



Returning to Kolar: A case study on the Kolar crisis affected communities

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Abbreviations used

PRA – Participatory Rural Appraisal

SHG – Self Help Group

MFI – Microfinance Institution

AKMI – Association of Karnataka Micro Finance Institutions

CGAP – Consultative Group to Assist the Poor

About CMF

Despite unprecedented financial inclusion efforts over the last decade, close to 40% of the adult population in India still does not have a bank account and lacks access to the basic suite of financial services that the developed parts of the World take for granted. Further, critical gaps remain in our understanding of how and what forms of financial access can be best used to fight poverty.

Since 2005, the Centre for Micro Finance (CMF) has been filling in these knowledge gaps through rigorous research, knowledge dissemination and policy advocacy. CMF undertakes qualitative and quantitative research in four broad areas:

(1) Financial Inclusion

(2) Livelihoods

(3) Social Objectives

(4) Policy and Regulation

To achieve its mission, CMF collaborates with various Indian microfinance institutions, banks, investors and academic institutions in India and abroad, including MIT, Yale, Harvard, CUNY, Duke, IIM-Kolkatta, IBS Hyderabad and University of Hyderabad. Knowledge generated through research informs the Indian microfinance and banking sector and helps improve the financial environment for the poor. CMF partners with some of India's highest-profile stakeholders including ACCESS Development Services, Sa-Dhan and the College of Agricultural Banking – Reserve Bank of India. CMF hosts roundtable meetings and conferences with academics, policy makers and industry players to disseminate results, inform policy, and identify new and pressing areas for further research.

For more details on the latest from CMF, visit www.centre-for-microfinance.com

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Any errors made in this report are those of the authors.

Executive Summary

This report compares data that was collected in 2009 (immediately after the crisis) and 2011 (two years after the crisis) to understand the extent financial access, borrowing behavior and overall economic conditions have changed in two districts that were affected by the Kolar crisis.

Lessons learnt in 2009: Competition and over-supply of credit were not the only triggers to the crisis. A combination of irresponsible lending practices of some lenders, religious intervention and low levels of customer awareness seems to have resulted in the Kolar crisis and its geographic spread.

Indebtedness and credit needs: Some of the key findings indicate that people's level of indebtedness to MFIs has reduced since the crisis. Average number of MFI loans has decreased from 1.9 (2009) to 1.3 (2011) and loan sizes seemed to have decreased from Rs. 23,800 (2009) to Rs. 11,916 (2011). But with over half the population (51%) interviewed in 2011 reporting that their current credits needs are not being fulfilled, this decline in indebtedness is difficult to interpret.

Financial access: Since the mosque's directive has not been revoked since 2009, MFI operations have not resumed in most of these regions. While access to MFIs in these regions remains low, villages seem to have better access to MFIs when compared to the two towns of Ramnagaram and Kolar. People's access to SHG has been consistently increasing since 2006 but these regions have very low access to banks. The most surprising finding is that people's access to moneylenders has reduced since the crisis.

Perception about MFIs: There is a high demand for MFI services to resume in all the study regions. While MFIs are perceived to have the best interest rates currently (even in comparison to SHGs), MFIs are considered least satisfactory when it comes to collection practices across all three time frames (2006 -2011)

Chapter 1 - Introduction

As the microfinance industry has grown globally, incidents of mass defaults among clients have occurred as independent events in many countries. These incidents have been of varying magnitude. While some countries have faced national level delinquencies, others have experienced very local incidents restricted to a state or even just a few towns. A CGAP report¹ documents the incidents that took place in Nicaragua, Bosnia-Herzegovina, Morocco and Pakistan and points out three factors that caused the credit delinquencies in these countries viz.,

1. Concentrated market competition and multiple borrowing
2. Overstretched MFI systems and controls
3. Erosion of MFI lending discipline

When similar experiences from India, Cambodia and Nepal are compared with the CGAP documented countries, a recurring pattern of high growth rates of microfinance organizations has been observed prior to the beginning of the crises. These incidents have been reported from the perspective of the microfinance organizations and the losses they have borne. Besides, little has been reported on the long term consequences for communities that decided to default in unison.

This report combines two separate research studies conducted by CMF in some districts of Karnataka that experienced a local credit delinquency problem in 2009. Immediately after the defaults began, a team of CMF researchers visited the three districts that reported problems in repayment in order to document and investigate the incident.

In 2011, a research team revisited two of the three major districts that were affected by the crisis in order to understand how the communities were faring two years after the crisis. This report sheds light on what CMF found by conducting PRAs² and individual surveys in the main towns and several villages of Kolar and Ramnagaram districts during and two years after what has come to be known as the *Kolar Crisis*.

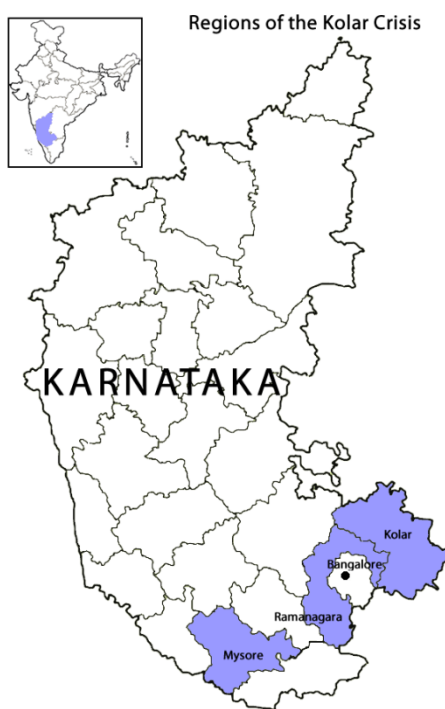
The first section of this report will provide a snapshot of the Kolar Crisis by summarizing the findings and analysis of the first CMF study that was conducted shortly after the crisis. The section after will elaborate on the objective of the follow-up study along with the methodology. The third section will talk about the findings and the final section will conclude with some recommendations.

¹ Chen, Greg, Stephen Rasmussen and Xavier Reille, 2010. "Growth and Vulnerabilities in Microfinance".

Focus Note 61. Washington DC: CGAP, February.

² Participatory Rural Appraisal (PRA) is an approach to gather knowledge, opinions and insights of people usually through group exercises and qualitative discussions. There are many PRA tools and techniques available for gathering different kinds of data.

Figure 1



1.1 The backdrop

Figure 1 provides a geographic orientation of the regions where Kolar Crisis occurred. Until 2009, Karnataka was the second largest state in terms of MFI growth in India in terms of both the Self Help Group programme and Grameen group model prevalent in the state. As of March 2009, there were 27 MFIs reported to be working in the state with over 3.2 million clients and portfolio outstanding to the order of \$470 million (INR 2,150 Crores).

Criticisms about concentrated market penetration of MFIs had begun and concerns about multiple borrowing were growing in the industry. The reports by Sa-Dhan³ and State of the Sector⁴ report touch upon both these issues in addition to question of consumer protection in their 2009 edition.

The aftermath of recession that began in 2007 could still be felt in many parts of developing world in late 2009. The Indian micro finance industry began to feel their funding sources drying up and also witnessed their client base struggling to make their repayments on time. The clients were struggling to make ends meet with rising costs of household and business related commodities and the recession had resulted in loss of employment creating negative income shocks in these communities.

1.2 The districts

Kolar: Kolar town, headquarters of Kolar district and one of the 29 districts of Karnataka bordering the neighboring states of Andhra Pradesh and Tamil Nadu, benefits economically due to its proximity to the State capital – Bangalore city. The national 2001 census reported the town’s population as 114,000 and estimates it to be around 133,000 in 2011. The town plays an important economic role since it is one of the major silk cocoon markets and silk reeling centers of the state, in addition to being a major supplier of milk and vegetables to Bangalore city. As of February 2009, there were nine MFIs reported to be operating in Kolar town⁵.

Ramnagaram: With a population of almost 100,000 people, Ramnagaram is the largest mulberry silk producing district in India. Most of the silk production takes place in factories and the factory owners are the local money lenders here. There are seven MFIs reported to have been functioning in Ramnagara town alone, that were pursuing normal operations till June 2009.

