

PERFORMANCE OF MODELS FOR LENDING TO INDIVIDUALS IN THE MICROFINANCE SECTOR

Study commissioned by SIDBI in collaboration with KfW, Germany



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Submitted by,
Financial Inclusion, IFMR LEAD



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EXECUTIVE SUMMARY

The majority of microfinance institutions have mastered lending small amounts to people, who would otherwise turn to high-charging money lenders, using group-based systems. Group-based lending is most prevalent amongst Microfinance Institutions (MFIs) targeting the poorer sections of the community. It provides MFIs with the opportunity to reduce risk through joint-liability and guarantee arrangements within the groups. Over the last few years, MFIs are moving towards diversification of lending approaches, and have begun to offer individual loan (IL) products to its customers. In India, increasing numbers of MFIs are offering long-term clients individual loans once they graduate from group-based systems.

MFIs hypothesize that customers exhibiting good repayment behavior over 4-5 loan cycles will continue doing so if offered larger ticket size loans without any joint liability. Demands from their higher value clients, and to better serve mature clients who have increased their repayment capacity and need larger loans, has led to MFIs offering a range of individual loan products to select customers. This study delves deeper into the MFI, as well as client perspectives on such products, and their needs and preferences on the individual loan products.

This study has been conducted in two districts of two states in India – Mysore district in Karnataka and Allahabad district in Uttar Pradesh based on MFI market saturation data. The study focuses on 5 distinct categories of respondents: clients who currently have individual loan outstanding, client who were offered an IL product but did not take it up, clients who defaulted on an IL product, clients who were in their 3rd or 4th cycle of joint liability group loans and micro-entrepreneurs who have never borrowed from an MFI. This diversity in respondents provides an opportunity to have a 360-degree picture on barriers in uptake and preferences for IL products. In addition to these different categories of clients, we also interviewed 3 leading MFIs to get the provider's perspective in terms of offering IL products to their clients.

Based on the data collected from the client and MFI interviews, conclusions and recommendations have been made for better improved IL products.

- 1) *Account for adverse shocks when assessing loan uptake capacity of client prior to loan disbursement and diversification in financial products offered:* It is evident from our data that consumption smoothing and household emergency form some of the primary purposes for which a major portion of the loans get utilized. The use of loan amounts meant for productive purposes being used for emergency purposes, health reasons or for consumption smoothing was seen as a dominant trend across all the JLG and IL clients we interviewed for the study. Though this information is not unheard of, it is surprising that the sector has been unsuccessfully trying to address this concern for a long time. There is a need to tailor products and design products that respond to these consumer needs that are predominant among clients. Designing and offering products such as emergency loans, health insurance, consumption boost loans that carefully cater to such needs of borrower households and attempt to match actual use of loans on the client end is imperative. A horizontal expansion as such would not only enable the sector to contribute towards the drive to sustainable financial inclusion but also add to the sustainability of the loans being offered and reducing risks of delinquency.

- 2) *Expand on eligibility criteria for individual loan products:* Our data showed that the assumption that 3rd/4th JLG clients are more mature does not necessarily hold true in all aspects. Hence, we recommend that a robust cash-flow estimation strategy is a better way for MFIs to assess the eligibility of clients for IL loans, and these loans need not be restricted to 3rd/4th loan cycle clients. There is a need for MFIs to incorporate innovative techniques to assess the credit discipline of clients. Given that 1st and 2nd cycle clients may not be very different from 3rd or 4th cycle JLG clients in their repayment trends or business performance, MFIs should consider giving individual loan products to 1st and 2nd cycle clients who show credit discipline and aspire to have individual loan products.
- 3) *R&D for offering a variety of individual loan products that cater the aspirations of various sections:* There seems to be high preference for individual liability loan products across all loan categories of survey respondents of the study. However, high interest rates seem to be the main deterrent to its take up. Since most MFIs charge a high interest rate, to lower their risks, a better way around this may again be robust cash flow estimations of clients to ensure repayment capability, rather than increasing interest rates. Additionally, Policy makers at the apex level and industry investors can earmark soft and concessionaire funds to support MFIs engagement in commercialization of new products and services that meets the needs and aspirations of these specific customer segment who prefer individual loan products but find the repayment rates for the same to be too high.
- 4) *Strengthen cash-flow analysis by having innovative measures to check loan usage of clients:* Although MFIs conduct checks to verify the loan usage, this was being practiced only by a few MFIs interviewed and usually done within two weeks of loan amount disbursed. It is necessary that MFIs conduct more robust and regular checks to verify the actual loan usage, apart from assessing the loan amount of clients accurately. As incorporating further checks depends on the operational capacity of each lending institution, strengthening the back-end systems in place to analyze cash flow, credit history estimations and quick digitalization of data would be the first step toward ensuring fewer discrepancies in cash-flow and loan usage. Strengthening the quality of the data that is initially fed into the system would help with better customer assessments and monitoring at all further levels

The Indian microfinance industry has been trying a graduation approach with its group lending customers, along with diversification of lending approach over the last three years. MFIs hypothesize that customers exhibiting good repayment behavior over 4-5 loan cycles will continue doing so if offered larger ticket size loans without any joint liability. It is also believed that such a product could enable customers to invest more in income-generating activities resulting in the growth of micro-enterprises and economic wellbeing of low-income households. Based on three in-depth MFI interviews we conducted, there is a low take up rate of this product, which indicates towards potential gaps in product design and delivery mechanism.

The low take-up rate of the individual loan products could be due to a number of reasons like customers finding it difficult to transition from group liability arrangement, repayment schedules not being suitable enough to allow efficient use of larger loan amounts, and loan officers and MFIs lacking capacity to evaluate customers and their cash flows. Also, based on our interviews with MFIs, we found that the screening process for individual loans is also very strict when compared to JLG loans. These possible reasons clubbed with many other unknown factors are curtailing the growth of MFI clients and are also disrupting MFI operations.¹ It is very important that MFIs start the product development process with market research to understand the clients' needs and preferences and create a client responsive product offering. The study conducted by IFMR LEAD with the support of SIDBI, in Mysore and Allahabad districts of Karnataka and Uttar Pradesh respectively, aims to understand the needs of varied categories of clients and shed light on client preferences, which will give MFIs the requisite information to design products and processes better.

1.1. Literature Review

Traditionally, microfinance has been based on a group lending model wherein individuals are part of a group and act as a guarantee for each other. These loans are typically small in amount and require weekly repayment schedule, although some of the MFIs are now moving towards fortnightly or monthly repayments for JLG loans. However, as the sector is growing, clients' needs are increasing and getting more diversified, there is a demand for higher loan sizes and customized loan products. To meet these client demands, a number of MFIs are getting out of the traditional space to offer individual liability loan products to its customers (Microsave).

Individual liability loan products differ from the joint liability loans in significant ways, and since this space is new to most MFIs, the processes and product design of individual loan products needs to be closely monitored. Individual liability loan products are given directly to the individual and do not require them to be part of a group. This in turn means that in individual lending the monitoring, screening and enforcement falls on the institution as opposed to a group, as in the case of joint lending. Another difference is that in case of individual lending, loan officers would have

¹ http://www.microsave.net/files/pdf/Individual_Lending_Booklet.pdf

prime responsibility of assessing the credit worthiness of clients, whereas in a group lending model, this task falls primarily on other group members. Hence, MFIs will need to strengthen their cash flow estimation process for IL loan products.

There have been no studies conducted in India on examining the differences between individual lending and group lending models. However, there have been a few studies in other parts of the world. Studies done in Kenya and Phillipines have examined the impact of individual lending versus group lending. The study conducted in Kenya found higher default rates in individual lending as compared to group lending. At the same time, the study also found that MFIs in Kenya prefer the individual lending model. The study also found that loan interest rates and default rates are positively correlated whereas loan size and default rate is negatively correlated (Kodongo & Kendi, 2013). The study in Philipines used two randomized control trials to test the impact of individual liability loan products, and found no difference in repayment as well as default rates (Gine & Karlan, 2010).

Another study conducted in rural Mongolia examines the impact of group lending, and individual lending using a randomized controlled trial. In terms of consumption and enterprise ownership, a positive relationship was found in villages that were offered group lending, whereas no significant difference in consumption and enterprise ownership was found in the individual lending villages. The study also found that informal transfers to family and friends are less likely in group lending villages as compared to individual lending villages. Similar to the study in Philipines, this study also found no significant difference in default rates between individual and group lending (Attanasio, O, Augsburg, B, de Haas, R, Fitzsimons, E, & Harmgart, H, 2014). Although these studies are few in number, the findings from all these studies indicate that there is a need to closely monitor individual lending. However, at the same time, since studies indicate at similar repayment and default rates for IL and JLG loans, moving towards IL loans does not involve a higher risk for the MFIs.

Several MFIs in India have also experimented with the individual liability loan products. Some of the prominent MFIs working out of Karnataka and Uttar Pradesh offer individual loan products for home improvements and small businesses. Swadhaar, which provides financial services to the low income households, introduced their individual business loan product, Swayog in 2008 after an analysis of clients' needs (Swadhaar). Microsave, which is a financial inclusion consulting firm, has worked with several MFIs, in India, like KGFS, Grameen Koota, Svasti Microfinance, Spandana etc. to enable them develop individual liability loan products that meet their customers' demands (Microsave).

Although, IL loan products have been introduced by several MFIs, they are still in a nascent stage of development both in terms of widespread adoption by MFIs, as well as product development. For all the MFIs we spoke to for the study, individual loans formed less than 15 per cent of their total portfolio. There are a number of reasons for this. As per Microsave and Swadhaar, MFIs face several challenges in the domain of IL loan products. These include difficulty in getting a buy-in from regulatory bodies and banks which in turn leads to a lack of funds for such products, lack of sophisticated MIS to cater to the needs of the IL product, lack of skilled employees and systems to assess the individual borrowing capacity of clients, and co-ownership of client assets that makes it difficult to be used as collaterals.

1.2. Rationale and Objectives

Most MFIs in India have mastered the joint liability lending space and are now moving to the individual lending model.² However, there are gaps in terms of understanding the clients' needs and designing products, which meet their requirements. This study will attempt to understand the clients' perspective and shed light on the individual lending space in the microfinance sector.

The objectives of this study are as follows:

- To understand the needs and reason for preference of individual/joint liability loan product by clients who have taken individual liability loans
- To understand the household consumption, income and other aspects of clients who are in the third or fourth cycle of joint liability loans. Clients in the third or fourth cycle of their loans are considered mature clients and eligible to be offered individual liability loan products by MFIs
- To understand the reasons for non-take-up of individual liability loan products by customers who have been offered the same
- To understand the finance and borrowing needs and sources of small entrepreneurs who have never borrowed from an MFI
- To understand the reasons for default among individual liability loan customers
- To understand the MFI's perspective in terms of introduction and growth of IL products as well as barriers faced

By doing an in-depth analysis of the income, consumption, savings, other loans' situation as well as the preferences of the particular loan products chosen by clients will enable us to get an understanding of the different strata of clients for whom individual loan products will be suitable. It will also help us get an understanding of products that can be designed for these differentiated segments.

1.3. Methodology

This study has been conducted in two states in India – Uttar Pradesh and Karnataka. Within, these states, two districts where MFI penetration is extremely high were chosen as locations for this study. The selection is based on HighMark's credit data (2016).³ Since we are covering different client segments within the MFI space for this study, choosing a high penetration area would ensure that we are able to cover all the client category requirements. In Karnataka, the study was conducted in Mysore, and in UP, it was conducted in the Allahabad district. Within, these districts, 2 blocks were randomly chosen where the client surveys were conducted. For Mysore, these blocks were Hanagodu and Saligrama, and in Allahabad these blocks were Karchana and Manda. Based on experience of the field team, within each of these blocks, a few villages with high MFI presence were chosen to be sample locations for our study.

For this study we had several client selection criteria. The inclusion criteria for clients to this study are detailed in the chart below.

² http://www.microsave.net/files/pdf/Individual_Lending_Booklet.pdf

³ Highmark provided us with district level data for our study sites on request.

25 joint liability clients each in Mysore and Allahabad districts, who are in their 3rd or 4th JLG loan cycle with an MFI to understand the profile of mature MFI clients

25 clients each in Mysore and Allahabad districts, who have individual liability loan outstanding from an MFI to understand profile of clients who take up IL loans as well as the uses of IL loans

15 micro-entrepreneurs each in Mysore and Allahabad districts, who have never borrowed from an MFI to understand the financing needs of micro-entrepreneurs and how MFIs can design products that cater to their needs

Few clients who have been offered an individual liability loan product but did not take it up to understand the clients' side barriers to adoption of IL products

Few clients who have defaulted on an individual liability loans to understand the reasons for default on IL loans, which could help MFIs make tweaks to their IL loan products and processes

In terms of the inclusion criteria detailed above, we were able to meet all the criteria and also went beyond our required number in some of the categories. Our total respondent sample size for the study was 197. For clients in their 3rd and 4th cycle of JLG loans, we covered a total of 93 clients. For clients having an IL loan outstanding, we covered a total of 53 clients. We covered 30 micro-entrepreneurs who have never borrowed for this study. Additionally, 11 clients who were offered IL but did not take it up, and 10 clients who defaulted on an IL loan, were also part of the study sample.

Categories and number clients covered in our sample

Category	Number of clients-Allahabad	Number of clients-Mysore	Total number of clients
Clients in their 3 rd or 4 th loan cycle	50	43	93
Clients who have an IL outstanding	28	25	60
Micro-entrepreneurs who have never borrowed from an MFI	15	15	30
Clients who were offered IL but did not take it up	5	6	11
Clients who defaulted on an IL loan	0	10	10
TOTAL	98	99	197

All the above inclusion criteria described in the chart above will give us an in-depth understanding of different segments of MFI clients as well as a section of non-MFI clients. Collecting information on the household consumption, savings, income, formal and informal loans, as well as their needs and preferences in terms of loan products, of these different client segments will give us a good understanding of which client segments prefer IL, reasons for their preference, barriers to take-up of IL products etc. This in turn will enable us to recommend changes to product design and processes for IL loan products.

Since the inclusion criteria for this study was very specific, in order to find these clients we went door to door in the above mentioned villages, as well as contacted several MFIs to get referrals of their clients. In Mysore district, the requisite number of clients for the 1st and 3rd category was found by going door to door. For the 2nd, 4th, and 5th category of clients, we got referrals from a predominant MFI in the state. In Allahabad district, the requisite number for the first three categories of clients, were met by going door to door. For the fourth category of clients, we got referrals from a predominant MFI in the state. We interviewed clients from various MFI's as highlighted in the table below:

Name of the MFI	Percent of study sample
BSS microfinance	1.20%
Cashpor microfinance	6.02%
Dhan laxmi	0.40%
Dharmasthala	11.65%
Equitas microfinance	4.02%
Fusion microfinance	2.41%
Grama Vidiyal	0.40%
Grameena koota	2.41%
HDFC microfinance	0.80%
Info bank	0.40%
Janalakshmi microfinance	25.70%
Muthoot Microfinance	0.80%
SKS Microfinance	8.84%
Satin microfinance	4.42%
Sonata microfinance	17.27%
Spandana microfinance	0.80%
Svcl	0.40%
Ujjivan Microfinance	3.21%
Utkarsh Microfinance	8.43%

The study had two primary study instruments. Firstly, a detailed survey-questionnaire, to capture different aspects of these varied categories of clients was designed and administered, to all the above mentioned clients, by a team of highly trained investigators. The study instrument included sections on household income, savings, outstanding loans, repaid loans, assets etc., which were common for all the categories of clients. However, in order to get nuanced understanding of the needs and preferences of different category of clients, we included specific sections in the study instrument for all these different categories of clients. For instance, for micro-entrepreneurs who have never borrowed from an MFI, we have specific questions asking them how they meet their financing needs, why they prefer the other sources to an MFI etc. Similarly, for clients who were offered individual liability loans and did not take it, we asked questions on reasons why they decided against taking up an IL loan, and what change they would like in the IL loan product for them to take up such a product.

Secondly, to understand the Individual Products presently offered by MFIs in these markets, and capture the nuances of their design and sales, we conducted three in-depth interviews with MFIs working in our study sample areas. The interviews gave us an opportunity to look at the provider side understanding of the market for Individual loan products, and the rationale behind the IL products offered by the MFIs.

1.4. Limitations:

Even though we have tried to capture nuanced information from different client segments, there are some possible limitations of the study.

Firstly, a key element to being able to generalize results is to have a representative sample. Given that we are working with a small sample size, our study may not be representative of the pan-Indian context of MFI lending scenario and its impacts. The study has been conducted in only two districts in two states, in India. While, we have taken one state from North India and one from South India, in order for it to be more representative, the findings however, may still not be generalizable to all other states in India. However, since we have conducted the study in two states, in two high penetration districts, and covered different categories of clients, the findings have the possibility of holding true for a large section of MFI clients. Additionally, being exploratory in nature, the study could not control for all of the other inevitable, often unmeasurable, exposures or factors that may actually be pointing towards certain results. Thus, any “link” between cause and effect in this study is indicative at best of the potential impacts that the MFI loaning can have on the client household, and the sector overall.

Secondly, for the category of clients who have IL loan outstanding in Mysore district, our entire sample is formed by client references from only one MFI. This maybe a bit narrow and less representative of the scenario and socio-economic trends of other MFI clients. Although, the clients are from only one MFI, it is a leading MFI in the district, and could be more or less representative of the other MFI clients. The other MFIs who participated in the study either did not have IL loans, or had just started with individual loan products in the last 2-3 months.

Thirdly, for clients who were offered yet did not take up individual loans and those who were clients but defaulted on the individual loans, the sample size is less than 10 clients. Although, such clients may actually be very few in totality, there is still need to exercise caution when interpreting and generalizing the results from these particular categories of clients, given the low numbers. Also, in Allahabad district we could not find MFIs who could refer delinquent customers because of which this category could not be covered in Allahabad district.

2.1. Demographic Information of the clients and household

Primary Respondent Information

Our sample is composed of 98 clients from Allahabad and 99 clients from Mysore district. Majority of the respondents in our sample are female, as MFIs lend primarily to female customers. The mean age of the primary respondent was found to be 39 years. Their average annual income was found to be 33006 INR, with a significant difference between the two districts. The average income of the primary respondent in Mysore was 45702 INR and in Allahabad, 24500 INR.

