

# MICROFINANCE LOAN DEFAULT: EVIDENCE FROM INDIAN MICROFINANCE INSTITUTIONS

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**Abstract** *The number of microfinance institutions (MFIs) entering the microfinance sector increasing gradually, leading to the cutting of corners in matters of consumer protection – multiple lending, over-indebtedness, and consequently coercive collection practices. Because of these practices, defaults in microfinance loans have been increased significantly in the last decade. This research paper has studied the causes of default of microfinance loan by the adoption of cross-sectional descriptive research design. For primary data collection, a structured questionnaire was formed with thirty-seven questions. For selecting samples, cluster sampling was used initially and had taken Gujarat state as one of the clusters. Next, MFIs were selected from this cluster with certain criteria and then microfinance loan defaulters of these MFIs were chosen for the survey. A total of four hundred and sixty-three microfinance loan defaulters of MFIs were surveyed. Next, the paper evaluates the combination of different variables that could have led to loan default through cross-tabulation. Next, the paper has studied the association of borrower's factors with causes of default and the loan amount to understand different characteristics that lead to a specific cause of default. Lastly, to identify the variables considered for deciding the loan amount. The frequency analysis showed that the major cause of default was another debt which highlighted the situation of multiple lending where different MFIs lends to the same borrower. The results of cross-tabulation and hypotheses tests show that MFIs were not considering demographic and economic factors of the borrower while deciding the loan amount and rather it was related majorly to the number of borrowing cycles. By analyzing the results of the study, the paper identifies preventive measures to control microfinance loan defaults.*

**Keywords:** *Microfinance Loan, Microfinance Institutions, Causes of Default, Borrower's Factors, Variable Associations*

## INTRODUCTION

In India, the first initiative to introduce microfinance was the establishment of the Self-Employed Women's Association (SEWA) in Gujarat. SEWA was registered as a trade union of self-employed women workers of the unorganized sector in 1972. This trade union established their bank known as SEWA Bank in 1974 (Bansal, D. (2011)).

The first official effort materialized under the direction of NABARD (National bank for agriculture and rural development). The Mysore Resettlement and Development Agency (MYRADA) sponsored project on 'Savings and credit management of SHGs was partially financed by NABARD during 1986-87 (Satish, P. (2005)).

The emergence of microfinance has established new contractual structures and organizational forms in which they can provide facilities of financial services in a small amount and without any security to the poor section of the society and also able to manage the risk and cost of it. Though the principle of managing small money existed for years, the industry for microfinance has only in the last

several decades expanded and provided access to financial services to millions of people around the world, which might otherwise not have it.

Microfinance institutions have different legal forms and so they have been registered under different Acts. Further, many microfinance institutions have entered into the sector which has resulted in increased competition among them. And hence though microfinance has attracted widespread attention for its developmental impact for the poor, it too has a multitude of issues and complications. For example, while providing credit facilities to poor people, the MFIs do not have any security against that credit and hence it becomes difficult to recover it from the borrowers. Therefore, the most challenging area for microfinance institutions is recovery. At the same time, it should be checked that microfinance institutions should not adopt any coercive methods for recovery as it affects the basic purpose of microfinance that is the social development of the poor. Thus the motivation behind this research is to evaluate microfinance based on its number of defaults and more important reasons behind the defaults. Therefore, this research has studied the causes of defaults in microfinance loans.

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## MICROFINANCE

The Micro Finance Institutions (Development and Regulation) Bill, 2012 define microfinance services as any one or more of the following financial services provided by any microfinance institution, namely:

- Micro-credit facilities involving such amount, not exceeding in aggregate five lakh rupees for each individual and such special purposes, as may be specified by the Reserve Bank from time to time, such higher amount, not exceeding ten lakh rupees, as may be prescribed;
- Collection of thrift;
- Pension or insurance services;
- Remittance of funds to individuals within India subject to prior approval of the Reserve Bank and such other terms and conditions, as may be specified by regulations;
- Any other such services, as may be specified, in such manner, as may be prescribed.

## MICROFINANCE INSTITUTIONS

A microfinance institution (MFI) is an organization that provides financial services to the poor. MFIs could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor, and have flexibility in operations providing a level of comfort to their clientele (NABARD. (2008)).