³ Sa-Dhan, head-quartered at New Delhi, is the national forum of MFIs in India (<http://www.sa-dhan.net/>)

⁴ http://www.accessdev.org/downloads/State_of_the_Sector_Report_2009.pdf

⁵ This figure will be higher if the non-AKMI organizations are included.

Mysore: With nearly 900,000 people, Mysore city is a popular tourist destination in Karnataka. With a vivid and royal past, the city is famous for its palaces, museums, temples and silk sarees. In addition, it is a commercial hub fueled by many industries including the silk industry. During the time of the crisis, six MFIs had been reported to be working in Mysore town.

Chapter 2 - The Kolar crisis

On 3rd February 2009, loan officers of micro finance institutions in Kolar found that their Muslim clients were refusing to make loan repayments or attend group meetings. It transpired that the *Anjuman Committee*⁶ in Kolar had issued a directive to Muslim people which ordered that all transactions with MFIs had to be stopped immediately. A circular announcing the directive was sent out, which labeled micro finance un-Islamic (Annexure I).

The consequences of disobeying the directive were laid out as well – people were told that their Voter’s Identification cards and Ration Cards⁷ would be cancelled; they would be ostracized from the community and would not receive the ceremonial coffin from the Mosque in the event of a death in the household. This was coupled with threats of physical harm to anyone who disobeyed the *Anjuman*.

MFIs found that a vast majority of their Muslim clients complied uniformly with the directive and stopped repaying their loans. Weekly meetings had to be abandoned since MFIs were unable to enter the affected neighborhoods in Kolar town. Loan officers reported physical assaults by the local youth when they tried to conduct the weekly meetings. One MFI which persisted with repayments had its local office in Kolar ransacked and damaged, with the name board destroyed. Overnight, MFI operations in Kolar came to a complete stand-still.

2.1 Triggers to the crisis

This development owes its origins to events that took place much before February 2009. The *Anjuman Committee* had taken cognizance of reported incidents of over-indebtedness and unfavorable collection practices by MFIs which were reported in Kolar in late 2008. The religious leaders of the Muslim community were also unhappy about the pledges that had to be taken by Muslim clients during weekly meetings since it reportedly invoked Hindu Gods. It was when a prominent Muslim household in Kolar ran up debts of Rs. 0.7 Million in MFI loans⁸ and being unable to pay, the husband had attempted suicide, the *Anjuman Committee* deliberated on the matter and decided to issue the directive.

After several weeks of the directive, loan repayments showed no signs of resuming, and so the Association of Karnataka Micro Finance Institutions (AKMI) approached the District Commissioner (DC) of Kolar for a resolution to the issue. The local administration of Kolar had seen frequent transfers of DCs during this period. This, along with the advent of local elections, led to the non-repayment issue being put on back-burner by the DC office.

⁶ A group of mosque elders who represented the local wing of Anjuman-E-Islamia. Every district headquarters has a local office to look after the local affairs of Muslims in the district.

⁷ A document issued by the State Government of India, as per the Public Distribution System, for the purchase of essential commodities from fair price shops at subsidized rates.

⁸ It was reported that MFIs had financed groups of Muslim women in Kolar, who had in turn on-lent to the family.

The *Anjuman Committee* was then approached by AKMI for a peaceful resolution. However, the *Anjuman Office* was of the view that the local administration should not have been involved without consulting with them, and therefore, was not willing to discuss the issue in the absence of the District Commissioner.

A meeting finally took place in early July 2009 in which the *Anjuman Committee* put forth their complaints against MFIs⁹:

- *MFIs are illegal entities that are destroying the community atmosphere by giving multiple loans, leading to domestic quarrels and practice of immoral activities by women members.*
- *Duplication of identities is rampant and MFIs have disbursed loans without adequately verifying identities of the women they lent to.*
- *MFIs have not assessed the level of indebtedness of clients through verification with other MFIs.*
- *The end-usage of the loan is not tracked and in most cases, these loans are squandered without any economic gain.*
- *The easy availability of the loans has resulted in women being reluctant to work thereby affecting local economic activities such as beedi-rolling and silk-reeling.*

The MFIs replied refuting the allegations stating that their intention was to solely work for the benefit of the impoverished communities and enable them to get out of poverty. But this meeting and other subsequent meetings (some even involving related authorities such as the State Minorities Commission) ended in an impasse with no resolution of the crisis.

2.2 The spread of the crisis

The crisis in Kolar soon had ramifications for neighboring smaller towns such as Bangarpet, Sidlaghatta and Mulbagal. In Bangarpet (25 kms from Kolar), a similar directive was issued by the local mosque that forbade Muslim clients from transacting with MFIs. Unlike Kolar, the clients of MFIs did not comply with the directive and protested against the directive, questioning the rationale behind depriving them of an important source of credit. Similarly, in Sidlaghatta (55 kms from Kolar), the Superintendent of Police (SP) intervened on behalf of the MFIs and threatened legal action against

⁹ Source: AKMI reports

the blocking of repayments that were due to the MFIs. As a result, the ceased repayments resumed and normal operations continued though with some defaults being reported afterwards.

Four months into the crisis in Kolar, similar incidents began to be reported from Ramanagara, a district to the south of Bangalore and Mysore. In June 2009, the local mosque in Ramnagara town issued a directive, similar to the one in Kolar, asking community members to stop transacting with MFIs. Unlike in Kolar, there was neither a specific incident nor a complaint that triggered the crisis, but the ensuing crisis followed a similar pattern. Muslim clients stopped repayments and MFI officials were barred from entering the affected neighbourhoods. Local MFI officials that CMF spoke to believed the directive was issued due to pressure by the local silk-reeling industry owners. They theorized that micro-finance loans had displaced their money-lending operations and allowed the silk workers to invest in other activities, leading to a shortage in availability of workers.

In an attempt to clarify matters, AKMI issued a press release countering the accusations of their operations being un-Islamic and of charging exploitative interest rates¹⁰. The District Collector's office in Ramanagara wrote to the Reserve Bank of India (RBI¹¹), seeking clarification on the interest rates charged by MFIs and whether they were subject to any caps, along with the legality of the MFIs. RBI's response clarified that cancellation of licenses was unwarranted for, stating that MFIs were advised to follow a fair-practices code. The events in Ramanagara highlight the risks that micro finance faces as a relatively new sector in India. The apparent ambiguity of their operations and unfamiliarity of district administrators with MFIs were crucial factors in the intensification of the crisis.

The mass-default in Mysore was an isolated incident. Unlike Kolar and Ramanagara, MFI operations in Mysore were disrupted after communal riots broke out in early April 2009. The communal riots led to a tense situation in many parts of Mysore, with curfews imposed in a few localities. In this period, MFI borrowers requested for a payment holiday to which MFIs agreed. But, once the moratorium period ended, local Muslim leaders intervened, asking Muslim clients to stop repayments to MFIs till further notice, blaming MFIs for causing distress to Muslim women, with complaints similar to those raised in Kolar and Ramanagara. A temporary crisis due to communal tension turned into a mass-default crisis for MFIs in affected areas.

After the outbreak of the riots, the local beedi-rolling association stepped in, and along with other leaders of the Muslim community, issued a similar circular. Showkath Pasha, the General Secretary of the *Mysore Beedi Mazdoor Association*, told CMF in October 2009 that MFIs were responsible for causing over-indebtedness among Muslim women. He also

¹⁰ As reported by Mr Suryanarayana, Chairperson, AKMI, 2009

¹¹ The RBI is the Central Bank of India

stressed upon the poor loan-usage tracking, the high interest rates and the lack of monitoring mechanisms due to which there was rampant falsification of identities by clients to borrow more loans. Based on this understanding, the Muslim community leaders asked members to stop transacting with MFIs. They also wrote to MFIs asking them to no longer lend to Muslim women. In order to repay existing loans, they laid out a repayment schedule with a fixed amount that would be repaid to a specific MFI every week by these clients. This overrode all the repayments schedules that MFIs had enforced, converting this into a rescheduled portfolio of loans. However, it is noteworthy that MFI clients got together and made a collective representation to a leading MFI in Mysore to commence giving loans again, citing that MFIs have helped their households improve financially.

