



Institute for Financial Management and Research

Centre for Micro Finance

Working Paper

June 2013

**Assessing the Effect of Andhra Pradesh Microfinance Crisis  
on the Access to Finance of the MFI Clients**

Santadarshan Sadhu, Vaishnavi Prathap, Mudita Tiwari

The Centre for Micro Finance, Institute for Financial Management  
and Research, Chennai

*IFMR Capital has financially supported this study and we would like to thank  
IFMR Capital for their financial contribution*

## Contents

Executive Summary .....	2
1. Introduction .....	3
2. Research method .....	4
3. Description of the Sample.....	4
4. Findings .....	5
4.1. Household finance .....	5
4.2. Loan purpose .....	9
4.3. Expenditure .....	10
4.3.1. Consumption expenditure .....	10
4.3.2. Non-routine expenditure .....	12
4.4. Asset & Savings .....	12
4.4.1. Asset.....	12
4.4. 2. Savings.....	13
4.5. Client perspectives.....	14
4.5.1. On loan defaults.....	14
4.5.2. On their experience with MFIs.....	14
5. Conclusion.....	15
Appendix .....	18
Table A1: Details of Informal Borrowing.....	18

## Executive Summary

In mid-2009, prior to the crisis in Andhra Pradesh (AP), the Centre for Microfinance (CMF) at IFMR Research completed a household survey exploring households' access to finance in rural Andhra Pradesh. Subsequently, CMF has conducted two revisit surveys in July 2011, and July 2012 on subsets of the original sampled households. Using the data from the revisit conducted in July 2012, this report presents the change in composition of loan portfolio; overall indebtedness to various sources; and key socio-economic variables between pre-crisis (2009) and post-crisis (2012) period. To specifically capture and investigate the impact of the microfinance crisis on MFI clients, all households who were MFI clients in 2009 (224) were then selected for re-visits in 2012.

The comparisons indicate that the crisis experienced by the microfinance sector in AP post 2010, and the subsequent regulatory restrictions have substantially affected the lending environment in AP. Post the crisis period, the MFI client households have fewer numbers of total loans outstanding; however, the overall amount of indebtedness has increased over time. In spite of large scale withdrawal of MFI lending, the penetration of the banks and SHGs did not increase during this period. This may indicate that other sources of formal loans may not necessarily a good substitute of the MFIs loans.

During the period marked by the absence of MFIs, composition of loans outstanding to various informal sources changed quite substantially: while the percentage of clients indebted to friends, relatives and neighbors has decreased by almost 24%, clients with outstanding loans to moneylenders and landlords increased by 25%. In the post crisis period, the MFI clients had to resort to borrowing from moneylenders and landlord, which increased by over 46% during this period.

Comparison of the data on the loan usage by MFI clients suggests that clients have had to substitute MFI loans with informal loans (mostly from the moneylender and landlords) for smoothing consumption and health shocks.

Data shows per-capita consumption expenditure for client households decreased by 20% in the post crisis period, though its impact on household welfare is not clear due to data limitations. The data on savings indicate that during the crisis, MFI client households' ability to save has also been adversely affected.

While 45% of clients defaulted on their loans, most cited the absence of loan officers during the time of repayment and influence by political leaders and government officials as reasons for non-repayment. A majority of clients perceived that the interest rates charged by the MFIs were high. Despite this, a 72% of the clients indicated that MFIs were useful in their times of need, and almost half of them indicated that they would be willing to borrow from the MFIs in future signifying the importance of MFIs to the lifecycle needs of these clients.

The revisit data demonstrated important changes in the financial landscape in Andhra Pradesh, however, further investigations are needed to explore the welfare effects of the Andhra Pradesh Microfinance Crisis on the low income clients.

## 1. Introduction

The benefits of microcredit available through microfinance institutions (MFIs) have been diluted by issues around multiple borrowing, the theft of clients from SHGs, client over-indebtedness, and coercive MFI loan recovery practices. Clients, politicians, and policymakers around India have expressed concerns around such irresponsible lending strategies adopted by some MFIs, especially in the state of Andhra Pradesh (AP). These concerns led policymakers in AP to take action in late 2010 in the form of an ordinance that severely restricted the operations of MFIs in AP, contributing to an environment that resulted in non-repayment to microfinance institutions and the reduction of the availability of microcredit within the state.

In mid-2009, prior to the crisis in Andhra Pradesh, the Centre for Microfinance (CMF) at IFMR Research completed a household survey exploring households' access to finance in rural Andhra Pradesh. 1,920 households were surveyed using stratified random sampling, spanning eight randomly selected districts and representative of the rural population of the state of Andhra Pradesh. The survey collected detailed information on household saving and borrowing from SHGs, MFIs, banks, and informal sources including moneylenders, friends and family, and others. The timing of this original study provided a snapshot of the access to and the use of financial services by rural households prior to the crisis faced by the microfinance industry in Andhra Pradesh.

