VOICE OF PEOPLE ON THE LENDING PRACTICES OF MICROFINANCE INSTITUTIONS IN KRISHNA DISTRICT OF ANDHRA PRADESH

APMAS
Hyderabad

Introduction

Andhra Pradesh has occupied an important place in the map of Indian Microfinance Institutions (MFIs) and Hyderabad has become popularly known as the 'Mecca of Microfinance'. More than 75% of Microfinance Institutions in India are located in Andhra Pradesh. MFIs are currently extending credit facilities to more than 1 lakh members through promotion of Joint Liability Groups (JLGs) and through individual lending. As the sector grows, many issues are emerging from MFIs, Government, and stake-holders because of the non-observance of prescribed norms in an effort to reach their goals. A few such issues are discussed below.

For the past two to three years, on various occasions, Microfinance Institutions have been in the news about their activities. Various Telugu daily newspapers and electronic media[1] have also seen it prevalent to highlight the negative implications of MFIs in the past[2] and did so during the Chief Minister's visit to Kollipara mandal[3] on 12th April 2005. In the recent past, MFIs were in headlines because of Mr. Rahul Gandhi's visit[4] to a MFI and his comments on its functioning. The villagers in West Godavari district have also reported that the rate of interest that has been charged by the MFI during the Project Director's "Pelle Nidra" Programme has been exorbitant. Across the mandals in Krishna district, more than 300 complaints[5] were registered against MFIs retaining to the high rate of interest, rigid repayment mechanisms, and callous delinquency management procedures. Very recently, all the newspapers have underlined the irregularities of MFIs[6] and the attitude of government officials[7] and people's representatives[8] towards Microfinance Institutions.

Need for the study

In this context, the District Rural Development Agency (DRDA) and Indira Kranti Patam/Velugu (IKP) have decided to commission a rapid study on the activities of MFIs in the districts and to take necessary measures to understand the practices of MFIs and the subsequent affect on their members in order to strengthen Self Managed Financial Institutions (SMFIs) based on the study findings.

Objective

The broad objective of the present investigation is to know the lending practices of MFIs with reference to the rate of interest charged and repayment and delinquency

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[1] *TV-9, ETV and Teja Telugu News Channels telecasted on 12th and 13th April 2005*
[2] *Eenadu, Telugu Daily Newspaper, dated 22nd and 23rd February 2005*
[3] *Prajashakthi, Telugu Daily Newspaper, dated 13th and 16th April 2005;*
Vartha, Telugu Daily Newspaper, dated 13th and 15th April 2005
Andhrajyothi, Telugu Daily Newspaper, dated 15th April 2005
[4] *Mr. Rahul Gandhi Visit to SKS on 21st October 2005*
[5] *Times of India, English Daily Newspaper, dated 16th March 2006*
[6] *Eenadu, Telugu Newspaper, dated 16th March 2006*
[7] *Andhra jyothi, Telugu Newspaper, dated 14th March 2006*
[8] *Andhra jyothi, Telugu Newspaper, dated 16th March 2006*

management methods followed by them and its implications on SHG-MFI members and SHGs in the Krishna and Guntur districts of Andhra Pradesh.

Research Questions

The present enquiry answers the following research questions:

- What are the real lending practices of various MFIs in the district?
- What is the rate of interest charged by the MFIs?
- What are the various repayment and delinquency management practices?
- What are the issues and implications on loan borrowers and SHGs?

Research methodology

Sampling: The SHG-MFI members in the district are the sample of our present study. The study has covered 130 SHG-MFI members from 12 villages in 7 mandals of the district. 6 Mandals where the MFIs have intensive operations were selected within the district. Within each mandal, 2 villages were selected based on their location-interior & fringe and urbanity- rural, semi-urban and urban. From each village 10 SHG-MFI members were selected at random, covering all the various MFI centers and JLGs within the centre. A second visit was conducted to Krishna and Guntur districts to add to the value of study. This visit included personal interviews with borrowers from MFIs, MFI personnel, FGD with SHG Federation members and interactions with the male family members of borrowers. Though interaction with local money lenders to know what kind of people generally approach them, on what purposes, rate of interest, method of calculation, etc., was also planned, we could not meet any as the borrowers were not willing to share that information.

Table-: Details of Sample Coverage

Name of the Mandal	Name of the Village	No. Of SHG-MFI members	Village Organizations
Nandigama	Addiviravulapadu	10	1
	S.C.C. Nandigama	10	1
Kanchikacherla	Jangalapalli	10	1
	Kothapeta	10	1
Vastavaye	Mangollu	10	1
Chandarlapadu	Turlapadu	10	1
	TR padu	10	1
Jaggaiahpet	Chillakallu	10	1
	Balusupadu	10	1
Penuganchiprolu	S.C.C. PG prolu	10	1
	Nawabpet	10	1
Vijayawada-Urban	VJA-Urban	20	
7	12	130	11

Data collection Tools: An Interview Schedule was used to collect information from SHG-MFI members. It focused mainly on profile of the borrowers, lending norms, loan details, various loan products, loan recovery methods, impact on borrowers and SHGs. Group discussions and personal interviews were organized with the members and heads of SHG federations, MFI personnel, and male family members of borrowers with the help of a checklist. Case studies were collected from relevant respondents to support and add depth to the quantitative data.

Data analysis: The collected data was edited, coded, entered, and analyzed with the help of computer by using SPSS data analysis package to draw meaning inferences. The data was analyzed in terms of the different MFIs and the differing socio-economic background of the SHG-MFI loan borrowers. Case studies were used to support the observations of the researchers.

Fieldwork

The study team of APMAS conducted two fieldwork studies for data collection. The first study was conducted from the 18th to 22nd of March 2006, with a team of 10 members, and the second, from the 24th to 28th of April, with a team of 3 members, including an APMAS intern from California, United States an APMAS research associate, and an affiliate working in the study area. The IKP staff at the village, Mandal and Cluster levels aided the team in the selection of various sample units and in conducting individual interviews with the SHG-MFI members.

Findings of the Study

Profile of Loan Borrowers

Of the total 130 respondents surveyed by the study team, 65% belong to Scheduled Castes, approximately 10% belong to the Open category, and Backward categories comprised 19% of the respondents. Scheduled Tribes and Minorities represented less than 5% each (annexure-1).

The primary occupation of a majority of the members is agricultural labor (59%) and a significant amount is engaged in petty and seasonal business (15%). The remaining respondents are engaged in non-agricultural labor ranging from animal husbandry to small enterprises and jobs. All respondents excepting 11% of marginal and small farmers are landless and almost 95% fall under the below poverty line (BPL) category. Though 30% of the women are literates, approximately 59% are completely illiterate and the remaining fall somewhere between the two.

Majority of the MFI members are landless, illiterate Scheduled Caste women whose primary occupation is agriculture labour. The profile of the SHG-mFI members and the areas of MFIs' operations within the habitation say that mFIs' target could be SCs and BCs. It also shows that people who engaged in fewer earnings and less availability work and the activities which need regular investment are enrolled in mFIs.

Membership

Of all the 130 members, 96 have membership in SHGs, 100 have membership in SHARE and 72 have enrolled in Spandana. Of this sample, majority of the members reported having dual membership (59%), and a significant amount reported engaging in multiple memberships (3 memberships) (25%), the remaining 16% reported having membership in only one MFI. This shows us that that a majority of the members sampled have dual membership in SHGs and MFIs. A few have multiple memberships, meaning, possibly, that they have membership in an SHG and in more than one MFI. Though, urban village residents from the sample selected in Vijayawada, don't have membership in SHGs.

The average period of association for our sample with SHGs and MFIs is longest with SHGs (35 months) followed by SHARE (27 months) and then with Spandana (14 months). SHARE and IKP have had their operations in the study area for the past 4 to 5 years. Whereas Spandana only started their operations one year ago, their enrollment is more or less equal to that of SHARE and IKP. This is presumably because of members engaging in multiple memberships in order to obtain credit from the newly available credit sources. In addition to this, all the households of the SHG-MFI members have anywhere from 1 to 3 memberships in Girigiri Banks[9]. Out of the 130 sampled, all except one are members in the Joint Liability Groups[10] (JLG) promoted by SHARE and Spandana.