The common thread of these three separate incidents in Kolar, Mysore and Ramanagara is the involvement of a religious entity as the enforcer of concerted defaults by groups of clients.

2.3 Findings from the field

CMF interviewed a random sample of 45 MFI clients in the towns of Kolar, Mysore and Ramnagaram soon after the defaults began in 2009. The study's objective was to conduct a short survey in the affected areas to understand clients' views and to investigate some of the allegations of the *Anjuman Committee*. Of the 45 clients who responded, 27% were Hindu and the rest were Muslim clients. 40 of the 45 clients had defaulted on their loans with dues to at least one MFI.

In accordance with the mosque's directive, all Muslim clients defaulted on their loans and it was unexpected to see that many Hindu clients followed suit. When asked about the reason for their defaults, 70% of the clients (Figure 2.1) cited non-repayment by the Muslims as the primary reason for stopping their payments. They stated that they would resume repayments once the other members (Muslims) of their group began repaying. It would be interesting to see if the contagion effect causes similar defaulting behavior among communities with individual loans as it does in joint liability groups.

Some of the biggest criticisms of the microfinance institutions include the very need for their services and also accusations of not servicing the financially excluded populations. The survey found that MFIs covered a large portion (78% of our sample) of people who had no prior access to credit before their first MFI loan (Figure 2).

Figure 2

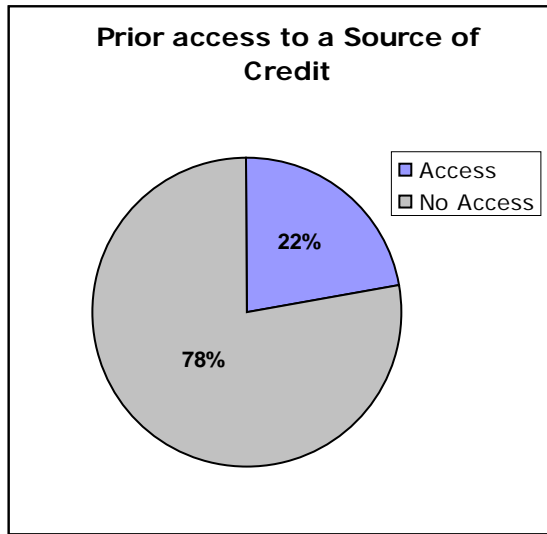
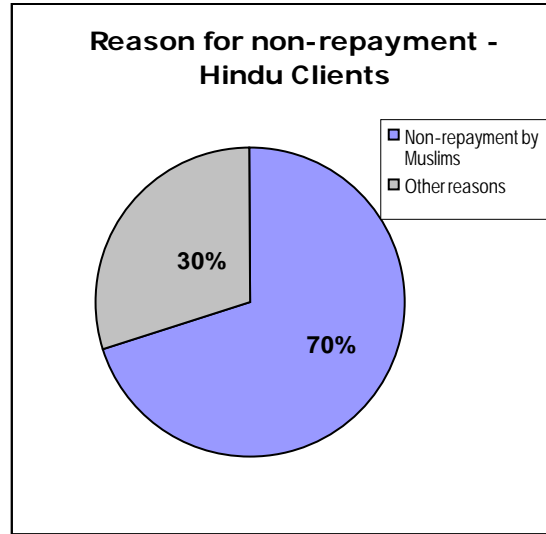


Figure 2.1



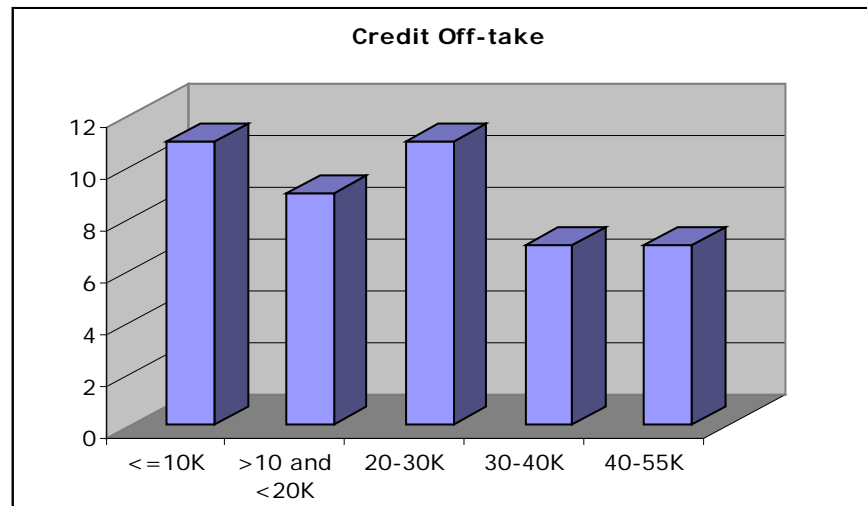
Accusations of rampant multiple borrowing leading to high levels of indebtedness reverberated through the industry stemming from the local mosque leaders and mirrored by the people of the community as well. Data collected by the 2009 CMF survey and data from a dip-stick study conducted by Grameen Koota Financial Services¹² supported these claims.

All the 45 clients that CMF spoke to had loans amounting to at least Rs. 10,000 (Figure 3). The average loan per client was Rs. 23,800 (including multiple loans). This indicates a high level of indebtedness when compared against the state average of Rs. 6,600¹³. The maximum loan amount any one single client had taken out was Rs. 55,000.

¹² A leading MFI in Karnataka

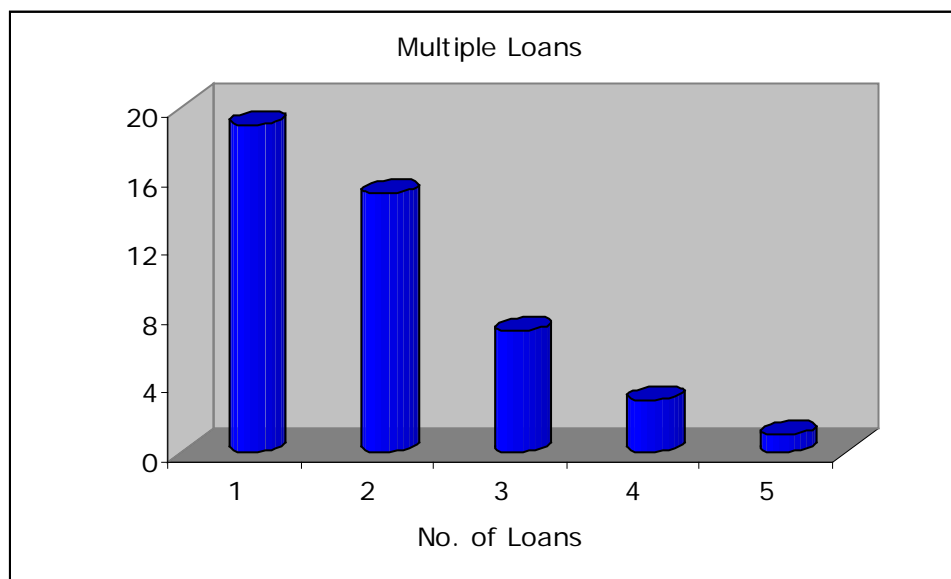
¹³ Source: State of the Sector Report, 2009

Figure 3



The high loan ticket size is attributable in part to multiple-borrowing. Of the 45 respondents, more than 50% of the sample size had more than one loan (Figure 4). The maximum number of loans any client had was five. Grameen Koota Financial Services had conducted a dip-stick study of around 200 clients to gauge the extent of indebtedness in Kolar town. The findings showed that around 25% of the defaulting clients had loans from more than six MFIs. In a separate study by AKMI, 10% of the 13,317 clients in Kolar were found to have loans from more than one MFI with 68 of them having more than 4 loans each.

Figure 4



There was unequivocal support for the MFIs with almost all who were surveyed stating that they were satisfied with the MFIs though some of them were unsure if the MFIs would resume operations in the affected areas. The clients who expressed satisfaction with MFIs stated the availability of timely credit and the usefulness of MFI loans for their businesses as the major reasons. The counter-intuitive actions of the defaulting clients who still demanded MFI services to return to their communities is worthy of examination in another study.