Subsequently, CMF has conducted two rounds of revisit surveys on subsets of the original sampled households. Each revisit survey was conducted during approximately the same season as the original 2009 survey so as to avoid seasonal differences; same questions on household financial behavior were administered to facilitate a robust comparison of each household's responses across the different survey waves. In 2011, 416 households were re-surveyed with an overwhelming majority of these households (91%) not having been MFI clients in 2009. Therefore to specifically capture and investigate the impact of the microfinance crisis on MFI clients, all households who were MFI clients in 2009 (224) were then selected for re-visits in 2012.

This report will explore how the access to finance of the MFI clients got affected by the Andhra Pradesh Microfinance Crisis of 2010 and its implication on some important aspects of the MFI clients' life such as consumption, savings etc. This report will also present the perspectives of the MFI clients about the MFIs practices.

## 2. Research method

To capture and analyze the effect of the AP microfinance crisis on MFI clients, we adopt a *before and after analysis* where we compare access to finance related variables from the original data of 2009 with the MFI clients' revisit data of 2012 on the same set of parameters. This enables us to specifically gauge the depth of the effect on their access to finance, as well as on their consumption and savings.

Additionally, we collected revisit data from both MFI clients in 2012 and (mostly) non-MFI clients in 2011. This will help us compare the relative effect of AP microfinance crisis on access to finance and other economic indicators on the MFI clients vis-a-vis the non-MFI clients. The comparison however will have its limitations as the revisit surveys were done in two different years. Nevertheless, it can still be effective in providing some level of approximation of differences observed for key indicators.

This report is organized as follows. We begin with a brief overview of the sample of this study. The following sections present our findings, first by giving an oversight of the financial institutions operating in our sample villages and their changing market share among sample households. Secondly we follow this up with an in-depth analysis of the changes in household debt structure and in particular investigate whether other formal or informal sources stepped up when MFI credit was no longer freely available. Here, we also explore how the households that were previously utilizing MFI loans for a given purpose are financing their requirements. Thirdly, we study the link between the changes in financial access and the changes in both consumption and savings. We also present findings from a couple of new questionnaire modules from 2012 investigating distress assets selling and clients' perceptions about their relationship with the MFIs.

## 3. Description of the Sample

Out of a total of 64 villages in the original 2009 sample, 49 villages had at least one MFI within their boundaries between June-2009 and August 2009. A total of seven MFIs served these 49 villages. Among the 1,920 households interviewed in 2009, more than 56% of the households have taken microcredit (including both SHGs and MFIs), while around 11% of the households had a loan outstanding with a commercial MFI. The 2009 data shows that several households also borrow from both formal sources like banks, as well as informal sectors such as relatives and friends, moneylenders, landlords and employers.

## 4. Findings

In this section we outline the findings from the MFI clients' revisit survey conducted in 2012 and compare them to the findings from the 2009 survey for key areas including household indebtedness and other financial behaviour, loan purposes, changes in their expenditure and savings, and perception about the MFIs. The analysis represents a cohort of households which are a subset of the original Access to Finance in Rural Andhra Pradesh<sup>1</sup> report from 2009.

In 2009, 224 households (out of a total 1920 surveyed) reported having an outstanding MFI loan. In 2012, we attempted to revisit these households and successfully completed 197 surveys.<sup>2</sup>

### 4.1. Household finance

To understand the changing financial landscape between 2009 and 2012, we report summary statistics on the presence of various financial institutions in all the districts in our original sample from 2009. In 2009 we sampled a total of 64 villages out of which 42 villages reported being serviced by at least one bank, 63 villages by at least one SHG promoting institution, and 49 villages reported being serviced by at least one MFI. In 2012 there is a noticeable drop in the MFI presence, with only 12 villages reporting access to an MFI and seldom more than one such village in a district (see Table 1).

