Problems Faced by Microfinance Institutions in Providing Microfinance

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ABSTACT

The present study attempts to examine the problems faced by microfinance institutions in providing microfinance in selected districts of Haryana. Primary data have been collected through pre-tested structured questionnaire. For the purpose of data collection, a sample of 200 bank employees working in State Bank of India, Punjab National Bank, Oriental Bank of Commerce and Sarv Haryana Gramin bank is taken from four districts Sirsa (50), Kaithal (50), Rohtak (50) and Gurgaon (50) of Haryana on the basis of judgment sampling. The collected data were analyzed with the help of one-way ANOVA test and ranking method. The findings indicate that high risk due to no security against loan is the key problem of banks, followed by increase in the workload of staff, repayment of loan amount is low, required documents are not completed, loan is not used for the purpose for which it was sanctioned, etc. Statistically, the results of ANOVA test show that there is a significant difference in the bankers' viewpoint towards high risk due to no security against loan, therefore null hypothesis is rejected. On the basis of study, it is suggested that there should be sufficient staff in the banks to monitor the group's performance, proper regulation for timely repayment of loan from SHGs, and field work to check whether the loan amount is utilised for the same purpose for which it was sanctioned

***Keywords*: banks, microfinance, microfinance institutions, problems, SHGs,**

I. INTRODUCTION

Microfinance is one of the most visible innovations in anti-poverty policy in the last half-century, and in three decades it has grown radically. The most important benefit of microfinance in India is that it helps long-term financial independence in these poverty-stricken areas. Microfinance help sustained impact by educating recipients on how to create their own businesses and how to properly manage and grow their money. There is a rapid growth in the strength of microfinance in India and several other countries. Undoubtedly it has been successful in bringing formal financial services to the poor. People believe that it has provided money to the poor families and it has the strength to increase investments in health, education and empowerment of women. Microfinance institutions (MFIs) have created a massive social infrastructure uniquely positioned to reach millions of clients on a regular basis. Microfinance is no more a financing channel but it has also emerged as a strong distribution channel with numerous credit products, repayable over a longer period of time, and solar lamps, fuel-efficient stoves are some of them **(Dey, 2015) [1]**.

The last twenty-five years have witnessed a rapid expansion in the number and size of microfinance institutions (MFIs) in many parts of the world. In some countries, MFIs are already numerous and in aggregate serve a large

number of clients, manage a significant loan portfolio, and hold an important share of the financial assets of poorer people. In a recent report, the Consultative Group to Assist the Poorest 1 estimated that by 2000, MFIs worldwide served about 12.5 million individuals (CGAP, 2000). What distinguishes MFIs is their orientation to fill a gap left by (larger) conventional, commercial or government-sponsored institutions in the provision of financial services to poorer households and smaller enterprises. MFIs seem to promise a means to provide an especially valuable form of assistance directly to disadvantaged sections of society in a relatively cost-effective manner. MFIs may thus play a significant role in financial sector development, and therefore in overall development (**Holden and Prokopenko, 2001) [2]**. The term "microfinance institutions" is generally used to refer to those financial institutions that are characterized by their commitment to assisting typically poor households and small enterprises in gaining access to financial services. This commitment may replace or supplement other private or public objectives, such as the maximization of shareholder value, the direction of investment into priority sectors, or the mobilization of savings to finance government operations. In common usage, MFIs are distinguished from purely commercial, small-scale, possibly informal financial institutions dealing with the poor (for example, village moneylenders, pawnshops, and informal transfer systems) and from large, perhaps government-sponsored schemes that may hold numerous small accounts more or less as a byproduct of their main business (for example, national savings schemes or post office savings banks). Nonetheless, the same public policy issues—especially those related to subsidization and regulation—may arise in connection with these other institutions**.** MFIs provide a wide range of services and differ greatly in the nature of their operations. The best-known activity of MFIs is providing credit to poorer households and small enterprises, but many also take deposits. In addition, some MFIs offer other financial services, such as insurance, or advice and training to their clients. Certain MFIs are used as a vehicle to provide other services and education, e.g. in the area of health awareness **(Hardy, Holden and Prokopenko, 2003) [3]**.