The average period of association with the SHGs and MFIs is varying. It could be because SHGs and JLGs, promoted by SHPIs and MFIs respectively, have varying lending procedures. Other reasons include: villagers approaching MFIs for larger loans than offered by their MFI, simpler procedures of MFIs, absence of alternative sources of income, pressing financial needs, or to take up or expand their income generating activity, and will be discussed in more depth below.

Case Studies:

Multiple loans to meet unexpected expenditure - *Durgamma of Kanchikacherla, at the age of 38, got heart attack. She joined in Usha Cardiac center on 12/11/05. She had to take another loan of Rs. 7,000 to meet the hospital expenditure.*

Loans from other MFI to repay loan installments - *B. Nagamma family of Kanchikacherla has a small business of gunny bags. To expand the business, she borrowed from Share and invested. But the business did not pick up. In fact revenue has fallen. To repay weekly installments, she has taken another loan from Spandana. Till now she has taken 10 loans from both the MFIs to the tune of Rs.47,000 without much change in the family income. She started taking loans from money lenders at exorbitant rates of interest (Rs.5-6 per month) to manage the MFI repayments.*

Focus on MFI loan repayment than SHG loans- *G. Amruthamma of Kothapeta, Kanchikacherla reported that her SHG became defunct as members unable to repay the bank loan of Rs. 8,000 because of payment of weekly installments to the MFIs. The manager of the Bank transferred funds from the group saving account to loan account. As the result the group became defunct.*

Competition among MFIs and impact of Multi-membership: Mrs. Chinnibai (45) is from a Lambada community that hailed from Nalgonda district in search of livelihood and settled in Sattenapally municipality. Chinnibai earns her income through jute rope making and seasonal agricultural labour. Her husband, being a drunkard and sick all the time, cannot support her. She took membership in both Spandana and SHARE and availed a total loan amount of Rs.50,000/- over 6 instances in the last 4 years. She says she used that entire amount for her sons' marriages, but they did not feel any responsibility towards repayment and left the house. Presently, she has a loan of Rs.6000/- and Rs.12000/- from both Spandana and SHARE respectively. Moreover, one of her daughters-in-law took a loan of Rs.7000/- and she and her family were forced to flee from the town, unable to repay the loan. Now, Chinnibai is forced to repay that amount as well as her own loans. She says she is unable to bear the brutal language of MFI workers and, as a result, was forced to take loans from local money lenders for Rs.5.00/- interest per

[9] Girigiri Bankers are the private financers in the village. They give a loan of Rs. 500 with 12 weeks as payback period. They collect both principle and interest of Rs. 50 per week in 12 weeks. They collect Rs. 10 for loan pass book from the borrowers at the beginning of the loan.
[10] It is a group formed by the MFIs with 5 to 10 women to provide financial services which basically works on peer pressure.

month 4 or 5 times. For different loans she has been required to sell her ornaments and is now planning to sell or mortgage the two-roomed house she has. She admitted that she is taking one loan to repay another and believes her poverty has increased because of it.

Who inspired/advised membership in MFIs?

More than one person has influenced the decision of members to take membership in MFIs. These influences may have come from household members, friends and relatives, and MFI field staff.

In majority of the cases (61%), it is the MFI field worker that has influenced the members by explaining the loan products especially the availability of a large loan amount. More than half of the enrollments were a result of influence from the member (37%) and the other household members (21.5%) to take the decision. In 30% of the cases, friends and relatives influenced the decision. Interestingly, in 12% of the cases, SHG members encouraged membership in MFIs.

Table- Persons Influenced to enroll with MFI

S.No.	Persons	Frequency	Percentage
1	MFI fieldworker	79	60.8
2	Self	48	36.9
3	Household Members	28	21.5
4	Friends & Relatives	39	30.0
5	SHG members	15	11.5

The MFIs might have influenced the decision of the villagers at the time of starting their operations in the village. Over a period of time due to demonstrative effective of large loans, majority of the households and the SHG members who have less access and equity to loans have been attracted to MFIs.

Why they have enrolled with MFIs

Majority of the members have seen the advantages of individual loans (59%) to JLG memberships. Around 50% of the members have expressed their concern as to the lack of availability of large loans from other sources besides MFIs, and the advantage of less time/no delays in getting loans. For about 40% of the members, the availability of credit in a timely manner is the main reason for enrollment.

Table-: Why they have enrolled with MFIs?

S.No.	Reason	Frequency	Percentage
1	Individual loan	76	58.5
2	Large loans	60	46.2
3	Timely loans	51	39.2
4	Less time -no delay	61	46.9
5	Loan at door steps	31	23.8
6	Multiple loans	9	6.9
7	Multiple loan products	3	2.3
8	Credit source	49	37.7

9	Simple procedures	38	29.2
10	No meetings	3	2.3
11	No or less savings	9	6.9
12	Joint responsibility	24	18.5
13	Weekly payment	31	23.8

Approximately 20% of the respondents claim that the joint responsibility of the loan is their chief reason for enrollment with the MFI, others claim that the weekly mode of repayment (24%) and the simplicity of the procedures (30%) are their reasons for MFI enrollment. Very few respondents expressed less savings, meetings, multiple loans and products, etc. as their reason for enrollment.

Many members have expressed their rationale behind taking membership in MFIs through more than one response. Many of the reasons members claim to have joined MFIs for are related to loan size, timeliness, procedures, pre-requisites, loan products, place of loan products delivered by the MFIs, mode of repayment and credit sources etc. rather than interest rate. During some individual interactions with the study team, some respondents expressed that the simplicity of the repayment procedures made it feel easy for them to receive a loan.

Case Studies:

More time and Operational cost in SHG Bank Linkages- *Mary of Adiviravulapadu Village, Nandigama mandal reported that to get a bank loan for their SHG, the Manager of Indian Bank insisted the presence of all the members. All group members together visited the bank 10 times to get a loan of Rs. 10,000. In the process, the members of the group incurred expenditure of Rs. 3750 (Rs.25*15 members*10 times) on the travel and food alone. Their loss in terms of daily wages is much more than the interest paid to the MFIs. The manager even insisted about the presence of a member, who underwent hysterectomy operation at that time. This kind of experience led them to the MFIs.*

Repeated loans for same borrowers by MFI- *Mrs. Mandapati Nagamma (45) of Irikepalli village of Dachepalli Mandal informed the study team that she availed loans from the same MFI for 12 consecutive years. She invested the amount borrowed on buying buffaloes and her timely repayments made the MFI give her loans repeatedly. She has admitted that sometimes she showed the same buffaloes to get multiple loans and used that amount for consumption purposes. Apart from getting income from transactions made on buffaloes, her family also works in agricultural labor. She revealed that her family greatly benefited by making proper use of their MFI loan, such as for construction of a pucca house, marriages of their children, increasing the livestock, etc. She reported that as her family has now reached a stage of sustainable livelihood, they do not want to have pressure of weekly payments and are planning to withdraw from MFI membership. Further, she stated that she may require only small amounts of loans and has the possibility to get it from an SHG for a low interest and monthly installment. Moreover, she will retain the Government benefits channeled through SHGs.*

Savings

No MFI is collecting savings presently. In the past SHARE has collected savings of Rs. 20/10 per week but 6 months ago all the savings were refunded, by SHARE and Spandana, to its members and all accounts were settled. While refunding savings, SHARE repaid an interest of Rs. 7% per annum to its members on their savings

No respondent that we have interviewed has borrowed any loans on their savings. Withdrawals are allowed only after reaching considerable amount but 8% of the clients had partially withdrawn their savings during the loan period and a few members reported using the savings refunded by the MFI (SHARE) as security deposit for taking repeat loans.

