

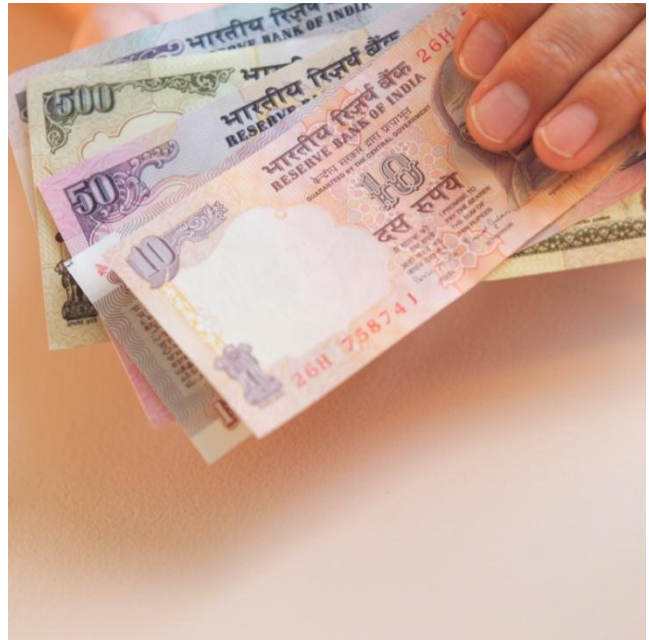
MULTIPLE LOANS: How Frequently do Rural Poor Opt for Multiple Borrowing?

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Introduction:

One key finding of the Centre for Micro Finance's (CMF) study on "Access to Finance in Andhra Pradesh" was that multiple borrowing is extremely common among rural poor, with an estimated 84% of households having two or more loans from any source.¹ The study also implied that many cases of multiple borrowing appear to be driven by an inability to obtain sufficient credit from a single source as suggested by data collected on timing and purposes of loans.² These implications motivated CMF to further explore incidences of multiple borrowing within two successive months in the past year.

CMF revisited 428 households in two districts of Andhra Pradesh: Kadapa (200 households) and Visakhapatnam (228 households), which were randomly selected from CMF's Access to Finance Study that was conducted in 2009. CMF had investigated whether households had taken more than one loan within two successive months in the past year. 36% of 428 households (153 households) that were visited reported taking more than one loan within two successive months in the past year. This focus note provides more insight into the behavior of these 153 households that had taken more than one loan within two successive months in the past year.



¹ Doug Johnson and Sushmita Meka, "Access to Finance in Andhra Pradesh", page 29, http://www.centre-for-microfinance.com/wp-content/uploads/attachments/csy/695/CMF_Access_to_Finance_in_Andhra_Pradesh_2010.pdf

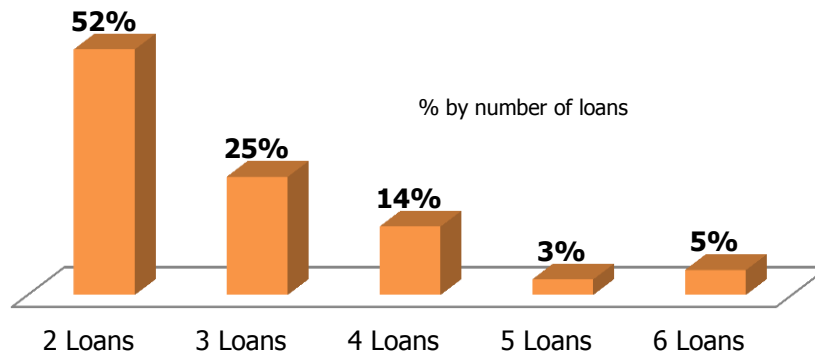
²Ibid

This study would not have been possible without our dedicated field staff and Regional Field Manager Sriganesh Pathy. We would also like to thank Ajaykumar Tannirkulam, Amulya Champatiray and Deeptha Umapathy for their guidance and feedback.

How many loans within two successive months in the past year?

While 52% of these 153 households had taken two loans, 5% of households had taken as many as six loans within two successive months as shown in Figure 1. The mean and median loan amounts were Rs. 13,888 and Rs. 8,000 respectively. The total number of reported loans taken by these 153 households within two successive months was 476, implying an average of three loans per household.

