

## **Sustaining and Impeding Factors of Microfinance Services for Micro-enterprises Development**

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### **ABSTRACT**

The present study examines the sustaining and impeding factors of the microfinance services as perceived by the beneficiaries and dropout clients, and it also investigates the reason for not availing the microfinance services by the non-beneficiaries. Study included 40 microfinance beneficiaries, 30 microfinance drop-outs and 30 non-beneficiaries constituting the total sample of 100 respondents. Responses of the subjects were collected through an open ended questionnaire. Garrett's ranking was used to rank order the factors. The study revealed that ease of access and related services of micro-credit at village level and lower capital interest rate were the sustaining factors whereas insensitivity of microfinance institution (MFI) to type of enterprises, business cycle, clients' socio-economic and -personal circumstances; the norm of weekly repayments and savings pressure were the impeding factors. Fear of losing their property at default repayment and perceived weekly repayments pressure were the reasons for not availing the microfinance services.

**Key words:** Microfinance, micro-enterprises, sustaining factors, impeding factors

### **INTRODUCTION**

Microfinance has been globally recognized as an important development means which provides credit to the poor for economically empowering and releasing their entrepreneurial potential. Over the last two to three decades, microfinance has increasingly captured the attention of international development process and policy makers by virtue of its ability to provide credit to the poor, who were largely excluded from formal finance and mainstream banking practice. Microfinance enables these deprived sections to set up income generating small scale micro-enterprises and local economic activities to reduce their vulnerability and fight against poverty.

Many studies have found that microfinance institutions have a positive impact on clients' enterprise, by contributing to creation of employment opportunities and capital accumulation (Hiatt *et al.*, 2006; Mosley, 2009), which subsequently affect the household by increasing their income and their consumption (Khandker, 2005) and at the community level, by employing new workers within poor groups (Mosley, 2009).

Today, regardless of all this international consecration, unsustainable microcredit indebtedness is commonplace across developing countries including India. The microfinance crisis of Andhra Pradesh in 2010 raised certain question on the sustainability of the

microfinance services for the enterprise development. Keeping this question in focus, the present study was conducted to examine the sustaining and impeding factors of microfinance services and reasons for not harnessing the microfinance services by the non beneficiaries.

### **METHODOLOGY**

The study was conducted in Imphal West and Imphal East districts of Manipur. From each of the selected district, one block was selected randomly and five Joint Liability Groups (JLGs) Centres were selected randomly from each selected block (A centre usually consist of 4 to 5 JLGs, with 20 to 25 members). From each selected centre, 4 microfinance beneficiary micro-entrepreneurs were randomly selected, so a total of 40 microfinance beneficiary micro-entrepreneurs were selected for the study. 15 drop-outs (those who have discontinued availing microfinance services) micro-entrepreneurs from each block were selected so as to comprise 30 drop-out micro-entrepreneurs in the sample. Thirty (30) non-beneficiary micro-entrepreneurs, (15 from each block) were also selected randomly.

Sustaining factors refers to the factors responsible for favourableness and continuance with the microfinance services whereas impeding factors refers to the factors responsible for unfavourableness and discontinuance of availing the microfinance services. Focus group discussions were conducted to identify sustaining and

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impeding factors of the microfinance services. The respondents were then separately asked to list down and rank the perceived sustaining and impeding factors. Reasons for not joining the microfinance by the non beneficiaries were also identified and analysed. An open ended questionnaire and Garrett ranking techniques were used to collect the data and rank the factors. As all the items were not ranked by all the respondents, the method of combining of incomplete order of merit ranking as suggested by Garrett (1981) was followed. By using this technique, the order of the merits given by the respondents was changed into ranks by using the following formula,

$$\text{Percent position} = 100 * (R_{ij} - 0.5) / N_j$$

Where,

$R_{ij}$  = rank given for  $i^{\text{th}}$  factor by  $j^{\text{th}}$  respondent

$N_j$  = number of factors ranked by  $j^{\text{th}}$  respondent

## RESULTS AND DISCUSSION

### Sustaining factors of microfinance services

The data presented in Table 1 showed that ease of accessing the services locally and at relatively lower interest rate as compared to the money lenders were the most important factors for availing and continuing with the microfinance services with the mean score of 72.13 and 68.13 respectively. No collateral security and less paper work, sources of finance for microenterprises, financing directly to women and opportunity provided for the self employed were ranked at third, fourth, fifth and sixth position with the mean score of 65.13, 64.10, 63.73 and 49.38, respectively. Reduction in distress sale of the produce, sources of finance at the time of *bandh* and blockade were ranked at seventh and eighth respectively.

**Table 1: Sustaining factors of microfinance services as perceived by the clients**

Sustaining factors	n=40	
	MS	Rank
Ease of accessing the services locally	72.13	I
Lower interest rate than the money lenders	68.13	II
No collateral security and less paper work	65.13	III
Sources of finance for microenterprises	64.10	IV
Financing directly to women	63.73	V
Opportunity provided for the self - employed	49.38	VI
Reduction in distress sale of the produce	42.57	VII
Sources of finance at the time of <i>bandh</i> and blockade	42.51	VIII
Acquire additional skills like leadership skill and financial management etc.	41.00	IX

MS= Mean Score

Poor, in general, and women in particular were not able to engage in paper work and are not able to produce collateral security. The microfinance service helped in easy access to the services at the village itself. Less paper work of the microfinance services were helping in fast delivery of services to the clients. Income generating loan provided by the microfinance services loan helped in igniting the entrepreneurial mindset and sustaining the already existing enterprises.