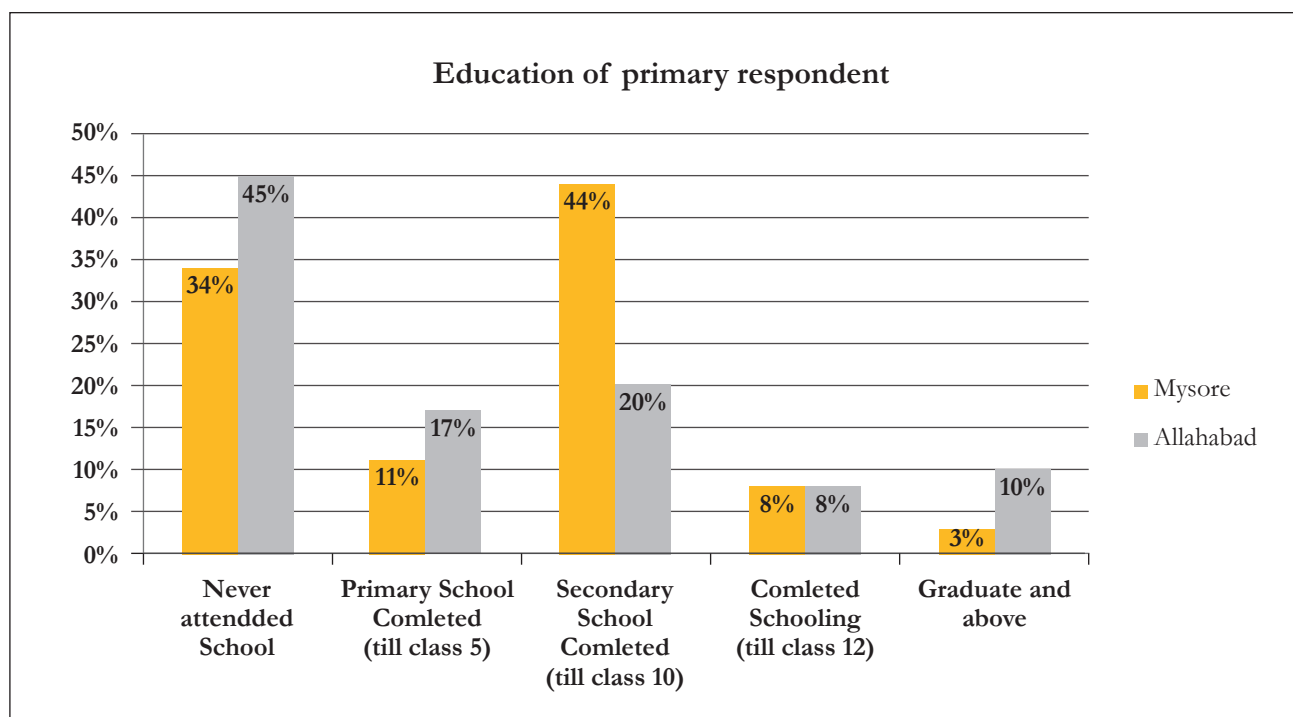


Figure 1.1 Education of Primary Respondent

As can be seen from the above graph, majority of the respondents in both Allahabad and Mysore have never attended school. This was followed by some schooling received between 5th to 10th grades. While a few of the respondents stated having completed high school, the number of people in college or having a college degree were found to be extremely low. One of the explanation for this among cultivators or agricultural labourers was that this was due to the need felt to discontinue studies after school due to familial requirement in management of their farmland. Additionally, as mentioned above our sample size was predominantly composed of women, and within patriarchal cultural set up, higher education for women from low income households in the area are less common. As an extension to this, it can be seen below that a large segment of the sample were primarily home makers, which means that even though the primary borrower is a woman, the business decisions are not made by her. This was followed by petty shop owner, and agricultural labourers.

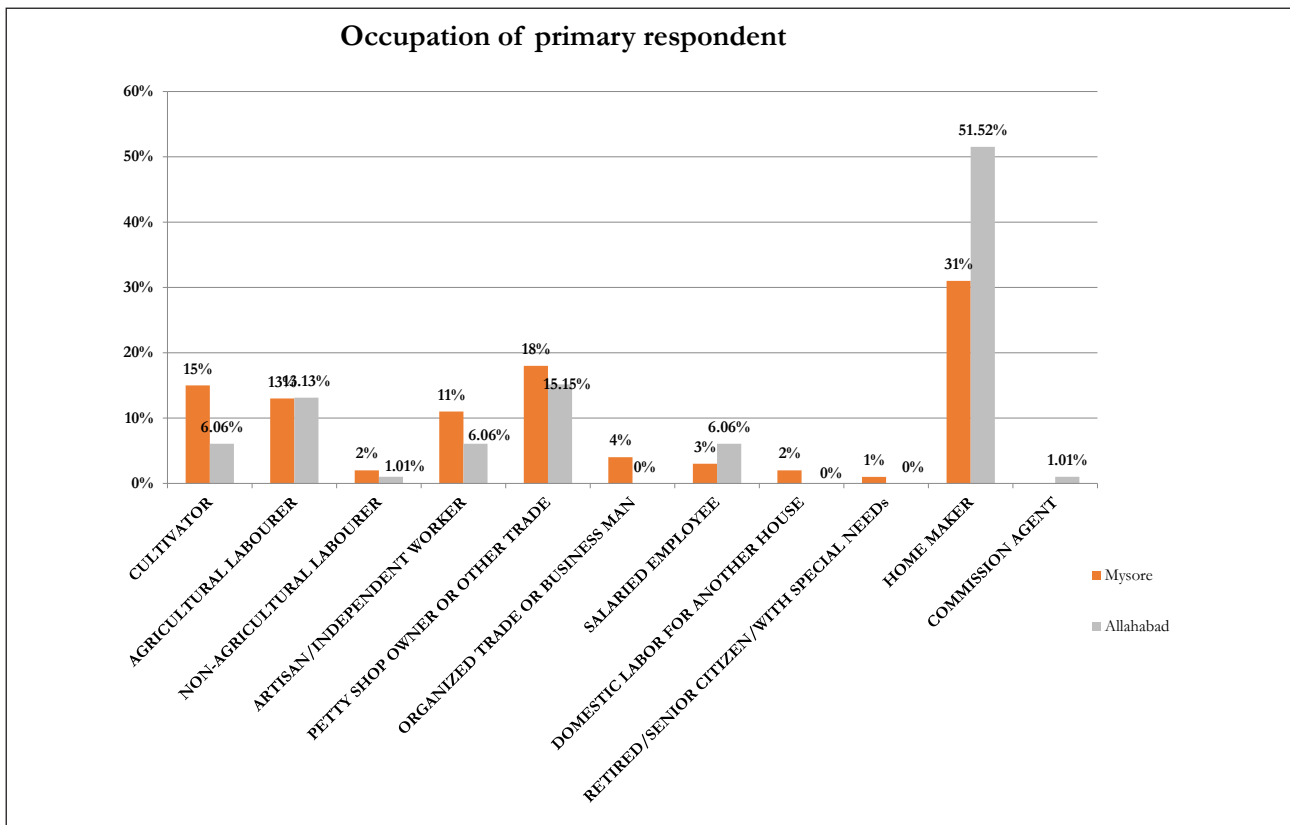


Figure 1.2 Occupation of Primary Respondent

Household Information

Household Income			
	Mysore	Allahabad	Total
Average household monthly income (in rupees)	14612	21007	17793
Minimum household monthly income (in rupees)	2000	833	833
Maximum household monthly income (in rupees)	82000	180000	180000

Table 1.1 Household Income

The mean monthly household income, combining the two districts stands at 17793 INR. The first quartile income was 7700 INR whereas the 75th percentile income was 20300. In terms of overall income distribution by district, Mysore has the lowest average household monthly income at 14612 INR, and Allahabad had the highest average household monthly income at 21007 INR (figure above).

Household Savings			
	Mysore	Allahabad	Total
Average number of savings accounts per household	2.78	2.08	2.4
Minimum number of saving accounts	0	1	0
Maximum number of saving accounts	8	9	9
Average amount in the savings account (in rupees)	8935.91	6439.24	7902.26
Minimum amount in the savings account (in rupees)	0	0	0
Maximum amount in the savings account (in rupees)	600000	90000	600000

Table 1.2 Household Savings

The above table summarizes the household savings situation in our sample. The median number of savings accounts per household, combining the two districts, is 2. The average amount per savings account is 7902 INR, with a higher average amount of 8935 INR in Mysore district, as compared to 6439 INR in Allahabad district.

The below two pie charts show the primary purpose of these savings accounts in both Allahabad, and Mysore districts. In Mysore, the purpose of majority of the savings accounts is for regular consumption purposes, whereas in Allahabad, the purpose of majority of savings accounts is for future emergency purposes.

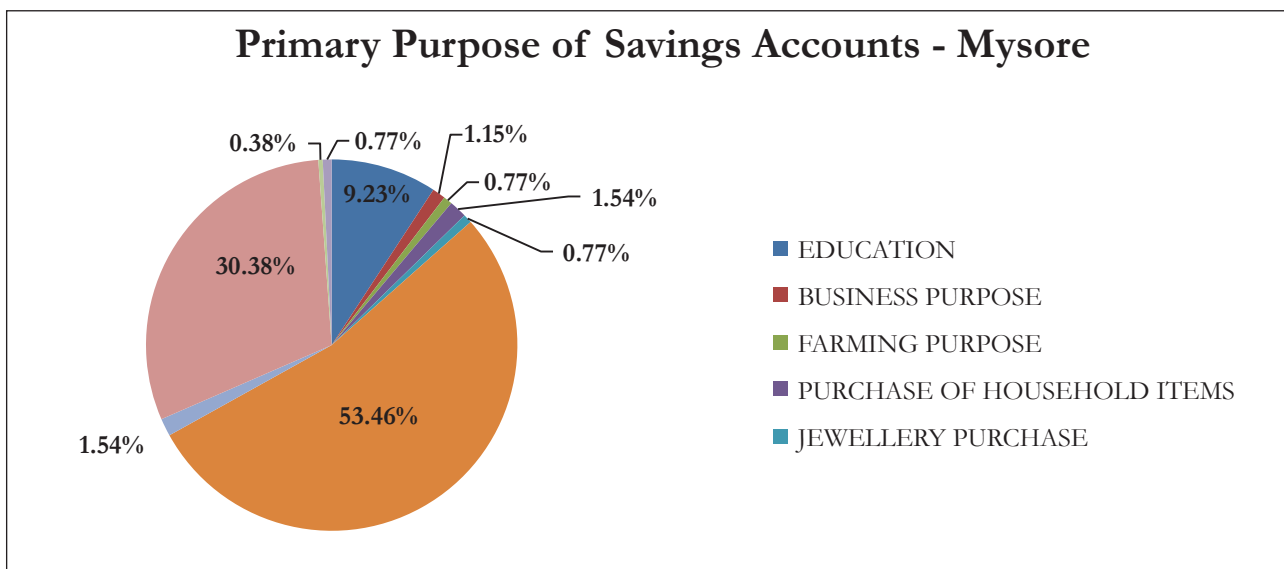


Figure 1.3A Primary Purpose of Savings

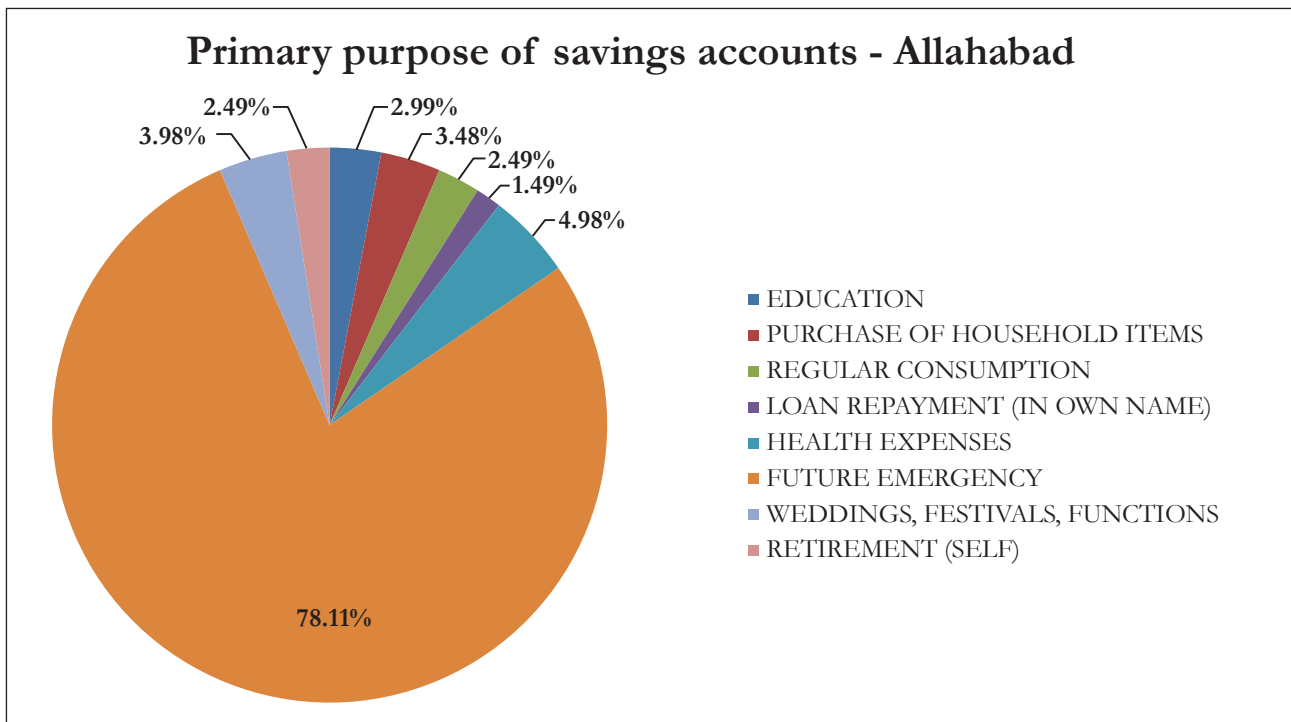


Figure 1.3B Primary Purpose of Savings

2.2 Different Categories of Clients

As described in the methodology section, there were several inclusion criteria for this study. The categories of clients for this study, the number of samples per category, as well as district wise details of the same are shown in the table above. The sections below provide an in-depth analysis of the data gathered from these different categories of clients, in the two districts. The questions for these different sub-categories were prepared after having in-depth interviews with a few MFIs in Karnataka and Uttar Pradesh on the IL products offered by them, and their understanding of the market for IL products among various sections of the target population. The main outcomes of these interviews are captured below.

Information from MFI interviews

As part of the study, 3 leading MFIs⁴ in Karnataka and Uttar Pradesh were interviewed to get an understanding of the provider side for the individual liability loan products. As per one of the MFIs interviewed, their individual liability loan products are given to anybody who is interested and does not necessarily have to have had a JLG loan. However, a more rigorous cash flow estimation is used and multiple checks are performed before anyone is offered an individual liability loan product. The other two MFIs stated primarily offering IL products to their existing JLG clients who are referred by their loan officers based on performance. The referral form the first step of assessment for the potential client for IL loans.

⁴ We interviewed Janalakshmi, Sonata Microfinance and Grameen Koota. Note on the MFI's can be found in the Appendix.

All MFIs mentioned offering their individual loan products for income generating purposes, and for furthering the business requirements of mature JLG clients. Two out of the 3 MFIs stated conducting a check to see whether the loan is actually being used for an income generating activity by visiting the client within one month of loan disbursement, and conducting a visual verification. In terms of take-up, the IL loan products constituted 10 per cent or less than 10 per cent of the MFIs loan portfolio. In the MFIs understanding, all institutions interviewed stated client preference for JLG loans being higher than their IL products. The reason cited for this is the mandatory requirement of a bank account in case of a IL loan, and the repayments being deducted through the bank account. Since many poor households do not have a bank account or do not use it regularly, majority of the clients tended to prefer a JLG loan.

1) Clients who have an individual loans outstanding

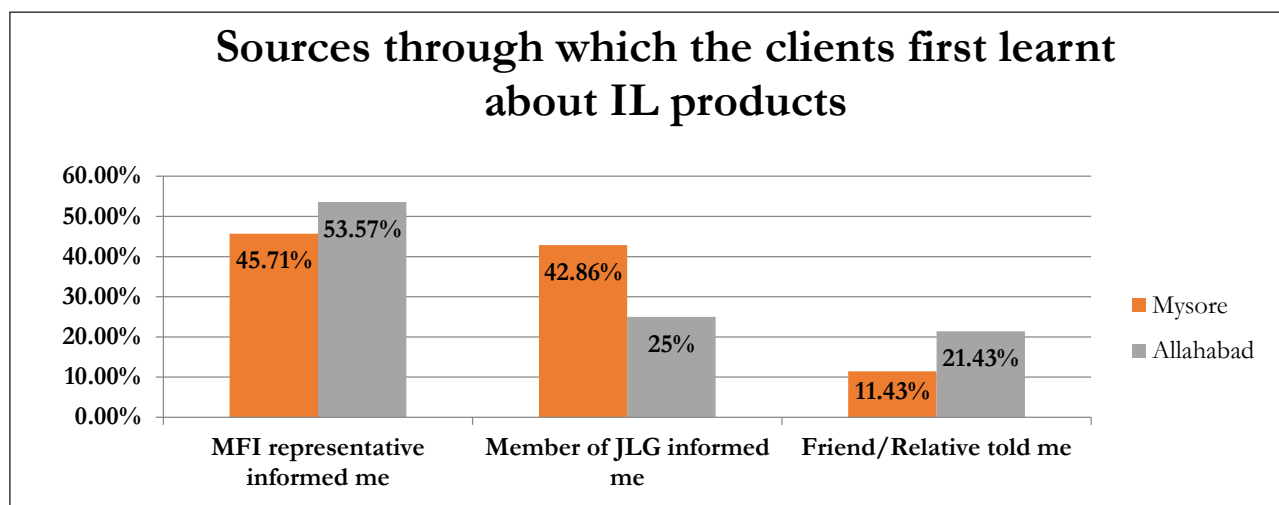


Figure 2.1 Source of information on IL product

MFIs were proactive in informing clients about individual liability loan products. Although, in Mysore, group members were almost equally active in introducing clients to IL products. This is especially important for Mysore, given that 60 per cent of the clients with IL loans approached the MFI for these, rather than getting IL products based on MFI referrals. On the other hand, for Allahabad, more than 50% of the clients were informed about the IL product by the MFI, and also got approached by the MFI to take an IL loan product. All the clients who were rejected, stated insufficient documents as a reason for their application being rejected.

Rejection on IL product - Mysore

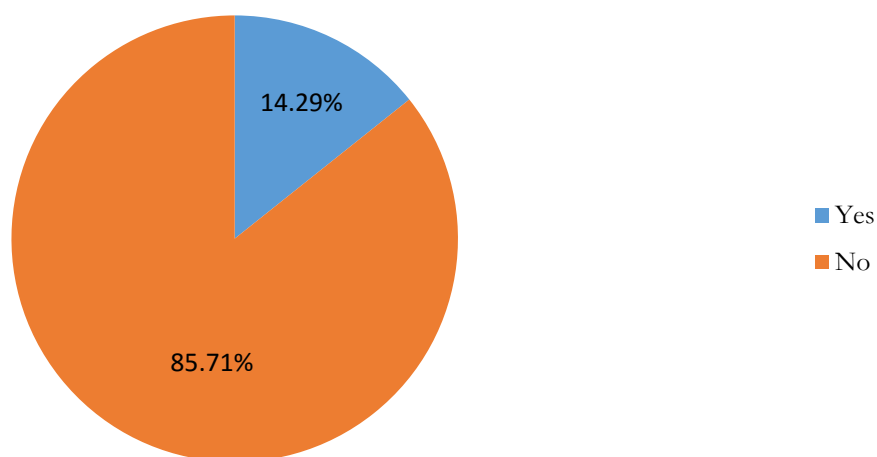


Figure 2.2 Rejection on IL product

While in Allahabad district, clients who had approached MFI for an IL loan were never rejected, about 14% of such clients in Mysore were rejected when they applied for an IL loan. All the clients who were rejected, stated insufficient documents as a reason for their application being rejected.

