



Access to Finance in Andhra Pradesh

Doug Johnson and Sushmita Meka



INSTITUTE FOR FINANCIAL MANAGEMENT AND RESEARCH
CENTRE FOR MICRO FINANCE

AND

CENTRE FOR MICROFINANCE RESEARCH
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Glossary

TERM	MEANING
AIDIS	All India Debt and Investment Survey, a decennial survey conducted by the National Sample Survey Organization to gather quantitative data on debt, assets and expenditures of households throughout India.
Chit Fund	A revolving credit fund in which members contribute a predetermined amount at specified intervals and auction the pool regularly.
DCCB	District Central Co-operative Bank, one level of the short term cooperative credit structure
DWCRA	Development of Women and Children in Rural Areas Program, a program launched in 1982 to promote the wellbeing of women through income-generating activities. A key feature of DWCRA was the formation of groups, through which members would receive a stipend and revolving fund to undertake group economic activities.
JLG	Joint Liability Group, JLGs are generally promoted by private MFIs and consist of fewer members than SHGs (usually 4-5). Members are responsible for repayments of their peers in case of default.
KYC	Know Your Customer norms, due diligence guidelines which must be followed by banks to identify account holders.
MFI	Microfinance Institution, any private organization that provides microfinance loans. MFIs can take many legal forms, including non-profit societies and for-profit NBFCs.
NABARD	National Bank for Agriculture and Rural Development, the apex development bank responsible for regulating credit flow and promoting integrated development in rural areas. Since 1992, NABARD has promoted India’s largest microfinance program, the SHG Bank Linkage Programme.
NBFC	Non-Banking Financial Company, a type of for-profit company which may offer financial products to customers and which is regulated by the RBI. Most of India’s largest MFIs are registered as NBFCs.
No-frills account	A basic savings account that the RBI encouraged banks to provide to unbanked customers with or minimal balance as part of its financial inclusion drive.
NREGA	National Rural Employment Guarantee Act, a centrally-sponsored government scheme enacted in 2005 that ensures a minimum of 100 days of unskilled, minimum-wage employment to all rural households.
PPI	Progress Out of Poverty Index, a simple proxy measure of the likelihood that a household is beneath a given poverty line. See Appendix E for a detailed explanation.
RBI	Reserve Bank of India, the central bank of India that controls monetary policy.
RRB	Regional Rural Bank. RRBs were established in 1972 to provide credit to weaker sections of society of rural areas, such as small and marginal farmers, artisans, and agricultural labourers. RRBs are regulated by NABARD.
SBLP	SHG-Bank Linkage Programme, a program sponsored by NABARD to promote and provide credit to SHGs nationally. Through SBLP, banks provide SHGs with credit after an initial period of saving and internal lending.
SHG	Self Help Group, one of the two major microfinance models in India. SHGs generally consist of 10-20 members that save regularly and extend internal loans through group savings. Groups may also be sanctioned external loans from banks, federations, or NGOs.
SGSY	Swaranjayanti Gram Swarajgar Yojana, a centrally-sponsored program launched in 1999 to support poor families through the provision of subsidies and bank credit distributed via SHGs.

Executive Summary

In this report, we present results from the first ever household survey on access to finance in India which includes information on microfinance, is representative of an entire state's (Andhra Pradesh) rural population, and for which the data is publicly available. The key findings from the survey are as follows:

BORROWING

- A high percentage (93%) of rural households in Andhra Pradesh have a loan from some source, though most of this debt is from informal sources.
- Despite concerns of overborrowing from microfinance institutions (MFIs), only a small share of rural households (11%) had a loan outstanding from an MFI, compared to 54% of households that had a loan outstanding from an SHG, 17% who had loans outstanding from a moneylender and 37% that had bank loans. For all household types, MFI loans represented a small share of overall borrowing and having more than one MFI loan outstanding at a time is quite rare.
- Roughly three quarters (72%) of rural households had a member who belonged to an SHG.

- Multiple borrowing is very common – an estimated 84% of rural households had more than one loan outstanding – but this number is primarily driven by households that have multiple loans from informal sources.
- Of those households that have an MFI loan outstanding 82% have other formal loans outstanding. This figure was 58% for households that have SHG loans and 74% for households that have bank loans.