MFIs loan were especially given directly to the women who were deprived by most of the formal financial services, thus helping in economically empowering these women by establishing microenterprises for income generation. Microfinance loan were found to reduce the distress sale of their produce, which helped in getting higher remunerative price. It also helped in sustaining the enterprises even in crunch time of *bandh* and blockade, which were frequent because the socio-political condition prevailing in the state of Manipur. Above that the entrepreneurs also improved their personality by securing the leadership and financial management trainings.

### Impeding factors of microfinance services

The perceived impeding factors of microfinance drop-out clients are presented in Table 2 which reveals that MFIs' insensitivity to the type of enterprises, business cycle and clients' socio-economic-personal circumstances; and weekly repayments and savings pressure were the most important impeding factors with the mean score of 69.77 and 67.90 respectively.

Many of the dropout clients perceived that microfinance does not consider the enterprises type and business cycle while sanctioning of the loan amount and repayment schedule. Microenterprises with certain business cycle, as in case of rearing broiler which takes 45 to 55 days to complete one cycle, had to repay weekly according to the schedule besides their expenses on raw material and family.

MFIs rigid nature of not considering the enterprise situations business cycle and clients' socio-economic-personal circumstances, *bandh* and blockade were found to be major problem which results in irregularities in repayment.

Fixed weekly repayment and saving puts pressure on the clients which forces them to borrow from the money lenders and other MFIs.

**Table 2: Impeding factors of microfinance services as perceived by the dropout clients**

	n= 30	
<b>Impeding factors</b>	<b>MS</b>	<b>Rank</b>
MFIs' insensitivity to the type of enterprises, business cycle and clients' socio-economic-personal circumstances	69.77	I
Pressure of weekly repayments and savings	67.90	II
Small loan amount	67.20	III
Failure to treat clients as individuals in repayment	65.37	IV
Savings could be used up in repaying loans of defaulter(s)	53.47	V
Inconvenience of the time to attend the meetings	49.90	VI
Fear of losing assets in case of default in repayment	49.75	VII
High interest rate on the loan	49.17	VIII

MS= Mean Score

The loan amounts sanctioned were perceived to be too small to start an enterprise. Many dropouts opined that for these small amounts they were pressurised for weekly repayment, saving and meeting. The joint liability for repayment was considered as one of the factors of dropout by many clients.

The joint liability is the common feature of Grameen Bank model, but many clients were reluctant to repay the defaulters loan. Many of the client's work schedule was also not convenient to the weekly meetings.

Further, there were fear of losing family assets in case of default in repayment and it was also perceived that the interest rates were high, even though lower than the local money lenders.

Due to lack of access to alternative sources of finance majority of the dropouts were willing to avail the microfinance services again provided they found credible group members.

The data presented in Table 3 showed perceived impeding factors of the clients in utilizing microfinance services.

The result revealed that impeding factors perceived by continuing clients were found to be identical with different rank order with those of the dropouts.

**Table 3: Impeding factors of microfinance services as perceived by the clients**

	n= 40	
<b>Impeding factors</b>	<b>MS</b>	<b>Rank</b>
MFIs' insensitivity to the type of enterprises, business cycle and clients' socio-economic-personal circumstances	66.95	I
Small loan amount	64.50	II
Pressure of weekly repayments and savings	63.33	III
Failure to treat clients as individuals in repayment	60.23	IV
Savings could be used up in repaying loans of defaulter(s)	59.13	V
Inconvenience of the time to attend the meetings	48.50	VI

MS= Mean Score

**Reasons for not availing the microfinance services by the non-beneficiaries**

The data presented in Table 4 showed that the main reasons for not availing the microfinance services were the general fear of losing property at default repayments and close repayment period and saving (weekly) were perceived to put pressure by many non-beneficiaries, with the mean score of 59.33 and 57.93 respectively.

There were reluctance and fear of repaying loans of other defaulters. Family members' resistance towards women to participate were also major reason for not joining the services. It was also found that microfinance services does not meet the requirements of the micro-enterprises in term of enterprises business cycle, loan amount, weekly meeting *etc.* And many of the entrepreneurs did not avail the microfinance services due to unavailability of credible group members.

**Table 4: Reason for not availing microfinance services as perceived by the non-beneficiaries**

	n= 30	
<b>Reason for not availing the microfinance services</b>	<b>MS</b>	<b>Rank</b>
Fear of losing property at default repayment	59.33	I
Pressure of close weekly repayments	57.93	II
Fear of repaying for the defaulter(s)	56.53	III
Have enough money to run their own enterprises	41.90	IV
Family members resistance towards women to participate	40.03	V
Not meeting the requirements/ conditions of the micro-enterprises	35.64	VI
Unable to find credible group members	32.20	VII

MS= Mean Score

**CONCLUSION**

Even though the microfinance sector has succeeded to a significant extent in Manipur, there is a need for reforms in this sector so as to make it more client-driven and micro-enterprise friendly. Advance of loans without collateral security and easy accessibility were found to be major factors that led to availing the microfinance services. Insensitivity of MFIs to the type of enterprises, business cycle and clients' socio-economic circumstances; and very small amount of loans were found to be the factors which impede the beneficiaries and non beneficiaries from availing the microfinance services. There is an urgent need to understand, analyse and overcome these impeding factors so as to ensure that microfinance becomes a sustainable strategy for economic growth and development in the state.

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