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Abstract

This paper examines the patterns of loan utilisation and repayment among micro-finance group members of Wayanad district of Kerala. It argues that 100 per cent repayment by members need not always indicate the success of group lending. As majority of the members have not undertaken income generating activities, the fear of social sanction and repeated interactions put pressure on them to depend on micro-finance loans at the time of repayment. The absence of alternative credit sources increases the financial dependence of the members over a period of their stay in micro-finance programme.

Introduction

It has been accepted that micro-finance programmes have a significant role in poverty alleviation and women empowerment. These programmes have been introduced and recommended for the developing countries, where a large proportion of the people live in abject poverty. Micro-finance programmes are considered to be a part of the various poverty alleviation programmes introduced in these countries. However, these group based programmes have received wider popularity, as they meet the immediate credit demands of the poor, who find it difficult to access credit from the formal and informal credit institutions. On the one hand, the cumbersome procedures of the credit market along with asymmetry of information about future credit dealings have increased transaction costs of the credit market. On the other hand, the rates of interests charged by the informal credit institutions are exorbitantly high. In short, it is very difficult for large number of small borrowers without any physical collateral to access

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credit. The micro-finance groups enable the poor to access credit from the formal sources based on social collateral. Instead of relying on the principle of physical collateral, these group based programmes rest on the principle of joint liability. Under this, the loans are issued to groups, rather than to individuals, which assure timely repayment of the loans.

Generally, the members in a group belong to similar socio-economic background and are observed to be familiar to each other. In these close homogenous groups, it is be easier to gather information about future credit transactions. In other words, the cost of peer monitoring is less expensive, as the risks and uncertainties on the transactions are less and thereby, it ensures timely repayment of the loans. Several studies (Wydick 1999; Hossain 1988; Huppi and Fedder 1990; Berenbach and Guzman 1992) have looked into the repayment performance of the groups across various countries and stated that the programme was sustainable as it ensured a higher repayment rate above 90 per cent. Therefore, these studies have looked into the success of the programme in terms of the rate at which they ensured repayment of the loans borrowed. This is because, under micro-finance programmes, repayment ensures cost recovery of lending.

It is significant to note that the micro-finance programme guarantees repayment from the income generated from the activity undertaken with micro-finance loan. Even though the members have freedom of utilisation of the loan, they are required to utilise the loan for productive purposes, once the consumption demands are met. It is interesting to examine how the members make repayments in the absence of income generating activities (IGAs). Taking this into account, the present study examines the repayment of loans borrowed by the micro-finance groups initiated both by the NGOs and the government in a backward district of Kerala. In the study area, the group lending programme has ensured 100 per cent repayment or the programme has achieved a success of 100 per cent cost recovery. However, only 31 per cent of the members had undertaken IGAs and therefore, it is significant to analyse how the members achieved 100 per cent repayment, in the absence of IGAs undertaken by a majority of the members. The paper tires to analyse the processes behind repayment and the reasons for achieving it. In the light of this, the present paper argues that 100 per cent repayment achieved by the groups does not ensure the success of the programme.

Theoretical Framework

In the present study, we have discussed the theoretical debate in the field of micro-finance from two different perspectives. In the first part, we discuss the significance of group lending from the role played by the homogenous group of poor needy members, who engage in repeated credit transactions. Their significance is prominent once they achieve the desired target of repayment, which the individual lending institutions are finding it difficult to achieve. In the second part, we discuss the problems and the implications revolved around the concept of timely repayment of loans, which has been ensured in the case of various developing countries. Finally, in the paper we make an attempt to analyse the intricacies involved in measuring the success of the programme in terms of the repayment of the loans borrowed.