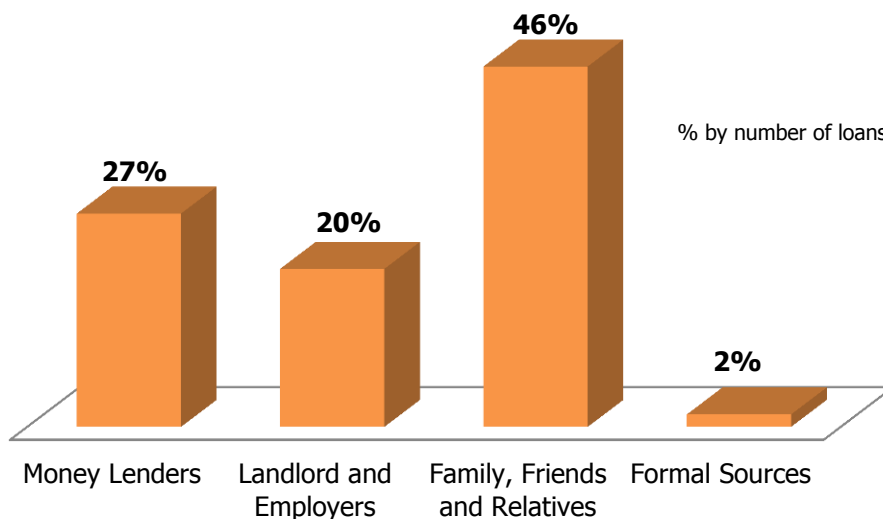
Figure 1: Distribution of total loans per household within two successive months



Who were the lenders?

46% of the loans were taken from friends, family and/or relatives, 27% from moneylenders, 20% from landlord and/or employers. Only 2 % of the loans were taken from formal sources including SHG and banks. Only 5% of these borrowers had lent to their neighbours, friends and relatives in the past six months- the rest had only borrowed from others.

Figure 2: Sources of loans within two successive months



Access to Formal Credit

In order to understand households' access to formal financial services, we asked these respondents if they currently had any account with the banks and/or outstanding loans taken at any point in the past from any formal sources (Banks, SHGs and MFIs). Table 1 presents the findings:

Table 1: Access to Formal Credit System

	HHs with at least ONE account	HHs with current loan outstanding	Median outstanding loan
Banks	78%	43%	Rs. 31,500
SHGs	74 %	57%	Rs. 10,000
MFIs		7%	Rs. 12,300

Table 2: Top 3 reasons for not having linked with these formal systems

Formal Sources	Reasons
Banks (Cooperatives, Private, RRBs)	No or not enough savings for bank account (44%) Fees/expenses (31%) Have no idea about banks or bank products (25%)
SHGs	Irregular income flows or repayment capacity (43%) Don't want group conflict (14%) Not trustworthy (12%)
MFIs	Irregular income flows or repayment capacity (47%) Have no idea about JLGs or how they function (22%) No JLGs are close enough to join (13%)

Size of Loans

Figure 3 highlights that 40% of loans taken within two successive months were within a range of Rs. 5000 to 15000, 32% below Rs. 5,000 and 29% of loans were more than Rs. 15,000. The mean and median loan amounts were Rs. 13,888 and Rs. 8,000 respectively.

Figure 3: Loan Amount taken within two successive months

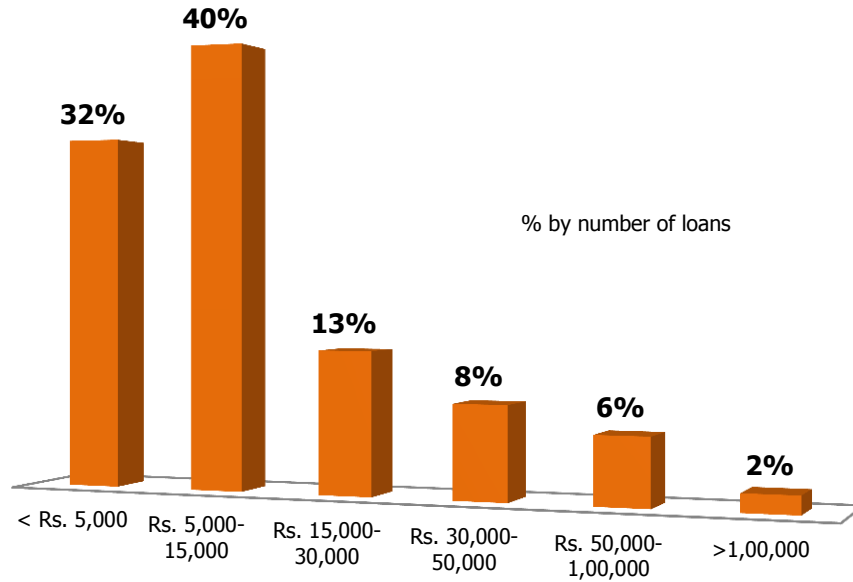


Table 3 shows the mean and median amount of loans given by each source within two successive months implying that the respondents relied on friends, family and relatives for smaller loans; moneylenders and employers for marginally bigger loans and formal sources were used for the largest loans.