Preference for Individual Vs. Joint Liability Loan Products

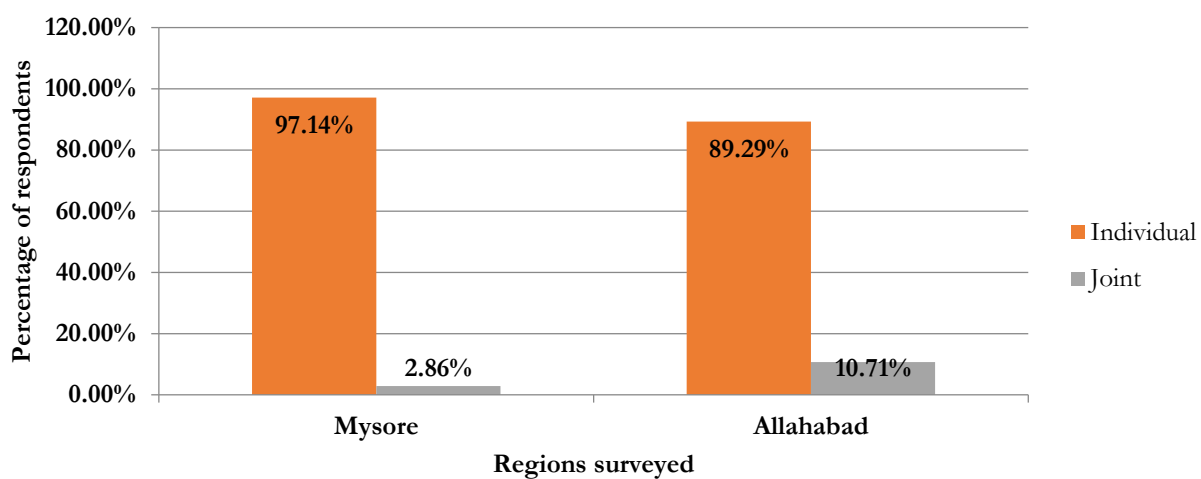


Figure 2.3 Preference for IL vs JLG products

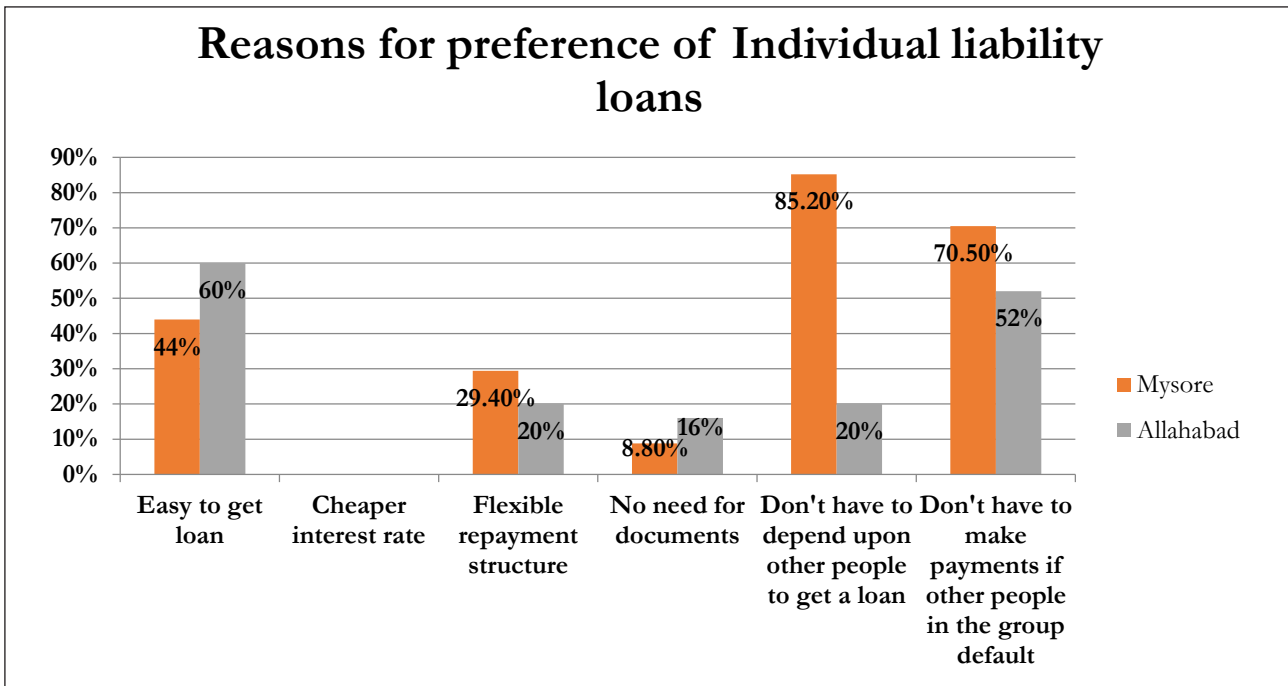


Figure 2.4 Reasons clients prefer IL product

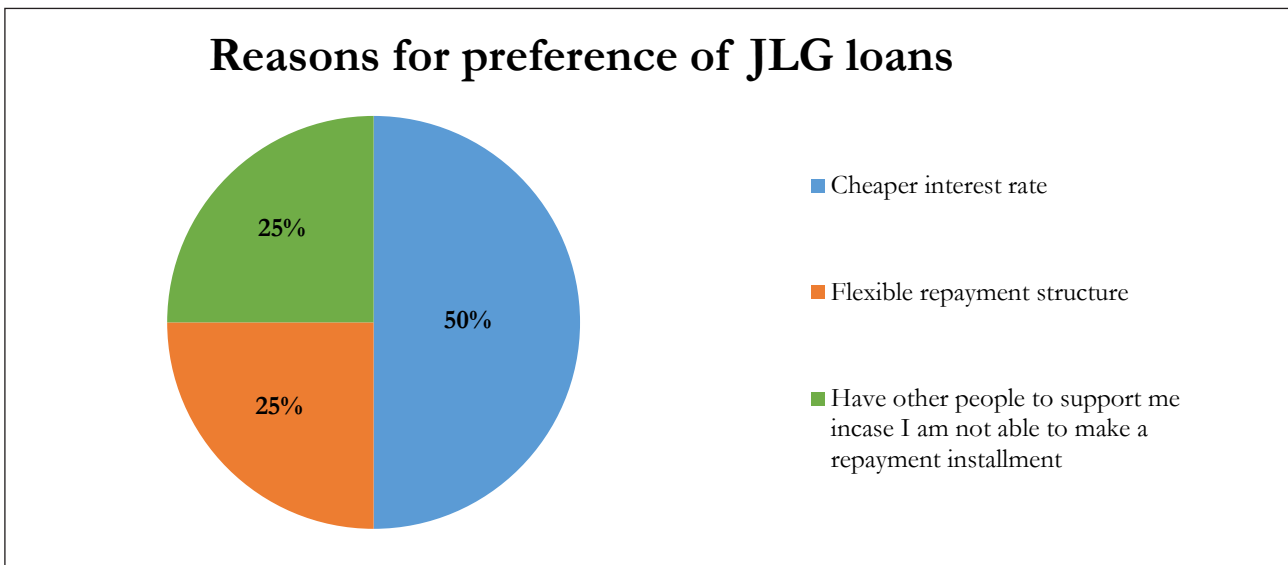


Figure 2.5 Reasons clients prefer JLG product

There seems to be a high preference for individual liability loan products. Despite the higher interest rate, most respondents from all categories under the study still preferred IL product. There were a few reasons that were cited predominantly for this preference. They included, main features of JLG model being constraining to believing that getting IL products is easier than a group loan.

Since the above data points that interest rates and repayment installments are higher among individual liability products as compared to joint liability loan products, an analysis of both the interest rate and repayment amount for all the IL and JL loans in our sample was conducted. The results in the below table corroborate this finding.

Interest rates for individual and joint liability loans

Loan Product	Mysore	Allahabad
Individual Liability loans	25.89%	25.14%
Joint Liability loans	20.04%	24.24%

Table 2.1 Avg Interest rates for IL and JL products

Average repayment installment for individual and joint liability loans (in rupees)

Loan Products	Mysore	Allahabad
Individual Liability loans	4125.4	2627
Joint Liability loans	849	705.8

Table 2.2 Average Repayment installment amount for IL and JL products

As indicated in the table above, the interest rates for IL loans are higher than JL loans. In terms of repayment instalments, this too was found to be much higher incase of IL loans. Additionally, individual loan products are given primarily for business purposes. Hence, in order to get a more nuanced understanding of IL loan product customers, a comparison of their stated and actual use of the loans, as well as business profile is presented below.

Primary Stated Purpose of Borrowing for IL

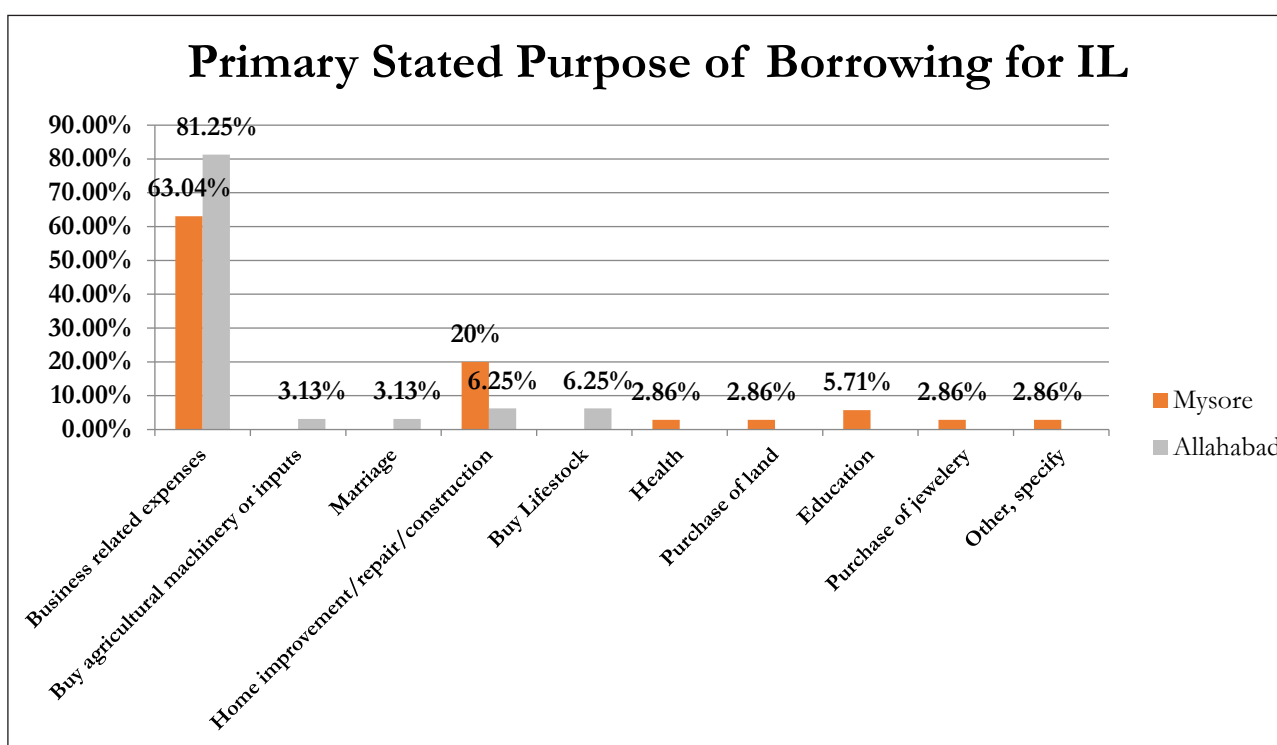


Figure 2.6 Primary stated purpose of IL borrowing

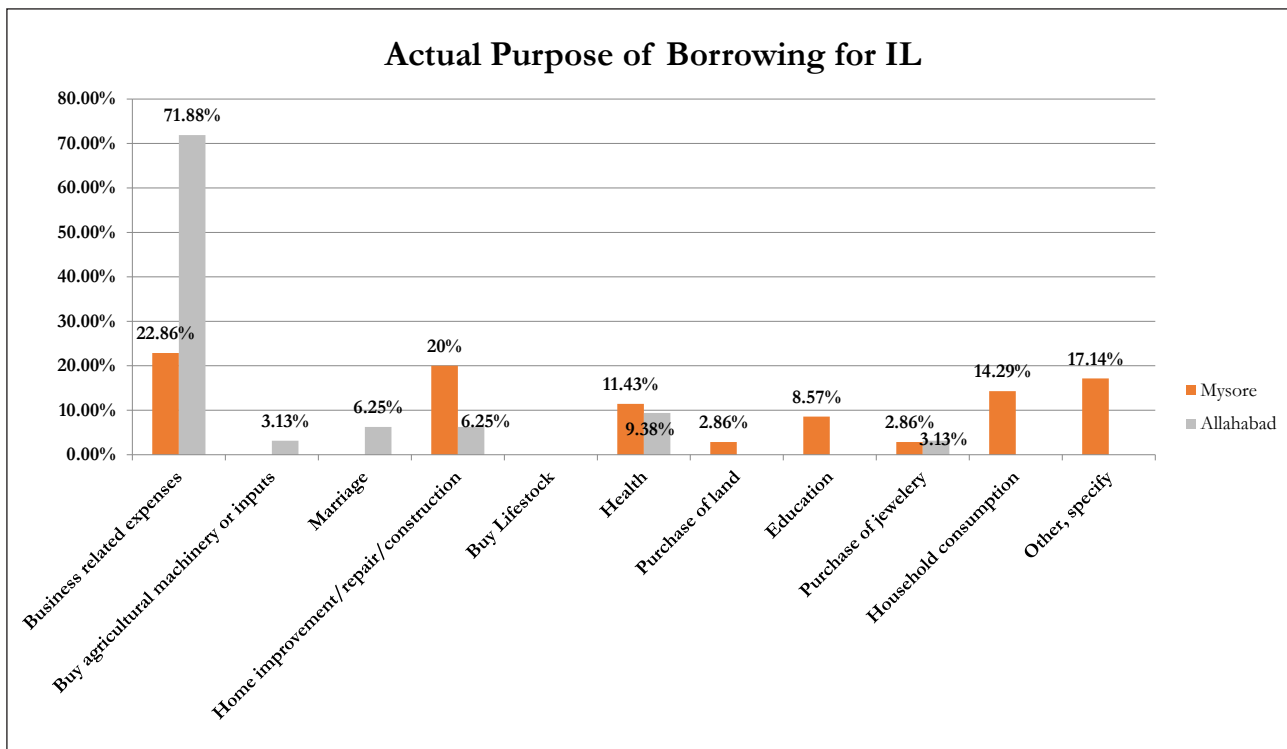


Figure 2.7 Actual purpose of IL borrowing

The above two graphs compare the primary stated and actual purpose of borrowing for individual loan products for both Allahabad and Mysore districts. Even though the primary stated purpose of borrowing for starting a new business or improvement of an existing business was high, this percentage drops when actual loan usage is taken into consideration, particularly in Mysore district. On the other hand, there is a sharp increase in the actual use of loans for household consumption smoothening, health emergencies and ‘other’ reasons. Even within the other category, the predominant use of the loan was for household consumption, education and other household expenses.

In terms of customer business profile, Mysore district, 25% of the clients’ or clients’ households owned a business, whereas this figure stood at 67.86% in Allahabad district.

Ownership of businesses of IL clients		
Is your Business outlet-	Mysore	Allahabad
Self-owned	83.33%	63.16%
Parent/Family owned	16.67%	26.32%
Owned with partner	0%	10.53%

Table 2.3 Nature of business ownership

Business performance of IL loan clients' businesses		
	Mysore	Allahabad
Average yearly sale	371000	139236
Average yearly business expenses	59036	33508
Percentage of businesses in profit	66.67%	89.48%

Table 2.4 Business performance

In both the districts, majority of the businesses were self-owned or parent or family owned. For all the businesses, the number of employees ranged from 1-10 employees, which indicates that these are small businesses. In terms of the percentage of businesses of IL clients in losses the figure stands at 33.33% in Mysore district as compared to 10.52% in Allahabad district.

The table below provides data on the household income of IL clients. The percentage of households with a net surplus income is interesting to note; there are households who are in negative net income (37.5% in Mysore and 14.28% in Allahabad).

Household Income of IL outstanding clients		
	Mysore	Allahabad
Average monthly household income	17385	34565
Average monthly household expenses	16256	14034
Percentage of household where net surplus income	62.50%	85.72%

Table 2.5 Household Income

For this category of clients who presently have individual loan products from MFIs, based on our data it can be concluded that:

- 1. There is a preference for individual loans over JLG loans, however interest rate seems to be a deterrent in their further uptake**
- 2. Even though individual loans are given for businesses purposes, the actual use of IL loans for business purposes is much lower and is often use for household consumption smoothening, or health purposes.**
- 3. Since, Individual loans are given by MFIs to more mature clients usually, we looked at the data on their income and business sales. We found a high percentage of households that have a net negative income, and businesses which are in losses.**

2) Clients who have defaulted on an IL loan

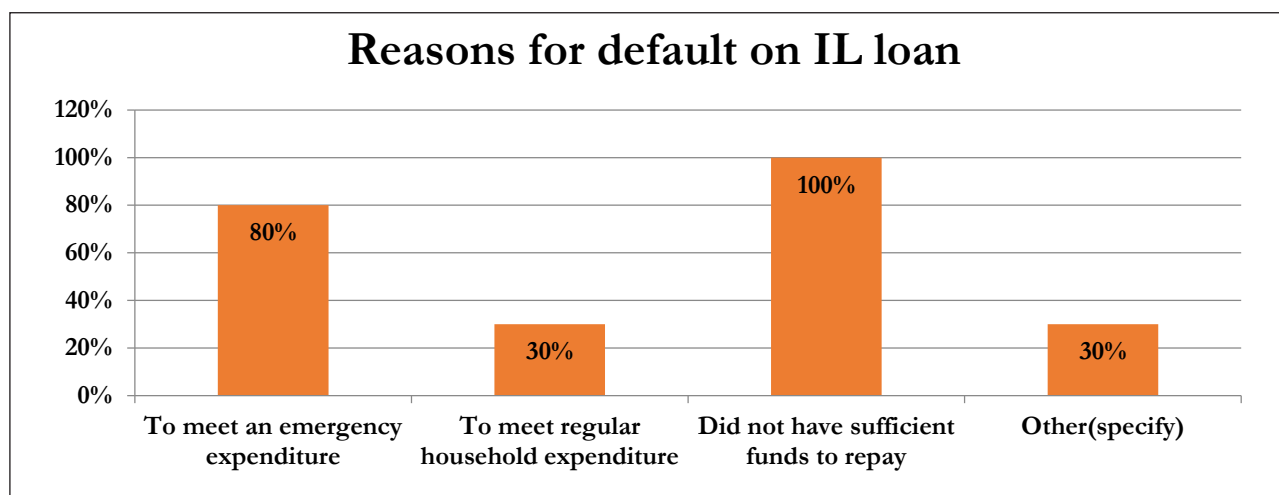


Figure 3.1 Reasons for default

A set of clients referred from a leading MFI, who defaulted on an IL loan were also interviewed. As per their definition, the clients have missed repayment installments on their loans. Our data shows that these clients missed a repayment, and 40% clients missed repayments three times in a row. These clients, who had defaulted on an individual loan were asked all the reasons for default, and they could choose more than one reason for why they thought they defaulted on the loans. The two predominant reasons for default were not having sufficient funds to repay (100% clients reported this) and to meet an emergency expenditure (80 per cent of those who defaulted on IL loans).