Asymmetry of information is one of the prominent problems involved in the credit market transactions. This is because credit transactions have future dealings and a transaction is said to be complete only when the amount borrowed is repaid. As the transactions in the credit market take place over time, there are risks involved for both lenders and borrowers. Borrowers face the risks that the expected increase in income from an investment project for repayment may or may not materialise. On the other hand, lenders' risk has two elements: one relates to the same risks which the borrowers face, and the other relates to the borrowers' commitment to repay; even if she/ he is able to repay; she/ he may not actually repay (Bhatt 1983). These information asymmetries in the rural credit market on the ability and willingness of the borrowers to repay are due to moral hazard[1] and adverse selection[2] problems. There are costs involved in acquiring information about these risks and uncertainties and thereby, credit market often fails and reaches a constrained Pareto efficiency[3] (Besley 1994).

Generally, lenders undertake the responsibility of ensuring that the members selected are creditworthy, monitor the activities for which they borrowed the loan and ensure timely repayment. However, it is costly for an individual lender to gather information about large number of small borrowers without any physical collateral. Various scholars (Huppi and Feder 1990; Stiglitz 1990; Morduch 1999; Floro and Yotopolous 1991) have advocated the significance of the group lending programmes in brining down these information costs of transactions. Their studies have highlighted the welfare enhancing features of group lending either for the borrowers or for the lenders or for both. Group lending operates on the principle of joint liability whereby members agree to repay the share of the loan of their partners in case of their default in repayment.

Under group lending, the problem of asymmetry of information can be minimised as the members in a group are familiar to each other and belong to similar socio-economic background. It is argued that socio-economic homogeneity of the members ensures collective action (Lin and Nugent 1995), as members with similar socio-economic characteristics will interact repeatedly and attain a cooperative solution. However, in such groups with equal sharing of responsibility among the members, it is quite possible that those with high risk of default would like to join groups with members having lower risk of default. According to Stiglitz (1990), assortative grouping comes about as those with lower risk of default recognise their mutual interest in grouping together and the process will continue until the individuals with the highest risk are forced to group together. Moreover, groups with similar risks ensure peer monitoring and repayment, and avoid exploitation of the less risky by the risky (Sharma and Zeller 1997).

Generally, micro-finance groups access credit by making use of their social collateral. While formal lenders have only limited options to compel repayment from delinquent borrowers, group members can employ social sanctions. In homogenous groups, social ties among the members promote solidarity among the members. It is argued that the fear of social sanction is an important incentive for members to cooperate. If the social penalty of not repaying the loan is higher than financial penalty, then peer pressure will be effective (Sharma and Zeller 1997). However, some scholars (Hulme and Mosley 1996) argue that small saving contributions made by the members act as collateral at the time of repayment. Often, savings contributed by the members strengthen the perception that the members have a stake in the institution and contribute towards good repayment. Moreover, such savings help to know the creditworthiness of the borrowers and provides an incentive to make repayment (Bhatt 1983).

Another factor contributing towards repayment of the loan is the inability of the members to find other alternative institutions of credit (Morduch 1999). Often, the micro-finance programmes are targeted towards women, who are less mobile and generally, alternative credit institutions are very limited to them. Under such situations, the members undertake the responsibility of making timely repayment of the loans borrowed. On the other hand, if a member finds that the loan, which he/she is going to receive, is the last one, then it is quite possible for him/her to break the cooperative effort (Ghatak and Guinnane 1999). The occurrences of such non-cooperative solutions are rare, as members are familiar to each other and engage in repeated interactions (Huppi and Fedder 1990). It is observed that if the members associate a high value to the benefits which they are going to receive in future, then it is possible for the member to be in the group. Often, the higher amounts of loans received from the groups in subsequent borrowings can be considered as a positive incentive for the members to make timely repayment.

The above-referred studies have argued that the micro-finance groups working on the principle of joint liability reduced asymmetry of information prevalent in the credit market and thereby, ensured timely repayment of the loans. Under such circumstances, these credit institutions achieve 100 per cent repayment and ensure financial sustainability of the institution, which the individual lending institutions are finding it difficult to achieve. But, such a one-sided view only on the financial sustainability of the institution ensured through repayment of the loans had not considered the problems faced by the borrowers and the processes and the procedures behind repayment of the loans. Certain studies have highlighted that in small communities with repeated interactions, social pressure forces the members to depend on external financial sources at the time of repayment.