**Table 1: Shift in the number of MFIs operating in Villages from 2009-2012**

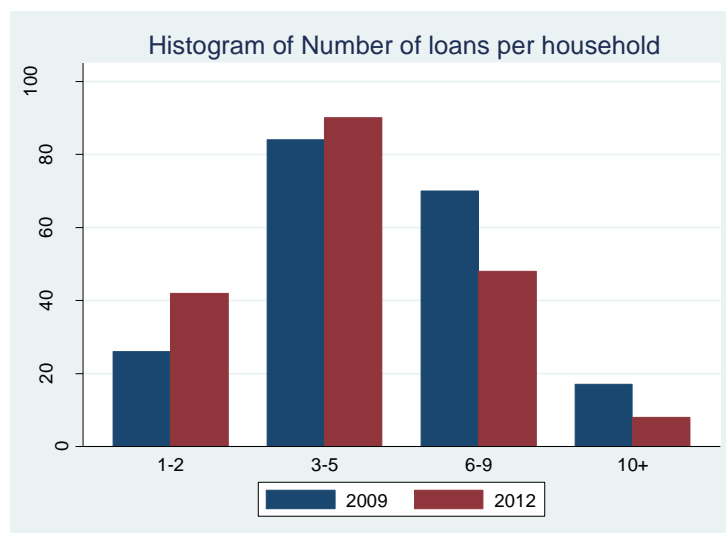
District	#of Villages	# villages with at least 1 MFI	
		2009	2012
Nizamabad	8	6	1
Medak	8	8	1
Prakasam	8	7	1
Mahbubnagar	8	6	1
Vizakhapatnam	8	5	1
Cudappah	8	6	2
Vijayanagaram	8	5	2
Nalgonda	8	6	3

Having acknowledged a shift in financial landscape through seizure of MFI operations, we investigate the change in borrowing landscape and our results suggest that the overall composition of

<sup>1</sup> D. Johnson and S. Meka, "Access to Finance in Andhra Pradesh," Centre for Microfinance and Bankers Institute for Rural Development, October 2010.

<sup>2</sup> Of the remaining, we found that some had permanently migrated from their earlier addresses and some had temporarily migrated with very low rate of refusals.

debt profile of the households has changed. Firstly, as can be seen in Figure 1, there are fewer number of total loans outstanding at the time of revisit survey; this is consistent with the assumption of reduced access to credit. Secondly, the percentage of households with multiple loans also decreased from 96% in 2009 to 84% in 2012.



**Figure 1 - Change in the total number of loans taken by a household from 2009-2012**

The data of 2009 suggested that indebtedness rates in rural AP were high when compared to the nation, using data from All India Debt and Investment Survey (AIDIS) conducted by the National Sample Survey Organization. Specifically within the cohort of MFI clients, 29% MFI clients from 2009 were also indebted to banks, 65% to SHGs and 83% to at least one informal source of credit (dominated by borrowing from friends/relatives/neighbours, moneylenders & landlords) as reported in Table 1. Comparison of the data of 2009 and 2012 shows that while the percentage of households indebted to MFIs exhibits a drastic fall (44% in 2012), the extent of household indebtedness to banks and SHGs remains almost identical to 2009. Additionally, despite widespread non-repayment of JLG loans, 44% of client households still considered their old JLG loans outstanding, and had not written them off.

Next, we compare the changes in household indebtedness to various informal sources of credit which is the most common source of borrowing. First we consider an overall metric, the percentage of households indebted to at least 1 informal source and find very little change – 83% households in 2009 and 81% households in 2012 reported having informal loans outstanding. Next, when break this down by various informal lenders (since the terms of lending vary a great deal between say, borrowing from moneylenders & landlords and borrowing from friends, relatives & neighbours) we find an interesting redistribution of borrowing within informal sources: while the percentage of households with outstanding loans from their friends, relatives and neighbours has reduced (by 24%) between the two surveys, households' indebtedness to the moneylenders and landlords has increased substantially (by 25%) in the post crisis period. Thus, it seems that in the

absence of MFI loans, shrinkage of lending by friends, relatives and neighbor clients had to resort to borrowing from the moneylenders & landlords.

**Table 2 – Comparison of indebtedness of client households by source: 2009-2012**

Loan source	% Indebted households		Mean Household debt Outstanding		Median Household debt Outstanding <sup>3</sup>	
	2009	2012	2009	2012	2009	2012
<b>Formal</b>						
<b>Banks</b>	29%	29%	22929	32537*	16000	21000
<b>MFIs</b>	94%	44%*	8446	8333	8104	5000
<b>SHGs</b>	65%	62%	6854	9269*	5000	8650
<b>Informal</b>						
<b>Friends/Relatives/Neighbours</b>	54%	41%*	41475	35489	27000	30000
<b>Moneylender &amp; Landlords</b>	39%	49%*	31030	45314*	25000	25000
<b>Other informal (Chit fund and employer)</b>	13%	15%	11786	32760*	8900	30000
<b>Any formal source</b>	98%	78%*	20273	24308*	15337	15650
<b>Any informal source</b>	83%	81%	47652	54514	29500	35000
<b>Any source</b>	100%	93%*	63984	75280*	39750	48850
<b>* Indicates that the difference between 2012 and 2009 is statistically significant</b>						

A similarly useful metric to compare across years is the amount of household debt outstanding to each loan source. Comparing the data on overall outstanding we find that the median outstanding of MFI clients increased by around 23% (from INR 39,750 in 2009 to INR 48,850 in 2012).<sup>4</sup> While we found that the percentage of households indebted to banks and SHGs did not increase, the average household debt outstanding to both these institutions did increase between 2009 and 2012 (see Table 2).<sup>5</sup>