2.4 Lessons learnt from events in 2009

The crisis started in Kolar town and spread to at least four other locations had multiple causes and factors in each of these locations. In addition to the geographical spread, the complexity of the crisis was magnified due to the religious and political nature of revolts in some of these areas. There are lessons to be drawn from the crisis for all concerned – the sector, the governmental agencies, the banks and other stakeholders such as investors and bankers.

In Karnataka, the percentage of loans by value to Muslim borrowers was 4.7%¹⁴ (Muslims constitute 12.2% of Karnataka's population). The Sachar Committee report¹⁵ highlights the especially poor levels of financial inclusion among Muslims of lower-income classes. The Mosque's directive had effectively cut-off access to a crucial source of credit for thousands of households across South Karnataka. A minority community that is already under-served when compared to other communities by the mainstream banking sector, has been further handicapped by this crisis. As Hindu clients have also defaulted on their loans, entire communities have lost access to one of the cheaper sources of credit in their region. This is one of the most disturbing consequences of this crisis.

A closer look at the crisis raises questions on the role played by competition in over-leveraging poor clients and how this has led to the present crisis. Competition in any sector is welcome for the various benefits it brings to customers and microfinance is no different. Similar to retail banking, microfinance too faces the prospect of a borrower being the client of more than one MFI. Banks have not witnessed a crisis as critical as this, largely due to robust credit-buying functions. The problem, then, is not solely of "over-supply" but also an internal problem of instituting appropriate credit appraisal mechanisms to ensure over-leveraged clients are not loaned further. The Grameen Koota survey mentions that 25% of the defaulting clients had borrowed from more than six MFIs. It might be revealing to investigate if the non-defaulting clients have multiple loans too.

¹⁴ Sachar Committee report

¹⁵ The Rajinder Sachar Committee, appointed by the Prime Minister Manmohan Singh of India was a high level committee headed by Rajinder Sachar, for preparation of a report on the social, economic and educational status of the Muslim community of India.

There are difficulties in solving this problem due to the absence of reliable data. Unlike urban Indians who transact heavily through banking accounts, much of rural India still operates without banking access and hence, gauging the credit-worthiness of potential borrowers is a complicated task. As the sector grows rapidly, one of the problems it will need to address is how they can develop a reliable mechanism of recording and tracking the credit-worthiness of the millions of rural borrowers.


While competition can be seen as a positive development for the sector resulting in better practices and benefits for the customers, the nature of competition among MFIs is imperfect. New MFIs tend to follow their counterparts in every aspect resulting in multiple MFIs targeting the same population. Such similarities extend to loan criteria (as mentioned in the annexure II), repayment frequency, group size, group meetings and most importantly, rates and fees.

Though some of these rules (specifically the 100% repayment rule) must have made sense when the sector was still maturing, but an increasing number of clients are reporting frustration at some of the practices enforced by MFIs and cite these inflexible and punitive practices as the main drawback of MFIs.

There is no debating the need for instilling measures to promote discipline among members but there is a fine trade-off between rigidity and flexibility that MFIs appear to have not been able to achieve. This has given sufficient cause for complaints against MFIs, the most serious one being the time spent by the women members in meetings, at the cost of livelihood and domestic activities that has upset the community elders. MFIs need to examine these structures and alter them suitably to ensure they match with the current needs and expectations of members.

Another apparent fall-out of the fast growth in the number of clients is the absence of practices to familiarize and train clients on microfinance. At more than one place, clients did not know the names of MFIs they interacted with, often confusing them with well-known banks (for instance, clients in Kolar referred to an MFI as ICICI Bank). The implication of this was further exposed when it was reported that clients said they opted to not repay since they believed the loans would be waived off (similar to a government loan waiver programme for agriculture loans of commercial banks).

Though it can be argued (and it often is) that the main function of MFIs is to focus on credit delivery and that alone, programmes on training and familiarizing clients are guaranteed to reap longer-term benefits. Clients need to understand why MFIs need to charge the rates they do, the rationale behind group loans and how to avoid indebtedness. MFIs stand to benefit from an informed clientele who is more likely to give accurate feedback on the kind of loans they require and be more supportive of MFIs. There is ample evidence that MFIs continue to enjoy substantial



support but it now appears to be based largely on the premise of lower interest rates and other transactional factors, rather than sustainable, structural factors.

Chapter 3 - Re-visiting the Kolar crisis-2011

3.1 Objective of the follow up study

CMF revisited Ramnagara and Kolar districts to investigate the changes in financial access that have taken place in the community since the Kolar crisis. In addition to the two main towns, surrounding villages were also visited to understand if there were any spillovers from the crisis.

CMF explored how people access credit currently, how they compare their various sources of credit in terms of ease of access, how they perceive MFIs, how they perceive their economic well-being and the extent to which their credit needs are being fulfilled.

3.2 Methodology

CMF decided to collect data using two methods: PRAs to understand deeper community-level perceptions and individual surveys to supplement the PRAs for more detailed individual information regarding financial access and usage.

CMF conducted 12 PRAs and 59 individual surveys with women in both the towns and some of the villages where the PRAs were done. Table 1 provides details on the PRAs and surveys that were done across two towns and villages of the two districts.

Table 1

	District	Town	Villages	Total
Number of PRAs	Kolar	3	3	6
Number of PRAs	Ramnagara	3	3	6
Total Number of PRAs conducted in both districts				12
Number of surveys	Kolar	15	14	29
	Ramnagara	15	15	30
Total number of individual surveys conducted in both districts				59

Three neighborhoods in the Kolar and Ramangaram towns each which were covered in the 2009 study were revisited again in 2011 to have comparable samples, although the respondents were not necessarily the same. The geographical scopes of all the studies are indicated below:

Table 2

S. No.	Neighbourhood/ Village	District	Individual Survey (2009)	Individual Survey (2011)	PRAs (2011)
1	Prashant Nagar	Kolar	Yes	Yes	Yes
2	Shehenshah nagar	Kolar	No	No	Yes
3	Mahalaxmi Layout	Kolar	No	No	Yes

4	Tipu Nagar	Kolar	Yes	Yes	No
5	Nalgunda	Kolar	Yes	Yes	No
6	Gaddekannooru	Kolar	No	Yes	Yes
7	Sugutur	Kolar	No	No	Yes
8	Sipur	Kolar	No	No	Yes
9	Aijur	Ramanagara	No	No	Yes
10	Nalbandvadi	Ramanagara	Yes	Yes	Yes
11	Kottipura	Ramanagara	Yes	Yes	Yes
12	Ketuhalli	Ramanagara	No	Yes	Yes
13	Gandhinagar	Ramanagara	No	No	Yes
14	Phoolbaag	Ramanagara	No	No	Yes
15	Maiganahalli	Ramanagara	Yes	Yes	No

PRA is a prescribed method to get insights into any situation/ event since they tend to be significantly more open-ended than individual surveys. The discussions in PRA groups typically throw up the major characteristics, factors, causes, symptoms and outcomes of any event since the flow of the discussions are not moderated within a particular topic.

PRA experts from Jeevika¹⁶, a Bangalore-based NGO were hired and trained to conduct the twelve PRAs. Each PRA team typically required trained professionals to perform the following roles:

1. Recruiter – To invite people from all the households in the village/ neighborhood to attend the PRA program.
2. Facilitator – To facilitate and lead the discussions to the desired topics of interest.
3. Moderator – To assist the facilitator, ensure participation from all the people and to moderate the discussion.

3.3 Characteristics of the PRA groups

Participation in the PRA sessions was voluntary and organic. In order to ensure that the insights were not skewed towards the perspectives of any particular group, adequate representation was ensured through the following:

1. Inviting men and women to participate in the PRAs – On an average, men consisted of 30% of each PRA group.
2. Ensuring that people through the ages of 18-70 were present in each group.
3. Ensuring adequate representation from Muslim and non-Muslim groups/communities, men and women in each group.
4. Inviting local leaders and village elders to participate in the discussions.