Often, the social pressure from co-partners are very strong and because of the fear of social ostracism from the community where they live together, the peer pressure forces members to borrow from moneylenders at the time of repayment (Chavan and Ramakumar 2002). If members are repaying the loans from IGAs undertaken with the SHG loan, we can say that risks of inability to make repayment and unwillingness to repay have brought down or are negligible. But, if the members in a group are very poor to make investments in productive projects or cannot generate remunerative income from the invested activity, then instead of improving the financial conditions of the poor women, micro-finance programmes worsen the same.

A study by Jain and Mansuri (2003) brings out that the social pressure of enforcing instalment-wise repayment, which starts immediately after borrowing from the micro-finance programme creates a kind of dependence on informal credit markets at the time of repayment by borrowers. In their study, they have made a comparison of the dependence on informal sources of credit by micro-finance group members and non members and state that there were problems of increased dependence on informal credit sources by micro-finance group members as compared to non members.

The micro-finance programmes targeted towards women have the public transcript[4] that they improve women's contribution to family welfare and assist poor women through their socio-economic empowerment. The election of the new members every year for the positions of responsibility and the idea of lending loans to women without physical collateral may seem attractive. But, it has a hidden transcript[5] that since women have limited physical mobility and culturally imposed restrictions, often the positional vulnerability of women is used at times of repayment (Rahman 1999). Since it is easier to ensure repayment of loans by women borrowers, the bank workers select women participants. But, often, their husbands and other family members put pressure on them to join the programme to get loans for their own use and it raises the question of whether the women enjoyed meaningful control over their investment activities (Goetz and Gupta 1996). Rahman's study (1999) on Grameen Bank model of micro-finance programme in Bangladesh reveals that at the time of repayment women experience tensions and violence from within the household, from their co-partners and also from the bank workers.

Some of the studies have brought out the socio-economic problems behind the repayment ensured by the members. According to Floro and Dymski (2000), at times of financial crisis the participation in the programme had the costs of greater household risks. It had the costs of greater cash flow dependence and financial fragility and the women were forced to bear these costs and their conditions become even more vulnerable. In another study, Woolcock (1999) argues that the pressure exerted by micro-finance programmes at times of repayment often strained the social relation between the group members and the staff. The study, which he conducted in Bangladesh, the country where the programme had received wide popularity, reveals that the poorest members were forced to leave the programme and the attitude of the officials pressurising the members to make timely repayments forced them to borrow money from the moneylenders.

The discussion on the literature indicates that micro-finance groups based on the principle of joint liability ensure repayment of the loans borrowed. However, such repayments do not always imply that members repaid the loans from the income generated from the activity undertaken with the loans borrowed from the programme. Now, it would be significant to examine how members make 100 per cent repayment and the reasons behind achieving the same. This paper is an attempt to answer these questions based on the empirical findings from the field.

The Study Arena

The present study on micro-finance group members was conducted in Wayanad district, Kerala. Wayanad is one of the backward districts of the state with a high density of tribal population. It has the highest proportion of households covered under micro-finance programme of the government. Moreover, many micro-finance promoting NGOs are working in this district. The economy is basically agrarian and a majority of the people depend on agriculture for their livelihood. They cultivate cash crops like coffee, pepper, areca nut, ginger etc. This district ranks first in the state in the production of these cash crops and had contributed enormously towards the state exchequer. In this district, there is inequality in the distribution of land, as few people with large holdings of land exist along with large number of small and marginal farmers.