Review of literature

Ugur (2006) [4] observed the role commercial banks play in microfinance and the challenges that these institutions encounter, having to operate in developing countries. In this respect, the study examined the financial data of four commercial microfinance banks: the Grameen Bank (Bangladesh), the Bank of Khyber (Pakistan), Banco Solidario, (Ecuador), Mibanco (Peru). In addition, the study also presented recent findings in the literature on microfinance regarding the effect of different lending types, interest rates and the delicate trade-off between profitability and outreach. **Ghosh (2013) [5]** examined the experience of India, which has one of the largest microfinance sectors in the world, and particularly the unfolding of the microfinance crisis in Andhra Pradesh. It concluded that microfinance cannot be seen as a silver bullet for development and that profit-oriented microfinance institutions are problematic. To fulfil even some of its progressive goals, it must be regulated and subsidised, and other strategies for viable financial inclusion of the poor and of small producers must be more actively pursued. **Dahir (2015) [6]** introduced practical evidence about challenges facing microfinance institutions in poverty eradication and to examine what role microfinance institutions can play in eradication of poverty in Mogadishu. A survey research method has been adopted to examine challenges facing microfinance institutions in poverty eradication. The data were collected through questionnaires filled by the respondents equally selected from Salaam Somali bank and Sa'id foundation in Mogadishu, Somalia. The

results of the questionnaire were then analyzed with the aid of SPSS. The results showed that the microfinance institutions have a positive impact on alleviation of poverty among poor people. Misconception about microfinance institutions due to their newly inception, inadequate loans, less mentionable support from government and donor funding hinder the microfinance institutions flourishing and hence this research provides contribution in the field of microfinance in poverty eradication. **Boating (2015) [7]** examined the challenges and prospects of microfinance institutions in Ghana. It was discovered that the key constraints faced by MFIs in Ghana include poor regulatory environment, regular vicissitudes in government policies, paucity of capital, inadequate skills and professionalism, infrastructural inadequacies, socio-cultural misconceptions, corruption, frauds and forgeries and poor corporate governance. Despite this plethora of challenges, the study identified growing entrepreneurial awareness, increasing government interest, large unbanked and/or underserved rural area and high population of poor and low income households and their microenterprises as opportunities that exist for MFIs subsector. **Dey (2015) [1]** explained that from the time of independence unemployment and poverty has been two major characteristics and challenges of India. The major cause for the above two has been the unavailability of sufficient credit facilities for the poor and unemployed. These two factors have become the most challenging roadblock in the path of sustainable development of the country. The rapidly opening economy is widening the gap between the rich and poor. To have a sustainable life style along with saving and investment, microfinance allows the poor to get the loan that leads to financial independence and growth. The poor use these loans in a productive manner to create their businesses, assets of their own and get rid of poverty once and for all. Microfinance is becoming a significant buzzword in India. Remarkable progress has been made during the last two decades in innovating techniques to deliver financial services to the poor on a sustainable basis. These loans are aimed at empowering the impoverished people to start their own businesses and to grow their money so that they can achieve long-term financial independence and develop sustainably. Economic growth, sustainable development and poverty alleviation can be achieved effectively with the help of an instrument like Microfinance. This paper focused the challenges and suggestive measures for growth of microfinance in Indian context for a sustainable development. **Taruna and Yadav (2016) [8]** explained the need and challenges that were faced by the poor people in India and providing them financial helps, in way of microcredit to start their own small businesses, so they can generate income and provide for their families. The study explored some glaring issues, challenges and offers some suggestion to make micro finance more effective. Hence, Government, RBI and various MFI's have to face various challenges and to overcome with these challenges and issues some preventive measures were also taken by these financial bodies so that to provide benefits to the poor people and social class of the society. On the basis of need, issues and challenges related to microfinance, the study predicted the new agenda for future.

II. OBJECTIVE OF THE STUDY

The present study is conducted to identify the problems faced by selected microfinance institutions in providing microfinance in selected districts of Haryana.

III. RESEARCH HYPOTHESIS

H_{01}: There is no significant difference in the viewpoint of respondents towards the problems faced by the selected microfinance institutions.

$H_{0a:}$ There is a significant difference in the viewpoint of respondents towards the problems faced by the selected microfinance institutions.

IV. RESEARCH METHODOLOGY

To achieve the objective of the study, a sample of 200 respondents is taken on the basis of judgment sampling. The primary data have been collected through pre-tested structured questionnaire. A sample of 200 bank employees in public banks *i.e.* State Bank of India, Punjab National Bank, Oriental Bank of Commerce, and Sarv Haryana Gramin Bank is selected from four districts of Haryana *i.e.* Sirsa (50), Kaithal (50), Rohtak (50) and Gurgaon (50) to know the problems faced by banks in providing microfinance. Secondary data have been collected from various Journals, Magazines and Annual Reports of the selected organizations. The collected data were analysed with the help of mean and standard deviation. Further, one way ANOVA test has been applied to test the validity of the results.