Since all the clients reported not having sufficient funds to repay the loan instalments, other key variables for this client group were assessed to understand the inability to pay better. 60% of clients in this group said they do not report all their existing loans to loan officers when applying for an MFI loan. Majority of them stated the fear of being refused more loans as the reason for not reporting their existing loans. However, when asked whether they have ever felt that their income is insufficient to cover their living costs, 80% said they have not felt so.

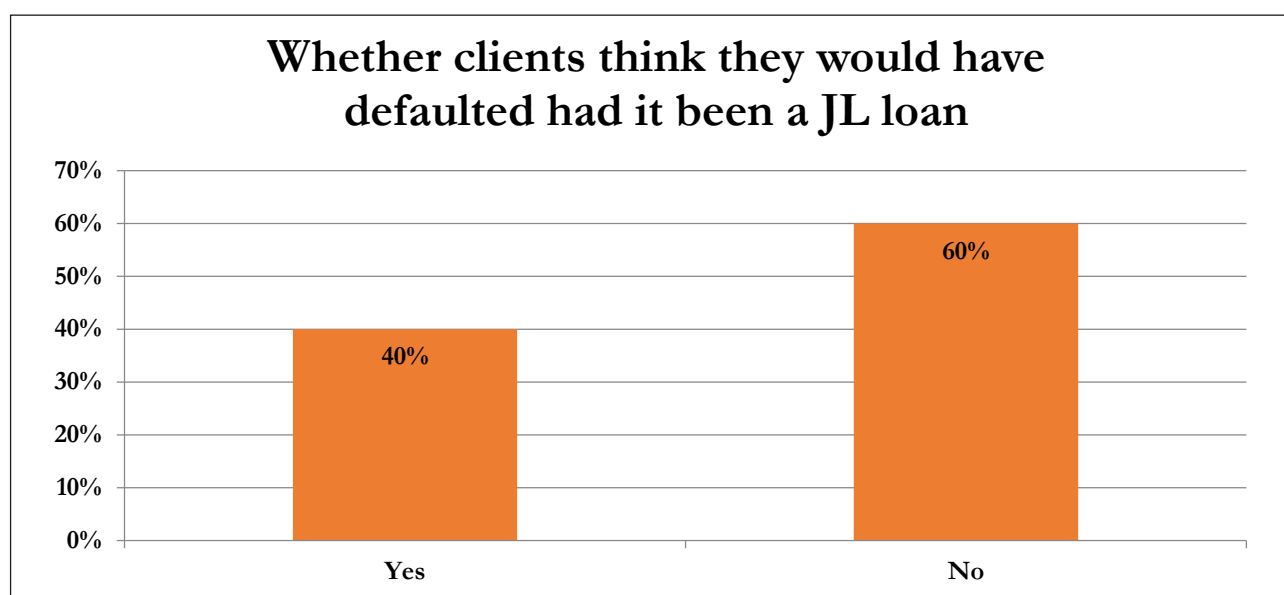


Figure 3.2 Perception of default likelihood

60% of clients felt they would not have defaulted if it had been a JLG loan as the repayment amount is less in JL loan. This reiterates the point our data makes above of repayment installments being higher in IL as compared to JL loans, which can be one of the reasons why respondents struggled to make the repayments in time.

Despite defaulting on IL loans, 90% of these clients still preferred individual liability to joint liability loans. The predominant reasons for this was, Individual loans being easily available, the non-dependency on others to get the loan, as well as non-requirement to make payments on their behalf.

As pointed in the earlier section, most MFIs give out individual loans for business purposes, the loan usage stated and actual purpose for clients who defaulted on the IL loan is presented below. As can be seen from the graphs below, even though 80% of the clients stated the primary purpose of taking individual loan to be business related, only 10% of the clients actually used the entire loan amount for business purposes. Consumption smoothening and health constitute 30% of the actual loan use even though they do not figure in the primary stated purpose of borrowing.

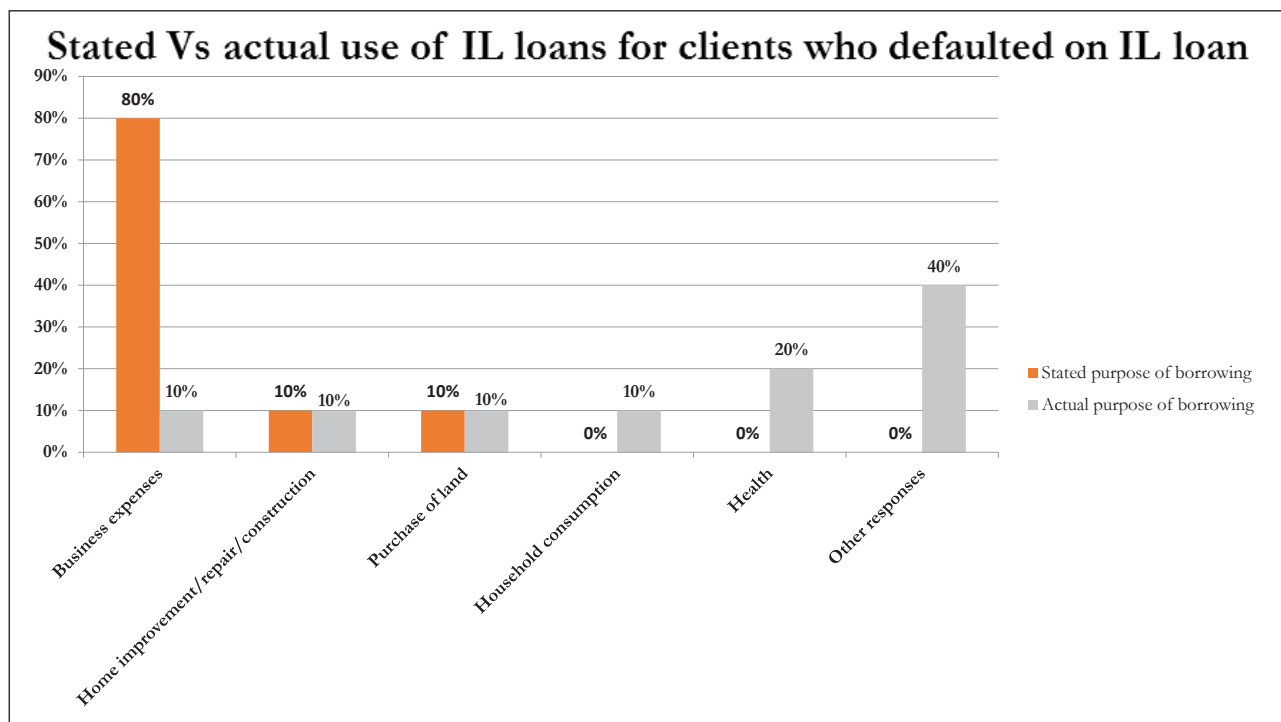


Figure 3.3 Stated vs actual loan usage

Within the category of clients who defaulted on an IL loan, 70% of these clients do not have a business. Of the 30% who have businesses, all are either self-owned or family/parent owned, and have employees between 1-10.

The table below details the household income for this category of clients. 50% clients have a net negative household income, which reiterates the reason majority clients stated for defaulting i.e. not having sufficient funds to make repayments.

Household Income of clients who have defaulted on IL loan	
	Total
Average monthly household income	14,800
Average monthly household expenses	15629
Percentage of household where net income is negative	50%

Table 3.1 Household income of default clients

For this category of clients, who have defaulted on an IL loan, we can make the following conclusions based on the data:

1. Even though these clients have defaulted on IL loan, 90% of them still prefer an IL loan
2. Even though a significant percentage of clients' stated loan purpose was business related, none of them used the entire amount for business purposes
3. The predominant reason for default was not having sufficient funds
4. Despite feeling that they would have not defaulted had it been a JLG loan, these clients still preferred having individual loans.

3) Clients who were offered an IL loan and did not take it up

To understand barriers in the uptake of IL products, potential clients who were offered IL loans by MFIs but did not take it up were interviewed. The primary reason for this group of respondents for not taking up an IL loan, in Allahabad, was not feeling the need for a loan, followed by not feeling the need for an IL loan in particular. On the other hand, in Mysore, there seemed to be two primary reasons for this trend – not feeling the need for an IL loan and preferring a JL loan over an IL loan. Another point to note is that all these clients, had an outstanding JLG loan from an MFI.

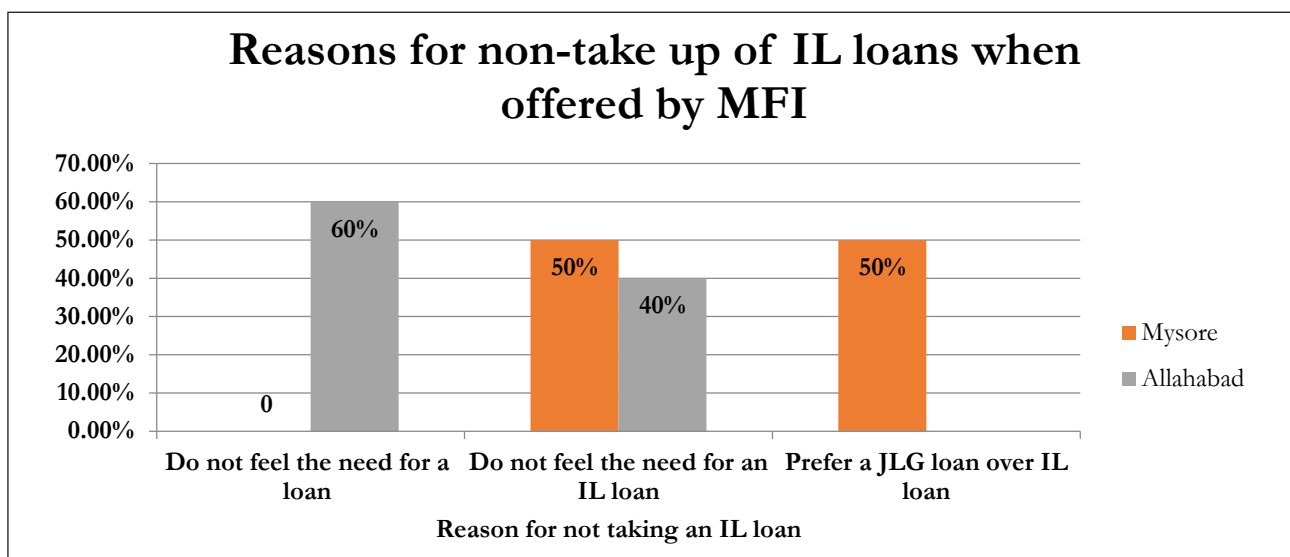


Figure 4.1 Reasons for not opting for IL loan

Clients indicated a variety of changes that could increase take-up of the IL product. Primarily, a reduction in the interest rates was stated as a factor that would make these respondents reconsider not taking up an IL product. This corroborates with our above mentioned finding of the prime reason for default in IL loans being high interest rate and repayment amount, and also cheaper interest rates being the prime reason for preference of JLG loans.

Within this category, more than 50 percent of the respondents from this segment had a business. All the businesses in both districts were self-owned and had employees in the range of 1 to 10. The table below shows the annual average sales and expenses of the businesses. Both average yearly sales and expenses were much higher in Mysore as compared to Allahabad. However, in Mysore, there were fewer businesses in profit (66.67%), as compared to all profitable businesses in Allahabad.

Business performance of clients who were offered IL & did not take it		
	Mysore	Allahabad
Average yearly sale	853868	328333
Average yearly business expenses	885667	7967
Percentage of businesses in profit	66.67%	100%

Table 4.1 Business performance

Household Income of clients who were offered IL but did not take it up		
	Mysore	Allahabad
Average monthly household income	24,566	46,800
Average monthly household expenses	23,495	10,474
Percentage of household where net income is negative	16.6%	0%

Table 4.2 Household income

For this category of clients, who were offered IL but did not take it up, the following conclusion can be made based on the data:

- 1. Majority clients have a JLG loan and do not feel the need for a loan or for an IL loan**
- 2. Half of them own businesses, yet do not want to take up individual loans.**
- 3. High interest rates and repayment amounts seem to be the deterring factor to take up of IL loans**

4) Micro-entrepreneurs who have never borrowed from an MFI before

We interviewed 30 micro-entrepreneurs, 15 each in Mysore and Allahabad districts respectively, who had never borrowed from an MFI before. These interviews shed light on their reasons for not taking up any loan product from an MFI, and their borrowings from other sources.

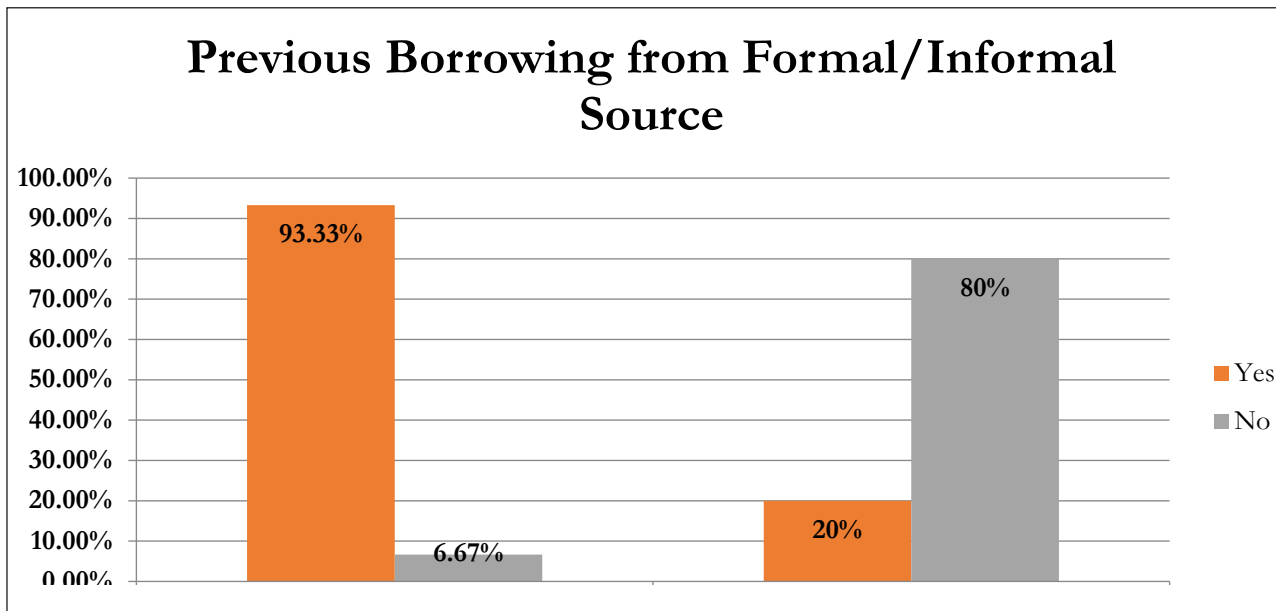


Figure 5.1 Previous borrowing from formal or informal lending source

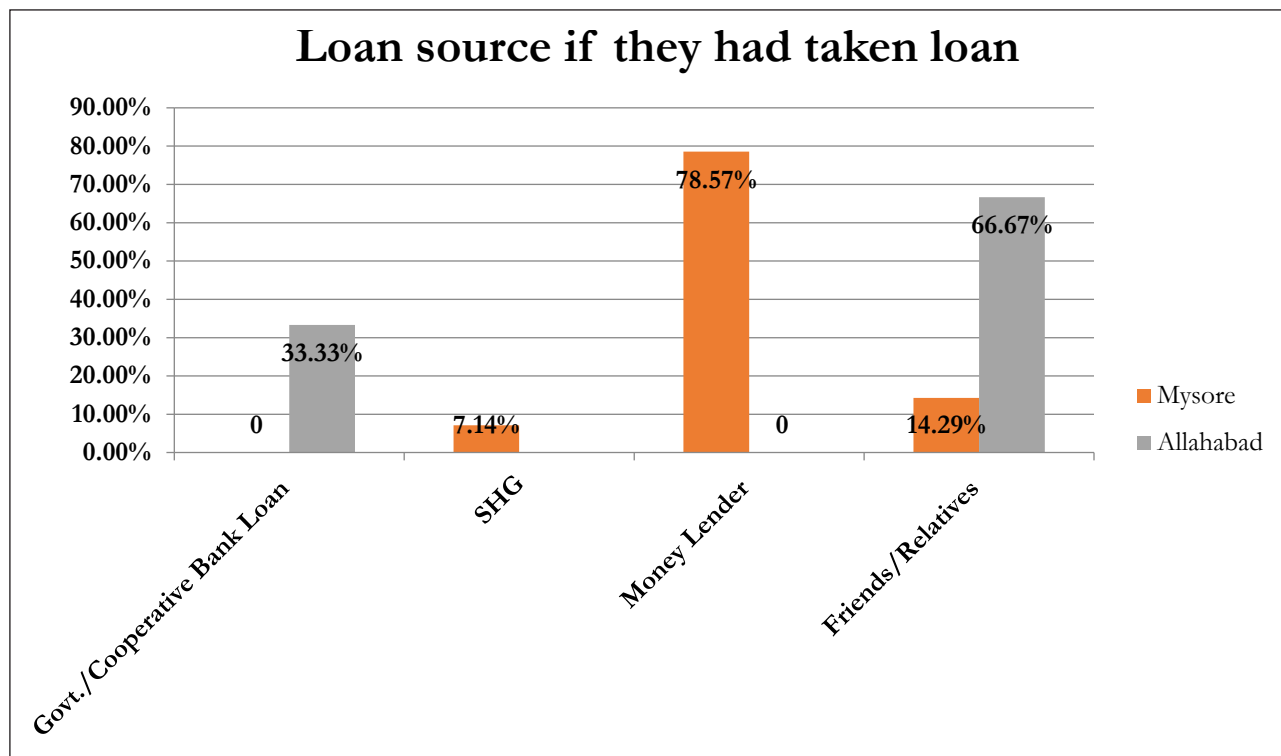


Figure 5.2 Source of loan

We can see that majority of the micro-entrepreneurs who never borrowed from MFI, had also not taken a loan from any other sources, in Allahabad district (80 per cent). However, in Mysore, majority of them had taken a loan from another formal institution or informal source. In Allahabad, majority of those who did take a loan from a non-MFI source, took loans from friends or relatives (66.67 per cent), whereas in Mysore, majority took loans from money lenders (78.57 per cent).

For micro-entrepreneurs who have never borrowed from any formal source, the predominant way to fund their business needs was through help from friends and relatives in times of need, in Allahabad district, and through other sources of their own income in Mysore.