During the last five to eight years, especially after the liberalisation, the district experienced a financial crisis, as the agrarian products of this district could not fetch adequate prices in the international market. Consequently, the people who depended on agriculture for their livelihood were thoroughly devastated by the financial crisis. Besides, agricultural production had gone down because of fungus and other diseases along with drought that had affected the crops. Thus, the drastic fall in agricultural prices and their production gave a serious setback to these marginal and small farmers and some of them were forced to leave agriculture as their production could not cover the expenditure (Sainath 2004a; 2004b; 2004c; 2005a; 2005b). Thus, the district once famous for the production of cash crops was going through a severe financial crisis. It is a fact that some people had moved on to neighbouring states in search of agricultural jobs. During the period of three years from June 2001 to June 2004, about 94 farmers had committed suicide, as they could not repay the bank loans, which they had borrowed for agricultural purposes (Krishnaprasad 2004). Thus, the small and marginal farmers depending on agriculture became the victims of the agrarian crisis. Moreover, agricultural labourers too lost their jobs as there were no promising jobs after the fall in production.

As the people of this region had gone though a severe financial crisis, we can say that they were in need of credit or money. Some of them[6] had borrowed from formal sources by pledging their assets. Many, especially the tribals, who did not have any physical collateral, found it difficult to get loans from formal institutions. Moreover, the interest rates of informal sources were exorbitantly high. In short, micro-finance programme was a great help for those people who found it difficult to get loans from formal and informal sources of credit.

Micro-finance groups of this district can be broadly classified into government initiated and NGO initiated groups. NGO programme was started before the entry of the government programme. The groups initiated by the NGOs are called self help groups (SHGs). The government programme was initiated under the State Poverty Eradication Mission called *Kudumbashree* and their groups are called neighbourhood groups (NHGs). The government programme was introduced through panchayats and the government involvement gave a wide popularity to the *Kudumbashree* programme. Often, the government identified the beneficiaries of various schemes based on their participation in NHGs. Gradually, SHG members too got registered in the NHG programme. This resulted in double membership for most of the NGO initiated groups. In the present study, we have selected two types of groups. First, those groups having double membership in NHGs and SHGs and they are NGO initiated groups and are called SHGs. Second, those groups having membership only in NHGs and they are initiated by the government programme.

From Wayanad district, Sulthan Bathery block was selected for the study, as it had both NGO and government supported micro-finance groups which were flourishing. From this block, two panchayats, Sulthan Bathery and Noolpuzha were selected randomly for the study. From these panchayats, an equal number of NHGs and SHGs were selected based on the assumption that these two categories performed more or less equally. We selected 8 NHGs and 8 SHGs from each of these panchayats and from each group, 6 members were selected randomly. Thus, a total of 192 members were selected randomly from 32 micro-finance groups. The study used the interview schedule and collected information about the socio-economic profile of the members, their savings and loan operations, purpose of utilisation of the loan and repayment of the loans borrowed by the SHG members since joining the group. Information about the group characteristics, especially the group homogeneity was collected through intensive group discussions. The study was carried out in the beginning of 2004.

Data Analysis

Micro-finance groups of the NGOs were introduced prior to the government programme. Since the NGO supported groups had been initiated early, there is a difference in the years of experience of these two categories of groups. The average years of experience of the NGO initiated groups was 3.38 whereas it was 2.31 for government-initiated groups. The poverty status of the groups indicates that about 91 per cent of the NHG members and 78 per cent of the SHG members belonged to the BPL category. The higher presence of BPL members in NHGs could be attributed to the high presence of tribals in NHGs as 50 per cent of the NHG members were tribals. It is significant to note that women constituted the members of these groups. All groups, except 12.5 per cent of the groups, maintained homogeneity[7] in terms of caste. Almost 97 per cent of the micro-finance group members revealed that it was mainly to get financial assistance from the programme that they joined.