The collection of weekly savings of Rs. 20 was reduced to Rs. 10 and then finally to no savings at all over a period of time due to the presence of other MFIs' in the village to sustain their members and to enroll the new members. All savings and, in some cases, interest (7% per annum) earned thereon were returned to members.

Loan procedures

Though more than 2/3 of the clients don't know about the rate of interest and the method of calculating it, all the clients are aware of the loan repayment period and installment amounts. In addition to this, about 1/3 of the clients responded as not knowing that the MFIs are charging flat interest rate and a negligible percentage of clients are unaware about MFI recovery mechanisms. However, 75% of the clients reported receiving inputs from the MFIs about the loan procedures at the time of enrolling their membership with them.

All the MFI clients are well aware of the loan repayment period, installments, and recovery strategies. But most of the members don't know about the effective rate of interest, method of calculation, or any other loan operational charges due, sometimes, to their inability to understand the information provided by the MFI and, sometimes, to a lack of transparency in MFI operations.

Case Studies:

Risks - *M. Bharathi of Jangalapalli, Kanchikacharla mandal borrowed Rs.7,000 from Spandana and purchased buffalo. Death of the calf affected the milk yielding. She now repaying the loan with her daily wages and money borrowed from money lenders. This has resulted in drastic reduction in family expenditure on food.*

Stringent mechanisms of MFI and their impact: *Laxmibai Bhukya (24) of Sattenapally is a Lambada. She lives with her husband and two daughters in a small rented hut. Her earnings mainly come from jute rope making and agricultural labour work. Her husband is a Rickshaw Puller and spends a major portion of his income on his drinking habit. At times he takes away all her earnings too. She availed loans from both SHARE and Spandana for the Rickshaw by showing their rented house as her own. She says that, knowing her condition, the owners of her house ignored this. She also says that she had to give a bribe of Rs.50/- to her own husband to sign as joint-liability. For repayments she occasionally went to local money lenders and even took the help of her parents. She also claims to have lost her ornaments in mortgage. As she has undergone two consequent cesareans, she is unable to work continuously. Now, she has a loan of Rs.20000/- in her name and according to her, because of the stringent mechanisms and brutal language used by MFI workers, she has been forced to work continuously without rest resulting in continuous physical and mental strain on herself.*

Collateral surety

Broadly, two kinds of collateral surety were found; asset based and non-asset based. Asset based surety includes title deeds of the houses, as 8% of respondents replied, ornaments for a few (0.8%), livestock (0.8%), signed empty Cheques especially in the case of special loans and individual loans. Non asset based surety includes promissory notes for 66% of respondents, collection of signatures of household members on unwritten promissory notes and papers for 34%, and JLG members as co-obligates for 64%. Interestingly, almost all responded as not knowing the documents on which they have signed and most of the members don't know the consequences of non-asset based surety.

From their responses it is evident that most of the members think that non-asset based formalities are part and parcel in the loan documentation process. Because of their illiteracy and pressing financial needs, they do whatever is required to avail a loan. In some cases members are asked to make a signature or thumb impression on various documents such as promissory notes and cheques. Members did not understand what would happen with those documents and because of the lack of transparency in loan documentation, were not told so by the loaning institution.

Table-: Inputs and Awareness on Loan Procedures

S.No.	Loan procedures	Frequency	Percentage
a	Loan repayment period	130	100.0
b	Type of instalments-Weekly	130	100.0
c	Rate of interest		
1	Don't know	88	67.7
2	Diminishing	2	1.5
3	Flat	40	30.8
D	Recovery methods		
1	Aware	110	84.6
2	Not aware	20	15.4
E	Collateral surety		
1	House	10	7.7
2	Ornaments	1	0.8
3	Livestock	1	0.8
4	Signed empty cheques	2	1.5
5	Promissory note	84	64.6
6	Signed empty papers	44	33.8
7	JLG member co-obligate	82	63.1
8	Husband / Household members	81	62.3
f	Inputs about MFIs-Received	98	75.4

Penalties

36% of the members stated that they have paid penalties for their delay and absence in weekly meetings. Of the 36% who have paid penalties, about half of the members have had to pay a penalty more than once. Generally, the amount of fine paid by members relative to the current loan ranges from 1 Re to Rs. 80. Fines collected from members as penalties go to the MFI account whereas fines paid by MFI staff for their late coming comes either to the JLG account or to the MFI account. However, for the past one year, MFIs have not been very strict about collecting penalties. One possible reason for this could be that the central leader and or JLG leaders are convincing MFI staff to be more lenient with penalties by avoiding delayed payment and by giving prior intimation about the absence of a member to meetings.

For the past year, MFIs have not been very concerned about the collection of fines because of resistance from members, the attitude of JLG leaders and central leaders, and the norms of other credit sources which might be a result of competition between MFIs working in that habitation.

Loan products

MFIs offer products such as loans and other services in various forms. Of those services, credit loans, loans for consumer durable goods, insurance, incentives are the most important and widely consumed. Of all the 130 members sampled, 4 members have availed loans for consumer durable goods, about 7% of the members availed insurance; and 2 persons got death insurance from MFIs. Almost all the members don't know how much they are paying under insurance component and MFIs do not mention such details in the printed loan sheet provided by them.

Table-: Loan Products other than cash loans			
S.No.	Loan procedures	Frequency	Percentage
1	Cooker	1	0.8
2	Gold	1	0.8
3	Fans	1	0.8
4	Cot/Bed	1	0.8
5	House Insurance	9	6.9
6	Death Insurance	2	1.5

All the members surveyed are availing the financial and other services provided by the MFIs. Currently no MFI is giving consumer durable loans but in the past, some MFIs, particularly Spandana, have sanctioned consumer durable loans in the Guntur district but not currently, in the present study area.

Loan details

Data collected from the study shows that SHARE members have cumulatively availed more loans when compared to Spandana and SHGs. The average cumulative amount of loan borrowed by a member in SHARE is five times (Rs. 25,620) more than the amount borrowed from the SHGs (Rs. 4,805) by their members. While the members of Spandana have taken loans more than once in a very short period, of the total 96 SHG members, 36% do not have any loans currently and, on average, members from SHGs have borrowed the least number of loans despite the long period of association required for borrowing from SHGs. The data shows that the average loan size is almost double in MFIs when compared to SHGs. There is even a significant difference in average loan sizes between SHARE and Spandana due to the period of membership and repeat loans. This could be one reason for the attraction towards enrolling with MFIs.

Another attraction to joining MFIs could be that there are no over dues in the case of MFIs whereas in the case of SHGs overdue is 31%. The difference between overdue payments might be because of the nature of recovery and delinquency mechanisms between the MFIs and SHGs, meaning that, over dues in the MFIs is nil possibly owing to more stringent loan recovery mechanisms. The average loan amount outstanding is also lower in the case of MFI when compared to SHGs because of less loan repayment period and the average loan installment amount is 4 times larger in SHARE than in SHGs.

Loan Details	SHARE	Spandana	SHGs
• Total amount of loan	10,540	7,861	4,264
• Amount of loan payable	12,154	9,055	
• Installment amount	241	181	286
• Loan repaid	6,349	4,801	1,438
• Amount due			1,318
• Loan outstanding	5,738	4,348	3,035
• Security deposits	527	393	
• Cum. No. of loans	3.2	1.6	1.6
• Cum. loan amount	25,620	11,180	4,805

The loan data reveals that the loan size and lending practices of MFIs are part of the attraction the SHGs and Non-SHG members have towards taking MFI loans even though they are facing some difficulties with the lending practices of MFIs. During the course of the study it also became evident that members who showed timely repayment of their loans seemed to be getting repeated loans while others were not.

Why they have taken loans?

