

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



**Study Conducted
By
APMAS**

***Presentation by
Dr. K. Raja Reddy, krajareddy@apmas.org***

OBJECTIVES OF THE STUDY

- To know the lending practices of microfinance institutions;
- To understand the repayment strategies and issues in it; and
- To understand the impact on members, SHGs & SHG fed.

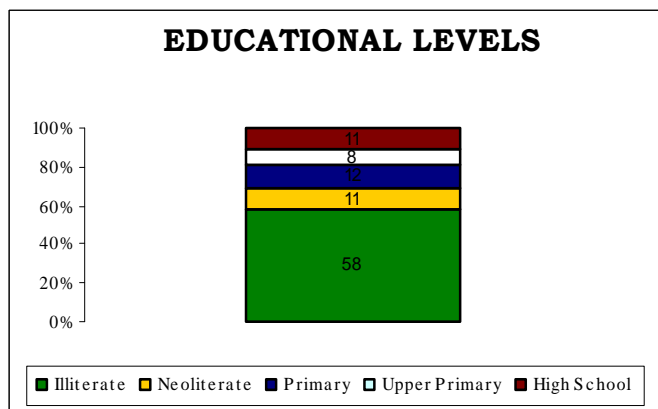
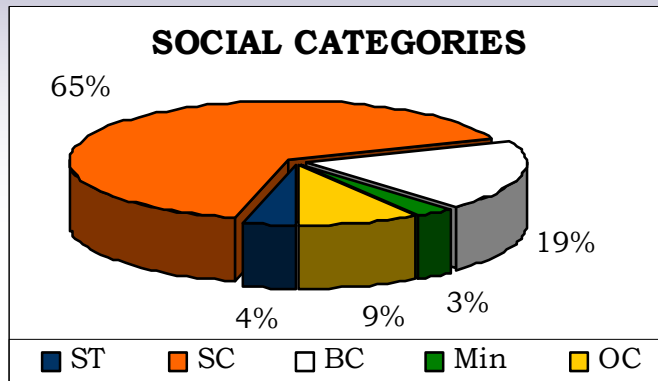
SAMPLE COVERED

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

SAMPLE COVERED

- 12 villages in 7 mandals were selected purposively where MFIs have intensive operations
- In each village 10 SHG members were selected at random from different MFI Centres and JLGs
- Totally 130 members were selected for the present study
- Data collection tools- interviews with SHG-MFI members, case studies and group discussions with VO members

PROFILE OF THE RESPONDENTS



- Ag. labour is the primary occupation of majority (52%) of the members
- All are landless except 11% of marginal & small farmers
- 95% of the members come under Below Poverty Line category

MEMBERSHIP DETAILS

Organizations	F	%
SHARE	14	11
Spandana	9	7
SHG & SHARE	44	34
SHG & Spandana	22	17
SHG & SHARE & Spandana	30	23
SHARE & Spandana	11	8
Total	130	100
No. of Memberships	F	%
One	23	18
Two	77	59
Three	30	23
Total	130	100

MEMBERSHIP IN SHGS AND MFIs

- 96 have membership in SHGs; 99 have membership in SHARE and 72 have membership in Spandana
- 59% have dual membership, 23% have multiple memberships and 18% have single membership
- Members have long association with SHGs- on an average 35 months compared to SHARE (27 months) and Spandana (14 months)

WHY DOES THEY ENROLLED WITH MFIs?

- Large and multiple loans with other services at door step with simple procedures without any delay
- Simple group norms - less or no savings, less time for meetings, joint responsibility and weekly instalments
- MFI field staff, household members have influenced the members more to join MFIs. 11%-SHG members encouraged

DO THE MEMBERS AWARE OF MFI LENDING PROCEDURES?

- All are aware of repayment period and weekly instalments
- 68% of the members don't know the rate of interest charged by the MFIs
- 31% know that MFIs follow flat rate
- 75% have received training on lending practices of MFIs
- Surety is of two forms-asset and non-asset based

SURETY

- Two forms-asset and non-asset based
- Asset based surety is only in the case of individual and special loans-Housing
- Asset based -title deed document of house (8%) ornaments (0.8%), livestock (0.8%) and signed cheques (1.8%)
- Non asset based-promissory note (66%), collection of signature on empty papers (34%) JLG member co-obligate (63%), HH member signatures on documents

WHO PAID FINES TO WHOM?