Even though the terms NHGs and SHGs are used to make a distinction between government initiated and NGO initiated groups there are not many differences between these two categories as far as their internal operations such as saving, lending, participation in group meetings etc., are concerned. The members make regular saving contributions to the group and the amount of savings is kept the same for all the members in a group to maintain parity or equal sharing of the responsibilities. It was mainly to get financial assistance from the programme that a majority of the members have made saving contributions to the group. After making saving contributions to the group for a certain duration of months and ensuring adequate loanable funds with the group, the group starts issuing loans from the internal savings. Later, the groups approach the external funding sources like banks, NGO and panchayat revolving fund. All the 32 groups had started issuing internal loans to the members. An examination into the external loans indicates that about 40 per cent of the groups received bank loans and 15 per cent of the SHGs received NGO loans and all of them received revolving fund. Except 3 NHG members all the members received loans at least once from the programme. The members had complete freedom of utilisation of the loan and there was no misdirection of the funds. Hence, the members utilised the loans only for those purposes mentioned at the group level.

Loan received from the SHGs were relatively larger in size as compared to NHGs. The average number of loans received by the members indicated that SHG members received about 4 loans, whereas it was about 3 for NHG members. However, the present study examines the allocation of the loan across the various purposes mentioned by the members, in order to analyse the purpose for which they utilised the loan (Table 1).

Table 1: Loan utilisation pattern of the micro-finance group borrowers (in percentages)

Purpose of utilisation	NHG	SHG	Total
Agriculture and animal husbandry	16.4	5.7	11.0
Other IGAs	5.8	1.0	3.4
Life-cycle needs	26.2	22.4	24.3
Emergency needs	5.5	7.3	6.4
Needs to reduce indebtedness	35.2	59.9	47.6
Other needs	10.9	3.7	7.3
Total	100.0	100.0	100.0

Source: Primary data

The loan utilisation pattern of the micro-finance group members given in Table 1 indicates that there were two broad purposes, consumption and production. Agriculture and animal husbandry and other IGA represented by small enterprises and business constitute the productive purposes. On the other hand, life cycle needs, emergency needs, needs to reduce indebtedness and other needs form the consumption purposes stated by the members. It is significant to note that the loans allocated for productive purposes constituted less than 15 per cent of the loans issued from the programme.

It is significant to note that need to reduce indebtedness constituted an important purpose expressed by the members and the proportion of allocation of loan for this was more among the SHG members. The different consumption purposes mentioned by the members under the needs to reduce indebtedness included getting back gold from the pawnbroker, gold loan renewal, old debt repayment, bank loan repayment, repay the money borrowed from others to repay SHG loan and SHG loan renewal. These debts were more among the SHG members who had been in the groups for a long time. Another significant category was life-cycle needs and it included house construction, education of their children and their children's marriage. Emergency needs consisted of medical expenses and other needs represented money utilized for social functions. In short, a large proportion of the loan was utilised for consumption and among which needs to reduce debt indebtedness constitute a major item. A comparison of the two categories indicates that NHG members were relatively more in allocating loans for productive purposes as against SHGs. Thus SHG members who had been in the programme for a longer duration allocated a relatively lower proportion of the loan for productive purposes.

As IGAs enable the members to generate adequate income for livelihood and to repay the loans borrowed, it would be helpful at the time of repayment, if they undertake IGAs. Some of the members had undertaken IGAs after joining the programme, but only a few had continued the activity, which they had been doing. A classification of the members who had undertaken IGAs along with their purposes of utilisation has been given in Table 2.

Table 2: Income generating activities undertaken by the members

IGA undertaken	NHG	SHG	Total
Consumption only	61 (65.6)	68 (70.8)	129 (68.3)
Agriculture	2 (2.2)	4 (4.2)	6 (3.2)
Rearing of milch animal	23 (24.7)	23 (24.0)	46 (24.3)
Business	1 (1.0)	1 (1.0)	2 (1.0)
Small enterprise	6 (6.5)	-	6 (3.2)
Total	93 (100.0)	96 (100.0)	189 (100.0)