Table 3: Range of loans from each source within two successive months

Source	Range of Loans
Moneylenders	Mean: Rs. 15,403 Median: Rs. 10,000
Landlord/Employers	Mean: 14,479 Median: 10,000
Family/Friends/Relatives	Mean: Rs. 11,859 Median: Rs. 5,000
Formal Sources	Mean: Rs. 21,571 Median: Rs. 17,000

Usage of Loans

Table 4 delineates how borrowers used their loan money taken within two successive months. Data on loan usage reveals that 27% (the largest share for any one line item) of loans were used for household consumption. And when analyzing usage from the household level, we find that 47% of the households mentioned household consumption was one of the reasons for them to borrow. Health followed suit with 37% of households claiming that health was one of the reasons to borrow followed by purchasing agricultural machinery or inputs (25%).

Table 4: Usage of loan money within two successive months

	Purpose of loans	Usage of loans at a HH level (%) *	Share of loans (in %)
1	Household Consumption	47 %	27 %
2	Health	37 %	22 %
3	Buy agricultural machinery or inputs	25 %	16 %
4	Education	12 %	6 %
5	Home improvement/repair	10 %	7 %
6	Repay old debt	9 %	5 %
7	Marriage	9 %	5 %
8	Other festival	7 %	3 %
9	Purchase stock for existing business	4 %	3 %
10	Funeral	4 %	2 %
11	Start new business	3 %	2 %
12	Buy livestock	3 %	2 %
13	Purchase land	1 %	1 %

*Totals may be greater than 100% as loans may be used for more than one purpose.

Multiple Borrowing for the Same Purpose within two successive months?

In order to understand if respondents took multiple loans for the same purpose within two successive months, we considered only that subsample of loans “exclusively” taken for (i) consumption, (ii) health; and (iii) buying agricultural inputs (top three purposes from Table 4). One of the limitations of this study is that we enquired about the source, total loan amount and loans usage only. Unfortunately, when a respondent reported more than one purpose for any loan amount, we did not ask how much money was spent on each reported purpose. Due to this limitation, for further analysis, we are excluding those loans taken for multiple purposes.

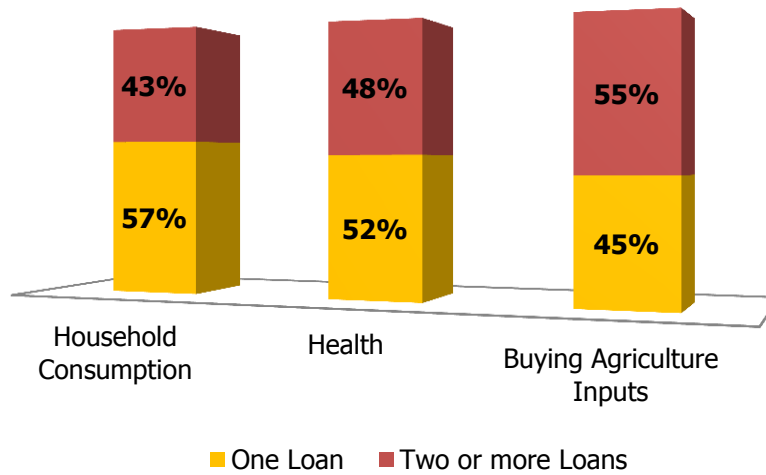
Table 5: Loans “exclusively” for Household Consumption, Health and Buying Agricultural Products within two successive months

	Household Consumption	Health	Buy Agricultural Inputs
Share of loans (%)	19%	17%	12%
Usage of Loans at a HH level (%)	39% (60 HHs)	31% (47 HHs)	23% (35 HHs)
Loan Size	Mean: Rs. 5,191 Median: Rs. 2,000	Mean: Rs. 9,633 Median: Rs. 5,000	Mean: 22,108 Median: Rs.10,000
Loan Size at a HH Level	Mean: Rs. 7,960 Median: Rs. 3,000	Mean: 17,058 Median:10,000	Mean: Rs. 38,857 Median: Rs. 15,000

39% of 153 households (60 HHs) took loans exclusively for consumption purpose alone, having 19% share of total reported loans. 31% (47 HHs) of households reported that they have taken at least one loan exclusively for health purpose. Likewise, 23% (35 HHs) household reported of taking at least one loan only for buying agricultural inputs.