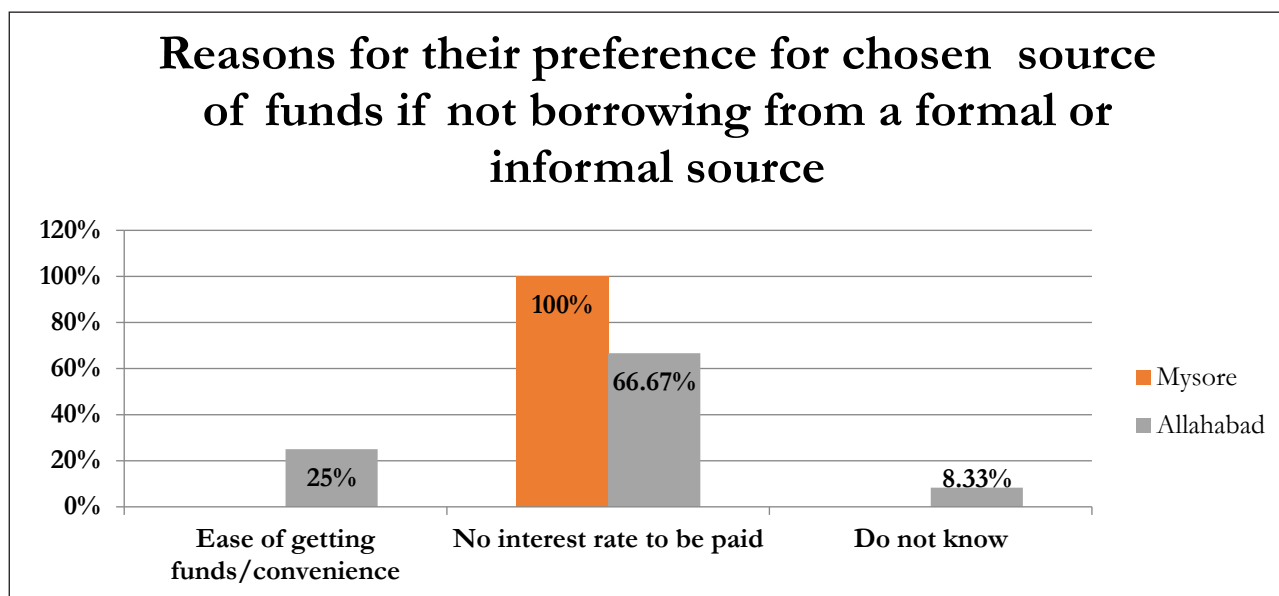


Figure 5.3 Reasons for reliance on informal sources

Have you ever considered taking a loan from an MFI?	Mysore	Allahabad
Yes, but never approached an MFI	20%	26.67%
Yes, have applied but loan was rejected	-	20%
No, never considered	80%	53.33%

Table 5.1 Consideration for loan application

Reasons for not considering taking MFI loans

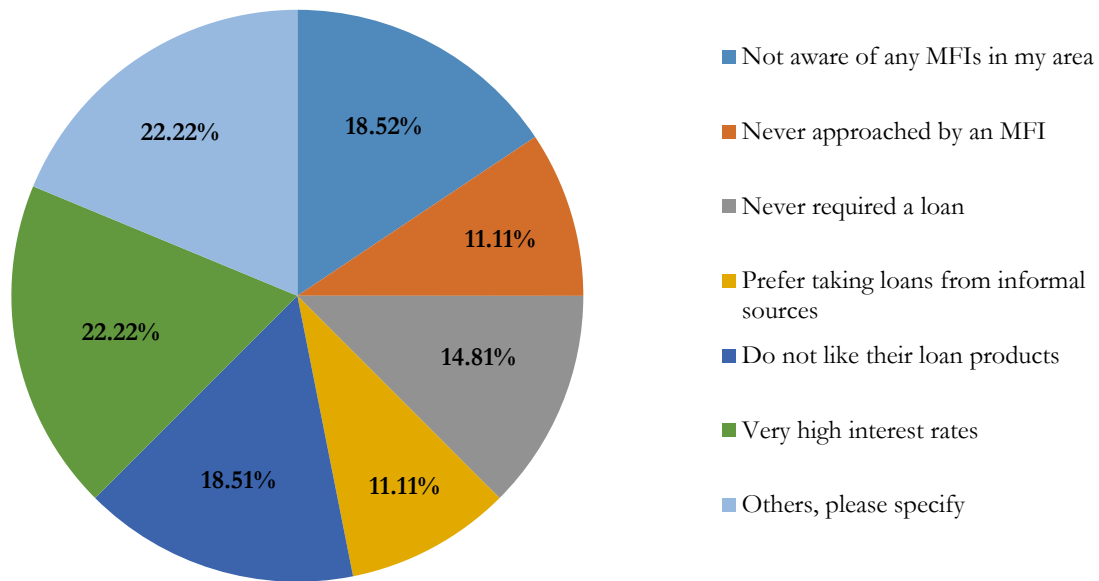


Figure 5.4 Reasons for not considering MFI loans

The above three charts/tables show that the main reason micro-entrepreneurs do not borrow from any formal or informal source like money lenders, but prefer borrowing from other informal sources like friends/ relatives or using their own income is because of what they consider to be high interest rates of such institutions.

Among these micro-entrepreneurs, 80% in Mysore, and 53% in Allahabad had never considered taking a loan from an MFI. Also, among those micro-entrepreneurs who had never considered borrowing from an MFI, one of the primary reason they stated for the same was high interest rates.

Preference of Individual Vs. Joint Liability Loans

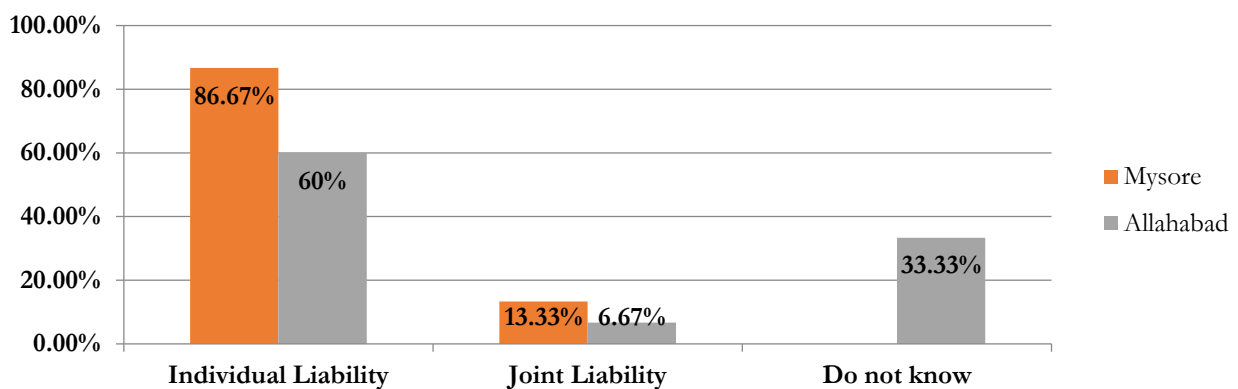


Figure 5.5 Preference of IL and JL products

The above graph shows that, micro-entrepreneurs preferred individual liability loans to joint liability loans, if they were to take a loan from an MFI. The significant reasons stated for this preference was the ease in getting loans from MFIs, and non-dependence upon others for the loan (as in the JLG model), and less or no interest rates.

For this category of clients, who have never borrowed from an MFI, we can make the following conclusions based on our data:

1. Interest rate seems to be an important factor in deciding the source of loans
2. High reliance on friends & family, or other sources of own income to support business
3. If these clients borrow from an MFI, majority of them would prefer a individual loan over a joint liability loan.

5) Clients in their 3rd or 4th JLG loan cycle

Most MFIs give individual loan products to clients who are in their 3rd or 4th cycle of JLG loans as these clients are considered to be mature and would make better repayments. This was validated further through the detailed interviews we conducted with MFIs offering IL loan products in Allahabad and Mysore.

For this study we also interviewed clients in their 3rd or 4th cycle of their JLG loan to understand their loan, repayment trends, as well as income and business condition. Since 3rd/4th cycle JLG clients are considered to be more mature, we tested this assumption using different variables in our data set, and compared it with 1st/2nd cycle JLG clients we interviewed with the same survey-questionnaire. We looked especially the business profile of clients by their loan cycles to see if there is a difference that existed in their income, business and repayment discipline. Among clients in their 3rd/4th JLG loan cycle, 4.55% in Mysore and 29.41% in Allahabad districts owned a business. For clients in their 1st/2nd JLG loan cycle, 3.31% in Mysore and 26.67% in Allahabad districts owned a business.

In terms of business ownership, for 3rd/4th cycle clients, there was close to an even split between business which were self-owned and business owned by parent or that was family owned. This however was true even for 1st/2nd loan cycle clients. Infact, there were more self-owned businesses among 1st and 2nd cycle businesses in Allahabad. In terms of number of employees, all businesses, across different categories have 1-10 employees.

Ownership of business across different JLG cycle clients				
Is your Business outlet-	Mysore - 3 rd /4 th cycle JLG clients	Allahabad - 3 rd /4 th cycle JLG clients	Mysore - 1 st /2 nd cycle JLG clients	Allahabad - 1 st /2 nd cycle JLG clients
Self-owned	50%	53.33%	50%	66.67%
Parent/Family owned	50%	46.67%	50%	25.00%
Owned with partner				8.33%

Table 6.1 Nature of business ownership

Comparison of business performance across different JLG cycle clients				
	Mysore - 3rd/4th cycle JLG clients	Allahabad - 3rd/4th cycle JLG clients	Mysore - 1st/2nd cycle JLG clients	Allahabad - 1st/2nd cycle JLG clients
Average yearly sale	110000	112733	165450	72275
average yearly business expenses	31650	46264	47800	11375
Percentage of businesses in profit	100%	80%	100%	91.67%

Table 6.2 Comparison of business performance of JLG clients

We also compared the business performance of these by the loan cycle of the clients. The size of the business in terms of average annual sales, seems higher among 3rd/4th loan cycle clients in Allahabad district. However, in case of Mysore, the average annual sales seem higher for businesses of clients in 1st/2nd loan cycle. In terms of the percentage of businesses in losses, there are no such businesses in Mysore across both loan cycle categories. In Allahabad more businesses owned by 3rd or 4th cycle loan clients were in losses as compared to 1st/2nd loan cycle clients. This shows that there was not a significant variation between 1st/2nd and 3rd/4th cycle JLG clients, on a lot of important variables like missed repayments, business performance etc.

Comparison of household income and expenses across different JLG cycle clients				
	Mysore - 3rd/4th cycle JLG clients	Allahabad - 3rd/4th cycle JLG clients	Mysore - 1st/2nd cycle JLG clients	Allahabad - 1st/2nd cycle JLG clients
Average monthly household income	13899	16222	9789	23,724
Average monthly household expenses	14276	11453	9790	7899
Percentage of household where net income is negative	40.90%	27.45%	57.8125%	28.8%

Table 6.3 Comparison of business performance of JLG clients

The above table compares the average monthly income and expenses in both districts across different cycles of JLG clients. In terms of the percentage of households who have a net negative income, the figures are higher for 1st/2nd cycle as compared to 3rd/4th cycle, however, the difference is minute in Allahabad, and quite significant in Mysore.

The study also looked at missed payments and default rates for clients in the two districts. Overall, 16.2% clients in their 3rd/4th cycle of JLG loans have missed a payment or made a repayment late, as compared to 9.41% clients in their 1st/2nd cycle of JLG loans. Out of those who have missed a payment or paid a repayment late, 23.8% of JLG clients in 3rd/4th loan cycle have missed three repayments in a row as compared to 0% of JLG clients in 1st/2nd loan cycles.

For this category of clients, who are in their 3rd/4th JLG loan cycle, we can make the following conclusions based on our data:

- 1. These clients, across the board, are not necessarily mature clients. Though they may be doing better than 1st/2nd clients on some variables like income, this is not true for all the variables – especially business ownership, repayment trends and business performance.**

6) Comparison across different categories

The below table compares the income and business related indicators, across all the 5 different categories of clients. There are significant variations by district on certain parameters. We can see that among all the categories, clients in their 3rd/4th cycle of JLG loans have the lowest ownership of business. On the other hand, the highest ownership of business is found among clients who have an IL loan outstanding, in Allahabad, and clients who were offered an IL but did not take it up, in Mysore district. In terms of the income indicators, clients who have been offered an IL but did not take it up, have the highest percentage of net surplus income as well as average monthly household income.

	Average household monthly income (in rupees)		Percentage of households with net surplus income		Ownership of business		Percentage of businesses in profit	
	Mysore	Allahabad	Mysore	Allahabad	Mysore	Allahabad	Mysore	Allahabad
Clients who have IL loan outstanding	17385	34565	62.50%	85.72%	25%	67.86%	66.67%	89.48%
Clients who have defaulted on an IL loan	14800		50%		30%		100%	
Clients who were offered IL but did not take it up	24566	46800	83.4%	100%	50%	60%	66.67%	100%
Clients in their 3rd/4th cycle of JLG loans	13899	16222	59.1%	72.55%	4.55%	29.41%	100%	80%
Micro-entrepreneurs who have never borrowed from an MFI	8111	21166	26.6%	46.6%	100%	100%	86.67%	100%

Table 6.4 Comparison across different categories

3

POLICY AND PRODUCT RECOMMENDATIONS

The main findings from our study suggest that though individuals state they are borrowing for income-generating purposes, there is a disparity between stated and actual usage of loan wherein a large number of individuals use the loan for household consumption, marriage and health. Secondly, there is a significant variation in respondents who own a business; about 46% of the sample does not have a business in the household. Thirdly, clients in their 1st and 2nd loan cycle were not very different from clients in their 3rd and 4th cycle based on repayment trends and business performance. Lastly, individuals tend to prefer IL products even if they were of lower loan amounts. These key findings suggest MFI/SFB's can innovate in their current product designs to include tailoring of products to ensure MFI profitability, flexibility in repayment structures and product designs, better assessment of credit worthiness and products targeted toward differing consumption needs. Based on this, we provide the following conclusions and recommendations:

- 1) *Account for adverse shocks when assessing loan uptake capacity of client prior to loan disbursement and diversification in financial products offered:* As is evident from our data above, a number of loans (both IL and JLG) get used for consumption smoothening and household emergency purposes. These findings are further substantiated by other studies conducted on MFI loan uptake and usage in different parts of the country, which point to similar results.⁵ The use of loan amounts meant for productive purposes being used for emergency purposes, health reasons or for consumption smoothening was seen as a dominant trend across all the JLG and IL clients we interviewed for the study. Though this information is not unheard of, it is surprising that the sector has been trying to address this concern for a long time but hasn't been able to. According to RBI guidelines, not less than 50% of total loans given by the MFI should be toward income generating activities and especially for IL products. As the data indicates delays in repayment on IL and usage of the loan for consumption purposes, this would have a negative effect on the profits that MFI's expect. Thus there is a need to tailor products and design products that respond to these consumer needs that are predominant among clients. Designing and offering products such as emergency loans, health insurance, consumption boost loans that carefully cater to such needs of borrower households and attempt to match actual use of loans on the client end is imperative.

⁵ See "A report on over-indebtedness of MFI clients in saturated areas", IFMR LEAD 2017
Also see, "Gold as a tool for financial inclusion", IFMR LEAD 2017

Previous research in low-income Kenyan households led to the development of a combined savings-and-loan product, M-Shwari, which works through the mobile money wallet, M-PESA. Once customers have deposited a minimum amount in their M-Shwari account, they are eligible for differing loan amounts with a reasonable interest amount that they can access whenever the need arises, thereby primarily targeting customers emergency needs. When the requirement arises, customers can request a 30-day loan up to a credit limit determined by M-Shwari's repayment algorithm, and this loan amount is instantly credited to the users M-PESA account. Given the recent push toward digital transactions and increase in the use of mobile money wallets such as PayTM, AirtelMoney, MobiKwik, this type of product design would be ideal for SFB's and MFI's who can partner with the mobile wallets. The payment banking facilities offered some of these wallets currently could form the base of the savings component of this combined product. Thereby, given the Indian context, a combination savings-and-loan product or even a simple credit product with immediate disbursement through a mobile money wallet could most efficiently target consumer needs.

A horizontal expansion as such would not only enable the sector to contribute towards the drive to sustainable financial inclusion but also add to the sustainability of the loans being offered and reducing risks of delinquency. Additionally, this will lead to responsible lending and follow the principle of suitability as was highlighted as a requirement in the Mor committee report.⁶

- 2) *Expand on eligibility criteria for individual loan products:* The assumption that 3rd/4th JLG loan cycle clients are more mature and hence can be considered for an IL loan does not necessarily hold true. From our data, we find that though in some areas 3rd/4th loan cycle clients are doing better, it is not true across the two districts, and not by a very large percentage. Hence, we recommend that a robust cash flow estimation strategy is a better way for MFIs to assess the eligibility of clients for IL loans, and these loans need not be restricted to 3rd/4th loan cycle clients. There is a need for MFIs to incorporate innovative techniques to assess the credit discipline of clients. Given that 1st and 2nd cycle clients may not be very different from 3rd or 4th cycle JLG clients in their repayment trends or business performance, MFIs should consider giving individual loan products to 1st and 2nd cycle clients who show credit discipline and aspire to have individual loan products.

As the main idea behind the graduation approach is the ability for MFIs to be able to assess clients' repayment behaviour before offering them a higher loan amount, this can be overcome by incorporating innovative credit scoring systems into the loan product that can help determine which customers (even those in the 1st and 2nd cycle could be upgraded to the IL product. With the advent of FinTech's focusing on financial inclusion, there are firms such as Lenndo and IndiaLends that aim to devise a credit score for low-income households with no previous credit history or repayment information by using information from customers contacts, SMS history, call logs, and browsing behaviour. Such partnerships between MFIs/SFB's and FinTech's could make the graduation process easier for MFIs as well as viable for customers in their first two loan cycles.

⁶ <https://rbi.org.in/Scripts/FAQView.aspx?Id=102>

3) *R&D for offering a variety of individual loan products that cater the aspirations of various sections:* There seems to be high preference for individual liability loan products across all loan categories. However, high interest rates seem to be the main deterrent to its take up. Since most MFIs charge a high interest rate, to lower their risks, a better way around this may again be robust cash flow estimations of clients to ensure repayment capability, rather than increasing interest rates. Additionally, Policy makers at the apex level and industry investors can earmark soft and concessionaire funds to support MFIs engagement in commercialization of new products and services that meets the needs and aspirations of these specific customer segment who prefer individual loan products but find the repayment rates for the same to be too high.

In terms of product design, IFMR LEAD has tested out some flexible repayment products that coincide with the seasonality of cash flows and productivity. To this end, one ongoing study offered IL customers a flexible repayment structure wherein repayment was relaxed during the peak season of business activities.⁷ Businesses were allowed to take two “holiday periods”; 3 consecutive months during the 24 month repayment period during which amount repaid is less than the regular installment amounts. This innovative product caters to business owner needs; the 15% take up rate of this product indicates that borrowers seem to prefer repayment relaxation during the peak season of their business activity so that they can re-invest the increased profits into their business to further strengthens activity, even if they are required to pay 2% more interest. The features of the product are elaborated below. This novelty in design allows for seasonality of business activities and boosts the business growth and thereby capacity to repay.