People were asked to compare their lives with regard to different aspects such as economic well being, financial access etc. between three time periods:

¹⁶ <http://www.jeevika-free.org/>

1. Pre-crisis period - between 2006 and 2008
2. Crisis period - 2009
3. Post-crisis period - 2010-2011

Individual surveys were also conducted in these regions to get more detailed information about past and present loan sources, amounts and usage in addition to their savings behavior. The following section elaborates on the findings from the PRA and individual surveys.

Chapter 4 - Findings from PRAs

4.1 Significance of the Kolar crisis

Before the Andhra Pradesh crisis in 2010, the Kolar crisis was one of the biggest incidences of mass delinquency to be talked about in the Indian micro finance sector. The topic still elicits hot debates and distressed statements from various stakeholders in the Karnataka Microfinance industry. While the losses suffered by the MFIs have been pegged between \$12 and 15 million¹⁷, it is interesting to investigate how the crisis affected the clients. They defaulted on loans that were of substantial sizes during the crisis. Did the local mosque’s intervention result in positive gain for the community?

One of the main objectives of the PRA exercise was to ascertain whether the Kolar Crisis was remembered as a significant event in people’s lives two years after it happened. The Kolar crisis has been mostly reported and viewed from the perspective of MFIs. This study tries to investigate whether the communities involved registered it as a significant event in their lives as well.

Each PRA group was therefore asked to recollect and list the good and bad events that happened in their neighborhood/ village over the last five years¹⁸. The PRA team was careful to not prompt the group by mentioning anything even remotely related to MFIs or the Kolar Crisis but did lead people to talk about changes that impacted them financially.

Seven out of the twelve groups identified the crisis as a bad event in their lives, while five of the groups did not mention the crisis at all. None of the groups said that the crisis was a good event in their village/ neighborhood.

Table 3

SIGNIFICANCE OF CRISIS	Number of PRA Groups		
	Villages	Towns	Total
Good Event	0	0	0
Bad Event	3	4	7
Did not mention	3	2	5

While six PRAs were conducted in town areas where the crisis took place, people from two town areas (one in Kolar and one in Ramnagaram), failed to mention the crisis as a significant event. When other information given by these PRA groups were examined further , it was seen that in both these areas people’s access to MFIs had resumed to pre-crisis

¹⁷ Industry Estimates – CGAP Micro Finance Blog - <http://microfinance.cgap.org/2009/08/28/multiple-borrowing-or-multiple-lending-%e2%80%93-who-is-to-blame-for-debt-fatigue/>

¹⁸ An important event that took place (eg- death of a famous actor) was chosen for each year from 2006-2011 as a reference and people were asked to recollect and list all the good and bad things that had happened in their area that year.

levels or even increased to allow near perfect access. In all other town PRAs, people had the perception that their access to MFIs had reduced during the crisis period but never quite recovered to pre-crisis conditions let alone increase beyond that. Similarly, two out of the three villages that reported the crisis as a bad event do not enjoy good access to MFIs now.

This pattern seems to indicate that people are more likely to report the crisis as being a significantly bad incident in their lives because of the current status of their access to MFIs rather than based on what happened during the crisis itself.

The groups surmised that during the crisis their families were facing financial difficulties from loss of employment and increased fuel prices. This caused difficulties in managing existing loan repayments and household expenses. It was convenient to take out an extra loan to tide over the immediate financial crunch and the continued loss in income coupled with a heavier credit burden caused many to default or follow the directive. 60% of the default clients interviewed cited the *Anjuman* directive for not paying loans and 20% of the clients cited loss in income/ business profits for not repaying their loans in 2009, while the rest cited their group members' decision to not repay as the main reason for their default.

4.2 Preferred source for credit

One of the most puzzling aspects of defaulting clients' behavior is their continued demand for MFI services. We observed this behavior during the CMF surveys that were conducted immediately after the default began in 2009 and the PRAs that were conducted in 2011 as well. Most of the communities expressed a demand for MFI services and felt that while there were aspects to their service that were bad (multiple lending and coercive recollection practices), the communities still expressed the need for MFIs as they provided them easy access to low cost credit. In the situations where MFIs were declared to be unwelcome, male participants asked the women to leave the premises during the PRA discussion and then voiced their dissatisfaction with MFIs. Even in these groups, when the women were asked about their preferred source of credit, they chose MFIs.

Table 4

PREFERRED SOURCE FOR CREDIT	Number of PRA Groups		
	Villages	Towns	Total
MFI as first preference	3	2	5
MFI as second preference	4	3	7
MFIs as least preferred	0	0	0

Two town PRAs and three village PRAs reported that MFIs were their most preferred source of credit while the rest of the groups scored the MFIs as their second most preferred source after SHGs. In all cases except one, MFIs scored better than banks and always scored better than money lenders as people's preferred channel for credit. The preference for

SHGs over MFIs reflected their criticism of the rigidity in the system where there was no tolerance for late repayment which is more accepted in the SHG model.

4.3 Access to different financial institutions

Microfinance:

Table 4

Number of PRA Groups	ACCESS TO MFIs ¹⁹ (Scores out of 10)		
	2006 -08	2009	2011
Overall (12 PRAs)	6.1	5.5	3.9
Towns (6 PRAs)	8.1	4.6	2.8
Villages (6 PRAs)	4.1	6.3	5

The crisis initially resulted in complete shutdown of microfinance services in the affected areas. Since the directive has still not been lifted by the Mosque, it is therefore interesting to see if micro finance services had resumed in any form in these areas.

From Table 5 it can be seen that across the sample towns and villages, people’s access to MFI services has been consistently declining since the crisis. But if we separate the towns from the villages, the scores tell a different story.

People’s access to MFIs in the two towns was pretty high before the crisis. It almost halved during the crisis and continued to decline at a startling rate until the present day. While in the villages, people had lower access to MFIs before the crisis, they seemed to have had increasing access during the crisis period and now have a lower amount of access to MFIs than during the crisis time but higher than pre-crisis times. When the village scores are examined closer, it can be seen that two villages experienced a withdrawal of MFI services after the crisis occurred while all other villages either continued to experience the same amount of access through all three time periods or MFI services were introduced during the crisis period and the access has continued to the present day at the same or at increasing levels.

It seems that since the crisis, MFIs have expanded their services to rural areas away from the crisis localities.

¹⁹ As rated by the groups during the PRA exercises. Each group was asked to rate their access to each financial service provider on a scale of 1 to 10, 10 being very easily accessible.

Self-Help Groups and Banks:

Table 5

Number of PRA Groups	ACCESS TO SHGS (Scores out of 10)		
	2006 -08	2009	2011
Overall (9 PRAs)	4.5	5.4	8.2
Towns (4 PRAs)	5	6.4	8.75
Villages (5 PRAs)	4.2	5.2	7.8

It was encouraging to see that people’s access to SHG has been consistently increasing since 2006. And this pattern is reflected in both the towns and surrounding villages. As SHGs provide a safe place for women to save in addition to giving them access to different credit products including emergency loans, this development is well received in the community. In six of the PRAs, people ranked SHGs as their most preferred form for credit as they allowed some flexibility in delayed repayments, offered emergency loans much faster than MFIs and did not force loans on women.

Table 6

Number of PRA Groups	ACCESS TO BANKS (Scores out of 10)		
	2006 -08	2009	2011
Overall (5 PRAs)	5	3.4	4.6
Towns (2 PRAs)	7	2.5	7.5
Villages (3 PRAs)	3.6	4	2.6

The region’s access to banks tells another story. While the overall scores speak of declining bank access since 2006, when the scores are separated between towns and villages, it shows that the towns and villages have different levels of access to banks.

The towns initially enjoyed moderate access to banks and this plummeted during the crisis but has recovered to pre-crisis conditions. But in villages, the access to banks was poor to begin with, and during the crisis their access had

marginally improved but the present day conditions show a drop in access to banks, leaving the villages with lower access than pre-crisis times.

However, it should also be noted that in most cases, only a fraction of the PRA group (one or two members at the most) had transacted with banks and therefore, a more extensive sample may be needed for further insights.