Comparison of households' amount of indebtedness to informal sources indicates that average outstanding to friends, relatives and neighbours has decreased, while average amount of outstanding

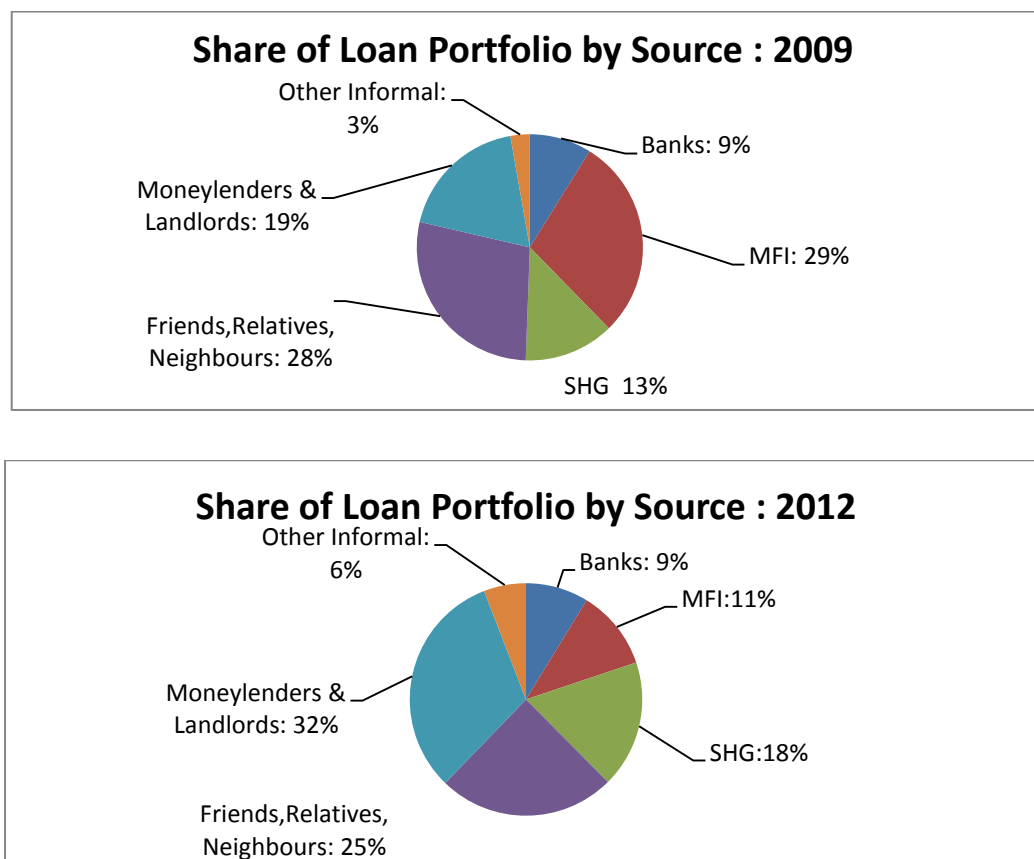
<sup>3</sup> To remove the influence of outliers, 4 largest observations were removed before constructing the mean and median reported in Table 2.

<sup>4</sup> However, the inflation adjusted median outstanding in 2012 stood at around INR. 40946, recording an increase of around 3% in real term.

<sup>5</sup> This evidence is in line with the common practice of formal lending institutions to grant larger loans as their relationship with clients mature.



to moneylenders & landlords has increased. A closer look at the distribution of amount of outstanding indicates that though the median outstanding remains the same, borrowing from the moneylenders & landlords increased for client with both lower and higher outstanding amounts. Also, clients' amount of loan outstanding to the other informal sources (chit fund and employers) has increased substantially which is mostly contributed by the increased amount of borrowing from the chit funds by a few clients.



**Figure 2 – Shift in the share of lending institutions from 2009-2012**

While investigating the share of total loan outstanding across various sources, we notice changes in the lender-wise composition of outstanding debt: the share of MFI loans to total outstanding has decreased a great deal between 2009 and 2012 while share of SHGs has shown a marginal increase with no change in the share of banks. The data on the share of informal loans to total outstanding indicates that the informal sources are accounting for a larger share of the total outstanding after the crisis. More importantly, the share of moneylenders & landlords to total outstanding has recorded a steep increase of around 46% (from 19% in 2009 to 32% in 2012), while the share of friends, relatives and landlords fell marginally from 28% in 2009 to 25% in 2012.

