

A Contemporary Study On Key Challenges Faced By Indian Micro Finance Institutions

Vinita Rai^{1*} Dr. Urvashi Shrivastava²

¹*Research Scholar, Chhattisgarh Swami Vivekananda Technical University,
Bhilai (C.G.)*

²*Associate Professor, Management Department, Bhilai Institute of Technology,
Durg (C.G.)*

¹ vinita.raio8@gmail.com, ² urvashi.bitdurg@gmail.com

Abstract

Indian Micro finance sector acts as a source of providing financial services to the weaker and poor sections of people. Microfinance contributes towards national objective for economic growth and social justice. Due to the implementation of microfinance there is an increase in GDP and this sector contributes towards economic growth of country. It also acts as a poverty alleviator tool and helps weaker sections to create their own ventures and upgrade their standard of living. The study purpose is to examine the major challenges faced by MFIs/SHGs and the reason why this scheme unreached to the desirable sections of society. Study concludes by providing suggestive measures to be taken by Microfinance institutions, financial institutions, Self Help Groups, NABARD and other government agencies.

Key words: *Microfinance, Poverty, SHGs, Garmin Banks, NABARD*

1. Introduction

Poverty is one of the major economic challenges before India. Keeping this in view, government of India has implemented various initiatives and program to alleviate this poverty level. One among this is implementation of Indian micro finance sector where in it plays an important role in improving the living standard of poor, bringing entrepreneurial competence, improving self-confidence, self-dependency among weaker sections of society.

According to United Nations “Microfinance can be defined as provider of small scale financial services such as savings, credit and other basic financial services to poor and low income people”. Micro finance institutions refer to a wide range of organizations dedicated to provide these services and include NGOs, credit union, cooperatives, private commercial banks, NBFCs and part of state owned banks. Also, Indian government has taken necessary initiatives to make smooth credit delivery system. Micro finance plays a significant role in bridging the gap between poor's and formal banking system through giving easy credit access facility to the weaker sections of society. Although, MFIs prime duty is to provide easy credit facilities to weaker sections but few problems are faced by MFIs which this study aims to identify. This paper tries to examine the challenges being faced by MFIs and to provide necessary suggestive measures to overcome these problems.

2. Research objective

1. The prime objective of study is to identify the various challenges faced by microfinance institutions in implementing their program.
2. Secondary objective of study is to provide practical suggestions to MFIs and other Governmental organizations to overcome these challenges.

3. Literature review

Though various research works has been done in micro finance. But very few studies have been carried out related to challenges faced by MFIs in implementing these schemes. Few of the literatures have been taken in study for review. Nasir (2013)¹ examined in his study both internal and external indicators which acts as major challenges which includes high transaction cost, lack of access of funding, loan collection method, fraud, loan default, debt management, low education, increased competition, population are the challenges which affect the smooth implementation of micro finance schemes. Sunitha (2014)² in her research paper identified financial illiteracy among client is one of the major hindrances in MFI growth. Other problems include inadequate funds with MFIs, group membership, transparent pricing, overdebtiness and multiple lending by the same borrower. Mahanta, Panda and Sreekumar (2012)³ discusses in their study about various problems faced by microfinance in regulating their scheme. Authors suggested government to focus their role in framing laws for the protection of micro borrowers. Agrawal (2015)⁴ in her study reveals that a large section of poor people is remaining untouched with the MFIs services. Mittal (2016)⁵ argues in his study about collective defaults made by borrowers, high rate of interest charged by MFIs, dozens of suicide cases in Andhra Pradesh done by MFIs borrowers due to pressure

of repayment. Dey (2015)⁶ in his study discusses about the issues coming in the way of microfinance which includes high transaction cost, lack of access to funding, late payment, low education, loan default, client retention, negligence of urban poor, high interest rates and low outreach. Tripathy and Jain (2010)⁷ studied about the operation of SHG in two states i.e. Orissa and Haryana where they analyzed few loopholes like absence of credit linkage facilities, lack of group commitment, non-provision of socio-economic incentives. Further they suggested improving the integrated governance approach in rural areas to implement self-employment program in rural India. Taruna and Yadav (2016)⁸ discusses about aim of MFIs to reduce the poverty and financial problems among poor. But few challenges coming in the way of MFIs like inability of getting sufficient funds and they should look forward to generate funds through other sources also. Devraja (2011)⁹ revealed in his study that due to lack of opportunities and past borrowing experiences. Group members do not have confidence to use their credit for productive purpose. Singh and Kaur (2017)¹⁰ conducted his study to identify the various problems faced by MFIs in providing their services in selected districts of Haryana. Further study suggested that there should be sufficient banking staff to monitor the performance of group members, poor regulation for timely repayment of loan and field check should be made to judge whether the loan amount is used by borrower for the same purpose for which it has been sanctioned.