Note: Figures in the parentheses indicate percentages

Source: Primary data

All the members had received loans from the programme, except three NHG members. A majority of the NHG and SHG members utilised the loans only for consumption. It is significant to note that only 31 per cent of the members had utilised a certain percentage of their loans for IGAs. The members who had undertaken productive activities were relatively more among the NHG (32) as against SHG (28). Mostly, the members had undertaken traditional occupations like agriculture and animal husbandry, petty business and small enterprises (candle making and soap making). Among those who had undertaken the activity, rearing of milch animals constituted a major category. This formed the traditional occupation of the people where the skills required were less and most of those who had undertaken had previous experiences in those activities. In short, almost 70 per cent of the members had not utilised the loans for productive purposes and in this matter, there were not many differences between NHGs and SHGs.

Members were asked to mention the reasons behind higher allocation of loans for productive purposes. Some SHG members revealed that they had undertaken certain IGAs such as food processing, tailoring, umbrella making, and teashops for a short duration of less than 4 months. They were finding it difficult to sell their new products in the context of stiff competition from the already established products in the market, lack of economies of scale due to small scale of production and the low quality of the products manufactured at the local level. Those who had not undertaken any IGAs stated that for them consumption demand was more predominant and it was easier for them to depend on micro-finance loans for meeting these needs, rather than depending on informal sources of credit at higher rates of interests.

Repayment Pattern of the Loans

According to the micro-finance group norms, the members were issued fresh loans only after the repayment of the previous loans. The frequency of loans received by the members varied between 1 and 13. At this juncture, it would be significant to examine, how the members made repayments, if majority if the members had not undertaken IGAs. How did the members receive higher number of loans from the programme? Was it after repaying back their earlier loans? If so, how did they repay their loans?

It is significant to note that about 79 members or 41.2 per cent of the members received only one loan from the programme. Of them, only 10 per cent or 4.12 per cent of the members were in the process of repayment and the remaining 37 per cent of the members who received one loan had completely repaid their loan. The other 58.2 per cent excluding the 3 NHG members received more than one loan from the programme, implying that they were issued fresh loans only after repaying back their earlier loans fully. Moreover, the loan received by the members would be higher at every additional borrowing from the programme. All the loans were repaid fully and no defaults were reported either from the members who left the programme or from the members who were in the programme.

In order to give an explanation to the repayment pattern of the loan borrowed by the members, the present study examines the time gap or the number of days taken by the members between the issue of a last loan and the repayment of the previous loan. In the present study we selected only those who received more than one loan[8] from the programme. The last loan was considered for our analysis for two reasons. First, we assumed that present was a continuation of the past. Second, members were at different stages of loan cycles and hence, the amount of loan received by the members differed. Such differences in the loan cycles and loan amounts would help one to gather information about the repayment pattern of the loans borrowed by the members as a whole.

A classification on the time-gap between the repayment of the previous loan and the issue of last loan by the members along with the purposes mentioned by the members has been given in Table 3. The presence of members with a shorter duration indicates that there was dependency on micro-finance programme immediately after repayment of their earlier loans.

Table 3: Distribution of members by the number of days taken between issue of last loan and repayment of previous loan across purposes of utilisation

Nature of the group	Purpose of loans	Difference between the day of issue of the loan and day of repayment of the previous loan (no. of days)		
		Within 15 days	More than 15 days	Total
NHG	Income generating activity	1 (50.0)	1 (50.0)	2 (100)
NHG	loan renewal	4 (100)	-	4 (100)
	Agriculture and animal husbandry	6 (75.0)	2 (25.0)	8 (100)
	Consumption	10 (76.9)	3 (23.1)	13 (100)
	Education/medical	2 (33.3)	4 (66.7)	6 (100)
	House construction	2 (50.0)	2 (50.0)	4 (100)
	Old debt repayment	11 (84.6)	2 (15.4)	13 (100)
Total		36 (72.0)	14 (28.0)	50 (100)
SHG	Income generating activity	1 (100)	-	1 (100)
SHG	loan renewal	6 (100)	-	6 (100)
	Agriculture and animal husbandry	8 (88.9)	1 (11.1)	9 (100)
	Consumption	5 (55.6)	4 (44.6)	9 (100)
	Education/medical	3 (75.0)	1 (25.0)	4 (100)
	House construction	5 (71.4)	2 (28.6)	7 (100)
	Old debt repayment	16 (66.7)	8 (33.3)	24 (100)
Total		44 (73.3)	16 (26.7)	60 (100)

