Most (54.7%) of the respondents are married.
5. Most (36.7%) of the respondents are doing other business
6. Majority (38.7%) of the respondents has 4-5 dependents and (37.3%) of the respondents have 2-4 dependents.
7. Majority (36.7%) of the respondents agree that the default was due to their age.
8. Majority (35.3%) of the respondents are neutral towards the default was due to lack of literacy.

Chi-Square

1. There is a significant relationship between the respondents' number of dependents and default due to family obligations.
2. There is association between the respondents' marital status and the default due to frequency of multiple borrowing.
3. There is no significant relationship between the respondents' marital status and default due to family obligations.

Correlation Analysis

1. There was a weak positive correlation between age and default due to the influence of peer borrowers by the respondents and there is no significant relationship between the two variables.

ANOVA

1. There is no significant difference in the mean of the age and the default due to lack of cash management factor.

SUGGESTIONS

To the MFIs

- A better policy on loan accessing must be framed and implemented for the efficient functioning of the MFIs
- MFIs can motivate their clients repayment performance through effective incentive mechanisms
- The loan collection officers must be given proper training which would enable them to perform well in loan collections
- The clients must be provided with awareness and educational campaigns based on their knowledge levels
- Clients can be provided with specialized professional courses which would enhance the skills and talents of them
- MFIs should monitor the borrowers regularly so as to ensure that they use the loans they received for the agreed and intended.
- In order to control the incidences of multiple borrowing we recommend that MFIs should devise a way of sharing clients' loan information.

To the borrowers

- The borrowers must know how to allocate funds to meet out all their expenditures
- The borrowers must utilize their loan amount for their business purpose and not for any other personal obligations

CONCLUSION

Microfinance Institutions and Self Help Groups are jointly performing well on both personal and social aspects of the borrowers. Therefore, it is vital on the part of the policy makers and implementing authorities that they should keep an eye on all matters relating to the policy objectives with adequate data for the purpose of monitoring and evaluation. Microfinance Institutions must take steps regarding reduction of the transactional costs.. They should promote self help groups to manage themselves.

In particular, empowerment of women and the inculcation of financial training and discipline amongst the poor will undoubtedly have long-term socio-economic benefits. The principles of self-help and microcredit thus hold the key to economic and socio-cultural freedom for India's millions of poor, opening the gates of a hitherto untapped reservoir of human enterprise.

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