- Fines from late comers and absentees
- Fines paid by members goes to MFIs
- If MFI- comes late pay Rs. 15 to JLG.
- No fines in case of prior intimation
- 36% of the members have paid Rs. 2
- Past 1 year flexibility in collecting fine

LOAN DETAILS

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

LOANS FOR WHAT?

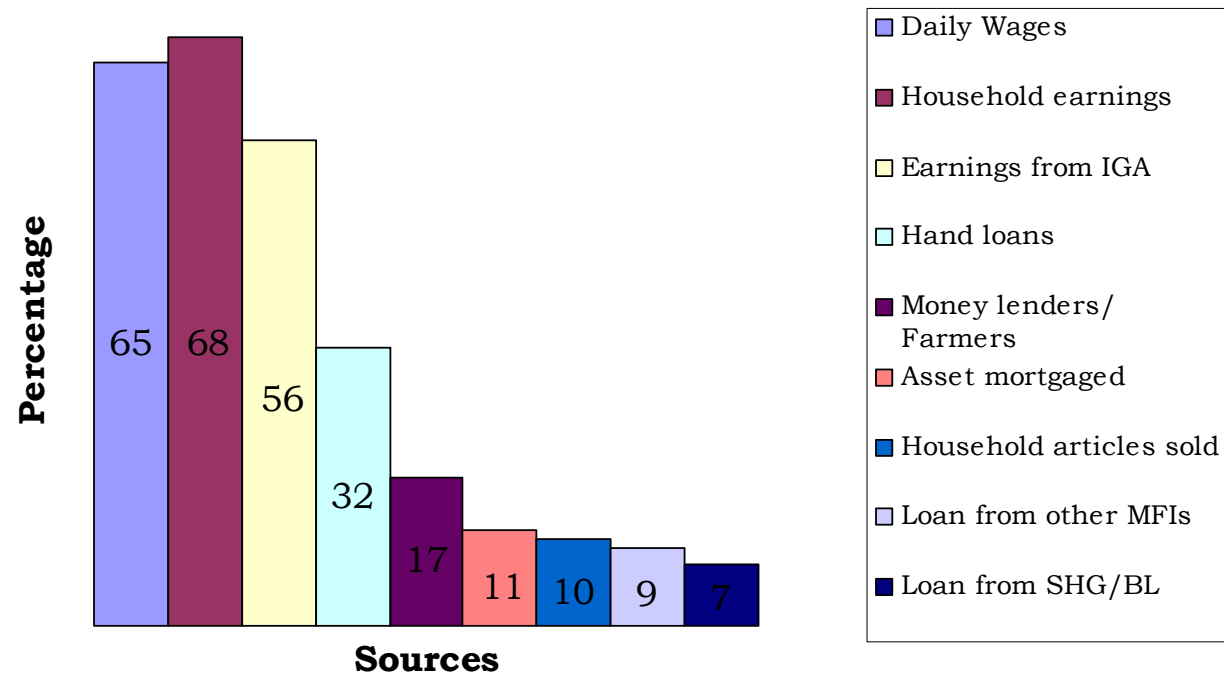
Purpose of loan- in %	SHARE	Spandana	SHGs
To take up IGA	36	28	18
Business	32	33	13
Agriculture	3	1	3
Marriage	3	1	-
To repay loan	2	7	5
Housing	5	10	6
Health	8	3	3
Consumption	11	17	46
Gold/ Bike	-	-	3

LOAN COST

Details	SHARE	Spandana
Principle per 1000 per week	Rs. 20	Rs. 20
Interest per 1000 per week	Rs. 3-2	Rs. 2-3
Interest on Diminishing Balance (DB) or Flat (F)	Flat	Flat/DB
Admin charges per week*	Rs. 2	Rs. 2
Insurance *	Members don't	
Bank charges at the beginning*	Rs. 20	Rs. 25
Security Deposit per 1,000 refundable*	Rs. 50	Rs. 50
* Not entered in loan cards. Variation in interest rates from loan to loan		

HOW DID THEY REPAY?

FUND SOURCES AND REPAYMENT



WHY NO OVER DUES & DEFAULTS?