Majority of the members surveyed borrowed loans from MFIs to take up income generating activities whereas in the case of SHGs, members borrowed loans for consumption purposes. This might be the reason for increased income and employment generation of the members' households. Very few respondents claimed to having borrowed loans on high interest rates to repay loans borrowed from other sources. A few members reported borrowing loans to meet the initial expenses of construction of a house sanctioned by the Govt. of AP under the Housing programme.

Majority of the members borrowed large loans to take up income generating activity even though the MFIs are charging high interest rates. Social events like marriage, ill-health of the household members, strict lending practices of the MFIs, govt. programmes constitute some of the circumstances facing the members who approach MFIs for larger loans. Oftentimes, members will use the loan acquired for IGA for personal need instead. As the use of the loan is only occasionally monitored, members met with little to no opposition and it is possibly, partially, due to this reason tat a more significant change in income/standard of living has not been seen among the members.

Repayment mechanisms

Details	**SHARE**	**Spandana**	
• Principle per thousand	Rs. 20/22	Rs. 20	per week
• Interest	Rs. 3/4	Rs. 2/3	per week
• Admin/service charges	Rs. 2	Re. 2	per week
• Banking charges	Rs. 20	Rs. 25	at the beginning
• Deposits per thousand	Rs. 50	Rs. 50	at the beginning

which is refunded after the completion of repayment of loan installments.

- *Note: don't find uniformity in the collection of administration charges, service charges across the villages and MFIs. Respondents have reported in different ways because of lack of proper understanding about the procedures.*

Table- Purpose of loan borrowed from Various Sources							
S.No.	Purpose	SHARE		Spandana		SHG	
		F	%	F	%	F	%
1	To take up IGA	36	36.0	20	27.8	11	18.3
2	Business	32	32.0	24	33.3	8	13.3
3	Agriculture	3	3.0	1	1.4	2	3.3
4	Marriage	3	3.0	1	1.4	-	-
5	To repay loan	2	2.0	5	6.9	3	5.0
6	Housing	5	5.0	7	9.7	4	6.7
7	Health	8	8.0	2	2.8	2	3.3
8	Consumption	11	11.0	12	16.7	28	46.7
9	Assets-gold & Bike	-	-	-	-	2	3.3
	Total	100	100	72	100	61	100

How did they repay their weekly loan installments?

When asked how they are mobilizing funds to repay loans borrowed from various sources, majority of the respondents reported repaying their loans from their daily wages and the earnings of other members in the household. 32% of the members reported having taken hand loans from their group members to pay the loan installments, about 25% of the members were dependant on money lenders and rich farmers to repay the loan while 12% of the members mortgaged their household assets to repay the loan. In these cases most of the mortgaged articles were sold and unreleased (10%). Members who used the loan for consumption are mostly depending on money lenders and rich farmers to repay their loans.

Table-: Sources of Funds to Repay Loan Installments

S.No.	Source	Frequency	Percentage
1	Daily Wages	84	64.6
2	Husband's / HH members earnings	88	67.7
3	Earnings from IGA	73	56.2
4	Hand loans & adjustments	42	32.3
5	Money lenders/rich farmers	23	17.7
6	Asset mortgaged	15	11.5
7	Household articles sold	13	10.0
8	Loan from other MFIs	12	9.2
9	Loan from SHG/BL	9	6.9

Lending Procedures of Various Credit Sources

Procedures	SHARE	SPANDANA	Weekly/GIRIGIRI BANK	Rich Farmers	SHGs	St.Ann's Social Service Centre, Piduguralla
size						
n	5 to 7 thousands	5 to 8 thousand	Rs. 500 to Rs. 1000	Rs. 100 to Rs. 1000	Up to 1 thousand	Up to 5 thousand
an	Up to 15 thousand	Up to 15 thousand	Rs. 500 to Rs. 1000	Rs. 100 to Rs. 1000	2 to 4 thousand	Rs. 5000 to Rs. 10,000
le loans	After completion of 2/3 loans	After completion of 2/3 loans	Allowed based on repaying capacity	Now and then	Allowed loans from Bank Linkage, savings	Not specified. Allow access to loan for only 3 terms.
of loans	Cash	Cash	Cash	Cash	Cash/Kind	Cash/Kind
repayment period	12 months	12 months	3 months	1 to 6 months	12 to 36 months	10 months
instalments	50	50	12 to 15	Bullet payment	12 to 36	10
of interest	Rs. 2 to 3 pm	Rs. 2 to 3 pm	Rs. 10 pm	Rs. 3 to 5 pm	Rs. 1 to 2 pm	Unspecified
od of interest	Flat	Flat/Diminishing	Flat	Simple	Diminishing	Flat
eral surety						
omissory note	Yes	Yes	Yes	Yes	No	Yes
ned empty note	Yes	Yes	Yes	Yes	No	No
G Co-obligate	Yes	Yes	Yes	Yes	No/informal	Yes
eposits (Rs. 50 per 1000	Yes	Yes	Yes	Yes	No	10% of loan amount
vings	Yes/No	Yes/No	Yes/No	Yes/No	No	Rs. 30/month
e deeds of assets	Yes (special loans)	Yes (special loans)	No special loans	No special loans	No/informal	Informal
usehold articles	No	No	No	Yes/No	No	No
gs	Earlier collected Rs. 20/10/ now no savings	Earlier collected Rs. 10/ now no savings	No savings	No savings	Savings ranging from Rs. 30 to 100	Rs. 30 per month. Refundable upon completion of repayment.
st on savings	No interest/ Minimum (7% am)	No interest	No savings no interest	No savings no interest	No interest/ Minimum from bank	No interest
rawal of savings and or ding	Permitted / some times not allowed	Permitted/ some times not allowed	Not applicable	Not applicable	Permitted/ Bankers some not allowed	Refunded upon full repayment of loan.
ng	Earlier very strict Now flexible	Earlier very strict Now flexible	Informal assessment through villagers	Informal assessment-personal rapport	Not strict following the repaying capacity	Informal assessment-personal rapport
se of loan	Asset creation IG Activity	Asset creation IG Activity	Not particular	Not particular	Consumption Asset creation and IG Activity	IGA as well as non-IGA such as Education and house repair.
lting	Not tolerated	Not tolerated	Some times tolerated	Tolerated	Tolerated	Tolerated
oring on loan utilization	Currently no monitoring	Currently no monitoring	No monitoring	No monitoring	No/little monitoring	No/little monitoring

During our field visit for data collection, while taking leave from the respondents many asked the research team whether they should pay their loan installment or not. This dilemma among the members about repayment of loan installments is due to the information received by them through T.V., press, and the oral instructions of the MFIs, IKP, Revenue Officials and SHG Federation members regarding the stoppage of repayments until further notice.

For example, respondents of the village Balusupadu reported with the study team that the Village Secretary informed them about the stoppage of loan installment repayment from the District Collector by the Official drum beater of the Gram Panchayat. They also advised that if anyone repays, the Gram Panchayat will levy a fine of Rs. 1000 to them. When posed with the question of whether to repay or not, the President of Mandal Samakhya advised the respondents that they should not pay until further instructions are received from the higher authorities.

All the members are repaying loan installments from multiple sources; mainly from their earnings but also by taking hand loans and borrowing advances from their work places. About 23% of the members have been depending on traditional money lenders & rich farmers (whose interest rates range from Rs. 3 to 6). During our interactions we noticed that a considerable number of MFI members are borrowing loans from local money lenders where 2 or more MFIs are functioning. Where as this number is negligible in single MFI functioning areas. However, there is no authentic data to show the increase or decrease in the number of money lenders.