Product Features of Flexible Loan

Repayment period	24 months
Rate of interest	23.99% + 2% (2% higher than for the regular loan product)
Number of ‘holiday periods’ – extension of credit	2 holiday periods – 1 st allowed in 4 th -12 th month and 2 nd in 13 th -24 th month
Minimum gap between holidays	3 months

Other research in this area has tested out designs intermediated lending for the individual loan product MFIs offer. In one study, researchers used behavioural economics insights to design a product that relies on a structured finance approach that used crop predictability as collateral, had a simplified payment collection structure and varying credit limits. The product was tested on sugar cane farmers; to meet consumption needs before harvest, farmers rely on informal loans from moneylenders and then spend most of their income from harvest on repaying the moneylender. With this product, farmers could borrow money through the mill at which they process their cane at harvest time. This intermediary approach ensures cheaper and ensured payment collection. This intermediary approach can be modified within the MFI/SFB context to provide relaxations and benefit from social network knowledge.

⁷ <http://ifmrlead.org/a-study-on-repayment-flexibility-contract-choice-and-investment-decisions-among-indian-microfinance-borrowers/>

Researchers have tested an example of this - TRAIL (Trader-Agent-Intermediated-Lending) product.⁸ This IL product harnesses local information and incentives to select individuals with a good repayment capacity and credible history. TRAIL loans incorporate informal traders/lenders with extensive experience of lending to lower-income households, chosen randomly from the local community. These agents are required to recommend local clients for these TRAIL loans, and are incentivized with commissions and deposits from customers depending on the referred customers' repayment behaviour. Customers are motivated to repay as they can then obtain a higher loan amount in the next cycle, thereby from small IL loans they can upgrade to larger amounts. This product meets the RBI goals of lending to the poorer sections at lower interest rates, using a reasonable variant of the BC/BF mechanism.

Product Features of TRAIL	
Loan cap amount	₹ 2000
Repayment period	4 months (disbursement coincided with harvest and was due after cultivation)
Rate of interest	18%
Requirements	No savings/collateral requirement
Borrower repayment incentive	133% of current loan repaid available in next cycle

Product innovations such as these could help MFI's/SFB's further develop their IL capacity and lending portfolio.

4) *Strengthen cash-flow analysis by having innovative measures to check loan usage of clients:* Our study points towards the need to have standard robust methodologies in place to assess the cash-flow of client that rely on more than just self-reported income data. This could include bank record analysis, or business site field-visits on part of the loan procurement officer. Even though individual liability loan products are given for business purposes, our data shows that a large number of loans are not actually used for the same. Although, MFIs conduct checks to verify the loan usage, this was being practiced only by a few MFIs interviewed and usually done within two weeks of loan amount disbursed. It is necessary that MFIs conduct more robust and regular checks to verify the actual loan usage, apart from assessing the loan amount of clients accurately.

As incorporating further checks depends on the operational capacity of each lending institution, strengthening the back-end systems in place to analyze cash flow, credit history estimations and quick digitalization of data would be the first step toward ensuring fewer discrepancies in cash-flow and loan usage. Strengthening the quality of the data that is initially fed into the system would help with better customer assessments and monitoring at all further levels. Software such as ARTOO can be included in the MFI/SFB operational structure as it ensures doorstep credit assessment, feeds data from the field digitally, better MIS management and comprehensive repayment tracking. Using these software could form the base of measures taken by lenders to ensure correct usage and proper cash flow estimation. Additionally, better digitized information can help MFI's in understanding their customer segments better and lead to product innovation and diversification.

⁸ http://ibread.org/bread/system/files/bread_wpapers/375.pdf

A

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B1. Questionnaire for Respondents

SIDBI Policy Study Questionnaire – Individual Liability and Cash Flow Analysis for Client Households

Interviewer: COMPLETE BEFORE BEGINNING THE SURVEY		
0.1A. Block name: _____	B. Block Number:	
0.2A. District name: _____	B. District Number:	
0.3A. Village name: _____	B. Village Number:	
0.5A Household ID number:		
0.7A. Household Address: _____	B. Household Telephone: _____	
0.7A.1 Any landmark near the house.....		
0.7A.2 Aadhar or Ration card of the head of the household		
(Interviewer Note: Write the name and number)		
0.8A Date of visit: Day	Month	Year
0.9A Interviewer code:	B. Interviewer name:	
0.10 Start Time:	Hour:	Min:

Note: For Individual liability, speak to specific client whose name we have received from MFI. For cash flow analysis, the survey needs to be conducted with the respondent who has taken the MFI Loan, if that person is not able to respond then other people in the household can be interviewed in the presence of the person who has taken the loan from the MFI. The thing to ensure is that you have to make sure that the person who has taken the MFI loan is present there in front of you while taking the survey

CONSENT

Dear Sir or Madam,

Hello, my name is You are invited to participate in a study that aims to improve the current individual loan products offered by MFIs. The study is overseen by a research team from the Institute of Financial Management and Research in India. I would like to spend a few minutes telling you a bit more about this study and your rights as a participant.

This study is aimed at understanding the ways in which the MFIs can better assess the clients' needs and preferences and create a loan product that is best suited to the client's needs. The study is also aimed at understanding the ways in which the MFIs can better assess the income-loan assessments for households and appropriate credit eligibility amount for the client. To understand this, we are conducting a survey, which we expect should last around 1 hour. All surveys together would help us point towards gaps in the current individual lending model in the MFI sector. The surveys will have questions on income, loan preferences, repayment preferences etc.

Risks of participation: There are no foreseeable risks to participation.

Confidentiality: The information you provide will be aggregated after excluding all personal identifiers. Furthermore the aggregated information will be used for research purposes only.

Voluntariness: Performance of Individual lending model: We do not anticipate that you should face any problems from participating in this study. However if at any point you feel uncomfortable participating in these discussions, you are entirely free to, decline to answer any question, or choose to leave the discussion completely.

Do you have any questions for me?

WHOM TO CONTACT

If you have any questions about the study, please contact:

Mr. Mahantesh

Regional Field Executive (South)

PH: 9916526553

Mr. Pramod Tiwari

Regional Field Manager (North)

PH: 9414274821

Household roster

INTERVIEWER READOUT: We would like to know who lives in this household*. Let me assure you that any information you provide is strictly confidential.

I would like to know the age, gender, education level, occupation, and relationship to you of each of the members of this household who lives here.

***Interviewer Flag:** All people, including children, who live or have lived under this “roof” or within the same house for at least 30 continuous days in the past 1 year, and when they are together, they share food from a common source, and contribute to and/or share in a common resource pool and individuals who do not have a permanent residence outside of this household.

Z.1 By the definition explained above, how many household members are there in your household, including yourself?

RECORD THE NUMBER

Line no.	A. First and last name of household member	B. Sex of the member MALE1 FEMALE2	C. Relationship to respondent SPOUSE/ PARTNER2 SON/ DAUGHTER3 SON/ DAUGHTER- IN-LAW4 STEPSON/ DAUGHTER5 GRANDCHILD6 BROTHER/ SISTER7 BROTHER/ SISTER-IN-LAW8 FATHER/ MOTHER9 FATHER/ MOTHER-IN- LAW10 GRANDPARENT11 GREAT- GRANDCHILD12 OTHER FAMILY13 HOUSEHOLD HELP14 LODGER ..15 FRIEND ...16 OTHER (Specify). -888	D. Age In case of a child below the age of 1, enter age as 00	E. Highest education level of the member COMPLETED CLASS 1 1 COMPLETED CLASS 2 ...2 COMPLETED CLASS 33 COMPLETED CLASS 44 COMPLETED CLASS 5 5 COMPLETED CLASS 66 COMPLETED CLASS 77 COMPLETED CLASS 88 COMPLETED CLASS 9 ...9 COMPLETED CLASS 1010 COMPLETED CLASS 11 11 COMPLETED CLASS 1212 OTHER DIPLOMA13 CERTIFICATE COURSE14 GRADUATE AND ABOVE15 INFORMAL SCHOOLING16 GOVERNMENT PROGRAM FOR CHILDREN (ANGANWADI)17 ADULT LITERACY PROGRAMME18 LOWER THAN CLASS19 NEVER ATTENDED SCHOOL....20 NOT APPLICABLE-666 OTHERS (SPECIFY)-888 DON'T KNOW ..999	F. Occupation of the member 1.Cultivator1 2. Agricultural labourer ...2 3. Non-agricultural labourer ..3 4. Artisan/ independent-worker ...4 5. Petty shop owner or other trader5 6. Organized trader or business man ...6 7. Salaried employee ...7 8. Domestic labor for another household ...8 9. Unemployed but looking for a job ...9 10. Student ..10 11. Retired/ senior citizen/ with special needs11 12. Unemployed but not looking for a job12 13. Home maker13 14. Commission agent14 NOT APPLICABLE-666 Other (specify) ...-888	G. Annual Income of the member
----------	--	--	--	---	---	---	--------------------------------

1								
2								
3								
4								
5								

Section A - Household Wealth

A.1	<p>How many of the following items does your household have:</p> <ol style="list-style-type: none"> 1. Telephone (landline) If yes, number 2. Telephone (Mobile) If yes, number: 3. Clock or watch 4. Stove – electric, gas or kerosene 5. Stove - coal, wood (primus) 6. Electric fan 7. Black and white television set 8. Color television set 9. VCR/VCP/CD PLAYER 10. Radio, transistor or stereo 11. Refrigerator 12. Sewing machine 13. Car or jeep 14. Bicycle 15. Motorcycle, Moped or Scooter 16. Bullock cart 17. Thresher 18. Tractor 19. Well/Tube-well 20. Grain storage can 21. Pressure Cooker 22. Chair/stool 23. Cot or Bed 24. Table 	<p>RECORD NUMBER FOR EACH. IN CASE THE HOUSEHOLD DOES NOT POSSESS AN ITEM, PLEASE ENTER ZERO</p>
A.2	<p>What is the total value of all the jewellery owned by this household? (in rupees)</p> <p>Interviewer Note: If they were to sell all the jewellery how much do they think they would get</p>	

A.3	Who owns this house?	RECORD MEMBER ID FROM HOUSEHOLD ROSTER A non-household member.....1--- A.5 Others (Specify) Don't know.....-999
A.4	According to you, what is the value of this house? Interviewer note: If they were to sell this house how much do they think they will get	RECORD THE AMOUNT Don't Know.....-999 Refused to Answer.....-777
A.5	Do you or any member of the household own any other house?	Yes.....1 No.....2--A.7
A.6	What according to you is the value of that house?	RECORD IN RUPEES Don't Know.....-999 Refused to Answer.....-777
A.7	Does this household own any agriculture land?	YES.....1 NO.....2--A.10
A.8	If yes, how much agriculture land does this household own?	RECORD NUMBER OF BIGHA (1 acres=40 guntas)
A.9	How much is the value of this land, according to you, in rupees?	RECORD THE AMOUNT
A.10	Does your household have a ration card ?	YES.....1 NO.....2--A.12 DO NOT KNOW.....-999--A.12 REFUSED TO ANSWER.....-777 --A.12
A.11	If yes, what type of ration card does your household possess?	APL.....1 BPL.....2 Annapurna.....3 Antyodaya4 Others, specify....-888 Do not know.....-999 Refused to answer.....-777
A.12	Please enter the current value of the financial assets owned by the household. If the household does not own a particular asset, please enter 0.	BONDS..... MUTUAL FUNDS..... SHARES.....

Section B– Household Income

B.0 what is your average household income in a month?

RECORD THE AMOUNT IN RUPEES

B.1 What is your primary source of income?

- A. Cultivation
- B. Agricultural wage labor
- C. Non-agricultural wage labor
- D. Artisan/independent work
- E. Petty shop or other trade
- F. Organized trade or business
- G. Salaried employee
- H. Domestic labor for another household
- I. Casual employment or odd jobs
- U. Pension, rent, or dividend
- J. Remittances
- K. Government grants, welfare schemes, or relief projects
- L. Inheritance
- M. Not applicable.....-666
- N.
- O. Other: _____
- P. Refused to answer

B.1A What is your average monthly income from primary sources?

B.2 What is your secondary source of income?

- A. Cultivation
- B. Agricultural wage labor
- C. Non-agricultural wage labor
- D. Artisan/independent work
- E. Petty shop or other trade
- F. Organized trade or business
- G. Salaried employee
- H. Domestic labor for another household
- I. Casual employment or odd jobs
- U. Pension, rent, or dividend
- J. Remittances
- K. Government grants, welfare schemes, or relief projects
- L. Inheritance

- M. No secondary income
- N. Not applicable.....-666
- O. Other: _____
- P. Refused to answer

B.2A What is your average monthly income from secondary sources?

B.3 Identify the months in which you experience high incomes. (multiple choice)

January	February	March	April	May	June
July	August	September	October	November	December

B.4 Why is revenue highest in this month? (open textbox)

B.5 Identify the months in which you experience low incomes. (multiple choice)

January	February	March	April	May	June
July	August	September	October	November	December

B.6 Why is the income lowest in this month? (open textbox)

B.7 Now I am going to ask you about the different sources of your household income in the last 12 months. Please include income of everyone who has been included in the household roaster at the beginning of the survey.

Interviewer Read: How much did your household receive in total in the last 12 months from:		
Interviewer Flag: All household members as included in the household roaster		
B.7.1	Agricultural Income	₹ _____ DO NOT KNOW.....999 REFUSED TO ANSWER....-777
B.7.2	Income from Livestock	₹ _____ DO NOT KNOW.....999 REFUSED TO ANSWER....-777
B.7.3	Business Income	₹ _____ DO NOT KNOW.....999 REFUSED TO ANSWER....-777
B.7.4	Sale of Assets	₹ _____ DO NOT KNOW.....999 REFUSED TO ANSWER....-777
B.7.5	Salaries and wages	₹ _____ DO NOT KNOW.....999 REFUSED TO ANSWER....-777

B.7.6	Payment for some injury or work related accidents/ Insurance Payments received (e.g. LIC)	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.7	Rent/ Lease of property (house and land. Includes cash and in-kind income from leasing out land converted to money value)	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.8	Rent of property (vehicle, electronic appliances, tractor, etc.)	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.9	Financial Investments (Fixed Deposits, Interest Earned, etc., Insurance maturity)	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.10	Remittances from Non-Household Members	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.11	Pensions	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.12	Government Grants/ Welfare Schemes/ Relief Projects	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.13	Inheritance (Only Cash)	₹ _____ DO NOT KNOW.....-999 REFUSED TO ANSWER....-777
B.7.14	Others (Specify) _____	₹ _____

SECTION C- Consumption and expenditure

		<p>Interviewer read: I will now list a number of items. Please indicate how much of each of these your HOUSEHOLD consumed in the last 7 DAYS. If your household did not consume the item, just say “0”</p> <p>Flag: At regular intervals remind respondent to only include home consumption and not purchases for a business run out of home. If they did not consume one of these items, report a value of ‘0’ in both boxes. The value means the total value of all of these goods that was consumed including home produced goods, self collected products, given in kind as wage or given as part of allowance, gifts and purchases from retail centers of all kinds.</p> <p>If the good was purchased, the value should be the average price they paid for the product multiplied by the quantity. If the good was self produced, the value should be the price they can charge at the market for the specified quantity</p>
	C.1	7 DAY CONSUMPTION PERIOD

Question [Insert Hindi Here]	Item [Insert Hindi Here]	Quantity of Goods Consumed [Insert Hindi Here]		Value of Goods Consumed [Insert Hindi Here]			
		Produced for HH Consumption	Purchased for HH Consumption [Insert Hindi Here]	Produced for HH Consumption	Purchased for HH Consumption [Insert Hindi Here]		
A.	FRESH FRUITS and VEGETABLES [Insert Hindi Here]	_____ Kg	_____ Kg	₹ _____	₹ _____		
B.	DRY FRUITS [Insert Hindi Here]	_____ Kg	_____ Kg	₹ _____	₹ _____		
C.	Dairy Products [Insert Hindi Here]	_____ Kg	_____ Kg	₹ _____	₹ _____		
D.	EGGS [Insert Hindi Here]			₹ _____	₹ _____		
E.	SUGAR - [Insert Hindi Here]	_____ Kg	_____ Kg	₹ _____	₹ _____		
F.	Other Expenses (Specify)			₹ _____	₹ _____		
	C2.	<p>Items consumed in last 30 days</p> <p>Interviewer read: I will now list a number of items. Please indicate how much of each of these your household consumed in the last 30 days. If your household did not consume the item, just say “0” or “did not consume”.</p> <p>Interviewer flag: At regular intervals remind responder to only include home consumption and not consumption for business run out of home.</p>					
		30 DAY CONSUMPTION PERIOD					

Question [Insert Hindi Here]	Item [Insert Hindi Here]	Quantity of Goods Consumed [Insert Hindi Here]		Value of Goods Consumed [Insert Hindi Here]	
		Produced for HH Consumption	Purchased for HH Consumption	Produced for HH Consumption	Purchased for HH Consumption
A.	Cereal & Cereal products [Insert Hindi (Here)]	_____ Kg	_____ Kg	₹_____	₹_____
B.	Pulses and Pulse Products	_____ Kg	_____ Kg	₹_____	₹_____
C.	Edible Oil	_____ Ltr		₹_____	
D.	FISH/ Chicken/ Meat etc.	_____ Kg	_____ Kg	₹_____	₹_____
E.	Salt, Spices etc. Note: If they have bought it in the last 30 days then enter the amount normally like you would do. IMPORTANT NOTE: If they don't regularly buy it or purchase in bulk once or twice a year then take the average of the amount they spent in a year for this item.	_____ Kg		₹_____	

F.	PROCESSED FOOD (Outside food, biscuits, sweets etc.)	₹ _____.		
G.	Temptation Goods (bidi, liquor, pan, tobacco etc.)	₹ _____.		
H.	Cooking Fuel	_____	₹ _____.	
I.	Toiletries (Soap, Detergent, etc.)	_____	₹ _____.	
J.	Mobile/ Landline	₹ _____.		
K.	ENTER-TAINMENT (Newspaper, Magazine, Movies, etc.)	₹ _____.		
L.	Electricity & water Charges	₹ _____.		
M.	Lottery Ticket/ Gambling	_____ Times	₹ _____.	
N.	Rent for the house or any other household item	₹ _____.		
O.	Rent for the Shop or other assets used for income generation	₹ _____.		
P.	Salary paid to a servant or maid or an employee employed	_____ Employees	₹ _____.	

Q.	Travel to work, relatives or for the entertainment purpose	_____ Times	₹ _____.		
R.	Other expenses (Specify).....	_____	₹ _____.		

C.3 Household Consumption over the last 12 months (1 Year)

Interviewer read: I will now list a number of items. Please indicate how much of each of these your household consumed in the last 365 days. If your household did not consume the item, just report “0”.