4. Research problem

Although microfinance exhibits a robust growth in India and act as a poverty alleviator tool among weaker sections but still large section of poor people remain unreached with the benefits of microfinance and majority of them are facing issue of delay in loan repayment, high indebtedness and high interest rate. On the other side, MFIs are also facing a lot of challenges in their path of success. This paper tries to identify the major challenges which micro finance institutions are facing in implementation of their program among their clients.

5. Significance of study

This paper will help to know the present status of microfinance in India. Also, study aims to highlight the major problems through which micro finance institutions are facing now days. Study aims to provide corrective measures which need to be taken to overcome these challenges.

6. Research materials and methods

The present study is based on secondary data sources which includes magazines, research articles, newspaper, referred journals, government reports and books have been studied and used for data collection.

7. Status of micro finance institutions/self-help group in India

MFI exhibits a robust growth rate by covering over more than 10 crores household with 85 lakhs self-help group in overall India with deposits of about Rs. 16,114 crores providing an annual loan off take of Rs. 38,800 crores and total loan outstanding of nearly about Rs. 61,600 crores.

Table: 1 Status of micro finance in India

SL No.	Particulars	Achievements	
		Physical (in lakhs)	Financials (in crores)
1	Total number of SHGs saving linked with banks	85.77	16114.23
(i)	Out of total SHGs – exclusive women SHGs	73.22	14283.42
(ii)	Out of total SHGs – under NRLM/SGSY	37.44	7552.7
(iii)	Out of total SHGs – under NULM/SJSRY	5.45	1126.86
2	Total number of SHGs credit linked during 2016-17	18.98	38781.16
(i)	Out of total SHGs – exclusive women SHGs	17.16	36103.13
(ii)	Out of total SHGs – under NRLM/SGSY	8.86	17336.26
(iii)	Out of total SHGs – under NULM/SJSRY	1.06	2675.77
3	Total number of SHGs having loan outstanding as on 31st March 2017	48.48	61581.3
(i)	Out of total SHGs – exclusive women SHGs	42.84	56444.24
(ii)	Out of total SHGs – under NRLM/SGSY	24.91	29994.43
(iii)	Out of total SHGs – under NULM/SJSRY	3.18	4133.29
4	Average loan amount outstanding/SHG as on March 2017		127016.62
5	Average loan amount disbursed/SHG during 2016-17		204313.51
6	Estimated numbers of families covered up to 31st March 2017	1010	
7	No. of banks and financial institutions submitted MIS	441	
8	Data on Joint Liability Groups		
(i)	Joint liability groups promoted during the year 2016-17	7.02	
(ii)	Loan disbursed to joint liability groups (JLGs) during the year 2016-17		9511.17
(iii)	Cumulative joint liability group promoted as on 31 st March 2017	24.53	
(iv)	Cumulative loans disbursed to JLG as on 31 st March 2017		26848.13
9	Support from NABARD		

(i)	Capacity building for partner institutions		
	Under SHG-BLP and JLGs		
	No. of programs conducted during the year 2016-17	3799	
	No. of participants covered during 2016-17	1.39	
	Cumulative number of participants trained up to March 2017	36.18	
	Under WSHG Scheme (in LWE affected and backward districts)		
	No. of programs conducted during the year 2016-17	979	
	No. of participants covered during 2016-17	0.36	
(ii)	Refinance Support		
	Refinance to banks 2016-17		5659.51
	Cumulative refinance released up to 31 st March 2017		43293.6
(iii)	Financial Support to MFIs		
	Revolving fund assistance outstanding as on 31 st March 2017		4.25
	Capital Support outstanding as on 31 st March 2017		3.8
	Refinance disbursed to NBFC-MFIs during 2016-17		3498
(iv)	Grant assistance to SHPIs for promotion of SHGs under SHG-BLP		
	Grant assistance sanctioned during 2016-17		31.97
	Cumulative sanctioned up to 31st March 2017		361.87
(v)	Cumulative grant assistance sanctioned to Anchor NGOs for promotion of SHGs under WSHG Development Scheme up to 31st March 2017		204.38
(vi)	Cumulative grant assistance sanctioned to JLGPIs for promotion of JLG s as on 31st March 2017		155.21

(Sources: Status of microfinance in India, 2016-17, NABARD Reports)

8. Micro finance model in India

More than 97% of microfinance business has been regulated on SHG and MFI models.