## LITERATURE REVIEW

Gaiha and Thapa (2006) in their paper titled 'A methodology for the assessment of the impact of microfinance on empowerment and vulnerability' conducted a study which was based on a small but detailed survey of members of a self-help group in six villages in the Pune district of India. The paper identified a few key indicators that impinge on aspects of social capital, empowerment of the poorest and risk, vulnerability, and self-insurance. The paper concluded that the indicators that had been proposed for examining the interrelationships between different forms of social capital and microfinance, between microfinance and empowerment of the poorest people – especially women and between microfinance and the reduction of vulnerability through self-insurance must be tailored for each specific context and application. Cross-validation through a mix of quantitative and qualitative data and methods was vital for a robust

assessment. Even small samples, carefully designed and analyzed, would yield rich and valuable insights into the potential of microfinance for empowerment and economic security.

Centre for Microfinance, Jaipur (2010) conducted a study in Rajasthan state of India which was titled 'Loan default by SHGs'. The objective of the study was to understand the reasons underlying the phenomenon and develop an early warning system so that timely action can be taken to avoid defaults. The study used stratified sampling methodology and the strata selected were districts, block, SHG, and members. The study highlighted several reasons for default. Few among them were an improper process of group formation, erosion in quality which was visible in records that were not updated for years, small NGOs not financially supported beyond the initial phase and so they found it difficult to carry on with group strengthening work. It was observed that financing targets were pushed through the banks by the DRDAs in the case of BPL groups. Thus the study clearly showed that all the stakeholders i.e. SHG, SHPI, Banks, and improper implementation of concerned schemes with the system of financing had a stake in making a group defaulter.

Roy, A. (2017) in his paper titled 'Microfinance performance of public sector banks in the NER region of India' initially assessed the progress of microfinance in the NER in terms of savings mobilization, loans disbursed, loans outstanding, and non-performing assets (NPAs). Then the next section of the study found out the performance of public sector banks in providing agricultural credit through microfinance in the North Eastern Region (NER) by calculating a performance ratio. The study evaluated the microfinance performance of these public sector banks in terms of the SHG bank linkage program. The study concluded that only in two states viz., Mizoram, and Assam, the microfinance performance of these public sector banks was satisfactory among all the states of NER. The study further concluded that the TGBs in Tripura, RRBs in Nagaland, Mizoram, and Arunachal Pradesh, UBI in Manipur, SBI in Meghalaya, and AGVB in Assam was doing well compared to the other public sector banks in the NER.

Negera, W. (2012) in his research project titled 'Determinant of non-performing assets: the case of Ethiopian Banks' adopted a mixed research approach. A survey was conducted with professionals engaged in both private and state-owned banks in Ethiopia holding different positions using a self-administered questionnaire. Secondly, the study used a structured review of documents and records of banks and an in-depth interview of senior bank officials in the Ethiopian banking industry. The study found that poor credit assessment failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, etc were the causes of loan default. The study suggested that banks should put in place a vibrant

credit process that ensures proper customer selection, robust credit analysis, authentic sanctioning process, proactive monitoring, and clear recovery strategies.

David et al. (2014) in their paper titled 'Impact of nonperforming loans on the financial performance of microfinance banks in Kenya: A survey of microfinance bank in Nakuru town' established the effect of non-performing loans on the financial performance of microfinance banks in Kenya. The study was conducted in microfinance banks in Nakuru town, Kenya. It was guided by one independent variable that was credit risk and one dependent variable that was financial performance. Descriptive analysis was done to present the opinions of the respondents regarding all study constructs. Inferential analysis was done which enabled making deductions pertinent to non-performing loans and financial performance banks under study. It was deduced that an increase in credit risk would significantly reduce the MFBs' financial performance. It was recommended that potential borrowers should be critically analyzed to assess their creditworthiness before they are awarded loans.

Sofi and Zamir (2019) in their paper show the impact of financial inclusion on economic growth by using secondary data of ten years. The paper has measured financial inclusion by considering the number of ATMs and CDR. One of the goals of microfinance is also of financial inclusion. The aspect of financial inclusion is studied through microfinance loans.

Ali and Dhiman (2019) studied the empirical association between credit risk management and the bank's financial performance by taking a sample of 10 PSU banks and secondary data of seven years. The paper has identified various financial ratios as variables to understand the performance of banks. In this research credit management is also studied in form of microfinance loan, risk in terms of loan default, and the paper has identified the causes behind microfinance loan default.

Rani and Kapur (2019) have given justifications on the need for inclusive growth. The paper has studied needs, policies, and programs for attaining inclusive growth in India. Microfinance is one of the tools to attain inclusive growth but if the number of microfinance loan defaults increases, inclusive growth is difficult to achieve. Therefore it is necessary to understand the causes behind defaults to avoid them.