Moneylenders:

Table 7

Number of PRA Groups	Access to Moneylenders (Scores out of 10)		
	2006 -08	2009	2011
Overall (8 PRAs)	7.3	5	5.6
Towns (3 PRAs)	10	3.3	6.6
Villages (5 PRAs)	5.8	6	5

The most unexpected finding has been people’s perception of their access to moneylenders. It seems that the crisis not only affected their access to MFIs and banks but also their access to moneylenders. The overall scores show that people’s access was highest during the pre-crisis stage, during the crisis their access declined and since the crisis while their access has improved slightly, it hasn’t recovered to pre-crisis conditions.

It is helpful to examine the towns and village separately. In the towns, they enjoyed near perfect access to moneylenders before the crisis but their access plummeted during the crisis and it has since recovered to moderate levels albeit significantly lower than before the crisis.

The villages seemed to have enjoyed moderate levels of access to begin with, and this improved slightly during the crisis but fell to the lowest levels after the crisis. While their access still continues to be moderate, it is lower than their pre-crisis. People had different opinions about why their access to moneylenders has reduced. While some said that moneylenders were unhappy with people who left them to become MFI clients and would not serve them again, others thought moneylenders have begun to shun the defaulters as being too risky to lend to.

4.4 Changes in interest rates

One of the major objectives of the post-crisis study was to understand how the interest rates of various loan sources have changed over time. However, interest rate in itself was difficult to capture, since people were not aware of the effective rates and cost of loans from different sources were not expressed in comparable terms.

Therefore, the satisfaction with interest rates charged by various loan sources was captured, which is a proxy indicator for interest rates. However, it should be noted that satisfaction with interest rates may not be dependent on the cost of loans alone. It could include repayment terms, size of the installments, flexibility and so on.

The cumulative trend for satisfaction with the interest rates from the different loan sources as gathered from the PRAs is indicated by the graph below:

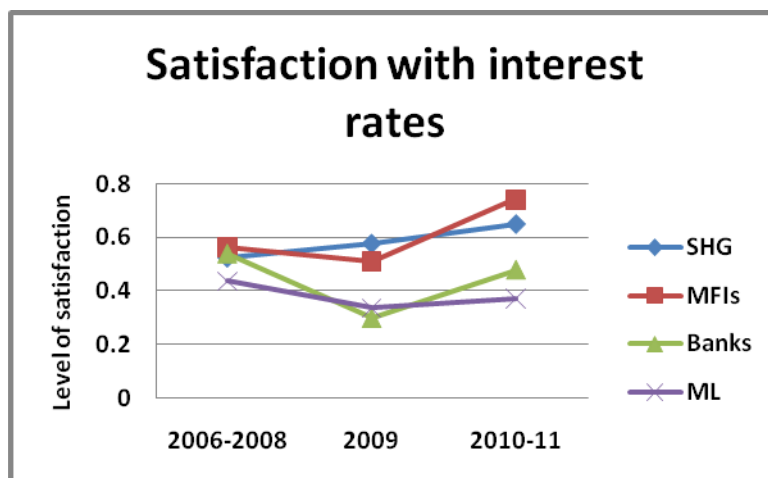


Figure 5

The graph above shows the de-clustering in the satisfaction with the interest rates in 2010-11. Most groups reported that the current interest rates offered by various sources differ vastly, in comparison to five years ago.

Satisfaction with interest rates fell during the period of the crisis. The PRA groups reported that interest rates of all sources increased during the crisis period. MFIs are perceived to have the best interest rate currently, even in comparison to SHGs. While numerically this may not be true on a pure cost-of-loan basis, other factors such as low transaction costs and ease of availing the loans may have been factored into the satisfaction rating.

It should be noted that the satisfaction with the interest rates offered by SHGs has been steadily increasing over the past five years. Bank rates seem to have increased over this period, which is empirically true for personal loans. Moneylender rates have increased over time and currently are least satisfactory to the borrowers.

4.5 Satisfaction with the recollection practices

Loan collection practices of various loan sources were assessed through a similar ranking exercise. The groups were asked to rate each loan source over the five year period. The cumulative trend on satisfaction with the different loan sources is indicated below.

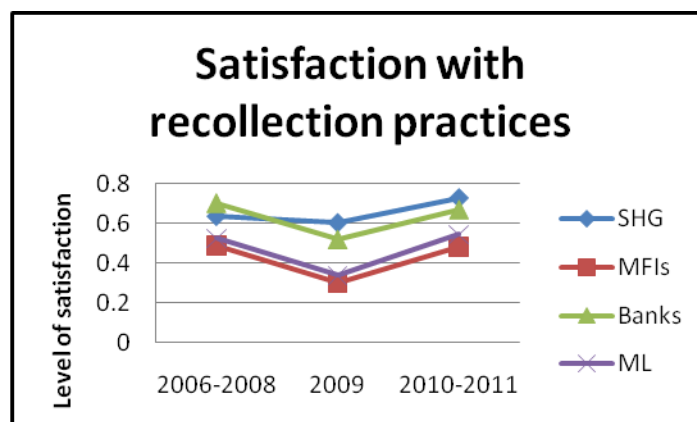


Figure 6

Groups reported the worsening of recollection practices of all loan sources during the crisis period. Women in the PRA groups spoke strongly of the panic-situation that ensued during the crisis where it was assumed that Muslim women are not required to pay back any of their loan obligations. Banks and SHGs tightened their collection rules and moneylenders were reported to have been very inflexible and coercive. It is noteworthy that MFIs are considered least satisfactory when it comes to collection practices across all the three time-frames. This was put down to inflexibility in repayments, joint liability considerations and the pressure from group members & loan officers.

4.6 Community's economic condition

Table 8

Number of PRA Groups	Community's Economic Condition (Scores out of 10)		
	2006 -08	2009	2011
Overall (7 PRAs)	5	4	2
Towns (4 PRAs)	4.5	3.75	1.75
Villages (3 PRAs)	5.6	4.3	2.3

While the communities were not doing very well before the crisis (in 2006) according to the PRA participants, their conditions seem to have dipped even lower since the crisis. A common theme of complaints in the towns and villages was about poor roads, non-existent drainage facilities and scarcity of drinking water in addition to defunct government

schemes and no access to MFIs. When asked to score their community's economic wellbeing before the crisis, the towns scored worse than villages and this trend in difference continued throughout the exercise.

During the crisis, the communities reported a further dip in their economic well-being but what is most disturbing is that the deterioration of their economic well-being seems to be sharper since the crisis. The post-crisis period might reflect the true impact of complete withdrawal of MFI services and in some cases, withdrawal of other sources of financial services as well. The towns consistently score lower than the villages throughout the 5 year period.

Chapter 5 - Findings from individual surveys

One of the criticisms of the MFI movement has been the high levels of indebtedness some families found themselves in. Multiple loans began to be looked at as a huge problem. The regions that were studied here have very low MFI activity due to the crisis and the data collected from these communities would provide some insight on how people behave after having experienced a default crisis.

The individual surveys asked people about their past MFI membership, current MFI membership, past MFI loan history, current loan information including usage and loan source and finally touched upon their savings behavior. Unlike the 2009 survey that specifically targeted MFI clients, the 2011 sample was allowed to be more holistic²⁰.

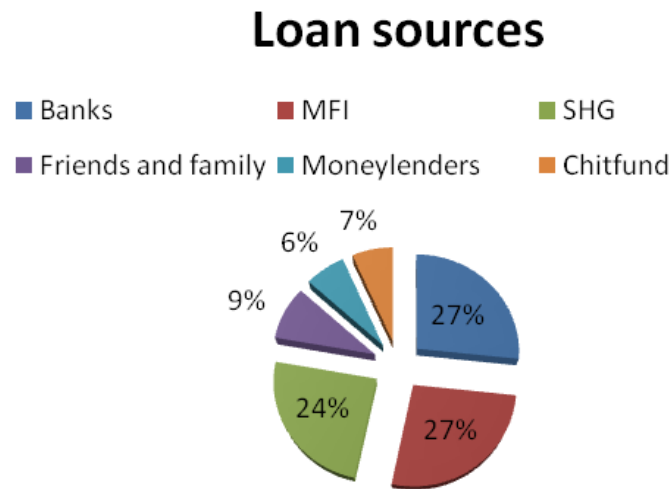
In the individual surveys, 56% of the sample had current outstanding loans and 20% had two loans. It was interesting to note that two was the most number of loans anyone currently had while 10 was the highest reported when they were a MFI client. When asked about previous MFI loans, 11 women reported having taken out loans in the past amounting to 27 loans in total, 2.45 loans on an average. Of the 11 clients, 7 had loans outstanding currently but none of these loans are from MFIs.