8.1 SHG – bank linkage models

Under this model SHG is formed bank, formal agencies, NGOs and through which SHG are directly financed by banks i.e. both private and public sector banks. The promoting agencies facilitate organization, promotion, nurturing, training and maintenance of record for credit functioning.

8.1.1 Model-I: SHG formed and financed by banks

In this model, the financing bank facilitate SHG formation provides training to members, supervise them about working and performance of group. Up to March 2006 20% of SHGs 447713 has been financed by this category.

8.1.2 Model-II: SHG formed by the agencies and financed by banks

Lending through NGOs, Farmers Club, Individual Volunteer and formal agencies other than banks in the field of micro finance which acts as a facilitator for organizing, formation, nurturing of groups. Bank directly gives loan to these SHG. This model is regulated in 74% of SHGs.

8.1.3 Model-III: SHGS financed directly through NGOs & other agencies as financial intermediaries

Under this model NGO, SHG etc. take the role of intermediary around formal banking system faces constraints these agencies like NGO, SHG provide a link between bank and SHG members. Bank finance to these intermediaries who in turn finance to these SHG members. This model is used by 6% of the SHG.

In the year 2007, NABARD made changes in delivering credit facilities instead of these three models. Now only 2 models exist:

8.2 MFI bank linkage model

This model covers financing of MFIs by banking agencies for on-lending to SHG and other small borrower. This model is rarely used with .04% in total linkage in 2011.

Table: 2 Overall progress under SHG bank linkage program during past 3 years (No. of SHGs in lakh, amount in crores)

Particulars		2014-15		2015-16		2016-17	
SHG Savings with banks as on 31st march		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
	Total No. of SHGs	76.97	11059.84	79.03	13691.39	85.77	16114.23
	(In percentage)	3.59%	11.74%	2.68%	23.79%	8.53%	17.69%
	of total All women SHGs	66.51	9264.33	67.63	12035.78	73.22	14283.42
	(In percentage)	6.38%	15.61%	168%	29.92%	8.26%	18.67%
	% of women groups to total	86.41	83.77	85.58	87.91	85.36	88.64
	of Total, NRLM/SGSY Groups	30.52	4424.03	34.57	6244.97	37.44	7552.7
	(In percentage)	34.92%	78.56%	13.27%	41.16%	8.30%	20.94%
	% of NRLM/SGSY groups to total	39.65	40	43.74	45.61	43.65	46.87
	of Total, NULM/SJSRY Groups	4.33	1071.81	4.46	1006.22	5.45	1126.86
	(In percentage)			3%	6.12%	22.42%	11.99%
	% of NRLM/SGSY groups to total	5.63	9.69	5.64	7.35	6.36	6.99
	Total No. of SHGs	16.26	27582.31	18.32	37286.9	18.98	38781.16
	(In percentage)	19.03%	14.84%	12.67%	35.18%	3.60%	4.01%
	Of Total All Women SHGs	14.48	24419.75	16.29	34411.42	17.16	36103.13
	% of women groups to total	89.05	83.53	88.92	92.29	90.42	93.09
	of Total, NRLM/SGSY Groups	6.43	9487.69	8.16	16785.78	8.86	17336.26
	(In percentage)	28.45%	27.26%	26.91%	76.92%	8.58%	3.28%
	% of NRLM/SGSY groups to total	39.54	34.4	44.54	45.02	46.69	44.7
Loans Disbursed to SHG during the year	of Total, NULM/SJSRY Groups	1.05	1871.55	1.11	2620.22	1.06	2675.77
	(In percentage)			5.71%	40%	-4.50%	2.12%
	% of NRLM/SGSY groups to total	6.46	6.79	6.06	7.03	5.6	6.9
	Total No. of SHGs	44.68	51545.46	46.73	57119.23	48.48	61581.3
	(In percentage)	6.46%	20.06%	4.59%	10.81%	3.74%	7.81%
	Of Total All Women SHGs	38.58	45901.95	40.36	51428.91	42.84	56444.24
	(In percentage)	13.27%	26.97%	4.61%	12.04%	6.14%	9.75%
Loan outstanding against SHG as on 31st march	% of women groups to total	86.35	89.05	86.37	90.04	88.36	91.66
	of Total, NRLM/SGSY Groups	18.46	19752.74	21.91	26610.16	24.91	29994.43
	(In percentage)	41.24%	94.08%	18.69%	34.72%	13.69%	12.72%
	% of NRLM/SGSY groups to total	41.32	38.32	46.89	46.59	51.37	48.71
	of Total, NULM/SJSRY Groups	3.18	3462.62	3.13	3979.75	3.18	4133.29