- **Strict implementation of group norms**-collection of fines (79%), compulsory attendance (82%), meeting up to collection of all the installment amount (69%), joint responsibility (85%)
- **Informal practices** such as announcing the list of late comers and payers in the meeting (10%), sitting in front of defaulter's house (5%)
- **Degrading the defaulter** with offensive language (6%) by the MFI and JLG members in the meetings
- **Assets taken into possession** by the **JLG** and adjustment of savings to loan (17%) by **MFI**
- **Consequences**-financial burden, mortgage and selling of household articles and loss of reputation

MFI LENDING PRACTICES-

Issues or problems reported

- High rate of interest-89%
- Weekly installments-90%
- More service/admin charges-72%
- Less repayment period-19%
- Collateral surety-13%
- Large loan installment amount-28%
- Strict implementation of norms-39%
- Rigidity even in genuine cases-19%
- Repayment of multiple loans-12%

OPINION ON SHG LENDING PRACTICES

- 76% - Rate of interest is *low*
- 55% - Installment amount is *small*
- 87% - Cost of the loan is *less*
- Loan repayment period- *less (33%), Moderate (30%) and more (37%)*
- Time taken for loans- *less (30%), Moderate (37%) and more (33%)*
- 56%-Loan size is *very small*
- 56%- Access to loans is *less*
- 38%- Major portion of loans to leaders and influenced members in the group

IMPACT ON HOUSEHOLDS

Positive

- Increase in income-46%
- Credit source to take up IGA-50%
- Dependency on ML decreased-71%
- Employment generation-39%

Negative

- Loans borrowed due to availability-32%
- Assets mortgaged and sold-29%
- Pressure on women-51%
- Dependency on ML increased-29%
- Food expenses reduced-48%
- Loss of respect in the village-9%

IMPACT ON SHGs

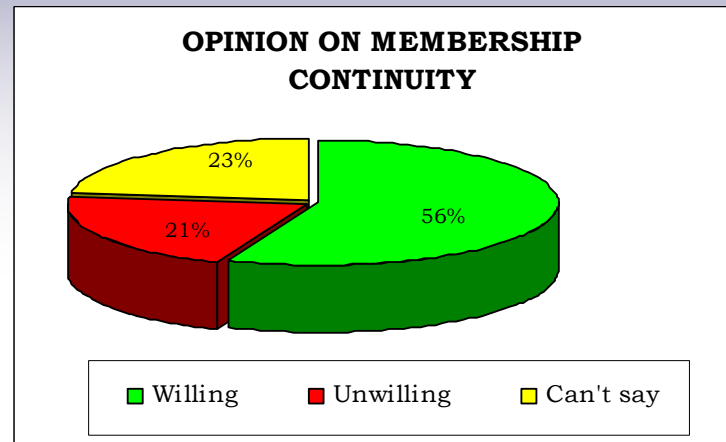
Negative

- Savings stopped-22%
- Irregular repayment to banks-29%
- Less attention on SHG activities-18%
- Pressure from members for bank linkage-9%
- SHGs become defunct-16%
- Members enrolled with MFIs-11%
- Membership withdrawn from SHGs-3%

Measures taken by SHGs for sustainability

- No loans to SHG-MFI borrowers-2%
- SHGs revived due to MFI experience-2%
- More inputs on MFI practices from SHPIs

WOULD YOU CONTINUE WITH MFI? OR DROPOUT?



- Willing- Timely and large loans; no alternative credit source, repeated visits to bank, loan at door steps, no support from govt., weekly instalments, strict monitoring
- Unwilling-high interest rate, more charges other than interest, weekly installments difficult to pay, credit from banks, no need of credit

EXPECTATIONS OF MEMBERS

Issue	Expectations
Lending norms	<ul style="list-style-type: none">• Fortnightly or monthly installments• Loan repayment period 2-3 years• Low interest rate like banks-SHGs• Transparency on interest rates• No documentation and bank service charges
Membership	<ul style="list-style-type: none">• No dual membership-to avoid defaulting• Encourage multiple memberships- for healthy competition

EXPECTATIONS OF MEMBERS

Issue	Expectations
Recovery methods	<ul style="list-style-type: none">• Postponement in genuine cases- death, ill-health, slack seasons• Rescheduling of repayment in case of death and ill-health• respectable language in meetings• Meeting timings as per the convenience. Not during peak work period• Action only on defaulter not on all groups and members• No coercive methods- physical force

EXPECTATIONS OF MEMBERS

Issue	Expectations
Loan products	<ul style="list-style-type: none">• Loans based on absorption and repaying capacity• Strict monitoring on loan utilization• Loans for emergency & social purposes
SHG Role	<ul style="list-style-type: none">• Large loans like MFIs• Bank Linkage to all the eligible SC and ST members in the group• Repeat loans without any delay

THANK YOU

EXPECTING

YOUR CRITICAL FEEDBACK

FOR VALUE ADDITION