Case Studies:

Dependency on money lenders to repay multiple loans-*Ramanamma of Indira Colony, Kanchiakacherla borrowed four loans from Spandana and Share. She has to pay Rs.361 as weekly installments on her outstanding loans.* ***She borrowed money from money lenders with Rs.20 interest rate per month.***

Stopping of Community Investment Fund Loan installment- *Durga of Kanchikacharla had taken a loan of Rs. 13,000 from SHARE. She had to stop repayment of CIF loan to VO for the past two months in order to pay the weekly installments to the MFI.*

Money lenders vs. MFIs: *Mrs. Ramisetti Padmavathi (40) is an upper caste woman and supports her family with income earned through agricultural labor. Her husband is a masonry assistant. For their daughter's marriage, her husband mortgaged their house documents and took a loan of Rs.10,000/- with an interest rate of Rs.30/- per month. The family took a high risk and simply making both ends meet itself was difficult. So, they enquired about all possible means of getting loan and came to know about SHARE, Spandana and Guide. In her village, very few people showed interest in forming groups. So, along with few others, she joined one of the groups in next village. She joined in an SHG but defaulted as she was not in a position to make the savings requirements. She availed about Rs.15,000/- from an MFI, stating that she required it for a clothes business and to run a hotel. The repayments were difficult and she was unable to cope with the pressure from both the moneylenders and the MFIs. They sold off their house and cleared their debt with the moneylenders, which came up to Rs.40,000/- within a year. They continued taking loans from both from MFIs and local money lenders (with an interest rate of Rs.10/- per month) to pay one another, mortgaged and lost Gas Cylinder, ornaments, etc. Currently, they are paying about Rs. 4000/- per month to different people against their average monthly income of Rs.2500/-. The burden of repayments is more on Mrs. Padmavathi than her husband as he has the habit of drinking and gambling and falls sick most of the time. She* *says because of all this, their consumption needs including food and medicines are minimized and the budget for such needs is decreased.*

Pressures in Joint Group Liability: *Mrs. Nagamma (55) of Kankipadu took loans from SHARE, Spandana and Guide. Her sons did not want to take the burden of her repayments so they left the village to settle elsewhere. Being an aged person, she could not cope with the stringent recovery procedures of MFIs and decided to leave the village without notifying anybody. So, one day she left the village, after which the MFI put severe pressure on the group, forcing them to borrow a loan from a local moneylender at an interest rate of Rs.10/- to make the weekly repayment to the MFI. Realizing that they could not continue this way, they decided to search for the woman and bring her back. In their pursuit, they came to know that she was taking shelter at a relative's house in a neighboring district. So, they evenly contributed towards traveling expenses and sent some group members to fetch her. The group members convinced her and brought her back so that she could resume the repayment of her loans.*

Cent Percent Recovery: Role of lending norms and the attitude of JLG and MFI

Some of the JLG norms causing financial burden, waste of time and loss of daily wage etc. to the members include fines (80%), compulsory attendance (82%), responsibility of the other members in the group for each other's loans (85%), and required attendance at meetings until the repayment is complete.

In an effort to increase repayment, JLGs engage in activities such as collecting fines, announcing the list of late comers & delayed payments, use of offensive language, sitting in front of loan borrower's house etc that serve to damage the socio-economic status of the member.

In the case of defaulting, if the defaulter is not properly responding in repaying loan over dues, the JLG leaders and MFI centre leader can take the defaulter's assets into possession to reimburse the loan amount paid to the MFI by the regular members on behalf of defaulting member. Other recovery methods that MFIs engage in, as a last resort, include adjustment of savings (17%), security deposit, encashment of signed empty cheques, taking up legal action through promissory notes which were taken at the time of loan sanctioning, and physical force.

Table-: Lending Norms and Attitude of Members influenced the repayment

S.No.	Method	frequency	Percentage
1	Fines collected	103	79.2
2	Weekly Meeting at outside the house	12	9.2
3	Compulsory attendance	107	82.3
4	Group paid on behalf of defaulter	111	85.4
5	Meeting until the payment made by all JLGs	90	69.2
6	MFI staff sitting in front of defaulter's house	11	8.5
7	Loan over due board in front of the house	6	4.6
8	Public announcement about the delay	13	10.0
9	Offensive language of JLG and MFI Staff	8	6.2
10	Adjustment of savings to loan instalments	22	16.9
11	Physical force/manhandling	2	1.5

The MFIs have been following various techniques at various levels to maintain good repayment, avoid defaulting, and recover from defaulters. Some of the techniques engaged in by these institutions have been creating pressure on women by their strict implementation of group norms and have seemingly influenced the socio-economic status, and especially the credit opportunities of the members in society.

Case Study:

Repayments depend on Individual capacities: Darla Rani (30) of Kankipadu is a woman with strong willpower. She spent her childhood with her grand parents. Being poor they married her to a parent-less man, living with his relatives. The struggle she faced in that family, combined with the death of her only daughter from brain fever, made her take a strong decision to leave and have a separate house for her family. Her husband's slight income from fruit-selling was not sufficient to fulfill her dreams. She convinced her husband, and they moved out with the small amount she earned through tailoring. She bought a small plot with the meager amount and, fortunately, got some support from the Government in the form of a Housing loan. During the same period, MFIs started shooting up and loans were in easy access. Her strong will made her take advantage of every opportunity she came across. She took loans from SHARE, Guide, Spandana and DWCRA. She stated that she had to undergo severe trauma for defaulting on the repayments of her loans. She worked overnight stitching clothes and took up different jobs like making masala powder and joining the tent house business to get additional income. Gaining no profit from them, she stopped and ended up being forced to use one loan to repay other, borrow money from local lenders, and mortgage ornaments, utensils and even house documents (SHARE) to repay her loans. She admitted that she even took loans using binamis (false names) for loans. Her husband was non-cooperative and addicted to alcohol so at one time she even thought of taking divorce and warned her husband that if he continues such behaviour, she has decided she will live alone. Somehow, he listened to her and with her cooperation came out of his habits and changed his behaviour. She added that unable to cope with situations, especially with the thoughts of facing MFI field workers on a repayment day, she used to spend many nights without sleep by stitching clothes or praying to God. Now, she finished the construction of her house and has released the mortgaged documents. According to her, the hardships she faced in her life and different trades she learnt before marriage like tailoring, nursing, tobacco processing and agricultural works helped her to be confident, self-reliant and build hope even in her crisis. She also stated to study team members that she remains grateful to MFIs, despite her hardships at their hand, for the opportunity to avail loans from a formal credit source.

Opinion on SHG lending Practices

Opinion of SHG-MFI members on various components of lending practices of SHGs was collected through a two/three point scale. Majority of the members' opinion on lending practices of SHGs are as follows:

59% of members felt that SHGs had very small loans compared to MFIs, around 40% of the members said that loans in SHGs are mainly to leaders and rich and influenced members in the group, 56% of the members have reported there is less access to loans in SHGs. 33% feel that the time for loan sanctioning is too much and 37% feel that the time is moderate, and 95% of the members have expressed that amount of loan from the SHGs is from small to medium when compared to MFIs.

Depending on the no. of linkages, 37% of respondents feel that payback period is more than MFIs and 33% feel it is less. More than 75% of the members reported that SHGs charged a low rate of interest and half of the members have reported there is less loan equity. Collateral surety was reported only in 10% of the cases and 86% of the members have the opinion that the operational cost in SHGs is less than it is in MFIs.

The opinion of the members indicates that even though the SHG lending norms like payback period, rate of interest, collateral surety are advantageous to loan consumers, the factors such as loan size, access, equity, timeliness, and collateral surety are factors compelling the SHG members to go for MFIs for their credit needs.