(Sources: Status of microfinance in India, 2016-17, NABARD Reports)

9. Key problems faced by microfinance institutions in India

The major challenge faced by microfinance institutions is to provide credit facilities to poor sections of society but few more challenges faced by them are:

1. Low outreach

MFIs in India have client outreach of approx. 8%. in India, it has been seen most of the state like Bihar, Orissa have low prevalence of MFIs. MFIs are struggling to meet their costs also they are facing a lot of issues of increasing the MFIs outreach among their clients.

2. Negligence of urban poor's

It has been noted that most of the MFIs client are from rural area only. Out of total 800 MFIs across India only six are currently focusing their attention in urban area. With an increase in urbanization micro finance institutions should focus their attention in this region as well.

3. Client retention

Client retention is one of the major issues in the growth of MFIs. Only 28% of client retention is with MFIs. The reason behind this is most of the client are unaware about MFIs products and services. It is also seen that most of the client have higher loan default rate.

4. High interest rate

MFIs are charging interest at very higher rates nearly 24-26% which becomes very difficult for poor to pay their installments. As they do not receive any subsidized credit for lending activities and that is why they need to recover these costs from the borrower.

5. Indebtness

Overindebteness is one of the major challenges in the growth of micro finance. MFIs came with a motive to provide financial sustainability among clients. But due to higher interest rates borrower sometimes finds difficulty in paying out their loans. This kind of problems have been reported in states like Andhra Pradesh, Karnataka, Madhya Pradesh (Singh 2016)

6. Loan default

Loan default is one of the major issue in the growth of MFIs in India. It has been seen through NABARD 2016-17 reports total loan outstanding is 127016 lakhs till 31st March 2017 which clearly indicates borrowers are having lack of understanding also this shows they are not able to manage their loan pay backs.

7. Low education level

Due to high rural client outreach MFIs are facing issues due to low literacy rates wherein they are unaware about the merits and demerits of program. Although they are trained how to sign but they are unable to read the documents. This is two way dangerous with the respect of MFIs and client aspect. Around 78% of MFIs clients have no or very less education level.

8. Language barrier

Language barrier among MFIs client is one the major problems in the success of MFIs scheme. Around 54% language barrier has been among client and most of them are less educated. Due to this it creates a lot of difficulty among MFIs employees to explain the policy of MFI scheme and its benefits.

9. Delay in payments

Delay in payments is one of the major challenges among MFIs as most of them nearly 70% of the clients make delay in their loan outstanding payments. Due to this there is an increase in the loan amount the reason behind this is improper management of sanctioned amount by them.

10. Geographic factors

Lack of infrastructure facilities in the rural area makes MFIs very difficult to provide all facilities to their clients. MFIs aims to target below the poverty level population but due to geographical factors it become very difficult for MFIs to reach to the clients who are far off places.

11. Lack of awareness

Lack of financial awareness is one of the major challenges before MFIs. This factor not only creates hindrance for clients to join hands with MFIs products and services. Now MFIs task is not only to provide services but also aims to educate them about the financials benefits provided to them.

10. Factors affecting micro finance institutions**10.1 Internal factors****10.1.1 High transaction cost**

One of the major challenges coming in way of MFIs is the high transaction cost which increases with the increase in the proportion of total cost. Also, it becomes very difficult to adjust the cost if there is an increase in the marginal cost. Due emphasis needs to be given by MFIs on this aspect.

10.1.2 Lack of financial support

One of the major challenges coming in the way of MFIs is the lack of financial support from formal financial institutions. Through previous study it has been analyzed that most of the MFI/SHG feel that they are not getting healthy financial needs out of the base requirement.

10.1.3 Lack of regulatory issues

Due to lack of proper rules and regulations MFIs are facing trouble in collecting the loan amount from their clients. Moreover, this leads to create failure in the development of new financial products and services launched to benefit MFIs clients.

10.1.4 Fraud

Due to mismanagement of loans it has been find out nearly 67% of the client are unable to pay their loan installment on time. Moreover, it has been found out from previous study that most of the borrower misuses their amount for some other purpose like marriage, personal purpose, reconstruction or some other misc. use.