Household Consumption over the last 12 months (1 Year)			
[Insert Hindi Here]			
Interviewer read: I will now list a number of items. Please indicate how much of each of these your household consumed in the last 365 days. If your household did not consume the item, just report “0”.			
Interviewer flag: If the good was purchased, the value should be the average price they paid for the product multiplied by the quantity. If the good was self produced, the value should be the price they can charge at the market for the specified quantity.			
365 DAY CONSUMPTION PERIOD			
[Insert Hindi Here]			
Education Expenditure			
[Insert Hindi Here]			
A.	School Fees And Private Tuition Fees	₹ _____.	
B.	Books, geometry set, library charges, stationary charges, school van/bus transport fees, uniforms etc	₹ _____.	
Festivals, Ceremonies and Religious Events and Expenditure			
C.	Weddings and Festivals	₹ _____.	

D.	Funeral □□□□ [Insert Hindi Here]	₹ _____.	
E.	Expenditure on Clothing and Footwear	₹ _____.	
F.	Medical Expenses – medication, doctor’s fee, hospitalization, travel etc.	₹ _____.	
G.	Legal Expenses – fee to advocate, travel to court, etc.	₹ _____.	
H.	Repair/ Improvement of House	₹ _____.	
I.	Other Expenses	₹ _____.	

SECTION D - SAVINGS

SECTION D: SAVINGS (HOUSEHOLD)			
Interviewer Read: I will ask you about any savings you initiated at any time during the last 12 months. By “savings”, I mean any amount of money that was stored in your household, with a bank, institution, or person outside your household.			
HOUSEHOLD SAVINGS (FORMAL & INFORMAL: SAVINGS ACCOUNTS)			
	How many such Savings accounts does the household have?	Record Number	[] [] If Zero, skip to next section
		Refused to Answer E.1	-777
		Do Not Know E.1	-999

Interviewer flag: Enter answers for D.2 to D.5 in the grid below for each of the savings accounts held by household members. Start with the accounts that you own yourself and then mention the ones that are remaining and the largest.

		SAVINGS 1	SAVINGS 2	SAVINGS 3	SAVINGS 4	SAVINGS 5
D.2	What is the Member ID of the account holder?	1	1	1	1	1
	Interviewer flag: CHOOSE THE MEMBER NAME FROM THE DROP DOWN LIST (WHICH COMES FROM THE HOUSEHOLD ROSTER)	2	2	2	2	2
	ENTER BOTH THE IDS, IF ACCOUNT IS OWNED BY MORE THAN ONE PERSON	3	3	3	3	3
		4	4	4	4	4
		5	5	5	5	5
		6	6	6	6	6
		7	7	7	7	7
		8	8	8	8	8
		9	9	9	9	9
		10	10	10	10	10
		11	11	11	11	11
		12	12	12	12	12
		-777	-777	-777	-777	-777
	-999	-999	-999	-999	-999	

D.3	What is the account type?	Savings 1	Savings 2	Savings 3	Savings 4	Savings 5
		POST OFFICE ACCOUNT (RECURRING DEPOSIT, FD, TIME DEPOSIT)	1	1	1	1
	SELF HELP GROUP	2	2	2	2	2
	CHIT FUND	3	3	3	3	3
	PRIVATE BANK (RD, FD, TIME DEPOSIT, SIP)	4	4	4	4	4
	NGO/ MFI	5	5	5	5	5
	NATIONALIZED BANK (RD, FD, TIME DEPOSIT, SIP)	6	6	6	6	6
	CASH AT HOME	7	7	7	7	7
	RELATIVE OUTSIDE HOUSEHOLD	8	8	8	8	8

			Savings 1	Savings 2	Savings 3	Savings 4	Savings 5
D.3		NEIGHBOUR	9	9	9	9	9
		FRIEND	10	10	10	10	10
		SHOPKEEPER	11	11	11	11	11
		MONEY GUARD/ OTHER PERSON	12	12	12	12	12
		DELIVERY ACCOUNT, GOVERNMENT PROGRAM— JANANI SURAKSHA YOJANA	13	13	13	13	13
		BHAMASA YOJANA— GOVERNMENT PROGRAM	14	14	14	14	14
		NREGA ACCOUNT	15	15	15	15	15
		MIS ACCOUNT (POST OFFICE/BANK)	16	16	16	16	16
		PUBLIC PROVIDENT FUND	17	17	17	17	17
		KISAN VIKAS PATRA	18	18	18	18	18
		INSURANCE PREMIUM	19	19	19	19	19
		REFUSED TO ANSWER	-777	-777	-777	-777	-777
		OTHERS, SPECIFY	-888	-888	-888	-888	-888
		DO NOT KNOW	-999	-999	-999	-999	-999
	D.4	What is the primary purpose for which the member is saving in this account? Interviewer flag: Do not read options, just circle one	EDUCATION	1	1	1	1
FOR BUSINESS PURPOSE (BUSINESS EXPANSION, PROCUREMENT OF INPUTS, RAW MATERIALS ETC.)			2	2	2	2	2
FOR FARMING PURPOSE (PROCUREMENT OF SEEDS, FERTILIZER, ETC.)			3	3	3	3	3
PURCHASE OF HOUSEHOLD ITEMS			4	4	4	4	4
		JEWELRY PURCHASE	5	5	5	5	5
		REGULAR CONSUMPTION	6	6	6	6	6
		LOAN REPAYMENT (LOAN IN OWN NAME)	7	7	7	7	7

			Savings 1	Savings 2	Savings 3	Savings 4	Savings 5
		LOAN REPAYMENT (LOAN IN HUSBAND'S NAME)	8	8	8	8	8
		HEALTH EXPENSES	9	9	9	9	9
		FUTURE EMERGENCY	10	10	10	10	10
		WEDDINGS, FESTIVALS, FUNCTIONS	11	11	11	11	11
		RETIREMENT (SELF)	12	12	12	12	12
		REFUSED TO ANSWER	13	13	13	13	13
		OTHERS, SPECIFY	-888	-888	-888	-888	-888
		DO NOT KNOW	-999	-999	-999	-999	-999

D.5	What is the total current amount in this account? Interviewer flag: For Chit funds, select '-666'.	RS. _____	_____	_____	_____	_____	_____
		Not Applicable	-666	-666	-666	-666	-666
		Refused to Answer	-777	-777	-777	-777	-777
		Other (Specify)	-888	-888	-888	-888	-888
		Refused to Answer	-777	-777	-777	-777	-777
		Do Not Know	-999	-999	-999	-999	-999

Section E – Loans

E.1 How many outstanding loans does your household have at present. Please provide the following details on them. (Surveyor: If there are more than four loans, use annex sheet one at the end of the survey)

			Loan 1	Loan 2	Loan 3	Loan 4
1.	Which member has borrowed this money? (ENTER THE MEMBER ID)					
2	Who was the money borrowed from?	1: Govt./Cooperative Bank Loan → 4 2: Private Bank Loan → 4				
		3. SHG → 4 4. Committee/ Chit Fund → 4 5. MFI _____ (Mention the name of the MFI) → 3 6. Money Lender → 4 7. Friends/Relatives → 4 8. Others, specify → 4				
3	Which loan cycle is this loan in?					
4	What kind of loan is it?	Individual liability loan.....1 Joint liability loan-----2 Don't know-999 Refuse to answer....-777				
5	How much loan you applied/asked for	₹ Not applicable.....-666				
6	How much amount was sanctioned?	₹ Not applicable.....-666				

7	What was the primary (stated) purpose of borrowing?	Start new business in Normal time.....1 Buy agricultural machinery or inputs (seed, fertilizers, etc)/2 Improve existing business/repairs/ construction time.....3 Repay debt.....4 Health 5 Marriage.....6 Funeral.....7 Other Festival or special event (puja, ceremony, travel).....8 Home improvement/repair/ construction.....9 Unemployment.....10 Purchase land.....11 Education.....12 Purchase jewelry.....13 Household consumption.14 Buy livestock.....15 Buy more stock.....16 Grocery shop.....17 Petty shop.....18 Dairy Farm.....19 Garments suppliers.....20 Tailoring and Embroidery.....21 Purchasing a vehicle ...22 Other (Specify)_____888				
---	---	--	--	--	--	--

8	What was the loan amount actually used for?	Start new business in Normal time1 Buy agricultural machinery or inputs (seed, fertilizers, etc)/2 Improve existing business/repaire/ construction time....3 Repay debt4 Health5 Marriage6 Funeral7 Other Festival or special event (puja, ceremony, travel) Home improvement / repair/ construction9 Unemployment. ...10 Purchase land ... 11 Education12 Purchase jewelry ...13 Household consumption14 Buy livestock15 Buy more stock16 Grocery shop17 Petty shop.....18 Dairy Farm19 Garments suppliers ...20 Tailoring and Embrodery ...21 Purchasing a vehicle22 Other (Specify) _____.-888				
9	When was the money borrowed?	Month: Year: Don't know _____.-999				

10	What is the duration of the loan period?	_ (years) _ (months) _ (weeks) _ (days) Others (Specify) _____-888 Refuse to Answer _____-777 Don't know _____-999				
11	How much of the member's loan is currently outstanding ?	Rs. Refuse to answer _____ -777 Don't kNow				
12	How do you usually source the repayment for this loan?	Choose 1 or more options that apply: Through agricultural income.....1 Through business income.....2 Through other income.....3 With savings.....4 Borrowing from friends/family....5 Using money from another loan...6 Other, Specify: _____ Don't know _____.-999 Refuse to answer _____-777				
	What is the interest rate you are paying for this loan?	Percentage_ _ (numerical value) Others (Specify) _____-888 Refuse to Answer _____--777 Don't know _____--999				
	Did you have to provide any collateral to get this loan?	Yes.....1 NONE Others (Specify) _____-888				

	What is the current repayment schedule?	Weekly...1 Bi Monthly.....2 Monthly.....3 Once in 3 months4 Flexible / As and when possible5 Others(specify)...6				
	In case of fixed repayment schedule, what is the repayment installment amount?	(numerical value) Others (Specify _____-888 Refuse to answer____ -777 Don't know ____-999				
	Have you ever missed a payment or paid a repayment late?	Yes.....1 skip to 18 No2 skip to 19 Refuse to Answer.....-777 Don't know-999				
	Have you ever missed or paid repayment amount late three times in a row?"	Yes.....1 No2 Refuse to Answer.....-777				
19	Did you ever ask for any extra amount(top up) from the same sources before repaying the original amount?	Yes.....1 NoE.2 Refuse to Answer-777→E.2 Don't know-999→E.2				
20	Was the topup sanctioned?	Yes.....1 No2 E.2 Refuse to Answer .-777→E. Don't know-999→E.2				
21	How much was the recent top up amount?	₹ _____				

22	What was the primary (stated) purpose of the top up?	<p>Start new business in Normal time.....1</p> <p>Buy agricultural machinery or inputs (seed, fertilizers, etc)/.....2</p> <p>Improve existing business/repair/construction time.....3</p> <p>Repay debt.....4</p> <p>Health5</p> <p>Marriage6</p> <p>Funeral7</p> <p>Other Festival or special event (puja, ceremony, travel)</p> <p>Home improvement/repair/construction.....9</p> <p>Unemployment.....10</p> <p>Purchase land.....11</p> <p>Education12</p> <p>Purchase jewelry13</p> <p>Household consumption14</p> <p>Buy livestock..... 15</p> <p>Buy more stock16</p> <p>Grocery shop17</p> <p>Petty shop18</p> <p>Dairy Farm.....19</p> <p>Garments suppliers20</p> <p>Tailoring and Embroidery21</p> <p>Purchasing a vehicle22</p> <p>Other (Specify)</p> <p>_____ -888</p>				
----	--	--	--	--	--	--

22	What was the top up amount actually used for?	Start new business in Normal time1 Buy agricultural machinery or inputs (seed, fertilizers, etc)/2 Improve existing business/repairs/ construction time....3 Repay debt... 4 Health5 Marriage6 Funeral7 Other Festival or special event (puja, ceremony, travel) Home improvement/repair/ construction.....9 Unemployment.10 Purchase land.....11 Education12 Purchase jewelry13 Household consumption14 Buy livestock 15 Buy more stock16 Grocery shop17 Petty shop18 Dairy Farm19 Garments suppliers.....20 Tailoring and Embroidery.....21 Purchasing a vehicle.....22 Other (Specify)_____ -888				
----	---	--	--	--	--	--

24	Did you have any plan to ask for this kind of top up before repaying this loan?	Yes1 No2 Refuse to Answer.....-777 Don't know-999				
E2	Apart from the loans you mentioned now, have you ever defaulted on any previous loan?	Yes → E.2.1 No-- Skip to next section				
E2.1	Was this loan in your name	Yes.....1 No.....0				
E.3	How long ago was this?	-----Months back -----Years back				
E.4	Where was this loan taken from?	1: Govt./Cooperative Bank Loan 2: Private Bank Loan 3. SHG 4. Committee/ Chit Fund 5. MFI_____Specify the name 6. Money Lender 7. Friends/Relatives 8. Others, specify				
E.5	What was the total amount of the loan?	ENTER LOAN AMOUNT				

SECTION F : Trends in Loans

Please give us details of the **last three formal and informal loans** taken in the household. .Surveyor: Note estimated amount suggested by the respondent if the respondent is having trouble coming up with an exact amount.

Interviewer Note: These are the last three formal and informal loans taken by the household and have been repaid

Software check: Have you taken any formal loan that you have completely repaid?

Yes.....1

No.....0 F.2 (Informal loan section)

F.1 Formal loans

			Formal Loan (1)	Formal Loan (2)	Formal Loan (3)
1	Who was the money borrowed from?	1: Govt./Cooperative Bank Loan 2: Private Bank Loan 3. SHG 4. Committee/ Chit Fund 5. MFI_____ (Specify the name of the MFI) Others specify			
2	How much was the loan amount?	₹			
3	What was the loan amount used for?	Start new business in Normal time1 Buy agricultural machinery or inputs (seed, fertilizers, etc)/.....2 Improve existing business/repair/ construction time....3 Repay old debt... 4 Health5 Marriage6 Funeral7 Other Festival or special event (puja, ceremony, travel) Home improvement/repair/ construction9			

3		Other (Specify) _____ -888 Unemployment10 Purchase land11 Education12 Purchase jewelry13 Household consumption14 Buy livestock15 Buy more stock16 Grocery shop17 Petty shop18 Dairy Farm19 Garments suppliers20 Tailoring and Embroidery21 Purchasing a vehicle22			
4	Did you loan money to someone else from this amount?	Yes.....1 No.....2 Don't know.....-999 Refuse to answer....-777			
5	What is the duration of the loan period?	_ (years) __ (months) __ (weeks) ___ (days) Others (Specify _____)-888 Refuse to answer-777 Don't know-999			
6	How did you usually source the repayment for this loan?	Choose 1 or more options that apply: Through agricultural income.....1 Through business income.....2 Through other income.....3 With savings.....4 Borrowing from friends/ family....5 Using money from another loan...6 Other, Specify: _____ Don't know.....-999 Refuse to answer.....-777			
7	What was the interest rate you were paying for this loan?	__ Percentage __ (numerical value) Others (Specify) _____-888 Refuse to Answer.....-777 Don't know-999			

8	Did you ever missed a payment or paid a repayment late on this loan?	Yes1 No2			
---	--	-------------------------	--	--	--

Software Check: Have you ever taken an Informal loan?

Yes.....1

No.....0 F.3

F.2 Informal loans

			Informal Loans (1)	Informal Loans (2)	Informal Loans (3)
1	Who was the money borrowed from?	1. SHG 2. Committee/ Chit Fund 3. Money Lender 4. Friends/Relatives 5. Others, specify			
2	How much was the loan amount?	₹			
3	What was the loan amount used for?	Start new business in Normal time1 Buy agricultural machinery or inputs (seed, fertilizers, etc)/.....2 Improve existing business/repair/construction Time 3 Repay old debt4 Health5 Marriage6 Funeral7 Other Festival or special event (puja, ceremony, travel Home improvement/repair/construction.....9 Unemployment10			

		Purchase land11 Education12 Purchase jewelry13 Household consumption ...14 Buy Lifestock.....15 Buy more stock16 Grocery shop17 Petty shop18 Dairy Farm19 Garments suppliers20 Tailoring and Embrodery ..21			
4	Did you loan money to someone else from this amount?	Yes.....1 No.....2 Don't know.....-999 Refuse to answer.....-777			
5	What was the duration of the loan period?	_ (years) _ _ (months) _ _ _ (days) Others (Specify).....-888 Refuse to answer.....-777 Don't know.....-999			
6	How did you usually source the repayment for this loan?	Choose 1 or more options that apply: Through agricultural income.....1 Through business income...2 Through other income.....3 With savings.....4 Borrowing from friends/ family.....5 Using money from another loan6 Other, Specify: _____ Don't know.....-999 Refuse to answer.....-777			
7	What was the interest rate you were paying for this loan?	_ _ Percentage _ _ (numerical value) Others (Specify).....-888 Refuse to Answer.....-777 Don't know-999			
8	Did you ever missed a payment or paid a repayment late on this loan?	Yes.....1 No.....2			

9					
10	<p>What was the reason you borrowed from informal lenders?</p> <p>Interviewer Note: Probe on why they prefer informal to formal sources of lending</p>	TEXT BOX			

F.3) Would you take a loan for the following purposes? What would be the source that you would prefer for these loans and the reason behind such a choice:

1	Emergency	<p>1.YES</p> <p>2.NO skip to 2</p> <p>Source of Loan:</p> <p>1: Govt./Cooperative Bank Loan</p> <p>2: Private Bank Loan:</p> <p>3. SHG</p> <p>4. Committee/ Chit Fund</p> <p>5. MFI</p> <p>6. Money Lender</p> <p>7. Friends/Relatives</p> <p>8. Others, specify</p>	<p>Reason (multiple)</p> <p>1 = Easy to get loan</p> <p>2 = Cheaper interest rate</p> <p>3 = Flexible repayment structure</p> <p>4 = No need for documents</p> <p>5 = Others, specify</p>
2	Agriculture	<p>1.YES</p> <p>2.NO skip to 3</p> <p>Source of Loan:</p> <p>1: Govt./Cooperative Bank Loan</p> <p>2: Private Bank Loan:</p> <p>3. SHG</p> <p>4. Committee/ Chit Fund</p> <p>5. MFI</p> <p>6. Money Lender</p> <p>7. Friends/Relatives</p> <p>8. Others, specify</p>	<p>Reason (multiple)</p> <p>1 = Easy to get loan</p> <p>2 = Cheaper interest rate</p> <p>3 = Flexible repayment structure</p> <p>4 = No need for documents</p> <p>5 = Others, specify</p>
3	Business	<p>1.YES</p> <p>2.NO skip to 4</p> <p>Source of Loan:</p> <p>1: Govt./Cooperative Bank Loan</p> <p>2: Private Bank Loan:</p> <p>3. SHG</p> <p>4. Committee/ Chit Fund</p> <p>5. MFI</p> <p>6. Money Lender</p> <p>7. Friends/Relatives</p> <p>8. Others, specify</p>	<p>Reason (multiple)</p> <p>1 = Easy to get loan</p> <p>2 = Cheaper interest rate</p> <p>3 = Flexible repayment structure</p> <p>4 = No need for documents</p> <p>5 = Others, specify</p>

4	Day to day expenses/ Cash smoothening	1.YES 2.NO skip to 5 Source of Loan: 1: Govt./Cooperative Bank Loan 2: Private Bank Loan: 3. SHG 4. Committee/ Chit Fund 5. MFI 6. Money Lender 7. Friends/Relatives 8. Others, specify	Reason (multiple) 1 = Easy to get loan 2 = Cheaper interest rate 3 = Flexible repayment structure 4 = No need for documents 5 = Others, specify
	Others, specify	1.YES 2.NO skip to 6 Source of Loan: 1: Govt./Cooperative Bank Loan 2: Private Bank Loan: 3. SHG 4. Committee/ Chit Fund 5. MFI 6. Money Lender 7. Friends/Relatives 8. Others, specify	Reason (multiple) 1 = Easy to get loan 2 = Cheaper interest rate 3 = Flexible repayment structure 4 = No need for documents 5 = Others, specify

F.4 While applying for MFI loans, do you **report your existing loans to the** loan officers?