Case Study:

MFIs not friendly to poor single women: *Mrs. Chityala Ramadevi (35) of Irikepalli village, in the Dachepalli mandal, reported that she was denied a loan from an MFI because she is a poor widow. Unable to get any support from her parents-in-law after her husband's death, she moved to her maternal village, Irikepalli, and has since been living there with her 2 sons. Her only source of income is agricultural labour. She badly needed economic support, and so she approached MFI field worker for a loan. The fieldworker insisted on her showing some property or income sources as collateral surety, and also required the joint surety of an earning male family member, father or brother. She has no property or any other income sources to show, and her brother was not willing to take the burden of her loan and denied her request for him as her joint liability holder. Thus, the loan was completely denied. Because of financial crisis, her elder son dropped out of school and joined the labour force. Now she joined the SHG and is able to access loans to fulfill her family's needs. She states that for the poorest of the poor, like her, SHGs are more helpful as they offer need-based loans. She also stated that if the procedures and processes were a little liberalized to suit borrowers, it would be much better for both parties.*

Issues / Problems

Respondents have reported many problems relating to MFI lending practices. 90% of the people reported that interest rates are too high and weekly installments are too frequent. Approximately 70% of the members expressed their concern over the cost of the MFI documentation and administrative charges. Almost 39% of the members have addressed their concern about the strict recovery mechanisms and short installment periods but 28% report that despite all these issues, they still appreciate the large loan size. A few members have reported problems such as the collection of collateral surety, no flexibility, even in guanine case of defaulting, and decreased standard of living resulting from multiple loan taking.

Table-: Problems Reported about MFI Lending Procedures

S.No.	Problems/issue	Frequency	Percentage
1	High rate of interest	116	89.2
2	Weekly instalments difficult to pay	117	90.0
3	Large loan instalments	36	27.7
4	Less repayment period	25	19.2
5	Collateral surety	17	13.1
6	More service charges	86	66.2
7	Collection of Administration charges	93	71.5
8	More membership fee	12	9.2
9	Strict implementation of norms	50	38.5
10	Rigidity in even in guanine cases	24	18.5
11	Repayment of multiple loans	15	11.5

Of all the problems reported by women, majority have addressed their concern over the high interest rate. They also discussed their difficulty in paying amounts collected at the time of loan sanctioning as administration charges and the amount collected as deposit which it is said will be refunded without interest upon completion of loan repayment.

Case Study:

Burden of paying defaulter's loan outstanding- *Nagamani of Turlapadu village, Chandarlapadu mandal borrowed Rs. 7,000 from Share for her hospitalization expenditure. In her group some members had defaulted to the MFI and other members had to pay the amount. To meet her obligation she had to sell the family's paddy stock. Because of default by some tensions grew in the group.*

Impact on SHG-MFI members and Households

Data collected in this study shows that there is a mixed impact on SHG-MFI member households. On the one hand, 50% of the members reported that MFIs are the credit sources they recommend to take up income generating activities, 46% of the members reported that there is an increase in their household income (depending on the activity taken up by the members), 39.2% were able to generate employment with the loans borrowed from MFIs, and 70% of the members have said that dependency on money lenders has decreased after beginning their membership in MFIs.

However, a significant percentage of members (29.2%) reported that their dependency on money lenders has increased, indicating the seriousness of the possibility of loans having an adverse effect. Around 50% of the members reported that in paying weekly installments, their earnings decreased and they were forced to minimize the food expenses of the household. Because of extensive availability of credit sources and lax attitude towards monitoring the utilization of loans, around 1/3rd of the members have reported becoming indebted by borrowing loans from the MFIs, and over 50% of the women reported that MFIs have put an increasing amount of pressure on women with regard to the strict implementation of repayment norms.

Table-: Impact on individuals and Household

S.No.	Particulars	frequency	Percentage
1	Increase in income	60	46.2
2	Credit source to take up IGA	65	50.0
3	Employment generation	51	39.2
4	No respect in the village	11	8.5
5	Food expenses minimized	62	47.7
6	Dependency on money lenders		
	Increased	38	29.2
	Decreased	92	70.8
7	Assets mortgaged/sold	37	28.5
8	Pressure on woman for repayment	66	50.8
9	Loans borrowed due to availability	42	32.3

Though there is a positive impact on household through increased income, and employment generation because of the availability of credit to take up income generation activity, our data shows that there is also a significant negative impact on some of these households. For example, when it comes to repaying their loan installments, in some cases, some members have even been forced to minimize their expenditure on food. Thus influencing the health of the member and their families and putting increased pressure on the women.

Case Studies:

Mortgage of household articles: *D. Nagamani, SC Colony, Nandigama reported that she has mortgaged gold ear rings for Rs. 500 once and gas cylinder twice for Rs.300 to repay the weekly installments of MFI. Since majority of their members unable to pay the weekly installments, the meetings conducted by MFI staff used to take a lot of time. As the result she lost wage labour several times.*

Mortgage and unreleased of household articles- *D. Suvartha, SC Colony of Nandigama reported that to repay weekly installments she mortgaged copper utensils for Rs.600 at interest rate of Rs.10 per month, five months back. As she couldn't repay the loan, the money lender confiscated the copper utensils. Suvartha had sentimental attachment with those utensils as she purchased them with her daily wage for the first time.*

Risks and mortgage of assets: *Nagendramma of Kothapeta, Kanchikacherla mandal taken two loans from Share. She purchased a milk animal. Unfortunately it died within a few days. To repay weekly installments to the MFI, she mortgaged cycle worth Rs. 1,000 for Rs. 350. As she couldn't pay back the loan in time, the money lender claimed the cycle.*

Impact on SHGs

The presence of MFIs and their lending practices have created the following impact on SHGs. 29.2% of the members' SHGs loan repayment schedules have been affected due to the strict repayment requirements to the MFIs. Of all the SHG members questioned, 22% stopped depositing savings with SHGs and approximately 18% have paid less attention to SHG activities and requirements which ultimately led to non-functioning of SHGs in 16% of cases.

Due to the low rate of interest and flexible repayment practices among the SHGs, demand for loans is increasing day-by-day but are not always being used with the intentions for which they were received. Of the total sample, 11% claimed to have used the loan they borrowed under SHG-Bank linkage as repayment for MFI weekly loan installments. Of the total respondents, 11% reported having enrolled in MFIs due to the small loan size and deficiency in access to loans of SHGs.

Table-: Impact on SHGs

S.No.	Implications on SHGs	Frequency	Percentage
1	Stopped paying of monthly savings	28	21.5
2	Irregular payment of SHG-Bank instalments	38	29.2
3	Membership in SHGs withdrawn	4	3.1
4	Enrolled in MFIs	14	10.8
5	SHG become defunct	21	16.2
6	Pressure for loans to repay MFI instalments	11	8.5
7	Bank Linkage to repay MFI loans	14	10.8
8	Migrated to other villages for work	1	0.8
9	No loans to SHG-MFI members	3	2.3
10	With MFI bad experience revived SHGs	2	1.5

11	Less interest on SHG activities	23	17.7
12	More inputs on MFI from IKP	1	0.8

The credit inflows from SHGs to members are insufficient in meeting their household credit needs. The large loan installments, weekly repayments, and strict recovery norms of MFIs have been affecting the savings, repayment, membership, and ultimately, functioning of SHGs. Some SHGs, realizing the negative impact of MFIs on their practices, have begun arresting credit flows to the SHG-MFI members (2.3% of cases).

Renewal and Withdrawal of membership in MFIs

More than half (56%) of the members have said that they wish to renew their membership with an MFI, in 31% of cases, because of the access to timely, large loans and the absence of credit sources other than from an MFI. 6% of respondents reported the method of repayment as their reason for renewing their membership.

Around 1/5th of the members said that they are unwilling to renew their membership in an MFI. 9% of these report difficulty in making weekly installments as their reason. 5% claim the high interest rate as their reason and a few reported no need for credit and/or their desire for the emergence of an alternative credit source.

Around 25% of respondents reported that they can't decide at the moment whether or not they will continue availing loans from MFIs. After completion of the current loan if they need credit, some will prolong their membership. If they don't want to and/or there is the emergence of an alternative credit source, they responded that they will withdraw their membership.

During group discussions with VO members and other individual discussions, all respondents reported that if SHGs provide adequate loans they will withdraw from the MFIs. Having said that, they also requested that the study team not give a report against MFI practices and affirmed that they don't recommend the closing of MFI operations in their villages.