V. RESULTS AND DISCUSSION

Table 1 shows the analysis of response towards the problems faced by banks in providing microfinance in Sirsa district. High risk due to no security against loan is placed at the top (Mean=4.32, SD=0.47); followed by increase the work load of staff (Mean=3.74, SD=0.97), repayment rate of loan amount is low (Mean=3.52, SD=0.89), lack of time to monitor the group (Mean=3.50, SD=0.86), absence of timely repayment of loan and interest (3.50, SD=0.93), shortage of bank staff to handle the group performance (Mean=3.50, SD=1.07), absence of effective and appropriate manpower (Mean=3.32, SD=1.08), loan is not used for the purpose for which it was sanctioned (Mean=3.08, SD=1.14), not much profitable for banks (Mean=2.86, SD=0.95), lack of mutual understanding between banks and SHGs (Mean=2.78, SD=0.89), involves high transaction cost (Mean=2.64, SD=0.92), required document are not completed (Mean= 2.62, SD=1.14), customer base is very small (Mean=2.48, SD=1.05).

Bankers' viewpoint in Kaithal district shows that high risk due to no security against loan is placed at the top (Mean=4.00, SD=0.61); followed by increase the work load of staff (Mean=3.78, SD=1.09), repayment rate of loan amount is low (Mean=3.66, SD=1.06), shortage of bank staff to handle the group performance (Mean=3.66, SD=1.12), absence of effective and appropriate manpower (Mean=3.58, SD=1.01), loan is not used for the purpose for which it was sanctioned (Mean=3.58, SD=1.07), absence of timely repayment of loan and interest (3.56, SD=1.09),lack of time to monitor the group (Mean=3.48, SD=1.18), not much profitable for banks (Mean=3.06, SD=1.11), involves high transaction cost (Mean=2.80, SD=0.93), customer base is very small (Mean=2.78, SD=0.91), lack of mutual understanding between banks and SHGs (Mean=2.76, SD=0.87), required document are not completed (Mean= 2.76, SD=1.38).

Bankers' viewpoint in Rohtak district explained that high risk due to no security against loan is placed at the top (Mean=4.18, SD=0.39); followed by increase the work load of staff (Mean=3.66, SD=1.00), absence of timely repayment of loan and interest (3.60, SD=0.88), repayment rate of loan amount is low (Mean=3.58, SD=0.86),

lack of time to monitor the group(Mean=3.52, SD=0.86), shortage of bank staff to handle the group performance (Mean=3.44, SD=0.99), absence of effective and appropriate manpower (Mean=3.24, SD=1.10), loan is not used for the purpose for which it was sanctioned (Mean=3.20, SD=1.11), lack of mutual understanding between banks and SHGs (Mean=2.78, SD=0.93), not much profitable for banks (Mean=2.76, SD=0.96), document are not completed (Mean= 2.70, SD=1.06), customer base is very small (Mean=2.56, SD=0.93), involves high transaction cost (Mean=2.48, SD=0.86).

Bankers' viewpoint in Gurgaon district revealed that high risk due to no security against loan is placed at the top (Mean=4.02, SD=0.39); followed by increase the work load of staff (Mean=3.66, SD=1.00), repayment rate of loan amount is low (Mean=3.72, SD=0.93), absence of timely repayment of loan and interest (3.70, SD=0.91), lack of time to monitor the group(Mean=3.64, SD=0.99), absence of effective and appropriate manpower (Mean=3.60, SD=0.88), shortage of bank staff to handle the group performance (Mean=3.56, SD=1.15), loan is not used for the purpose for which it was sanctioned (Mean=3.54, SD=1.07), involves high transaction cost (Mean=2.84, SD=1.00), customer base is very small (Mean=2.80, SD=1.05), not much profitable for banks (Mean=2.76, SD=0.98), required document are not completed (Mean= 2.72, SD=1.25), lack of mutual understanding between banks and SHGs (Mean=2.60, SD=0.93).

The overall analysis depicts that high risk due to no security against loan is placed at the top (Mean=4.13, SD=0.47); followed by increase the work load of staff (Mean=3.75, SD=1.01), repayment rate of loan amount is low (Mean=3.62, SD=0.93), absence of timely repayment of loan and interest (3.59, SD=0.95), shortage of bank staff to handle the group performance (Mean=3.54, SD=1.08),lack of time to monitor the group (Mean=3.53, SD=0.98), absence of effective and appropriate manpower (Mean=3.44, SD=1.03), loan is not used for the purpose for which it was sanctioned (Mean=3.35, SD=1.11), not much profitable for banks (Mean=2.86, SD=1.00), lack of mutual understanding between banks and SHGs (Mean=2.73, SD=0.90), required document are not completed (Mean= 2.70, SD=1.20), involves high transaction cost (Mean=2.69, SD=0.93), customer base is very small (Mean=2.66, SD=0.99).