Note: Figures in the parentheses indicate percentages
Source: Primary data

Table 3 indicates that at least 110 (50 NHG and 60 SHG) members received loans more than once from micro-finance programme. About 72 per cent of the NHG members and 73.3 per cent of the SHG members borrowed within a period of 15 days after their repayment of the previous loans. Two purposes cited for urgent borrowing were noteworthy. They were SHG/NHG loan renewal and old debt repayment. The latter happened in the case of certain members who demanded loans to pay back the loans borrowed from others at the time of repayment.

A large number of members borrowing within a short duration indicates that a large proportion of the members experienced dependency on micro-finance group loans immediately after repayment of their previous loans. Let us examine whether this dependency increased or decreased or remained stable over a period of their borrowing from the programme. This has been explained with the help of Table 4, which indicates the distribution of members by their time-gap between the issue of loans and repayment of previous loan over a period of their membership in the programme.

Table 4: Distribution of members by their time gap between the issue of loans and repayment of previous loans over a period of membership in the programme

Nature of the group	Duration between first repayment and next loan (days)	Duration between the last loan received and previous repayment (days)				
		30	31-90	91-180	Above 180	Total
NHG	30	19 (82.6)	2 (8.7)	-	2 (8.7)	23 (46.0)
	31-90	10 (83.3)	1 (8.3)	1 (8.3)	-	12 (24.0)
	91-180	6 (75.0)	1 (12.5)	1 (12.5)	-	8 (16.0)
Above	180	6 (85.7)	-	-	1 (14.3)	7 (14.0)
Total	41	(82.0)	4 (8.0)	2 (4.0)	3 (6.0)	50 (100)
SHG	30	26 (89.7)	2 (6.9)	1 (3.4)	-	29 (48.3)
	31-90	8 (61.5)	4 (30.8)	1 (7.7)	-	13 (21.7)
	91-180	6 (66.7)	1 (11.1)	1 (11.1)	1 (11.1)	9 (15.0)
Above	180	7 (77.8)	-	1 (11.1)	1 (11.1)	9 (15.0)
Total	4	7 (78.3)	7 (11.7)	4 (6.7)	2 (2.3)	60 (100)

Note: Figures in the parentheses indicate percentages

Source: Primary data

Table 4 brings out the dependency on micro-finance programme at the time of repayment by the members over a period of their stay in the programme. The figures given in rows indicate the distribution of members with number of days taken between repayment of the first loan and the issue of the second loan. The column figures bring out the distribution of members with number of days taken between the issue of the last loan and repayment of the previous loan.

About 46 per cent of the NHG members and 48.3 per cent of the SHG members had borrowed within a period of 30 days after the repayment of the first loan. However, the proportion had increased to 82 per cent of NHG members and 78.3 per cent of SHG members in the case of the last loan. In other words, the proportion of members with a shorter duration of 30 days between repayment of previous loans and issue of the last loan increased over a period of their borrowing from the programme. In short, the study indicates that the dependency of the members on micro-finance group loan had increased for a large number of members over a period of their stay in the programme.

Now, it is significant to examine the reasons behind this repayment pattern of the members. We have stated that all groups except 12.5 per cent were homogenous in terms of socio-economic standards. As there is homogeneity among majority of the members, the effectiveness of the principles of joint liability would be more. The fear of social sanction or the social penalty of not repaying the loan would force the members to make repayment. However, in the absence of IGAs, the members were forced to borrow from the micro-finance programme to repay their earlier loans and this led to debt indebtedness and as indicated in the study it increased a period of their stay in the programme.