Renewal or withdrawal of membership in MFIs depends on the pressing credit needs of the clients, presence of MFIs, their lending procedures, and access to credit courses other than from MFI institutions such as Girigiri Banks and *rich farmers.*

Reasons for willing & unwilling to continuing their membership in MFIs			
S.No.	Reasons	Frequency	Percentage
a	*Willing to continue*	73	56.2
1	Timely & large loan	40	30.8
2	No alternative credit source	3	2.3
3	Repeated visits to Banks	5	3.8
4	Less installments & amount	1	0.8
5	Loan at door steps	6	4.6
6	Credit needs	5	3.8
7	Easy repayment of loan (P & I)	8	6.2
8	No support from Government	2	1.5
9	Weekly repayment	2	1.5
10	Strict monitoring	1	0.8

b	*Unwilling to continue*	27	20.8
1	High interest rate	7	5.4
2	More other charges	6	4.6
3	Weekly installment is difficult	12	9.2
4	Credits from Banks	1	0.8
5	No need of loans	1	0.8
c	Can't say	30	23.1

Complaints against MFIs

Of the 130 members surveyed, only 12 members (9.3%) have made complaints, either in oral or written form, against MFI activities. Most of these complaints were regarding the high interest rate and were addressed to the District Collector and Mandal Revenue Officer.

Table-: Complaints Against MFI and Responses from Authorities

S.No.	Details of complaints	Frequency	Percentage
1	Complaints made or not		
	No	118	90.8
	Oral	4	3.1
	Written	8	6.2
2	Complaint to whom		
	Collector	2	1.5
	MRO	10	7.7
3	Complaint on what		
	High interest deposit	10	7.7
	Spandana	2	1.5
4	Response on complaint		
	Positive	7	5.4
	Negative	5	3.9

Despite the study's findings regarding members' feelings towards MFIs, there are very few complaints voicing these feelings. The few number of complaints could possibly be because of members' gratitude towards MFIs for helping them during difficult times by sanctioning loans. Another reason could be fear that MFIs' might take legal action against complainers or that they might do something with the signed empty papers and promissory notes which were collected from them at the time of loan sanctioning.

Of the 8 written complaints (4 of the complaints were given orally), all except one got positive responses from the authorities whereas in the cases of all four of the oral complaints, authorities gave the complainers negative responses.

The findings reveal that few members come forward to lodge a complaint about the problems faced by them against MFIs either because of a feeling of gratitude they have for the ability to access loans or because they fear losing that access to these loans, and as a result, MFIs lack feedback from the consumer and thus, fail to address the areas in which they are having problems.

Case Study:

Dislike of MFI Practices: *Some women of Durga Bhavani Colony, Irikepalli, Dachepalli mandal explained that they came to know about loan facility offered by St. Ann's Social Service Centre and approached MFI staff for a loan. With their recommendation, they formed a joint liability group of 10 members and accessed loans with monthly installment period. They revealed to the study group that they mentioned entrepreneurial activities in the applications, but used them for consumption purposes instead, as there was only oral verification. The collection centre is in some other village and a day and time is fixed and informed to them. They said they are charged a Rs.5.00 fine for late attendance to the meetings. They mentioned that initially they had undergone a one-day orientation on norms such as the rate of interest and method of repayment, but many of them could not recollect those things during their participation in the study and could not give specifications of deductions made from the loan amount. They could, however, inform the team of the saving amount and the amount of the flat rates they pay. They reported that they got Life Insurance Bonds for 15 years from the MFI and were asked to follow it up by themselves. They also reported that their passbooks were collected and kept in the MFI office because it is alleged that they are spoiling the books. Many of them stated that these MFI loan procedures are not clear and that they would like to withdraw from membership after the current loan period is complete.*

Suggestions

During the course of the study, the respondents offered some suggestions to MFIs as to how they can provide better services to their clients and how they can overcome the problems faced by clients with regard to various MFI lending procedures. These suggestions are as follows in the table below.

Issue	Suggestions
Period of installments	• Either fortnightly or monthly • More loan repayment period- 20 to 30 months like SHG Bank Linkage loans • Less installment amount and more repayment period
Interest rate	• Low interest rate- On par with the banks • Check on interest rates • Correct information on interest rate from MFIs • Evade documentation and Bank service charges
Dual membership	• No dual membership • Encourage multiple membership to create healthy competition between MFIs
Recovery mechanisms	• Consideration in guanine cases especially in death, ill-health, slack seasons • More installments (4-5) in the case of death and ill-health of household members; and slack seasons. • Avoid insulting of women in group by using offensive language • Avoid meetings during peak times especially when the women is busy with cooking, preparing children for school, water supply hours. • Action against defaulter rather than entire group

Loan products	• Loans based on repaying capacity through appraisal mechanisms. • Strict monitoring on utilization of loan for income generating activity. • Loans for social purposes • Loans only for IGA
SHG role	• Larger loans • Bank linkage to all the SC and ST SHGs • Immediate loans

Conclusion

Though the study conducted by APMAS and its affiliates was limited to 2 districts in Andhra Pradesh, the data collected gave the team a deep insight into the problems being faced by borrowers at the hands of lending institutions.

It may be prevalent to mention that, in response to the growing number of complaints against MFI practices in the Krishna and Guntur districts, certain women activists have taken the matter to the notice of the State's Human Rights Commission. The Commission has, in turn, called for reports from the Government of Andhra Pradesh, Reserve Bank of India, banks, etc., on the reported incidents.

Steps to restore normalcy in the Krishna district with regard to the functioning of MFIs were taken and some of the branches of MFIs were reported to have been reopened after an analysis of their practices. The MFIs, on their part, have decided to adopt a model code of lending practices to bring increased transparency to their operations, to end the overcharging of borrowers, and to see if the policy benefits net of the outstanding loans is passed on to the borrowers or not. In addition to these efforts, the Spandana Spoorthy Innovative Financial Services, Share Micro Finance Ltd and its associate Asmitha have assured the Government of Andhra Pradesh that they will charge their borrowers no more than a 15% interest rate on a reducing basis effective April 1st, 2006. More importantly, the new interest rate will also apply to all outstanding loans.

MFI borrowers have reportedly found it difficult to adhere to the strict repayment system as they do not have steady income from jobs of petty business and claim that the insistence on strict repayment on weekly basis is driving them to borrow from moneylenders at higher interest rates. In addition to this, the penalties imposed on borrowers by way of fines of up to Rs.5 for delayed attendance, detention of other group members until absentees turn up, insistence on repayments of defaulters' dues by the active members are causing borrowers much hardship. Such penalties are possibly adding to the cost of borrowing to the point of crippling borrowers and, in some cases perhaps, forcing them to sell off their household articles.

One fall-out of multiple MFI/bank borrowing is that the common borrowers of MFIs and SHGs linked with banks are defaulting on cheap loans from banks and repaying the more expensive and stringent loans of MFIs resulting in a slow-growing default rate among SHGs linked with banks. This needs to be addressed by mutual cooperation among the MFIs through sharing of information about clientele village by village so that multiple financing does not take place. Besides this, the MFIs may also fix the loan quantum in accordance with the repayment capacity of the borrowers without placing so much reliance on peer pressure to secure the repayments.

A report conducted by APMAS, regarding the microfinance activities of Spandana, in an effort to know the voice of the Spandana women members in relation to the quantum of loan, rate of interest, recovery mechanisms, nature of products delivered, merits and demerits, and their overall impact on the women. The following data was collected during this study.

Majority (67%) of the members surveyed responded as having dual membership. Of the 67%, 35% have membership in SHGs and Spandana and 32% have membership in SHGs, Share, and Spandana, while 33% have membership only with Spandana. This data shows that over half of clients are engaged in membership with at least one lending institution as was the case in our study of the Krishna and Guntur districts.

Another point discussed in our study was the question of penalties and the subsequent feeling of members towards these penalties. Out of 44 members, nearly 25% have paid penalties (ranging from Rs.2 to Rs.50) for their absence to the meetings and/or delayed repayment of their loan. In such cases where the borrower has met with unfortunate circumstances and is unable to make repayment, the implementation of a penalty only serves to increase the difficulty of repayment for her.