Ramesh (2019) has taken a panel data of nine years to study the bank-specific factors that determine the performance of the Indian commercial banks. One of the results reveals that Nonperforming assets were negatively influencing the performance of the banks. A similar trend could be seen in MFIs. The performance of MFIs is influenced by its non-performing assets due to defaults in microfinance loans.

Kasturi (2019) discusses the Guidelines of the Central Bank of India (RBI) and the credit allocation by scheduled commercial banks of India to various sectors of the economy. Similarly, RBI has also given guidelines for the operations of NBFC-MFIs which include regulations for MFI's assets classification, recovery of assets, etc.

Bhagwan (2019) had survey unbankable people to understand the relationship between financial inclusion and financial literacy and its impact on consumer financial behavior. The study revealed a positive and significant relationship between financial literacy and financial behavior.

Goel (2018) studied the cyclical appearance of the Non-Performing Assets with special emphasis on the Indian Banking Industry. It determined factors that cause such behavior of the Non-Performing Assets and has done a comparison between the Public sector, private sector, and foreign sector banks. Panel data was used of three categories of banks for thirteen years and a regression analysis was done.

## OBJECTIVES OF THE STUDY

In India, microfinance service is majorly provided in two ways. One way is the SHG-Bank linkage program. The other way to provide microfinance service in India is through microfinance institutions. This microfinance institution has different legal forms and so they have been registered under different Acts. Further, many microfinance institutions have entered into the sector which has resulted in increased competition among them. And hence though microfinance has attracted widespread attention for its developmental impact for the poor, it too has a multitude of issues and complications. For example, while providing credit facilities to poor people, the MFIs do not have any security against that credit and hence it becomes difficult to recover it from the borrowers. Therefore the most challenging area for microfinance institutions is recovery. At the same time, it should be checked that microfinance institutions should not adopt any coercive methods for recovery as it affects the basic purpose of microfinance that is the social development of the poor. Therefore, this research has studied the causes of defaults in microfinance loans. The following are the objective of the study:

- To understand and analyze borrower's factors that have resulted in the microfinance loan default.
- To evaluate and compare the different borrower's factors that led to the microfinance loan default.
- To understand and derive the association between causes of microfinance loan defaults and borrower's factors.
- To understand and derive the association between the microfinance loan amount and borrower's factors.

## Hypotheses

The study analyses the borrowers' different factors that have led to the microfinance loan default. The following hypotheses have been formed to achieve research objectives:

- Ho1. There is no significant association between borrower's demographic factors and causes of microfinance loan default.*
- Ho2. There is no significant association between borrower's economic factors and causes of microfinance loan default.*
- Ho3. There is no significant association between borrower's microfinance loan-related factors and causes of its default.*
- Ho4. There is no significant association between borrower's training and causes of microfinance loan default.*
- Ho5. There is no significant association between MFI's supervision and the causes of microfinance loan default.*
- Ho6. There is no significant association between borrower's demographic factors and microfinance loans amount.*
- Ho7. There is no significant association between borrower's economic factors and microfinance loans amount.*
- Ho8. There is no significant association between borrower's microfinance loan-related factors and their amount.*
- Ho9. There is no significant association between borrower's training and microfinance loan amount.*
- Ho10. There is no significant association between MFI's supervision and microfinance loan amount.*

To test the borrower's different factors mentioned in the above hypothesis, variables have been identified for each factor. A total of thirty-nine hypotheses were tested.

## RESEARCH METHODOLOGY

- **Data Collection:** The data was collected through primary sources by the survey of borrowers whose microfinance loans were in default. A self-administered questionnaire was used as an instrument for primary data collection. To identify the causes of loan default, unstructured interviews were taken of the field officer as well as other employees of the MFIs. A semi-structured questionnaire was framed and was used for the pilot survey. This pilot survey included responses from fifty default borrowers of a microfinance loan. Based on the analysis of the pilot survey, the final questionnaire was prepared. The final questionnaire included a total of thirty-seven questions and eight sub-questions divided into three sections.

Section I included borrower's information of demographic and economic status such as name, address, MFI name, gender, age, caste, education, marital status, number of family members, number of earning members, and economic activity of individual and family members, the income of individual and family members were asked.

