

Rural Indebtedness and Practices of MFIs in Andhra Pradesh

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(Tapas Kumar Sarangi)
Principal Investigator

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List of Abbreviations

ADWDRS:	Agricultural Debt Waiver and Debt Relief Scheme
AHCs:	Asset Holding Classes
AIDS:	All India Debt Investment Survey
AP:	Andhra Pradesh
CBs:	Commercial Banks
DRDA:	District Rural Development Agency
DDM:	District Development Manager
HHs:	Households
IIMS:	Invest India Market Solution
KYC:	Know Your Customer
LPG:	Liquefied Petroleum Gas
MFIs:	Microfinance Institutions
MFOs:	Microfinance Organizations
NABARD:	National Bank for Agriculture and Rural Development
NBFCs:	Non- Banking Financial Companies
NGOs:	Non Governmental Organizations
NIAs:	Non-Institutional Agencies
NSS:	National Sample Survey
NSSO:	National Sample Survey Organization
NCAER:	National Council for Applied Economic Research
NREGA:	National Rural Employment Guarantee Act
OBC:	Other Backward Caste
RBI:	Reserve Bank of India
RFAS:	Rural Financial Access Survey
SAS:	Situational Assessment Survey
SBLP:	SHGs Bank Linkage Programme
SERP:	Society to Eliminate Rural Poverty
SHGs:	Self Help Groups
SC:	Scheduled Caste

ST: Schedule Tribes
RRB: Regional Rural Bank
UNDP: United Nations Development Programme
UP: Uttar Pradesh

Executive Summary

Over the past few years, a drastic change has occurred in the nature of financial services for the rural poor in India. Microfinance has witnessed an explosion in popularity, with the total number of people served by MFIs or members of SHGs growing at more than 50% every year. Andhra Pradesh has around 49,49,393 number of MFI clients with a loan outstanding of Rs. 3,56,528 lakhs which is highest as compared to other states in India. Andhra Pradesh is one of the leading states in terms of SHG and MFI growth, with the largest number MFIs based in the state. There have been concerns, through, that this rapid growth has caused intense competition amongst MFIs competing for both clients and staff. Clients with multiple-borrowings from various sources are in some cases over-indebted. Many microfinance commercial organizations have entered the Rural Credit Market in search of profit and are competing to lend to the poor. In the process of giving loan to the poor the MFIs started chasing targets and numbers.

The study was conducted in the three tribal districts of Andhra Pradesh i.e. Khammam, Mahabubnagar and Warangal. These districts have been selected due to the high penetration of microfinance there as well as the reported incidents of unhealthy competitive practices by MFIs in the districts.

The intension of the study was to find out the share of different sources of finance in rural areas of Andhra Pradesh. Identifying the gaps, issues and challenges faced by the rural households to manage their indebtedness situation is another objective of the study. Further the study aims at understanding the critical issues of multiple borrowing and the collection practices followed by the MFIs in the state of Andhra Pradesh.

Including the Introductory chapter this report consists of five chapters. The Database, Methodology & the Socio-economic backgrounds of the studied villages are discussed in the *second* chapter. The *third* chapter provides an in depth analysis on the financial position of the rural households and their access to credit. The *fourth* chapter analyses

the problem of Utilization, Repayment & Collection practices of different credit providers. The *fifth* chapter provides a summary of the main findings of the study.

This report presents result from the household survey on the Rural Indebtedness with special reference to MFIs in three districts (i.e. Mahabubnagar, Khammam and Warangal) in Andhra Pradesh. The key findings from the survey and analysis are as follows:

- It is estimated from the survey data that on an average more than 80 per cent of rural households in studied villages in Andhra Pradesh are indebted and all occupational categories are more or less equally indebted in percentage terms.
- Across the occupational categories in case of landless labourers and marginal farmers the indebtedness level is almost 90 per cent.
- The amount of indebtedness was highest in Warangal district. The Large farm households are also heavily indebted to different sources.
- The share of moneylenders is maximum (44.1 per cent) followed by friends & relatives to the total informal loan borrowed by the rural households.
- Out of the total loan outstanding around 44 per cent of the loan outstanding is under the informal sources, followed by 23.1 per cent from the SHGs, 21.6 percent from the formal sources and 11.4 per cent from the MFIs.
- Multiple borrowing is very high in all the studied villages of Andhra Pradesh. It has been found from the survey that an average of four loans has been borrowed per household at overall level in Andhra Pradesh. Mahabubnagar has topped with 4.6, followed by Warangal (4.5) and Khammam (3.9).