In this study of Spandana and its activities, members were asked to name the things they feel are positive and negative points with regard to MFI lending practices:

Positive MFI points:
- No bank visits required
- No bribes
- Fewer credit opportunities available
- Incentives for clients
- More discipline
- Both men and women working equally in an effort to make repayment

Negative MFI points:
- High interest rate
- Too much pressure and/or mental tension for weekly repayments
- Strict norms force borrowers into the hands of moneylenders
- No flexibility of repayment even in the case of special circumstances
- Difficult to make high weekly repayment

Many more respondents in the Spandana study declared that they wish to stay enrolled with MFIs than did in our study. 80% of the members in the Spandana study, compared to 56% in our study, are willing to continue their membership in Spandana but nearly 10% are unwilling to do so. The remaining 10% responded that they will make the decision once the current loan term has expired.

Of the 80% of members wishing to stay enrolled with the MFI, some may be staying for the following reasons:

- If the members once collected their deposit, lose their membership in the Joint Liability Group and in Spandana.

- If they want to rejoin after a time gap they will be able to enroll as a member in the old group in the place of a dropout or will have to mobilize a new group.
- If they enroll as a new group they lose their seniority and the loan size is decreased to that offered to new members.
- If they continue without taking loans, all the members have to bear the risk of delayed payments if there are any. To avoid this and keep their membership alive, they borrow a small amount of loan whether they have a need for it or not.

During a meeting regarding the functioning of micro financial institutions in Andhra Pradesh on April 20th 2006, headed by The Rural Planning and Credit Department of the Reserve Bank of India, some recommendations were made to MFIs (which can also be applied to SHGs) to better their practices in an effort to solve the problems they currently face. The recommendations, though documented with no help from the data in our study, reflect the feelings put forth by the borrowers surveyed and are directly relevant to it. Some of their recommendations as included in the following:

Recommendations:

(1) Rate of interest should be reduced and it should be a diminishing rate of interest rather than a flat one.
(2) MFIs must utilize the profits generated from the MFI activities for poverty reduction interventions in collaboration with district administration.
(3) Create awareness on effective rates of interest and other service charges on par with the group norms by the MFIs.
(4) Need for transparency and accountability with all stakeholders.
(5) Evolve mechanisms to provide flexibility in repayment to reduce tension on women during sack seasons, guanine cases such as ill health, hospitalization, and life-cycle ceremonies.
(6) Provide livelihood finances and focus should be made to use to the stated purpose. The loan amount should be based on the activity and the family's ability to repay that amount.
(7) Set up a committee that works under the supervision of GO-NGO collaboration committee to address and resolve te differences between the promoters and clients.
(8) MFIs may form ethics committees at branch and higher levels and do away with all incentives, if any, that may induce staff to be overzealous in their business drive and monitor the compliance periodically at board level.
(9) Flexibility may be built into the repayment to take care of occasional defaults without necessarily diluting the repayment discipline.

Annexure-1-:Profile of SHG-MFI members

S.No.	Member profile	Frequency	Percentage
a	***Social Category***		
1	Scheduled Tribes	5	3.8
2	Scheduled Castes	85	65.4
3	Backward Classes	24	18.5
4	Minorities	2	3.1
5	Open Category	12	9.2
	Total	130	100.0
b	***Educational Levels***	***Frequency***	***Percentage***
1	Illiterate	76	58.5
2	Neoliterate	14	10.8
3	Primary	15	11.5
4	Upper primary	11	8.5
5	High School	13	10.0
6	College	1	0.8
	Total	130	100.0
S.No.	***Primary Occupation***	***Frequency***	***Percentage***
1	Agriculture labour	68	52.3
2	Agriculture	6	4.6
3	Animal Husbandry	4	3.1
4	Non-farm labour	9	6.9
5	NTFP/MFP collection	1	0.8
6	Traditional occupation	4	3.1
7	Seasonal business	0	0.0
8	Petty business	19	14.6
9	Small enterprise	7	5.4
10	Job	3	2.3
11	Other	9	6.9
	Total	130	100.0
S.No.	***Landholdings***	***Frequency***	***Percentage***
1	Landless	115	88.5
2	Marginal	14	10.8
3	Small	1	0.8
4	Medium	0	0.0
5	Large	0	0.0
6	Very large	0	0.0
	Total	130	100.0
S.No.	***Economic category***	***Frequency***	***Percentage***
1	BPL	123	94.6
2	APL	7	5.4
	Total	130	100.0

Annexure-2: Opinion on SHG Lending Procedures

S.No.	SHG loan procedures	Frequency	Percentage
a	***Loan size***		
1	Very small	65	58.6
2	Small	20	18.0
3	Medium	26	23.4
b	***Rate of interest***		0.0
1	Low	84	75.7
2	Moderate	22	19.8
3	High	5	4.5
c	***Payback period***		0.0
1	Less	37	33.3
2	Moderate	33	29.7
3	More	41	36.9
d	***Installment amount***		0.0
1	Small	61	55.0
2	Medium	44	39.6
3	Large	6	5.4
e	***Collateral surety***		0.0
1	Yes	11	9.9
2	No	100	90.1
f	***Loan equity***		0.0
1	Less	57	51.4
2	Moderate	25	22.5
3	More	29	26.1
g	***Access to loans***		0.0
1	Less	62	55.9
2	Moderate	27	24.3
3	More	22	19.8
h	***Time taken for loans***		0.0
1	Less	33	29.7
2	Moderate	41	36.9
3	More	37	33.3
i	***Operational cost for loans***		0.0
1	Less	96	86.5
2	Moderate	12	10.8
3	More	3	2.7
J	***Loans only to leaders and or rich***		0.0
1	Yes	42	37.8
2	No	69	62.2

Annexure -3 : Suggestions made by the respondents

S.No.	Issue	Suggestions	Frequency	Percentage
a	Interest rate	1. Low interest rate	96	73.8
b	Recovery mechanisms	1. Monthly	33	25.4
		2. Flexible mechanisms	39	30.0
		3. Less installment amounts	1	0.8
		4. Strict monitoring	1	0.8
		5. Group pressure	1	0.8
e	Loan products	1. Loans for social events	1	0.8
		2. Loans only for IGA	6	4.6
f	Period of instalments	1. Monthly	30	23.1
		2. 3 yrs monthly	39	30.0
		3. Fortnightly	5	3.8
h	Dual membership	1. No dual membership	9	6.9
		2. Multiple membership	2	1.5
j	SHG role	1. Large loans	11	8.5
		2. Intensive bank linkages	10	7.7
		3. Immediate loans	4	3.1

Study Team

List of Persons Involved in the Study		
S.No.	Team Member	Designation
1	Dr. K. Raja Reddy	Associate Vice President, R & A Unit
2.	Mr. Y Rama Krishna	Regional Manager, Vijayawada Region
3	Mr. G. Kalicharan	CBO, Krishna District, Vijayawada Region
4.	Mr. ManiKumar	CBO, Guntur District, Vijayawada Region
5	Ms. Varalaxmi	CBO, QE unit, APMAS, HO, Hyderabad
6	Mr. Tirupati	Fulltime Affiliate, West Godavari District
7	Mr. Siva Kumar	Fulltime Affiliate, Guntur District
8	Mr. Shashi Kumar	Fulltime Affiliate, Guntur District
9	Mr. Rama Moothy Naidu	Fulltime Affiliate, West Godavari District
10	Mr. Suresh	Part-time Affiliate, Krishna District
11	Mr. Sambhasiva Rao	Part-time Affiliate, Krishna District
12	Mr. Kannan	EDP Associate, APMAS, HO, Hyderabad
13	Ms. Alya Ishrati	R&A Unit Intern, APMAS, HO, Hyderabad
14	Ms. Samatha Valluri	R&A Unit Associate, APMAS, HO, Hyderabad