Section II was related to details of the borrower's microfinance loan and its repayment. It had questions on initial loan details such as the source of information, number of borrowing cycle, loan amount, disbursement period, rate of interest, installment amount and number, the purpose of the loan, the source of the loan, and type of borrowing. Questions were asked for group borrowings such as the number of members in a group, group formation, homogeneity factor of the group, group loan amount, and status of group loan. To check whether there is the influence of any family member, questions were asked on the person responsible for taking the loan, the person who used the loan amount, and the person responsible for loan repayment. Three questions were asked related to the adequacy of the loan amount, installment amount, and the number of installments.

There were questions on the loan repayment details such as the number of installments paid, period and amount of last paid installment, and the causes of loan default. Based on the literature, twenty-six causes of microfinance loan default were identified as under:

**Table 1: Causes of Microfinance Loan Default**

Sr. No	Causes
	<b>No income or less income was generated</b>
1	Business activity was slowed down
2	Business activity was seasonal
3	In business activity inventory was sold for credit
4	Assets in business were either damaged or stolen
5	Business activity was closed
6	The job was not permanent
	<b>Family illness/death</b>
7	There was a critical illness of self
8	There was a critical illness of the spouse
9	Money was spent in rituals of death of a family member
	<b>Money (loan or installment amount) spent on other things</b>
10	Money was spent on Medical Expenses of family
11	Money was spent on Household expenses
12	Money was spent on Social expenses

Sr. No	Causes
13	Money was spent on Educational Expenses
	<b>Money spent on repayment of liabilities</b>
14	Money was spent in repayment of Other debt (from relatives and friends)
15	Money was spent in repayment of Loan from private money lenders/pawnbrokers
16	Money was spent in repayment of Loan from other MFI (Multiple loans)
17	The loan amount was used by another person
18	The installment amount was used by another person
	<b>MFI's integrity</b>
19	There was the irregularity of agent/ MFI employee in installment collection
20	There was dissatisfaction with agent/ employee of MFI
21	There was dissatisfaction with MFI
	<b>Borrower's integrity</b>
22	There was no intention to take another loan in future
23	Nonpayment of installment by another borrower leads to nonpayment of installment by the borrower
	<b>Migration/ death</b>
24	There was short term migration of borrower
25	There was permanent migration of borrower and follow up was taken through telephone
26	There was the death of the borrower or legal heir

Source: Compiled by the author based on literature review

Borrowers had to tick the related cause/s and so a particular borrower could tick more than one cause.

Section III included information on borrowers' training before loan disbursement and MFI's supervision after loan disbursement. It was asked whether the borrower had information about training and whether the borrower had received the training and how many meetings were conducted by MFI. To get information about MFI's supervision, frequency of visit, and purpose of the visit were asked to borrowers.

- **Sampling:** For the survey of default borrowers' of microfinance, respondents were selected from different MFIs. To select MFIs, different clusters were formed. Each of these clusters represented each of the Indian states. Out of these clusters, one cluster of Gujarat state was selected to choose MFIs. An exhaustive list of MFIs established and operating in Gujarat was prepared from the data of Mix Market (Microfinance Information Exchange Inc. known as MIX is a non-profit organization that provides a global database of financial service providers) (Mix Information Exchange Inc, 2016) and Sa-Dhan (It is the association of community development finance institutions which publishes data of Indian MFIs annually) (Sa-Dhan, 2014).

From the above list, three MFIs were selected in such a way that each MFI represents different legal forms and belonged to a different age group based on their establishment year. The age group of MFI was classified as young, mature, and old having an age of fewer than 10 years, 20 years, and above 30 years respectively from their establishment year. Accordingly, the following MFIs were selected:

**Table 2: Details of Sample MFIs**

Sr. No.	Name	Legal Form	Establishment Year
1	Shri Mahila Sewa Sahkari Bank Ltd.	Bank	1974
2	PRAYAS – Organization for sustainable development	NGO	1997
3	The Saath Savings and Credit Co-operative Society Ltd.	Society	2010

Source: Prepared by the author

From the above MFIs, five hundred fifty borrowers whose microfinance loan was in default were contacted. Out of these, the responses were received from four hundred sixty-three borrowers.

- **Statistical Tools and Techniques:** To achieve the first research objective, frequency analysis, and its percentage were applied to the data. For the second research objective, a cross-tabulation analysis was done with two and three borrowers' factors to understand the association, if any, between them. A chi-square test was applied to achieve third and fourth research objectives. All the above analysis was done through SPSS software.

