STUDY ON

ONE DECADE OF MFI CRISIS: REVISITING THE RURAL CREDIT MARKET IN ANDHRA PRADESH AND TELANGANA

Centre for Research on Financial Inclusion and Microfinance (CRFIM)
Bankers Institute of Rural Development (BIRD), Lucknow
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Foreword

The undivided state of Andhra Pradesh was the epicentre for microfinancing in the country during the decade 2000 – 2010. It was estimated that in 2010, out of the 30 million households using microcredit in India, around one third were in Andhra Pradesh. The State was also the home to five of the country's major NBFC-MFIs. The competition among MFIs and hasty rush for business growth had caused a massive debt bubble in the state. The average debt outstanding per poor household in Andhra Pradesh was eight times higher than the national average. Further, usurious interest rates on unsecured loans and the coercive recovery practices adopted by MFIs led to panic among borrowers, leading even to suicides across the state. The Ordinance, viz, *"The Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Act, 2010"* promulgated by the State Government to contain the crisis in the sector resulted in crippling of the MFI operations in the state during 2010. The ripple effect also slowed the growth of the microfinance industry in other parts of the country. Over the years, the number of operating MFIs had reduced substantially.

The present study, "*One Decade of MFI Crisis: Revisiting Rural Credit Market in Andhra Pradesh and Telangana*" was contemplated by BIRD, Lucknow to analyse the impact of the MFI crisis on rural credit market in both the states and arrangements to meet financial needs of microFinance clients in post MFI crisis period. The study has jointly been conducted by Centre for Research on Financial Inclusion and Microfinance (CRFIM) at Bankers Institute of Rural Development (BIRD), Lucknow and LEAD at Krea University (Formerly IFMR LEAD). It was observed that the growth of SHG credit linkage programme over the decade and strengthening of other micro credit approaches, particularly the credit linked subsidy schemes served well as alternative sources of credit to the microfinance clients in the post crisis period.

I sincerely believe that findings and recommendations of the study would be useful for policy makers for further consolidation of the microfinance approaches.

I congratulate both LEAD and CRFIM teams for their effort as also thank all the stakeholders and agencies for providing their responses and inputs for the study.

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