Comparison of the client households' loan portfolio between 2009 and 2012 shows a large fall in proportion of households with MFI loan outstanding which signifies the large scale reduction in MFI operations across 8 study districts of AP. The comparison also indicates that there is a significant fall in the proportion of households' indebtedness to the friends, relatives and neighbours – the source

which was the most frequently accessed in the post crisis period, while a significantly larger percentage of households are now borrowing from moneylenders and landlords. Thus, this indicates a redistribution of households' indebtedness from the friends, relative & neighbors to moneylenders & landlords.

Comparing the data of formal borrowing before and after the crisis, we find an interesting fact: despite the fall in borrowing from the MFIs, percentage of clients' indebted to non-MFI formal sources (banks and SHGs) did not increase, indicating that the non-MFI formal sources are possibly not acting as good substitute for the MFI loans. Especially, it is important to note that percentage of MFI clients having an outstanding to SHGs did not increase even after the seizure of MFI operations, which rejects the popular hypothesis that commercial MFIs often poach the SHG clients.

Another important finding emerges from comparison of borrowing from informal sources: in the post crisis period, while MFI clients' indebtedness to friends, relatives and neighbours decreased, their indebtedness to moneylenders and landlords has simultaneously increased.

Our detailed data on informal loans (reported in *Table A1* in the appendix) also indicate that the amount of loan rationing (as measured by the difference between amount requested & amount received) has increased significantly from 13% of clients facing the loan rationing by the informal lenders in 2009 to 23% in 2012. Further to that, 40% of the clients in 2012 indicated informal lenders' concern about the clients' repayment capacity as one of the most important reasons for loan rationing in the post crisis period as compared to 15% of the clients reporting the same reason in 2009.

Thus these finding possibly indicate that in the post crisis period, given the mass default in MFI loans, and the uncertainty in regulatory environment, the lender who extend informal loans to their friends, relatives and neighbours have become conservative in their lending, while the professional moneylenders & landlords continue offering loans (who most often require some form of collateral) and are able to capture larger share of the informal market in the post crisis period.

## 4.2. Loan purpose

In order to assess the effect of withdrawal of MFI loans, it is important to look at the data on the usage of MFI loans in 2009 sample, since this allows us to identify whether the clients have substituted their credit needs for a given purpose that were previously funded through borrowing from MFIs, and if they have, how did they do this.

We selected the top five purposes for which households reported using MFI loans in 2009 – household consumption, to repay old debt, home improvement, to buy agricultural inputs and for health expenses. We tracked the loans taken for these purposes in 2012 (when access to MFI credit

was presumably restricted) to understand which other sources households turned to in order to satisfy their credit needs in the absence of MFI loans.

We find three noticeable changes between 2009 and 2012. First, we notice that a slightly higher proportion of households now report using formal loans to buy agricultural inputs, but it is unclear whether this shift is linked to decreased MFI access or to a shift from SHG loans to bank loans for these purposes.

**Table 3 – Shift in the source of loans for different purposes from 2009-2012**

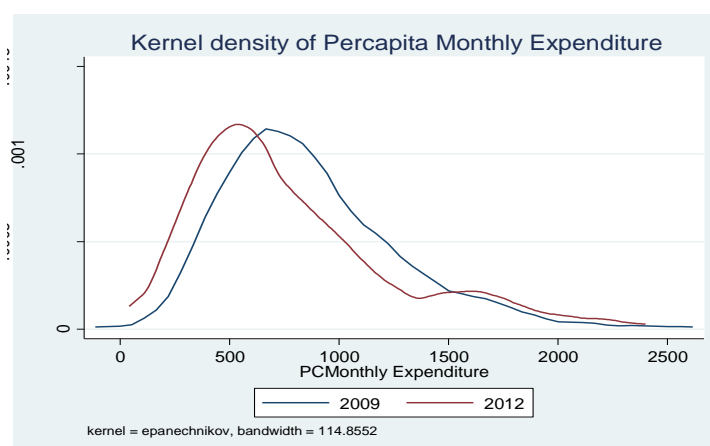
Purpose	MFI	Bank		SHG		Informal	
	2009	2009	2012	2009	2012	2009	2012
Household consumption	34%	19%	12%	41%	43%	19%	31%
Repay old debt	27%	16%	9%	26%	22%	11%	7%
Home improvement	17%	13%	5%	20%	21%	17%	14%
Buy agricultural inputs	14%	48%	53%	21%	17%	13%	13%
Health	14%	8%	5%	12%	18%	17%	29%

Second, we notice a very marked shift towards informal borrowing for the purposes of household consumption and health expenses. In case of financing household consumption, 31% of households depend on the informal sources in the post crisis period as compared to 19% in the pre-crisis period. Similarly, the percentage of households borrowing from informal sources to cover health expenses increased from 17% to 29% between these years. Thus, in the absence of MFI loans, the clients are supporting their consumption and health related expenses by borrowing from the informal sources.