Statistically, the result of ANOVA test show that there is no significant difference among the district-wise bankers viewpoint towards 'not much profitable for the banks' (p=0.396), 'customer base is very small' (p=0.275), 'involves high transaction cost' (p=0.197), 'absence of effective and appropriate manpower' (p=0.193), 'increase the workload of staff' (p=0.905), 'required documents are not completed' (p=0.949), 'loan is not used for the purpose for which it was sanctioned' (p=0.057), 'repayment rate of loan amount is low' (p=0.724), 'absence of timely repayment of loan amount and interest' (p=0.763), 'shortage of bank staff to handle the self help group' (p=0.772), 'lack of time to monitor the group performance' (p=0.848), 'lack of mutual understanding between banks and SHGs' (p=0.707), therefore the null hypothesis is accepted. On the other hand, there is significant difference among the district-wise bankers' viewpoint towards 'high risk due to no security against loan' (p=0.001), therefore the null hypothesis is rejected and alternative hypothesis is accepted.

VI. CONCLUSION AND RECOMMENDATIONS

The results of study concluded that the key problems faced by microfinance institutions in selected district includes high risk due to no security against loan, increase the workload of staff, repayment of loan amount is low, absence of timely repayment of loan amount and interest and shortage of bank staff to handle the SHGs. Other problems faced by the microfinance institutions are lack of time to monitor the group performance, absence of effective and appropriate manpower, loan is not used for which it was sanctioned, required documents are not completed and lack of mutual understanding between banks and SHG. The study also explained that there is no significant difference between problems faced by selected banks in selected districts in Haryana except in high risk due to no security against loan. The study also suggests that there should be sufficient staff in the banks to monitor the group's performance, proper regulation for timely repayment of loan from SHGs, and field work to check whether the loan amount is utilised for the same work for which it was sanctioned.

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Table 1: Problems Faced by Microfinance Institutions in Selected Districts

Statements	Sirsa			Kaithal			Rohtak			Gurgaon			Total			ANOVA	
	Mean	S. D.	Rank	Mean	S. D.	Rank	Mean	S. D.	Rank	Mean	S. D.	Rank	Mean	S. D.	Rank	F	Sig.
High risk due to no security against	4.32	0.47	1	4.00	0.61	1	4.18	0.39	1	4.02	0.32	1	4.13	0.47	1	5.355	0.001*

loan																	
Not much profitable for the banks	2.86	0.95	9	3.06	1.11	9	2.76	0.96	10	2.76	0.98	11	2.86	1.00	9	0.995	0.396
Customer base is very small	2.48	1.05	13	2.78	0.91	11	2.56	0.93	12	2.80	1.05	10	2.66	0.99	13	1.302	0.275
Involves high transaction cost	2.64	0.92	11	2.80	0.93	10	2.48	0.86	13	2.84	1.00	9	2.69	0.93	12	1.572	0.197
Absence of effective and appropriate manpower	3.32	1.08	7	3.58	1.01	5	3.24	1.10	7	3.60	0.88	6	3.44	1.03	7	1.592	0.193
Increase the work load of staff	3.74	0.97	2	3.78	1.09	2	3.66	1.00	2	3.80	0.99	2	3.75	1.01	2	0.187	0.905
Required documents are not completed	2.62	1.14	12	2.76	1.38	13	2.70	1.06	11	2.72	1.25	12	2.70	1.20	11	0.118	0.949
Loan is not used for the purpose for which it was sanctioned	3.08	1.14	8	3.58	1.07	6	3.20	1.11	8	3.54	1.07	8	3.35	1.11	8	2.549	0.057
Repayment rate of loan amount is	3.52	0.89	3	3.66	1.06	3	3.58	0.86	4	3.72	0.93	3	3.62	0.93	3	0.441	0.724

low																	
Absence of timely repayment of loan amount and interest	3.50	0.93	5	3.56	1.09	7	3.60	0.88	3	3.70	0.91	4	3.59	0.95	4	0.386	0.763
Shortage of bank staff to handle the self help group	3.50	1.07	6	3.66	1.12	4	3.44	0.99	6	3.56	1.15	7	3.54	1.08	5	0.374	0.772
Lack of time to monitor the group performance	3.50	0.86	4	3.48	1.18	8	3.52	0.86	5	3.64	0.99	5	3.53	0.98	6	0.268	0.848
Lack of mutual understanding between banks and SHG's	2.78	0.89	10	2.76	0.87	12	2.78	0.93	9	2.60	0.93	13	2.73	0.90	10	0.465	0.707

Source: Survey.