SAVINGS

- A high percentage (79%) of households in rural Andhra Pradesh have access to a savings account.
- Only a small proportion of savings accounts (14%) were opened for the purpose of savings. Many accounts were instead opened for the purpose of receiving government benefits or to help in receiving a loan.
- Perhaps because they were not opened for the purpose of savings, a large share of savings accounts (approximately 41%) appear to be completely dormant or are used only to receive government benefits. Yet even excluding accounts which appear to be dormant, the percentage of households with an active savings account remains relatively high at 61%.
- Many (36%) unbanked households own a mobile phone and most households who own a mobile use it regularly.

Introduction

Access to finance allows the poor to make investments to increase their income, better smooth consumption, and protect against shocks such as bad weather or illness.¹ The importance of access to finance for reducing poverty and allowing the poor to lead more fulfilling lives has long been recognized by policymakers in India. Indeed, many of the country's key banking policies since independence - from the creation of the cooperative banking sector to the nationalization of private sector banks in 1969 and 1980- were initiated with the aim of increasing access to appropriate financial products. Recently, the government and central bank have set upon the task of increasing financial inclusion with renewed zeal. The central government has formed two high-level committees (the Committee for Financial Inclusion and the Committee for Financial Sector Reforms) with mandates to investigate what can be done to increase financial inclusion;² and the Reserve Bank of India (RBI) has pushed banks to make basic "no frills" accounts available to low income households,³ allowed banks to reach out to customers through agents (or "business correspondents"),⁴ and relaxed restrictions on the placement of new ATMs. In addition, with the rise of microfinance, a large number of non-bank organizations now seek to increase the poor's access to financial services.

Yet despite (and in part because of) this focus on financial inclusion,⁵ many questions about the state of financial inclusion in the country remain unanswered. While several excellent surveys have been conducted in the past,⁶ increases in financial access and the proliferation of new types of financial service providers have rendered much of the information gathered by

these surveys out-of-date. Currently, we do not have accurate estimates of the number of people reached by several types of financial service providers (in particular, microfinance institutions (MFIs)). We do not know how the demographic and economic characteristics of the clients of different financial service providers (as well as those who have not been reached by any financial service provider) vary. Nor do we know the reasons for or the extent of multiple borrowing. This lack of knowledge about the current state of financial inclusion hampers efforts to craft appropriate policies to further increase financial inclusion, makes it more difficult for financial institutions to choose appropriate expansion locations, and introduces the risk that we are ignoring significant distress-induced multiple borrowing.

In this report, we present preliminary findings from a detailed survey of access to finance conducted in rural areas of Andhra Pradesh, the state in which microfinance has achieved its greatest success to date in India. The survey is, to the authors' knowledge, the first survey which includes detailed information on microfinance, which is representative of an entire state's rural population, and for which the data is publicly available.⁷

This report is organized as follows:

We first provide some context for the results by describing the history of microfinance in Andhra Pradesh and the current landscape of financial services providers serving the poor. The subsequent sections contain the main findings from the survey. In the appendices, we provide an overview of the methodology used to conduct the survey and describe how researchers and other interested parties may access and use our data.

1. For a general discussion on the importance of access to finance see Armendáriz and Morduch (2005) and Beck and Demirgüç-Kunt (2008). For more detailed discussion of the specific financial needs of the poor see Collins et al (2009).

2. The reports of these committees are now publicly available. See references section for links to the reports.

3. For more information on the RBI's push to make "no frills" accounts available to low income households see Ramji (2009) and Thyagarajan and Venkatesan (2008).

4. For more information on the RBI's business correspondent model see Kobishyn et al (2009).

5. We use the term "financial inclusion" to mean convenient and affordable access to those financial products needed by a household. As this report seeks only to describe the current situation with regard to access to finance rather than to make statements as to what should be the situation with regard to access to finance, a more precise definition of the term is not necessary.

6. The National Sample Survey Organisation conducts a nationwide survey of access to several types of financial services (the All India Debt and Investment Survey or AIDIS) on a decadal basis which is available for a nominal fee. The AIDIS was last conducted in 2003 and does not contain information related to microfinance borrowings though. A private company, IIMS Dataworks, conducted a nationwide survey of access to several financial services in 2007. The survey, while excellent, does not contain detailed questions related to microfinance.