

Issues and Challenges of Micro-Finance Institutions in India

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ABSTRACT

It has been observed that now, especially after demonetization; Microfinance is playing a crucial role in the development of country at its own risk. This paper represents the microfinance different issues and challenges that are faced by poor people in India as well as the positive and negative role played by the financial institutions against such poor people. The prime objective of this study is to identify the problems associated with MFIs and micro-creditors or borrowers with special reference to small loaning and also to identify various suggestive measures to tackle such challenges. The study is purely based on descriptive research and it is supported with secondary data that has been collected from different sources such as online journals, articles, newspaper etc. This paper tries to discover the prevailing gaps in functioning of MFIs such as practices in registration issues, promoters issues, management issues, dissatisfaction issues, recovery of loan issues and other challenges like over indebtedness, higher rate of interest in comparison to mainstream banks and lack of enough awareness against availability of such financial services across the country.

Keywords : Role of MFIs, Social Challenges, Issues with Microfinance, indebtedness, negative role of MFIs

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Introduction

Microfinance Institutions are those organization which offer credit to low income group or economically marginalized

Micro + Finance = Microfinance

Micro: Very small

Finance: Finance is a term for matters regarding the management, creation and the study of money and investments

since this finance on loans are provided to low income group. It means that the bridge between the formal financial institution and the low income group are branched. They will collect funds from commercial bank or other institution and then given to the low income group. In the year 2010

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government had appointed a committee to study about the microfinance institution in India and their scope of such institution and the committee was chaired by Y.H Malegam.

Recommendation of this committee Y.H malegam committee.

1. Microfinance institutions provide loans to

weaker section whose annual income is less than Rs 50000 so the first recommendation annual income is less than Rs 50000 whereas RBI success decided to be Rs 60000.

2. The interest of such loans to be 24%but RBI set is to be 26%
3. There should be a separate set of rules for microfinance institution namely MFI – NBFC. It should be governed differently so commercial banks should have different set of rules and when it comes to microfinance institution since their purpose itself is differently the purpose of microfinance institution are to give credit to lower income group. This recommendation was accepted by government.
4. Those commercial bank who are lending to microfinance institution from where will this microfinance institution collect the fund we set it as commercial bank or other financial institution so those commercial bank which lend to this microfinance institution that amount of loans should be concerned as the Priority Sector Lending (PSL) of those commercial banks.

Issues and challenges of Microfinance Institutions.

Registration issue

Now a days there are different issues of a during registration there are a large number of applications is applying but hardly 5 to 10% of application are getting approved.

Promoters issues

Promoter who do not have a business plan, what to

do?, How to do with microfinance? When to invest? and where to invest? If they don't identify his her business plan then it will become main issue for them.

Management issue

There is absence of compliances or structured procedure this issue will be occur.

Dissatisfaction issues

There are different terms and condition of microfinance company if received were dissatisfied with the terms and condition of company then it will become issue for the company and also promoters.

Recovery of loan

If individual will not be able to recover his / her loan then it will become an issue for microfinance institution.

Challenges:

Over indebtedness

Indebtedness means an obligation to pay money to other from whom you have borrowed. The poor people are unable to repay a loan it gives rise to problem of indebtedness. Rural indebtedness is an indicator of the weak financial infrastructure of our country which include inability of any economic system to reach to the needy farmer. Due to low income and poverty, backwardness of Indian agriculture. This is an Indian agriculture is backward. Indian agriculture depends largely on unreliable rains for irrigation if there are no rains or ultimately rains the entire crop is loss the money spent in agriculture got wastes.

As crops fail, banks don't deliver and the government falters, Mandya's farmers find themselves at the mercy of unscrupulous moneylenders

LOAN SAGA
Total amount disbursed as crop loans for 2014-15
₹1,200 cr

Total outstanding agricultural loans
₹2,732 cr

TWO TYPES OF LOANS EXIST
92% of loans are short term (less than a year) and rest, long term (3-5 years)

For one-year loan, banks charge 4% interest (after govt subsidy paid to banks); if defaulted, it goes to 14%

Cooperative banks 12%	Microfinance institutions 24%
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Moneylenders 24-30%

LAW OF LENDING

- In 1936 the Mysore Money Lenders Act came into force. District deputy collectors were given powers to provide licence and control money-lending business. Act was amended in 1955 and 1956.
- After unification of the state, Karnataka Money Lenders Act 1961 and Karnataka Pawn Brokers Act 1961 and Rules 1966 were introduced.
- By 1963, Mandya district had 99 licensed moneylenders. Now, district registrar controlled money-lending business.
- After cooperative societies started to provide loans for farmers, the moneylenders reduced to just 16.
- In 1965, govt fixed the interest rate by moneylenders at 15% for loan given under security and 18% without security.