### 4.3. Expenditure

#### 4.3.1. Consumption expenditure

The change in access to finance may have affected household expenditure and consumption as a significant proportion of the clients seem to use the MFI loans for smoothing consumption in the pre-crisis period. Our study investigated how household consumption in the 30 days prior to survey changed during this period. Figure 3 compares the distribution of per-capita expenditures reported in 2009 & 2012. There is a noticeable leftward shift of the distribution for 2012 for per-capita expenditure level below INR 1,500, indicating an overall decrease in monthly per-capita expenditures (MPCE) for the sample with smaller per-capita expenditure.



**Figure 3 – Shift in monthly per capita consumption expenditure from 2009-2012**

Table 4 compares the median MPCE for study sample between 2009 & 2012, before and after adjusting for inflation. In 2009, the median reported MPCE was Rs. 794 and in 2012 it had fallen to Rs. 640 – a decrease of 20%. After adjusting for inflation<sup>6</sup>, the real decrease in MPCE is estimated at 38%.<sup>7</sup>

**Table 4 - HH Per-capita Consumption expenditures during the 30 days period prior to survey**

Median MPCE MFI clients			Median MPCE non-MFI Client Households		
2009	2012	2012 real (in 2009 prices)	2009	2011	2011 real (in 2009 prices)
794	640	486	800	675	545

As mentioned in the introduction, we have also revisited 416 clients from our 2009 sample in 2011, out of which 379 households were non-MFI clients. So in the table below we also present the per-capita expenditure data from 2011 sample with the non-MFI client households. For the sample of non-MFI clients, MPCE dropped around to be 15% in nominal terms and a decrease of 31% in real terms. Thus, from the comparison of change in MPCE between the MFI and non-MFI sample it seems that the MFI client households experienced a larger extent of fall in their consumption.<sup>8</sup>

<sup>6</sup> Based on RBI statistics: CPI numbers for Rural/Agricultural Labourers: <http://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>

<sup>7</sup> For both rounds, the data collected around the similar time period (May-Aug), thus the comparison would most likely be free from seasonality bias.

<sup>8</sup> However, it is unclear whether these estimates are indeed comparable without adjusting for the differences in observation window.

### 4.3.2. Non-routine expenditure

In addition to households' consumption expenditure in the last 30 days, the survey also inquired on the nature of non-routine expenditures incurred by the household in the 6 months preceding the survey. We found that the percentage of MFI client households who report incurring non-routine expenditures dropped from 95% in 2009 to 76% in 2012. Further, we found the average number of such expenditures also fell. However, the average size of the largest non-routine expenditure seems to have increased over the years.

Table 5 compares the sources of financing households relied on for their largest non-routine expenditure. MFI clients in 2012 reported an increased dependence on moneylenders to finance non-routine expenditures (from 15% households in 2009 to 26% households in 2012) and corresponding decreases in their reliance on all other sources. We compared these trends to the trends in the non-MFI client sample from 2011, to find that non-MFI clients mirror the increased dependence on moneylenders, but unlike MFI clients, relied more on their own income or savings to finance non-routine expenditures in 2011.

**Table 5 - Sources of financing largest Non-Routine Expenditure**

Non-routine expenditures	MFI Clients		Non-MFI Clients	
	2009	2012	2009	2011
Own income or savings	30%	24%	28%	40%
Loan from friends/relatives	43%	23%	44%	23%
Loan from moneylender	15%	26%	9%	18%
Loan from landlord	10%	6%	11%	11%
Loan from MFI/SHG	22%	3%	7%	4%

## 4.4. Asset & Savings

To assess how the withdrawal of MFIs from the villages has affected clients' dependence on distress selling for weathering different shocks and what toll the crisis has taken on the savings of the households, in the following sections we explore the incidence of selling of assets and changes in savings of the client households.

### 4.4.1. Asset

Using the data collected from the survey, we found that 21% of the MFI client households reported selling at least one of their assets since 2010 and this incidence is fairly similar across primary occupations and across wealth strata (as proxied by Progress out of Poverty Index score ranges as measured in 2009). The most common assets that were liquidated were livestock (34%),

land (29%) and a house/building/flat (17%). Correspondingly, there was a considerable variation in the amounts received from sale of these assets with median amount of Rs. 29,500 received from asset sale.

Households also reported the various expense heads towards which sales proceeds were used. Overall, the most common uses were to repay old debt (34% households), towards household consumption (27%) and towards marriage expenses (16%). However, most of the instances of selling assets to repay old debt remain concentrated in 2010 and by 2011 there is a noticeable shift away from liquidating assets to repay debt and increasingly towards using the money for health expenses, marriage expenses and household consumption.