Table 9

LOAN SOURCES	No.
Banks	12
MFI	12
SHG	11
Friends and family	4
Moneylenders	3
Chit funds	3
Total number of loans	45

²⁰ Every 3rd household was interviewed from a designated point in each town/ village and women in the household were interviewed, irrespective of whether they were MFI clients.

Figure7



The 2011 data reveals that people with current outstanding loans have 1.4 loans, on an average from all loan sources. An average MFI client has 1.3 MFI loans outstanding and 1.6 loans outstanding if non-MFI sources are included. This shows a drop from the 2009 survey figures, where the average number of MFI loans per client was 1.9. The average loan outstanding per client (MFI loans only) has also reduced from INR 23,800 in 2009 to INR 11,916 in 2011. The crisis seems to have reduced the number and the size of loans people now have, but does this indicate better financial decision making on the client's part or lower access to credit?

5.1 Loan usage

Another topic of major contention has been about MFI loans being used for non-productive purposes. It is therefore interesting to gauge if the lending behavior of MFIs or the utilization behavior of people has changed in any manner after the crisis. In addition, it is useful to compare how loans from different sources are being used now.

Figure 8 compares the usage of past and present MFI loans. A higher percentage of the loans in the past were used for business and consumption purposes, while the current MFI loans are being used for business, repaying old debt and health expenses. It is worth mentioning that in both cases over 40% of loans were and continue to be used for business purposes²¹.

²¹ This is reported usage by client

Figure 8

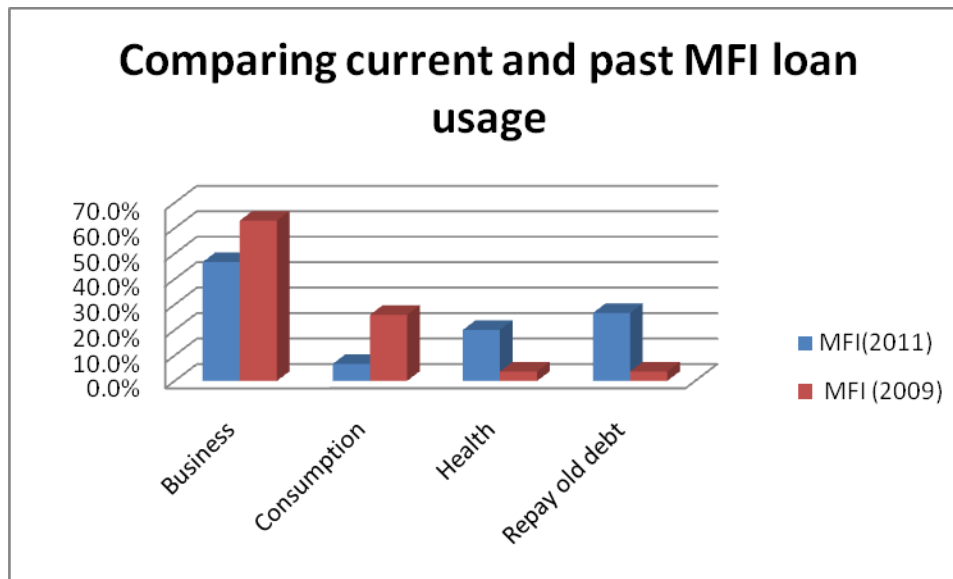
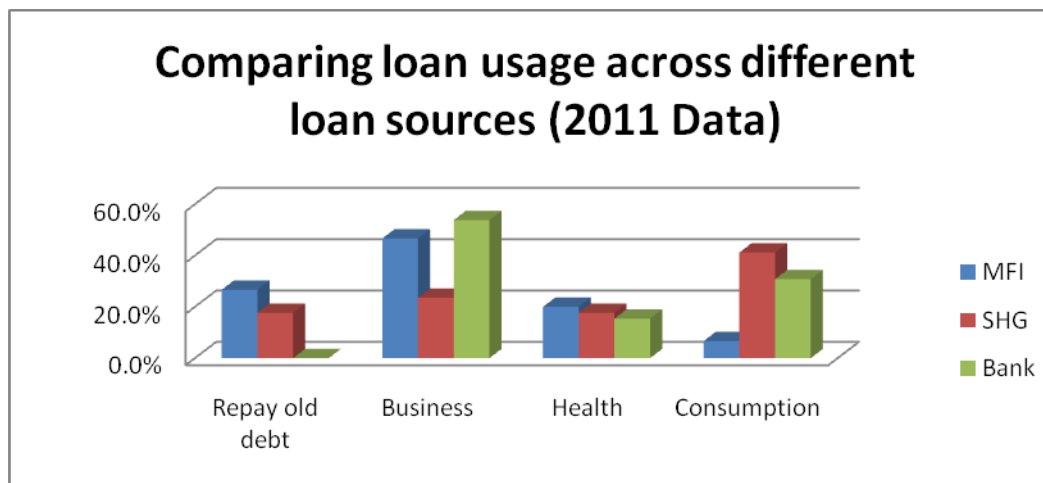


Figure 9



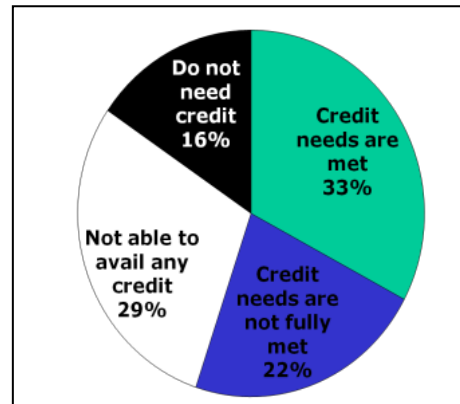
In Figure 9, it can be seen that a higher percentage of SHG loans (approx. 41%) are used for consumption purposes followed by bank loans (approx. 31%). While a higher percentage of bank loans (approx. 54%) are used for business followed by MFI loans (approx. 47%). More MFI loans (approx. 27%) seem to be used in repaying old debt followed by SHG loans (approx. 18%) and when it comes to health expenses, the percentage difference is quite small across the three loan sources (approx. 18%).

5.2 Fulfillment of credit needs

Since the directive of the local mosques stopped MFI activities in Kolar and surrounding regions in 2009, many of these regions still continue to not have access to MFIs. It is difficult to gauge if people's credit needs have been satisfied by other financial service providers that have moved in to fill the demand that MFIs used to service.

A study of this size needs to directly ask people if they felt their credit needs were being met currently in order to gauge this aspect of credit demand. The question was posed during the PRAs and did not have much success as people tended to get very emotional about the topic as it followed a discussion about how their access to the different sources of credit had changed since the crisis.

Figure 10



It was then included in the individual surveys and found that 51%²² of the population that were interviewed reported that their current credits needs are not being fulfilled, as shown in Figure 10. Perhaps the most troubling consequence of such a crisis is the worsening of economic conditions of people who are already economically marginalized.

²² People who reported that they could not avail credit were also included in this calculation

Conclusion

Economic condition:

Two years after the Kolar crisis, MFI operations in these communities have not resumed. Their overall economic condition seems to have deteriorated according to the people living there (pg.). Aside from financial services, there seem to be many other areas that require attention and would benefit these communities. Government schemes such as pension plans for the elderly and widows were mentioned in many communities whose lack thereof is affecting their overall well being. Basic infrastructure and civic amenities such as roads, electricity, drinking water, drainage and sanitation related services are either in very bad condition or not available at all in these communities.

Financial access and credit behavior:

Financial services are an important factor determining overall wellbeing of households and communities. Whether these community' economic decline is due to the withdrawal of microfinance services cannot be determined by this study. But it is reasonable to suggest that withdrawal of MFIs from these regions added another hurdle for financial wellbeing in these communities.