“ We have asked the banks not to send loan recovery notices to the farmers till August 31. There is hope that sugar factories will start crushing sugarcane by then
Shubhan Gulabera Bofase | MANDYA UP

Higher interest rate in comparison to mainstream bank

The interest rate of microfinance is higher as compared to any other commercial banks. Most microfinance institution charge a very high rate of interest (12-30%) where is commercial banks (8-12%).the regulatory authority RBI issued guidelines to remove the upper limit of 26% interest on MFI loans while many MFI sector players benefited from the RBI guideline update, the borrowers were left for the worse. A massive trend of farmer suicide in states like Andhra Pradesh and Maharashtra in the outcome of borrowers in debt that resulted from the higher interest rates.

According to National crime record bureau, more than 3000 farmers committed suicide in 2015 due to debt and bankruptcy. Out of which 2474 cases after taking loans from banks and microfinance institutions, they took step when they failed to

repay the same.

Hundreds of suicide in India linked to microfinance organisations.

Mumbai India (AP) - first they were stripped of their utensils, furniture mobile phones, television, ration card and heirloom gold jewelry then, some of them drank pesticides one woman threw herself in a pond another jumped into a well with her children.

More than 200 poor debt- ridden residents of Andhra Pradesh killed themselves in late 2010, according to media reports complied by the government of the South India state. The state blamed microfinance companies.

Lack of enough awareness of financial services in the economy.

India has a low literacy rate, but if we talk about the

rural areas where literacy rate is too low due to lack of knowledge. A large number of Indian population fails to understand the basic financial concept. Lack of knowledge is a key factor that keeps the rural population from gain access to MFIs for easy credit to meet their financial need.

Literature Review

The journal Indian Journal of Finance and Banking seeks to understand the solvency and survival factors of microfinance institutions in India. In India, over 450 million people are out of the banking classroom. Many economically disadvantaged communities borrow money from moneylenders, who charged them to the extent of 115% interest. Microfinance was a strong tool to save the poor from high interest rates. But during 2010 microfinance broke down, on the back of it the repayment rate of microfinance customers has come down from 95% (2010) to 1% (2012). This poses a major challenge to the existence of microfinance institutions in India. (*S Sangeetha, K Chitra, 2021*). The particular significance of Micro Finance Institutions (MFIs) in context of emerging economies is well acknowledged. The success of the MFI in country, culture and context-specific. Overall studies show that the MFI sustainability have focused on financial results. This shows to adds value by exploring a holistic and organization-centered approach backed by stakeholder, which emphasizes that shareholders, employees and customers are equally important and treated to the sustainability of Microfinance Institutions in India. (*Sweta Sinha, Koustab Ghosh,2021*). Microfinance plays a vital role in poverty alleviation in our country and now it has become a financial inclusion growth engine for the development of poor citizens of India. In the inception days of microfinance development was aimed at serving the rural poor people of India and there was a time frame for microfinance to become

a business oriented framework and focus on profit making mindset rather than service mindset. So sometimes this microfinance institutions were called a tool for sustainable development but now a days microfinance institutions are running in the country with many issues for their sustainability. Several issues as well as two measure issues are still looking for new avenues to address the need for stronger governance architecture guidelines to reform microfinance institutions and introduce some affordable structural interest rates for those poor. Those who are completely dependent on microfinance institutions for their financial development. Weak governance structure There is scope for exploitation of interest rates by microfinance institutions in India. The aftermath of the microfinance crisis in Andhra Pradesh during 2010 clearly reflects the weak regulatory government structure and the lack of affordable structural interest rates. (*Chandan Mohanty, Suresh Kumar Sahoo, Srinivas Subbarao Pasumarti,2021*). During the advent of the COVID-19 pandemic in India, several protocols such as social distancing were implemented by the Indian government and restricting market activities have adversely affected the employment and earnings of our country's poor, who are believed to be targeted. Beneficiaries of Microfinance Institutions (MFIs). MFI programs and schemes are particularly fresh lending under serious threat, as the mode of operation mainly involves physical contact and communication, while distributing microcredit to citizens in need, organizing group meetings and at certain times. regular collection. Therefore, to analyze the various issues and challenges that are directly related to MFIs and the institutions that are suffering during this pandemic, in their present and future operations due to the ongoing pandemic can be better. The Government of India seeks to address or mitigate the epidemiological challenges related to microfinance. Also more microfinance institutions