Altogether, we do not find strong evidence to suggest a wave of distress selling; neither by occupation segments nor by changes in consumption levels between 2009 and 2012. However, we do find a shift in the purposes for which sale proceeds were used – a fair share of households reporting that they sold assets to meet both routine and non-routine expenditures. In addition we more than a third of these households reported they would prefer to borrow money rather than sell their assets, but were unable to do so. This is surely a concern as it indicates a lack of access to timely credit since the distressed selling of asset might be more expensive than to borrowing money for financing these expenses, indicating that it might lead to a welfare loss.

#### 4.4. 2. Savings

Given that the expenditure data shows a prominent fall in expenditure of the MFI clients, an obvious investigation would be to assess how savings got affected in post crisis period. Thus we have explored how the savings of the MFI client households evolved during 2009-12 period, from both MFI clients in the 2012 sample and the non-MFI clients in 2011. The following Table 6 presents the comparison of savings for the MFI and non-MFI clients:

**Table 6: Total Household Savings**

	MFI clients			Non-MFI Client Households		
	2009	2012	2012 real (in 2009 prices)	2009	2011	2011 real (in 2009 prices)
<b>% with positive savings</b>	86%	85%		79%	83%	
<b>Mean</b>	1558	2037	1547	1710	2596	2097
<b>Median</b>	750	800	608	700	1000	808

The above table indicates that the percentage of MFI clients with positive savings did not significantly change between 2009 and 2012, and that the nominal value of median savings has increased while the inflation adjusted value of median savings fell by around 18% during this period. On the other hand, for the non-MFI clients, both nominal and inflation adjusted savings have increased during 2009-11 period.

Comparison of the data indicates that though the MFI clients started with a larger median savings, in the post crisis period, their median savings were much smaller than the median savings of non-MFI clients. This difference could indicate that the MFI clients have possibly liquidated some of their monetary savings during the crisis, while there is no such evidence for the non-MFI clients.

## 4.5. Client perspectives

In the aftermath of the AP crisis, popular media has pointed out various issues relating to the collection practices of MFIs, and speculations on *anecdotal evidence* on the “*usurious interest rates*” charged by the MFIs and coercive recovery practices adopted by the loan officers. So as to document the voice of the MFI clients, we included a survey module in the 2012 revisit to understand clients’ perception of the recent changes in the post AP crisis period. We incorporated questions relating to their default on the MFI loans, their experience with the MFIs and some perception questions on the collection practices and the relative cost of borrowing from the MFIs vis-a-vis the other sources. The following sub-sections report the findings from the new modules.

### 4.5.1. On loan defaults

In our sample of MFI clients, 45% households admittedly defaulted on JLG loans, with a maximum of these defaults occurring in 2010.<sup>9</sup> We further probed the reasons for default and found the most commonly cited reasons to be:

- a) The absence of loan officers at repayment time
- b) That household received instructions from officials that they did not have to repay their MFI loans
- c) They followed other JLGs in their village who defaulted

We also inquired whether households had saved money to make repayments before they defaulted and 53% of households reported that they had in fact money saved up. The most common reported uses for the unpaid sum were household consumption (51% households), health expenses (26%), to repay old debt (21%) and to buy agricultural inputs (17%).

However, after recounting their experiences during the survey, 49% households affirmed that they would still continue to borrow from MFIs if they could.

### 4.5.2. On their experience with MFIs

Households were presented a series of statements about MFIs and asked to state their agreement/disagreement along a 5-point Likert scale. We posed 6 questions, including both positive and negative statements about MFIs and the responses are aggregated and presented here (Table 7).

---

<sup>9</sup> The default data comparison of this section is based on responses of 45 clients, and thus could lead to small sample bias.

As reported in the table below, majority of households (70%) felt that MFIs charge very high interest rates, but opinion was divided on the other negative statements we posed. Similarly, a majority of households agreed that MFIs were useful to them in their times of need but opinion was divided on whether they found MFI loan officers were friendly and helpful and whether they preferred MFIs to moneylenders.

**Table 7: Clients' Perspective about the MFIs**

Statements posed	% Agree	% Disagree	% Neither
MFIs charge very high interest rates on loans	70%	19%	11%
I prefer to borrow from an MFI than from a moneylender	49%	31%	20%
All MFIs exploit customers	45%	33%	22%
MFIs were useful to me in my times of need	72%	11%	17%
MFIs are a necessary evil	48%	23%	28%
Loan officers were friendly and helpful	56%	25%	19%

To better understand the cohort's views, we broke down the results by the primary occupation of the household in 2009 (i.e., their occupation before the crisis would have affected them, if at all). We found that as compared to the entire sample, a smaller percentage of landless labourer households reported that they felt MFI interest rates were too high and similarly, a larger percentage of them reported that MFIs were useful to them in times of need. As compared to the average, a larger percentage of the segment of commercial/business households reported that they found MFI interest rates too high, but at the same time, a larger percentage of them reported that they found MFIs useful in their times of need.