According to the RBI, an individual or household is not financially included without access to formal savings accounts. Keeping this in mind, the communities under scrutiny have low access to banks (pg.). What compounds their financial instability further is their lack of access to semi-formal and informal credit as well. While SHG services have increased in some communities, bank access has not and moneylender services seemed to have reduced severely creating a significant credit crunch in these already impoverished communities.

The criticisms regarding multiple loans and high levels of indebtedness during the time of the crisis seems to have been taken care of as the average MFI loan per client has dropped from 1.9 (2009) to 1.3 (2011) and the loan sizes have decreased as well. But what needs to be investigated is whether this is a reflection of better financial decisions by the community or the result of the credit crunch mentioned earlier.

With over the half the population interviewed in 2011 reporting that their credits needs are not being fulfilled, it is easy to surmise that people's reduced indebtedness is reflecting their lowered access to credit. Unfortunately, there isn't enough data to prove this causality and it is beyond the scope of this project to measure the impact of this crisis. But the consequences of a credit crunch can be mapped from research that has been conducted elsewhere.

Consequences of the crisis credit crunch:

The impact evaluation of urban microcredit program in Hyderabad (2009) conducted by Banerjee et. Al. did find positive impacts on business income and also expansion of business size. They also found better consumption choices being made in the household with a 30% reduction in temptation goods such as cigarettes and alcohol. While there are no studies that have documented the impact of withdrawal of MFI services, Malcolm Harper et al. wrote in an article for Microfinance Focus about the negative impacts that the Andhra Pradesh crisis would have on the female borrowers and their households. In addition to shrinking the local economy, and unemployment for the locally recruited field staff the

authors talk about the ‘silent losers’ who are the investors of banks and definitely the households that managed their business and consumption needs with these MFI loans.

When we examine the 2009 data, close to 60% of loans that were taken from MFIs were reported to have been used for business related expenses. We can surmise that businesses that were funded by these loans might have closed down once the MFI closed their branches or business owners would have taken out loans with higher interest rates. Both of these scenarios would result in a drop in household income pushing families to change their household consumption, selling off assets and taking out more loans to cope with immediate financial needs.

In addition, people who managed their personal, health and other expenditures such as education through MFI loans (approx. 30% of the sample in 2009) are now forced to cut back on these expenses or seek more expensive sources of credit. The withdrawal of MFI services seems to be pushing poor families into lower levels of financial wellbeing, with many of them possibly falling in to a debt trap where they will constantly be indebted and barely be able to make ends meet. Children’s education and entire household’s health would be sidelined in order to reduce household expenses.

Post-Kolar stalemate:

The Kolar crisis has created a complex stalemate between the communities, mosque leaders and MFIs. While both MFIs and clients would like the MFI loans to resume, MFIs cannot resume their activity without having recovered the defaulted loan amounts and some certainty about future the MFI operation environment in these regions. But clients are not able to make payments because the money from the loans that was given to them two years ago has been spent and many of these families are in poor financial conditions to be able to manage these repayments without a new income source. Additionally, the Anjuman committee’s directive has not been lifted in these regions. So both MFIs and clients are unsure about whether MFI operations can resume.

If MFIs do resume operations in these regions, is there a guarantee that a similar mass delinquency event will not happen again? It would be interesting to investigate the psychology behind such defaults. What community level factors interact with household and individual level determinants to cause such mass defaults among MFI clients?

Perspectives for MFIs

With the continued embargo on MFI operations in many regions surrounding Kolar and Ramnagaram, MFIs have begun exploring new regions for expansion. The MFIs that have resumed or expanded their operations need to pay heed to some of the lessons that have been learnt from the crisis.

Multiple lending and borrowing was taking place in these regions and poor families did seem to get indebted beyond their repayment capacity. Many communities that were spoken to during the PRAs did complain about aggressive lending practices of MFIs that were taking place before the crisis began. 20% of the 2009 sample admitted to knowing about fraudulent identification documents being presented to procure loans. This is indicative of the slack screening procedures some MFIs had been following. Adequate training and monitoring need to be provided at the field level to ensure credit screening of new clients takes place. While examining the staff incentive structures of the credit officers in some MFIs, it could be seen that their incentive structure inadvertently encourages credit officers to push more loans on people and demand 100% repayment on every loan.

Coercive recollection: MFI recollection practices are constantly criticized by the sample population in 2011. MFI policies such as no tolerance for late payments and staff incentives that encouraged 100% repayments seemed to have set the stage for coercive recollection practices in these regions. With slack monitoring, it is not surprising that incidents of credit officers harassing clients were reported.

Community level leadership: One of the most important lessons that can be learnt from this crisis is the extent to which external factors can influence the operations of MFIs in an area. If we take Sidlaghatta's experience for example (pg.), the intervention of Superintendent of Police was all that was required for the incident to subside and not become a mass defaulting situation. There is no data to determine whether the MFIs in this region enjoyed a good relationship with the administrators or whether this was an isolated incident where a government official decided to support the MFIs on his own accord. But it prevented the crisis from spreading and it is an important lesson for MFIs. Acceptance and recognition as a legitimate industry from local leaders can reduce the chances of such interference escalating to a crisis level situation.

Consumer protection and client training: In Bangarpet, clients protested against the mosque's directive and MFI operations continued without disturbance. Did this community have better understanding of MFI services and valued these services more than the defaulting communities? Or were there different community level dynamics at play? The crisis did throw up many issues related to client protection and adequate financial literacy training for the MFI clients.

During data collection CMF's researchers found that many clients were not aware of the name of their MFIs and sometimes claimed that they defaulted on their loans because they thought these were bank loans and were being forgiven by the government. The 2009 data indicates that close to 78% of MFI clients had no prior access to credit indicating that they might have been unfamiliar with the concepts surrounding debt management, interest rates and other characteristics of credit products.

Additionally, many of these loans were given out for income generating activities. If the clients were not exposed to an existing business, many aspects of starting and managing a business might have been beyond their capabilities. Should MFIs provide business related trainings in addition to overall financial literacy training for their clients?

Future research: There are many interesting questions that have emerged from this study. One of the most topical and relevant one would be to study the dynamics behind mass delinquency in a community. Over-borrowing and aggressive lending seem to have become a recurring theme in many microfinance related incidents in India and the topic deserves to be studied in detail to understand the factors behind over-lending from the perspective of staff incentives and product design. There are no rigorous studies investigating the importance or effectiveness of client level training that is provided by different MFIs. With financial literacy being considered an important determinant affecting borrowing behavior of clients, this area needs to be researched extensively to understand how knowledge gain and behavioral changes take place in standardized training sessions.

ANNEXURE I – CIRCULAR ISSUED BY THE ANJUMAN COMMITTEE

ANJUMAN-E-ISLAMIA
Phone: 222153
Kolar

We are the residents of Kolar and are facing some important problems such as taking loans from the MFIs and paying interest and this is against Islamic rules of finance. Therefore, we the religious leaders of all the Mazids are issuing this circular to all the clients to stop all transactions with MFIs until we meet with all the concerned people to raise this issue. After our discussions with all, we shall issue future circulars to all the clients

ANNEXURE II – ELIGIBILITY CRITERIA OF SOME MFIS FOR CLIENT MEMBERSHIP

MFI – I	<ol style="list-style-type: none"> 1. Should be a woman 2. Should be between 18-40 years of age 3. Should fall into the Below Poverty Line Category 4. Should own/rent a house in the village. 5. Should be married and should have the consent of the husband (widow/separated also can be considered with the consent of male family members who are above 18 of age). 6. Should not have another client of the same MFI in her family
MFI – II	<ol style="list-style-type: none"> 1. Should be a woman 2. Should be between 18-40 years of age 3. Should fall into the Below Poverty Line Category 4. Should be a permanent resident of the village 5. Should have the consent of her family members 6. Should reside within a distance of 0.6 kilometers from the MFI centre.
MFI – III	<ol style="list-style-type: none"> 1. Should be a woman 2. Should be between 18-60 years of age 3. Should fall into the Below Poverty Line Category 4. Should be own/ rent a house in the village 5. Should not be a Government Employee.