(Surveyor note: In case of respondents who have only one loan (i.e. first one), ask them if they happen to seek a second loan, would they report their existing loan to the officers)

- A. Yes 1---F.6
- B. No2

F.5 If no, why not? (Multiple choice) _____

- A. Fear of being refused more loans
- B. Fear of being charged high interest rate
- C. Fear of cancelling existing loan
- D. Fear of being refused a topup if requested, on the existing loan
- E. Refuse to answer.....-777
- F. F.6 Have you ever paid an instalment on behalf of another group member
- G. A. yes
- B. No
- C. Don't know
- D. Refuse to answer.....-777

F.7 Has any **group member paid an instalment on your behalf?**

- A. yes
- B. No
- C. Don't know
- D. Refuse to answer.....-777

F.8 Have you ever borrowed from one lender to payback another lender?

- Yes.....1
- A. No.....2
- B. Don't know.....-999
- C. Refuse to answer.....-777

F.9 Would your household prefer to borrow from a **single** source if they gave you a bigger loan?

- A. Yes.....1
- B. No.....2 F.11
- C. Don't know.....-999 F.11
- D. Refuse to answer.....-777 F.11

F.10 What source would you prefer?

- A. Govt./Cooperative Bank Loan
- B. Private Bank Loan
- C. SHG/ Committee/ Chit Fund
- D. MFI
- E. Money Lender
- F. Friends/Relatives
- G. Others, specify
- H. Refuse to Answer
- I Do Not Know

F.11 What size loan would you require to completely fulfil the credit needs of your household?

- Less than 50,000,
- A. 50,000-1 Lakh,
- B. 1-2 Lakh
- C. 2-3 Lakh
- D. More than 3 Lakh
- E. Do not need another loan
- F. Don't know
- G. Refuse to answer.....-777

F.12. Select the order in which your HH **prioritized repayments of the loans** below:

SOFTWARE NOTE: We would like a numbered text box, for the surveyor to enter the preferences

- A. Govt./Cooperative Bank Loan
- B. Private Bank Loan
- C. SHG/ Committee/ Chit Fund
- D. MFI
- E. Money Lender
- F. Friends/Relatives
- G. Others, specify
- I. Do not know---Section G

F.12.1 Can you explain reason for your above preference?

TEXT BOX

F.13 Based on your experiences with various lenders, whose recovery practices have you been more comfortable with?

- A. Govt./Cooperative Bank Loan
- B. Private Bank Loan
- C. SHG/ Committee/ Chit Fund
- D. MFI
- E. Money Lender
- F. Friends/Relatives
- G. Others, specify
- H. Refused to answer.....-777 Section G

F.14 Please specify the reason for this preference?

- A. Non-coercive
- B. Come home to pick up repayment amount
- C. Not so strict about deadline
- D. Others(specify)
- E. Refused to answer.....-777

SECTION G .

G.1 Sometimes people find that their income does Not quite cover their living costs. In the last 12 months, has this happened to you?

Yes

- A. No ---G.3
- B. Don't kNow ----G.3
- C. Not applicable (I don't have any personal income) ---G.3

D. Refuse to answer.....-777 ---- G.3

G.2 What did you do to make ends meet the last time this happened (multiple choice)?

(Surveyor: Probe with: Did you do anything else?. Mark all that are relevant. DO NOT READ OUT OPTIONS: although examples can be given)

Existing resources

1. Draw money out of savings or transfer savings into current account
2. Cut back on spending, spend less, do without
3. Sell something that I own

B. Creating resources

4. Work overtime, earn extra money

C. Access credit by using existing contacts or resources

5. Borrow food or money from family or friends
6. Borrow from employer/salary advance
7. Pawn something that I own
8. Take a loan from my savings and loans clubs Borrow from existing credit line Use an existing personal loan from a financial service provider (including bank, credit union or microfinance)
9. Use an existing loan from an informal provider/moneylender

F. Access new line of credit

10. Take out a personal loan from a financial service provider (including bank, credit union or microfinance)
11. Take out a loan from an informal provider/moneylender

G. Fall behind/ go beyond arranged amount

12. Pay my bills late; miss payments
13. Miss loan repayment cycles

H. Other responses (Please specify) _____

I. Don't know

J. Refuse to answer

G.3 According to you, how many loans worth 50,000 each do you think is ok to have for a household with your socio-economic context?

OPEN TEXT BOX (WITH NUMBER AND TEXT)

G.4) On average, two to three days before you made previous repayments how confident did you feel about being able to pay the loan installment?

- a) Confident that I will be able to pay
- b) Not confident I would be able to pay anything 2

c) Refuse to answer

G.5 Do you end up making the repayment instalment for the loan usually even when you find it hard to source the repayment amount 2-3 days before repayment?

a) Yes

b) No

c) Refuse to Answer

G.6 How do you source the repayment instalment amount (multiple choice)

a) Borrow money from a money lender

b) Borrow money from friends and family

c) Sell an item or asset

d) Use savings

e) Borrow from another MFI

f) Use money kept aside for other purpose

g) Other

Section H – Individual Liability

FOR THOSE WHO HAVE ATLEAST ONE IL LOAN/THOSE WHO HAVE DEFAULTED ON A IL LOAN.

SURVEYOR NOTE: Loans taken from MFI should be considered. Not the ones taken from Moneylenders

H.0) Has your household ever taken an Individual liability loan?

Yes H.1

No Skip to section I

H.1) How did you first learn about individual liability loan products?

A. MFI representative informed me

B. Member of JLG informed me

C. Read somewhere (newspaper, magazine)

D. Friend/Relative told me

E. Other Specify

H.2 For the first time, was the individual liability loan product offered to you by the MFI or did you approach the MFI to apply for an individual liability loan product?

A. MFI approached me--H.5

B. I approached MFI

H.3 If they approached MFI, then did it ever happen that you applied for an IL loan and were rejected?

YES

NO H.5

H.4 If yes, what do you think was the reason that your application was rejected?

- A. Did not have sufficient documents
- B. Had defaulted on a JL loan before
- C. Did not have sufficient income to show repaying capacity
- D. Other, please specify
- E. Refused to answer.....-777

H.5 How many outstanding IL loans do you have at present?

H.6 How many loans which you have already repaid are IL loans?

H.7 Have you ever defaulted on an IL loan?

Yes

No-- H.11

H.8 If yes, what was the reason for the default?

- A. To meet an emergency expenditure
- B. To meet regular household expenditure
- C. To repay another IL loan
- D. To repay another JL loan (for self)
- E. To make a payment for someone else in the JL loan
- F. Did not have sufficient funds to repayOther(specify)

H.9 Do you think you would have defaulted had this been a JL loan?

Yes--H.11

No

H.10 If no, i.e. not defaulted, why do you think so/what would be the reason?

- a) Repayment rate is less in the JL loan
- b) Joint liability for repayments
- c) others, please specify

H.11 What type of loan do you prefer – individual loan vs joint liability loans?

- A. Individual
- B. Joint liability ---H.13
- C. No preference -I.1
- D. Don't know -I.1

H.12 What is the reason for your preference for individual liability loan products?(multiple choice)

- A. Easy to get loan
- B. Cheaper interest rate
- C. Flexible repayment structure

- D. No need for documents
 - E. Don't have to depend upon other people to get the loan
 - F. Don't have to make payments if other people in the group default
 - G. Others, specify
- H.13 What is the reason for your preference for a joint liability loan product?
- A. Easy to get loan
 - B. Cheaper interest rate
 - C. Flexible repayment structure
 - D. No need for documents
 - E. Other people are there to support to get a loan
 - F. Have other people to support me incase I am not able to make a repayment installment

Section I: Those who have never borrowed from an MFI/SFB

I.0 Have you ever borrowed from an MFI?

Yes Section J

No I.1

I.1 Have you ever taken a loan from any other formal or informal source?

Yes

No--I.3

I.2 If yes, where was the loan taken from?

1: Govt./Cooperative Bank Loan

2: Private Bank Loan:

3. SHG

4. Committee/ Chit Fund

5. MFI

6. Money Lender

7. Friends/Relatives

8. Others, specify

I.3 If no, where do you source your funds for your business needs?

Inheritance....1

Friends/Relatives.....2

Other family members.....3

Own self income from other sources.....4

Others, specify....-888

I.4 Why do you prefer the above, to borrowing funds from a formal or informal source?

Ease of getting funds/convenience.....1

No interest rate to be paid.....2

Others, specify...-888

I.5 Have you ever considered taking a loan from an MFI?

Yes, but never approached an MFI....1-I.6

Yes, have applied but loan was rejected -I.7

No, never considered---I.6

I.6 What is the reason you have not considered taking a loan from an MFI? (multiple choice)

A. Not aware of any MFIs in my area

B. Not eligible for an MFI loan

C. Because MFI loans are JL

D. Never approached by an MFI

E. Never required a loan

F. Suspicious and vary of MFIs products

G. Prefer taking loans from other formal sources

H. Prefer taking loans from informal sources

I. Do not like their loan products

J. Very high interest rates

K. Others, please specify

I.7 If you consider taking a loan from an MFI , would you prefer an individual or joint liability loan?

Interviewer Note: Even if they never required a loan or were rejected, hypothetically if they did require a loan/if they did get the loan

A. Individual Liability

B. Joint Liability--I.8

I.8 What is the reason for your preference for individual liability loan products? (multiple choice)

A. Easy to get loan

B. Cheaper interest rate

C. Flexible repayment structure

D. No need for documents

E. Don't have to depend upon other people to get the loan

F. Don't have to make payments if other people in the group default

G. Others, specify

I.9 What is the reason for your preference for a joint liability loan product?(multiple choice)

A. Easy to get loan

- B. Cheaper interest rate
- C. Flexible repayment structure
- D. No need for documents
- E. Other people are there to support to get a loan
- F. Have other people to support me incase I am not able to make a repayment installment

Section J: Business Information

J.0 Does this household own a business?

Yes → J.1

No → End of survey

J.1 Who manages this business?

J.2 Where is the business located? (Full address)

J.3 Is your Business outlet-

- i) Self-owned → J.
- ii) Parent/Family owned → J
- iii) Owned with partner → J
- iv) Refused to answer →
- v) Does not know →

J.4 Is the premise of the business outlet rented?

Yes → 1

No → 0

J.5 When did you establish your business?

- i) Less than a year ago
- ii) 1-2 years
- iii) 2-3 years
- iv) 3-4 years
- v) 4 years or more

J.6 How many people work in your business?

- i) 1-10
- ii) 10-20
- iii) 20-30
- iv) 30-40
- v) 40 or more

vi) Refused to Answer → J.8

vii) Does not know → J.8

J.7 Out of these, how many are family members?

J.8 What are the lean periods for sales in your business? (Multiple choice)

January February March April May June
July August September October November December

J.9 What are the peak periods for sales in your business? (multiple choice)

January February March April May June
July August September October November December

J.10 What are the terms of purchase?

(Surveyor note: Terms of purchase means, how frequently the business buys its raw materials or goods.)

- i) Daily
- ii) Weekly
- iii) Fortnightly
- iv) Monthly
- vi) Half yearly
- vii) Yearly
- viii) Other (Specify)
- ix) Refused to answer

J.11 Details on Business Income

S.No	Sources	Amount
	Total Business income	
I	Present Value of Stock	
Ii	1st quarter (April to june) average sale	
Iii	2nd quarter (July to sep) average sale	
Iv	3rd quarter average sale	
V	4th quarter (jan to march) average sale	
Vi	Total sales	
Vii	Net monthly average sale	

J.12 Details on business expenses

S.no	Application	Amount
	Total business Expenses	
I	Purchase of equipment (machinery, office equipment etc)	
Iii	Purchase of property (office space, branches etc)	
Iii	Purchase of furniture	
Iv	Purchase of raw materials for production (livestock, good etc)	
V	rent	
Vi	labour	
Vii	transportation	
Viii	Equipment rent	
Ix	Telephone	
X	Electricity & water	
Xi	Others	

Section K: Clients who were offered IL Loans but did not take it up.

K.1) How did you first learn about individual liability loan products?

- A. MFI representative informed me
- B. Member of JLG informed me
- C. Read somewhere (newspaper, magazine)
- D. Friend/Relative told me
- E. Other Specify

K.2) For the first time, was the individual liability loan product offered to you by the MFI or did you approach the MFI to apply for an individual liability loan product?

- A. MFI approached me
- B. I approached MFI

K.3) Why did you decide against taking up the IL loan from the MFI (JANALAKSHMI)?

- A. Already have an IL loan from another MFI → end survey
- B. Do not feel the need for a loan → end survey
- C. Do not feel the need for an IL loan → skip to 4
- D. Prefer a JLG loan over IL loan → skip to 5

E. Did not like the terms of this particular IL loan → skip to 6.

F. Refuse to answer

4) Is there some change in the product that would make you reconsider your decision (hints: interest rate, repayment flexibility, usage for consumption, loan amount) _____

5) Please specify what about JLG loan is preferred over this IL loan by the respondent:

6) Please specify what about the IL loan you did not like: _____

B2. MFI Interview Script

Identification particulars	
Name of the MFI	
Full address	
City	
State	
Manager name	
Manager contact number	
MFI loan officer name	
MFI loan officer contact number	
Date of interview (give options for multiple visits)	
Place of interview	
Start time of interview	
End time of interview	

Section-1: Information on loan products and their uptake

1) What type of IL loans do you offer?

Name of loan products
1)
2)
3)
4)
5)
6)
7)
8)
9)
10)

2) Could you briefly describe each of these loan products along with their eligibility criteria and the dates on which they were introduced?

Name of loan products	Eligibility Criteria	Date on which they were introduced
1)		
2)		
3)		
4)		
5)		
6)		
7)		
8)		
9)		
10)		

3) What are your criteria, **in general** to provide individual liability loan products?

4) Have you ever given an individual liability loan to someone who did not have a joint liability loan?
(If yes, then go to Question 5, otherwise skip to Question 6)

5) If yes, what were the criteria in such a case?

6) What has the uptake on the IL loan products been like?

	Uptake
Loan products	
1)	
2)	
3)	
4)	
5)	
6)	
7)	
8)	
9)	
10)	

7) Do you think the uptake of JL loans are more than IL loans? If yes, could you elaborate why that is so?

Suggested code: If no, then go to Section-2

8) As an organization would you want people to take up more individual liability loan products?

9) If yes, what efforts have you taken so far in that regard?

10) In addition to this, what other efforts have you been planning in this regard OR what are the changes that your organization could bring to the individual liability loans, which might increase its uptake?

11) Who takes the final decision on who gets the Individual Liability loan?

12) How are top-up requests on the IL loans by your clients assessed

Section-2: Default rate on the loans

1) What is the default rate for the loans given to the clients in the last one year?

	Default rate under Individual Liability group
Name of the loan product	
1)	
2)	
3)	
4)	
5)	
6)	
7)	

2) Is there any change in the default rate for loans taken after the process got tweaked? (If yes, what was it before and after)

Suggestion: Skip this question if there have been no changes in the processes

	Individual liability	
Loan products	Default rate (Before)	Default rate (After)
1)		
2)		
3)		
4)		
5)		
6)		
7)		

3) Could you specify the reasons that brought about the changes in the default rate for each loan product?

Section-3: Loan products and its uses

1) What are the typical uses of the IL loan funds borrowed by your clients?

	Individual liability			
Loan products	Use 1	Use 2	Use 3	Use 4
1)				
2)				
3)				
4)				
5)				
6)				

2) Do your clients use the IL loans provided by you for their intended purposes?

Code: If no, follow it up with the question "What is the proportion of borrowers who deviate from the intended purposes of loans?"

3) How do you measure/check whether the IL loans are being used for their intended purposes?

Suggested codes: Frequency of village visits, survey on loan use etc

4) What according to you are the main reasons for this trend (*i.e. clients deviating from the actual usage of loans*)?

5) What are the usual deviations (*i.e. the actual usage of loan*) that you have observed for each loan product in the individual liability group?

6) On average, two to three days before you made previous repayments how confident did you feel about being able to pay the loan installment?

d) Confident that I will be able to pay

e) Not confident I would be able to pay anything

f) Refuse to answer

7) Do you end up making the repayment instalment for the loan usually even when you find it hard to source the repayment amount 2-3 days before repayment?

d) Yes

e) No

f) Refuse to Answer

8) How do you source the repayment instalment amount (multiple choice)

- h) Borrow money from a money lender
- i) Borrow money from friends and family
- j) Sell an item or asset
- k) Use savings
- l) Borrow from another MFI
- m) Use money kept aside for other purpose
- n) Other

B3. MFI participation in the study

For this study, we interviewed three MFIs – Janalakshmi, Sonata Microfinance and Grameen Koota.

1) Janalakshmi

Janalakshmi Financial Services Pvt Ltd is a Bangalore based NBFC-MFI with gross loan portfolio of Rs. 53, 233 cr as on 31st March 2016. The organization's operation spreads over 16 states / UTs (Haryana, Karnataka, Madhya Pradesh, Maharashtra, Delhi, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Gujarat, Uttarakhand, Pondicherry, Bihar, Chhattisgarh, West Bengal and Jharkhand) with 9,669 branches reaching 3,25 crore clients. It provide loans on both the JLG model as well as the Individual model. The loan products that Janalakshmi provides under the Individual model are Nano loans, Home improvement loans, Jana kisan loans, Jana vidya loans, super nano loans, MSME loan, equipment & machinery financing and long term business loans.

2) Sonata Microfinance

Sonata Finance Pvt Ltd is headquartered in Lucknow with gross loan portfolio of Rs 1026 crore. The organization's operation spreads over 6 states (Uttar Pradesh, Madhya Pradesh, Uttarakhand, Haryana, Rajasthan and Bihar) with 314 branches reaching 586,297 clients. They provide loans on both the JLG model as well as the Individual model. The loan products they offer as part of IL model is mainly loans related to setting up or improvement of business.

3) Grameena Koota

Grameen Koota Financial Services Pvt Ltd., is a Bangalore based NBFC-MFI with gross loan portfolio of Rs. 3025.62 cr. The organization's operation spreads over 5 states (Karnataka, Maharashtra, Tamil Nadu, Madhya Pradesh & Chhattisgarh) with 390 branches reaching 16,32,827 clients. They provide loans on both the JLG and Individual model. The loan products that Grameena koota provides under Individual model are business development loans and Home reconstruction loans.



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