## 5. Conclusion

The objective of this report was to document how MFI clients' access to finance was affected by the Andhra Pradesh Microfinance Crisis of 2010. Using the data from a revisit survey of MFI clients undertaken by the Centre for Microfinance during June- July of 2012, this report presents the extent of change in composition of loan portfolio, overall indebtedness to various sources and few other important variables between pre-crisis (2009) and post-crisis (2012) period.

The comparison presented in this report indicates that the Andhra Pradesh Microfinance Crisis of 2010 and subsequent state level regulatory restrictions that have virtually stopped MFIs operations in the state have substantially affected the lending environment in the state. The findings of the study indicate that in the post crisis period, the MFI client households have lesser total number of loans outstanding, however the overall amount of indebtedness increased over time. Comparison of pre and post crisis data shows a significant change in the composition of debt outstanding.



Among the formal sources of credit, while the indebtedness to the MFIs has decreased a great deal between 2009 and 2012, penetration of bank lending did not increase during this period. The results also show that in spite of large scale withdrawal of MFIs loans, the penetration of the SHGs did not increase during this period indicating that the SHG loans are not necessarily a good substitute of the MFIs loans.

During the period marked by the absence of MFIs, the composition of loan outstanding to various informal sources has undergone an interesting redistribution: while the percentage of clients indebted to friends, relatives and neighbors has decreased by almost 24%, clients with outstanding loans to moneylenders and landlords increased by 25%. While comparing the amount of indebtedness to the informal sources, we find that the amount of borrowing from the moneylenders and landlords has increased by more than 46% during this period which possibly indicates that in the absence of MFIs, the clients are resorting to increased borrowing from the moneylenders and landlords.

While looking at the information on the loan usage, we notice a distinct shift towards informal borrowing for the purposes of household consumption and health expenses in the post crisis period. Given that in the pre-crisis period, household consumption and health expense were two major usages of MFI loans, above finding possibly suggests that in the absence of MFI loans, the clients become increasingly dependent on the informal sources to substitute credit needs for smoothing consumption and health shocks.

Investigating the changes in household expenditure during this period, we find that per-capita consumption expenditure of the MFI client households has fallen in the post crisis period, however, data limitations do not allow us to further investigate its consequences on household welfare.

The data on savings indicate that though the savings of MFI client households' increased marginally in nominal term, the value of their real (inflation adjusted) savings has actually decreased during the crisis period signifying that the MFI client households are now more dependent on external sources to finance their expenses. While exploring whether the absence of MFIs has influenced distress asset selling, we find no evidence of increase in such distress selling.

Our study also gathered information on the perception of the clients about the operations of the MFIs. Data on the reasons for defaulting on MFI loans indicate that absence of loan officers and political influence were important contributor to defaults in MFI loans. Interestingly approximately half of the sample indicated that they would be willing to borrow from the MFIs in future which possibly signifies the importance of MFIs to the lifecycle needs of these clients.

While exploring clients' perceptions about the MFIs, we find that majority of the clients feel that the interest rates charged by the MFIs are high. However, a large fraction of the clients also indicated that they found MFIs to be useful in their times of need. Thus, these findings possibly indicate that in spite of higher rates charged by the MFIs, the clients value their relationship with the MFIs because of their usefulness.

The comparison of pre and post crisis data has documented important changes in the composition of MFI client households' loan portfolios in the post crisis period. In the absence of commercial MFIs in Andhra Pradesh, clients' indebtedness to moneylenders and landlords has significantly increased, while there is evidence of fall in households' consumption expenditures in the post crisis period. However, due to data limitations, it was not possible to assess the welfare impact of the changes in access to finance on the quality of the lives for the poor. Thus the findings from this follow-up survey raised additional questions that require further investigations to unveil the effects of the Andhra Pradesh Microfinance Crisis on the low income clients.

## Appendix

**Table A1: Details of Informal Borrowing**

<b>Informal loans - Difference between Amount Requested &amp; Amount Received</b>		
	2009	2012
Incidence of difference (Percentage of clients reported difference)	13%	23%
Median difference (between amount requested & amount received)	INR 5000	INR 5000
<b>Reason for the difference between amount requested &amp; amount received</b>		
	2009	2012
Interest was taken out	15%	0%
Concern about repayment capacity	15%	40%
Source had constraints	63%	50%
Other/ DK	8%	10%
<b>Type of collateral Used for Borrowing</b>		
	2009	2012
None	94%	90%
Guarantee	2%	6%
Jewellery	2%	2%
Other/ Do not Know	2%	2%