give their efforts to create a win-win situation. (Sunil Sangwan, Narayan Chandra Nayak, Vikas Sangwan, Ashis Kumar Pradhan, 2021). With the result of nationwide lockdown, the economy suffers during this pandemic, and many of the most selective informal sector people are taking their severe beating during this pandemic, upon the detection of the first corona virus case in India in the month of May 2020 - 19. Many small shops, microcredit companies and many micro finance clients whose business experience has stalled, their loan installments due to non-banking financial institutions. Microfinance institutions run the risk of default. Due to this many NBFS and MFI institutions in India suffered their collections i.e. loans from banks are likely to show up in their payments. Announced by Reserve Bank of India and Government of India regarding Moratorium on Loans to NBFC-MFIs Notable NBFC-MFIs offering partial sovereign guarantee on loans are expected to provide relief to stressed MFI institutions in India. (Debashis Acharya, Erra Kamal Sai Sadharma, 2021)

Research Methodology

The study is purely based on descriptive research

Characteristic	Banks	Small finance banks (SFB)	Microfinance institution (NBFC-MFI)	Non-Banking financial companies (NBFS)	Not for profit MFIs
December 2020	42%	17%	32%	8%	1%
September 2020	41%	18%	31%	9%	1%
June 2020	41%	17%	32%	9%	1%
March 2020	38%	18%	34%	9%	1%
December 2019	40%	18%	32%	9%	1%

Market share in microfinance industry in India 2019-2020, by lending institution
Published by Statista Research Department, Jun 17, 2021

In December 2020, scheduled commercial banks in India had a market share of 42 percent on loans within the microfinance industry. This was an increase by two percent in comparison to December 2019. Microfinance institutions within

and it is supported with secondary data that has been collected from different sources such as online journals, articles, newspaper etc. To assess the issues and challenges of Microfinance Institutions in India. The trueness of data depends on the trueness of sources.

Objectives

- To identify the problem challenges faced by MFIs.
- To identify the problem faced by micro creditors or borrowers.
- To determine the suggestive measures to tackle those challenges.

Discussions

In India, MFIs currently operate in 28 States, 5 Union Territories and 561 districts. At present, 155 MFIs with a branch network of 11,687 have reached out to an all-time high of 33 million clients with an outstanding loan portfolio of Rs. 33,517 crore. ... 10,079 and 80% of loans were used for income generation purposes. Lending Institution table:

non-banking financial companies came second with a market share of 32 percent. Small finance banks had a market share of 17 percent. The total value of outstanding portfolios stood at over two trillion Indian rupees.

Findings

- According to National crime record bureau, more than 3000 farmers committed suicide in 2015 due to debt and bankruptcy. Out of which 2474 cases after taking loans from banks and microfinance institutions, they took step when they failed to repay the same.
- Hundred of suicide in India linked to microfinance institution.
- Lack of knowledge is a key factor that keeps the rural population from gain to assess MFIs for easy credit to meet their financial needs.
- Worried about installments by microfinance companies, the women of Moga Gheraod the offices. Microfinance offices in Punjab for Punjab's Moga, which gives loans to run small businesses, are now pressuring them for EMIs, even harassing and threatening the family.

Suggestions

- Presently, there is no specific regulatory structure for microfinance institution in India, the regulation of microfinance institutions is largely within the limits of state governments, hence there is requirement for special regulation to regulate microfinance institution in India.
- To ensure, the quantum of microfinance institution in an environment of exponential growth. Due to the rapid development of SHG bank linkage programme, the quality of microfinance institutions has come under pressure, the structured framework is particularly reflected in indicators such as poor maintenance of books and accounts etc.

- There should be a proper training in microfinance institution and a structuring framework should be arranged in an efficient manner for the customers so that they can know every little thing about their loans which are related to microfinance institutions.
- To ensure fair and equitable distribution of micro finance in both urban and rural areas of each state of India which is very important for the development of poor condition of every citizen.

Conclusion

According to our findings and observations this study concluded that many issues and challenges of microfinance institution. Before covid-19 pandemic needy and poor people took loan from microfinance and then covid-19 started growing rapidly in India due to which Modi government imposed strict lockdown on 22nd March 2020 and in this lockdown time all people and Indian economy also started suffering from this serious condition due to which people's work stopped completely and many people's jobs were in danger, so they failed to pay the loan interest on time, so people started moving towards depression and Very poor people started committing suicide after losing their jobs. However, microfinance companies are hardly care about the hardships their customers facing problems, their only main aim to recover the loan from the people. Also we found and saw that there are many issues and challenges related to the microfinance institution. The interest rates for loans taken from microfinance are much higher as compared to personal loans. It would be idiotic to take microfinance loan if you get direct loan from any bank and meet your requirement only by paying low interest. This evidence shows that as per our findings and observations “easy loans never come with relaxed terms” which is also somewhat true with microfinance companies.

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