10.2 External factors

10.2.1 Increase in competition

One of the major external issues behind MFIs is increase in competition which leads to create hurdle in the growth and success of MFIs. Due to increase in formal banking system and their loan facilities this leads to face increase in competition by MFIs.

10.2.2 Population density

Due to increase in number of fraud from rural regions comparative to urban clients it creates a lot of problem in the growth of MFI ways.

11. Recommendations

1. Indian Government should take necessary steps to help MFIs to reach their scheme before weaker and poorer sections. There should be an improvement in the services and product quality of MFIs.
2. Due emphasis should be given in strengthening of credit check and loan collection processes.
3. Government of India should provide a separate legal regulatory authority for smooth functioning of MFIs products and services.
4. Proper training modules should be provided to MFIs clients to make them understandable about debt, repayment periods, rate of interest and other benefits of scheme.
5. MFIs should focus on increasing their client outreach by expanding their services in both urban and rural areas. Also, they should focus on the various states where poverty level is high like Orissa, Bihar, Chhattisgarh, Madhya Pradesh, Uttarakhand, Uttar Pradesh etc.
6. Regulatory bodies should bring appropriate business models to overcome under financed micro lending issues to bring sustainability in financial terms among clients.
7. Proper financial training should be provided to clients to make them understand about books maintenance systematically.
8. Government of India and other regulatory bodies should take necessary action to implement their scheme among clients and to bring awareness about MFIs scheme and its benefits.
9. Proper infrastructural facilities should be provided in rural areas as well to overcome geographical barrier.
10. Accessibility of necessary credit facilities to be provided among borrower at market price to bring positive impact of financial inclusion among clients.

12. Conclusion

Indian micro finance industry is growing rapidly with the current pace of time. However, based on above findings it has been analyzed that MFIs are facing a lot of issues in implementing their scheme. Both external and internal factors lead to create hurdle in the way of microfinance. Due emphasis should be taken by government of India, SHGs, MFIs, NABARD and other regulatory bodies to eliminate these challenges coming in the way of micro finance.

13. References

13.1 Citation from journals/ articles

- [1] Sibghatullah Nasir, "Microfinance in India: Contemporary Issues and Challenges", Middle-East Journal of Scientific Research, Vol. 15, Issue: 2, ISSN 1990-9233, DOI: 10.5829/idosi.mejsr.2013.15.2.2306, (2013), pp.191-199.
- [2] S. Sunitha, "A Comprehensive Study On Micro Finance Institutions In India", Galaxy International Interdisciplinary Research Journal, Vol. 2, Issue: 2, ISSN 2347-6915, (2014), pp. 46-53.
- [3] Padmalochan Mahanta, Gitanjali Panda and Sreekumar, "Status of microfinance in India - A review", International Journal of Marketing, Financial Services & Management Research, Vol.1 Issue: 11, ISSN 2277 3622, (2012), pp.142-155.
- [4] Nidhi Aggarwal, "Emerging challenges of micro finance in India", International Journal Of Business Management, Vol. 2, Issue: 1, ISSN 2349-3402, (2015), pp. 813- 818.
- [5] Alka Mittal, "Current Scenario of microfinance industry in India", International Journal of Information Research and Review, Vol. 03, Issue: 08, (2016), pp. 2681-2685.
- [6] Sanjeeb Kumar Dey, "Challenges & Issues of Microfinance in India", Journal of Economics and Sustainable Development, Vol. 6, Issue: 7, ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online), (2015), pp.195-198.
- [7] K.K. Tripathy and Sudhir K. Jain, "Income Impact of Micro-Enterprise Finance: An Empirical Study on Government Initiatives in Rural India", International Journal of Rural Management, Vol. 7, Issue: 1&2, DOI: 10.1177/0973005212459824, (2011), pp.5-26.
- [8] Taruna, and Pushpanjali Yadav, "Microfinance: Emerging Role, Issues and Challenges in India", Indian Journal of Applied Research, Vol. 6, Issue: 1, ISSN - 2249-555X, (2016), pp. 29-31.

- [9] Devaraja, T.S., “Microfinance in India - A Tool for Poverty Reduction”, (2011), pp. 1-20.

- [10] Sultan Singh and Amandeep Kaur, “Problems faced by Microfinance Institutions in providing microfinance”, International Conference on emerging trends in engineering, technology, science and management, ISBN 978-93-86171-54-2, (2017), pp. 251-258.

- [11] Status of Microfinance in India, Micro credit innovations department, National Bank for agriculture and rural development, pp. 1-278.