Our Heritage

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The Existing Trepidation of Micro financing : Revisiting Manipur

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Abstract

Micro financing is a novel idea and small microcredit process has already been subsisted. Microfinance is a source of financial services for entrepreneurs. Apparently, this research was conducted to analyse the microfinance institutional services on the economic and social empowerment in Manipur. This paper is attempting the existing trepidation of the functioning of Micro Finance Institutes in Manipur would have positive results on the economy, lead to greater efficiency and improvement of living standards of the thousands poor.

Introduction:

Micro financing is not a new concept. Small microcredit operations have existed since the mid 1700s. Although most modern microfinance institutions operate in developing countries, the rate of payment default for loans is surprisingly low - more than 90% of loans are repaid. Like conventional banking operations, microfinance institutions must charge their lenders interests on loans. While these interest rates are generally lower than those offered by normal banks, some opponents of this concept condemn microfinance operations for making profits off of the poor. The World Bank estimates that there are more than 500 million people who have directly or indirectly benefited from microfinance-related operations.

Micro Finance may be defined as "provision of thrift, the wide network of the organized banking system deep credit and other financial services and products of very into rural areas. Market and the government both failed to small amounts to the poor in rural, semi

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urban or urban provide credit access to the poor. In fact the failure of areas, for enabling them to raise their income levels and institutional initiatives of rural credit and to the improve living standards".

Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group.

Poverty alleviation has been one of the guiding principles of the planning process in India. Government has considerably enhanced allocation for the provision of education, health, sanitation and other facilities which promote capacity building and well being of the poor. The Indian government puts emphasis on providing financial services to the poor and under-privileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan at concessional rate to priority sector. The priority sector included agriculture and other rural activities and weaker section of society in general. The aim was to provide resources to help the poor to start their micro enterprise to attain self sufficiency.

Objectives of the Study:

1. To know the functioning of existing Micro Finance Institution in Manipur.
2. To study the relationship between Micro Finance activities and society.
3. To analyse impacts of the Micro Loan.

Source of data;

Primary data were collected from Self Help Groups members through questionnaire and interview.

Secondary data were collected from books, journal and web portals.

Period of study:

31st December 2018 to 30 November 2019 (One Year)

Sample Size:

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200 numbers of samples has been collected from Imphal East and Imphal West District of Manipur at Randomly.

Research Hypothesis:

Hypothesis 1.

The Null Hypothesis : There is not significant relationship between satisfaction of Self Help Groups towards the functioning of Micro Finance Institutions in Manipur.

The Alternative Hypothesis: There is a significant relationship between satisfaction of Self Help Groups towards the functioning of Micro Finance Institutions in Manipur.

The chi-square statistic is 35.98. The *p*-value is <0.00001.The result is significant at $p < .05$.

So, the above hypothesis is rejected and there is a significant relationship between satisfactions of Self Help Groups towards the functioning of Micro Finance Institutions in Manipur.

Hypothesis 2

The Null Hypothesis : There is not significant association between access to micro credit and poverty mitigation indicators of Manipur,

The Alternative Hypothesis: There is a significant association between access to micro credit and poverty mitigation indicators of Manipur.

The chi-square statistic is 30.14144. The *p*-value is <0.00001.The result is significant at $p < .05$.

So, the above hypothesis is rejected and there is a significant association between access to micro credit and poverty mitigation indicators of Manipur.

The existing trepidation of MFIs:

1. Low Outreach: In Manipur, MFI outreach is very low. Data show the great potential of MFIs in increasing their outreach and scale of operations. It has been observed that MF programmes focus a great deal of attention on women. It has been argued that women are better clients as they are more inclined to save than men, they borrow smaller the amounts than men and their repayment performance is better than men.

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2. High Interest Rate: MFIs are charging very high interest rates, which the poor find difficult to pay. It has been argued that MFIs are private entities and hence need to be financially sustainable. They do not receive any such subsidized credit for their lending activities and that is why they need to recover their operational costs from borrowers. In the process, the basic reason for their of existence-and their primary objective-is being lost. It is important that these NGOs should be willing to operate at narrow margin and to bear a low effective interest rate so that they can maintain a balance between their dual objectives of commercial viability and serving the poor.
3. Client Retention: Client retention is an issue that create a problem in growing the MFIs. There is about 28% client retention in the MFIs. This occurs because people are not properly informed and educated about services and products provided by the institutions more over the current client has higher default rate.
4. Loan Default: Loan default is an issue that creates a problem in growth and expansion of the organization because around 73% loan default is identified in MFIs. Lack of understanding on the part of the clients, they also cannot correctly manage the loans given to them. As a result, they are not able to pay back the loan.
5. Late Payments: Late payments are an issue that creates a problem in growth and expansion of the organization because late payments are around 70% in MFIs. This usually occurs because clients are uneducated and they don’t know how to manage their debt. They are unaware of the fact that late payment increases their loan payments..
6. High Transaction Cost: High transaction cost is a big challenge for microfinance institution. The volume of transactions is very small, whereas the fixed cost of those transactions is very high. It cannot vary with the size of the loan. The higher a producer’s fixed costs in the proportion of his total cost, the element of risk increases in the same proportion. Moreover, if the demand for the product falls or the marginal costs increases, it becomes very difficult to adjust the cost by cutting output. This cut will reduce revenue out of which he has to pay principal amount as well as interest on the loan. This needs to be rationalized

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Submission of MFIs:

Presently, there is no distinctive regulatory framework for the MFIs in Manipur. So there is a need of an exclusive regulation to regulate to MFIs in Manipur.Ensure the quality of MFIs in an environment of exponential growth. Due to the fast growth of SHG-Bank Linkage Programme, the quality of MFIs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts etc. Proper training for the clients should be organized in an efficient way so that they could know each and every small things about their debt. Ensure the uniform distribution of micro financing in the both rural and urban areas.

Conclusion:

Microfinance is multifaceted and works in an integrated system. There are many stake holders and each one has a definite role to play. In the core there is client. There is a second level called micro level where MFIs, NGOs, SHGs and Grameen work to provide financial support to individual client. Apex institutions like NABARD, SIDBI and other nationalized Banks operate in Meso-Level to provide infrastructure, information and technical support to micro level players. Around all these levels, there are financial environment, Regulations, legislations and regulators called Macro level. With passage of time new opportunities and new challenges are being felt in the field of microfinance. In recent years microfinance is in news for bad reasons. There are a number of suicide cases of micro credit clients all over India for excess interest charges and high handedness of recovery agents in recovery of loans. So, government of India has brought out a legislation to check the high interest rate on micro credit and protect the poor from clutches of greedy MFIs..

On the above findings we observe so many problems are associated with the MFIs. The Micro finance institutions are lagging behind in terms of loan and credit the real needy, regional imbalance, a proper regulation etc.

Finally in our view MFIs in Manipur have so many lacunas in their running, though the MFIs paid an important role in the poverty alleviation and enhancing the living standards of the poor. If the above shortcoming will be eliminate from the MFIs, it would have positive results on the economy, lead to greater efficiency and improvement of living standards of the thousands poor.

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