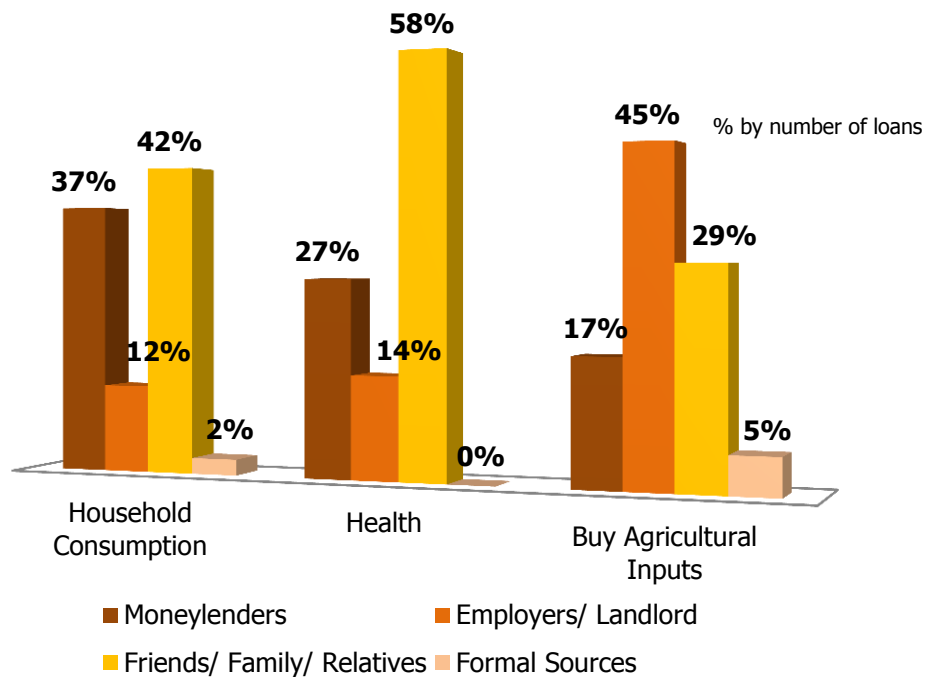
We further analyse this subsample of households to understand if they took more than one loan for the same purpose. We found that out of 60 HHs that reported to have taken loans for consumption purpose, 43% of HHs had taken more than one loan exclusively for household consumption purpose. Likewise, 48% of 47 households and 55% of 35 households had taken two or more loans exclusively for health and purchasing agricultural inputs respectively as shown in Figure 4.

Figure 4: Distribution of loans per household level



When we looked at the distribution of total loans from different sources for each purpose as shown in Figure 5, we found that among those who borrowed for household consumption and health, the majority of loans (42% for household consumption and 58% for health) were taken from friends, family and relatives. However, for buying agricultural inputs, the majority of loans (45%) were taken from landlord and employers.

Figure 5: Percentage of households with loans from different sources for each purpose within two successive months



Summary of Findings

- 98% of reported loans were borrowed from informal sources.
- Friends, family and relatives provided smaller sized loans (average median loan size: Rs. 5,000), whereas landlords, employers and moneylenders provided bigger loans (median loan size: Rs. 10,000).
- The majority of the households reported taking one or more loans for household consumption (47%), health expenditures (37%) and buying agricultural inputs (25%). Only 9% of households (5% share of total reported loans) mentioned repaying old debts as one of the reasons to take further loans within two successive months.
- Median loan size exclusively taken for buying agricultural products (Rs. 10,000) was two and five times more than the loan size exclusively taken for health (Rs. 5,000) and household consumption (Rs. 2,000) respectively. Based on this data- which has some limitation as mentioned above- we hypothesize that those who borrow exclusively for buying agricultural inputs had a slightly higher tendency to have two or more loans (55% going for two or more loans) compared to those who took loans exclusively for household consumption (43% going for two or more loans) and health (48% going for two or more loans).
- The majority of loans (45%) for purchasing agricultural inputs were taken from landlord and employers whereas the majority of loans for consumption and health were taken from friends and relatives.