It is significant to examine why the members continued to remain in the programme and borrowed from it at the time of repayment. Majority of the members belonged to BPL category and they did not have any other alternative sources of credit. Moreover, the benefit which they were going to get from the government programme forced the micro-finance members to remain in the programme. Moreover, the repayment of previous loans enabled them to receive higher loans in further borrowings and in turn, it acted as an incentive for them to repay back the loans. Repeated interactions in homogenous communities prevented free-riding on the part of the members.

In short, the area had been going through an agrarian crisis and it was difficult for the members to get alternative credit sources, which affected both the NHG and SHG members uniformly. The study indicates that the absence of alternative credit sources by a large number of poor members along with the fear of social sanction and repeated interactions among the members who were socially and economically homogenous put pressure on the members to make repayment.

Conclusions

The present study has made an analysis of the patterns of loan utilisation and repayment of micro-finance group members. It is observed that a large proportion of the loan was used for consumption purposes. However, even in the absence of IGAs undertaken by a majority of the members, groups ensured 100 per cent repayment. The joint liability principle working in those micro-finance groups, which maintained socio-economic homogeneity, ensured 100 per cent repayment. This was achieved even by borrowing from the programme. In homogeneous groups, the incentives of social sanction and getting higher amount of loans from the programme would be effective. Moreover, lack of alternative credit institutions for a large number of members forced them to be regular while making repayment. As the members did not have any other alternative, they were forced to borrow from the programme to repay their earlier loans and result in debt indebtedness.

Can 100 per cent repayment pattern of the members alone bring about the success of the programme in terms of cost recovery? Since the repayment of the loans by a large proportion of the members resulted in dependency on micro-finance programme or repayment created immediate dependency on the programme by further borrowing, there was no explicit poverty reduction. Therefore, repayment alone does not give a clear picture about the programme. In addition to this, we have to examine the loan utilisation pattern of the members and the sources of repayment.

Now, it is necessary to find out ways to remove dependency at the time of repayment. We cannot attribute this problem entirely to the principle of joint liability and the incentive, which work behind it. The inability of the members to take up IGAs is one of the reasons behind continued dependence. Therefore, it is significant to promote IGAs for the members. The promoting agencies should extend their helping hand, in those instances where the members are finding it difficult to market new products. Moreover, the programme should make it mandatory to allocate a certain proportion of the loan for IGAs.

Notes

[1] Moral hazard arises when an individual takes action to maximize his own welfare to the detriment of others in situations where informational problems prevent the assignment of the cost to the concerned individual of the full damage caused by his action.

[2] Adverse selection arises when commodities are distinguished on the one side of the market (usually, the sellers) but are treated as identical by the other side of the market (the buyers). In such a case, the sellers (here, lenders) may withdraw from the market (credit market) resulting in a zero trade (no credit transaction).

[3] Credit market imperfection occurs due to costs on information and enforcement and it results in an outcome where inefficiency exerts the lender to reduce the amount lent to the borrower. It puts efficiency costs on the society, but from an operational point of view such costs have no relevance. Market failure is taken to mean the inability of the free market to bring about a constrained Pareto efficient allocation of credit (Besley 1994).

[4] Public transcript here refers to the philosophy and objectives of the Grameen Bank and the official view of its operation (Rahman 1999).

[5] Hidden transcript is the “covert discourse” of the informants about credit operations in the village (Rahman 1999).

[6] Information gathered at the time of the field survey.

[7] A group is categorized as homogeneous, if more than 50 per cent of the members belonged to similar caste. Caste is considered as a determinant of the socioeconomic background of the members.

[8] Those who have received more than one loan from the programme give some idea about the repayment pattern of the earlier loan and the utilization pattern for the fresh loan.

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