## ANALYSIS AND RESULTS

The majority of the respondents were women (92%) having age between 31-40 years (40%), married (82%), and no (34%) or primary (44%) education. Most of the respondents were either did not had any economic activity (31%) or were self-employed (32%) and most have a monthly income of less than Rs. 5000 (48%). While analysis their details about the loan, it was found that the majority of the respondents received information about MFI through MFI's employees (44%), were into either second (34%) or third (31%) borrowing cycle, had taken loan either before 1-2 (29%) or 2-3 (25%) years with the purpose investing either in an existing business (44%) or starting a new business (17%), had the loan amount ranging either between Rs. 10001-20000 (39%) or less than Rs. 10000 (23%), installment amount ranging between Rs. 501-1000 (42%) and the number of

monthly installments ranging either between 25-36 (34%) or less than 12 (20%). Most of the respondents took a group loan (61%) and among group loans, it was a five members group (76%) formed by members themselves (58%) with an unequal amount of loan among members (67%). Regarding respondents' repayment status, it was found that the majority of them had paid either 7-9 (27%) or 4-6 (24%) number of installments in which the last installment was paid either 12-24 (25%) or less than or equal to 3 (25%) months back. It was found that for most of the respondents' decision to take the loan, its usage and its repayment was taken by either self (35%, 37%, and 37% respectively) or self and spouse (36%, 28%, and 25% respectively). One of the important factors while giving microfinance loans is the training of borrower and regular supervision on loan amount usage by the MFI. It was found that the majority of them had knowledge of training (93%) and had also received it (65%) before taking a loan. Further, it was found that the MFI's employee had conducted two times a meeting before loan disbursement (47%) and after loan disbursement, the employee visited once in a month (41%).

For better analyzing causes of microfinance loan default, twenty-six different causes were combined and formed a group based on their similarity and converted into seven major causes (as highlighted in bold in Table 1 above) using a summated scale in SPSS. It was found that the major cause was of multiple debts taken by the borrower (23%). The other prominent causes were of non-generation of sufficient income (15%) and the utilization of loan amount in expenses (15%) rather than for income generation activity.

When borrowers' two factors were analyzed through cross-tabulation, the association was found between frequencies of MFI's employee visits to the borrower with the duration of the last installment payment. Ideally, it should be longer the duration, more the visit frequencies but the results were vice-versa that is the visit frequencies were reduced with the longer time due to repayment. The analysis was done between borrowers' age and the installment amount but no association was found between them. This indicates that borrowers' age was not considered while deciding the installment amount. The borrowers' number of borrowing cycles was compared with the receipt of training and information and it was found that the borrowers with a higher borrowing cycle had not received training before loan disbursement. The maximum number of borrowers' that received training was into the first borrowing cycle.

Next, the cross-tabulation analysis was done by considering three borrowers' factors at a time. The borrowers' demographic factors of the number of family members

and the number of earning members were compared with the installment amount to analyze whether the installment amount had any association with these demographic factors. It was found that there were many cases where earning members were 0-2, family members were 5-7 and the installment amount was Rs. 1501-2000. Further borrowers' economic factors of income generation activity and monthly income were compared to the installment amount to understand whether the borrowers' activity and their monthly income were enough for payment towards the installment amount. Also, borrowers' family's income generation activity and monthly income were compared with the installment amount. The analysis showed that there was no association between these factors which indicates that borrowers' factors were not considered while deciding the installment amount. Next, borrowers' microfinance loan factors such as loan amount, no. of borrowing cycle, and installment amount were compared and were found that no matter how much is the borrowing cycle, the installment amount increased with the increase in loan amount which indicates that installment amount was decided considering only one factor that is the loan amount.

To analysis the association of causes of microfinance loan default with other different factors, the hypothesis has been framed and has been tested using a chi-square test. To test the association of borrower's demographic factors, three variables of borrower's age, education, and marital status were the test. Variables like the number of earning family members, economic activity, individual, and family income were considered to test the association of borrower's economic factors. To analyze the association of borrower's microfinance loan-related factors, thirteen variables like number of borrowing cycle, loan amount, the period since the loan is taken, installment amount, number of installment, the purpose of the loan, type of borrowing, group formation, homogeneity, group loan status, number, amount and period of last paid installment were tested. Lastly, to check the impact of training and supervision, three variables were tested.

One important measure to control default in microfinance loans is to take preventative actions at the time of loan amount disbursement. Therefore, by analyzing the association between microfinance loan amount and borrower's different factors, it could be found which variables were considered for deciding the microfinance loan amount. Fifteen hypotheses were tested considering borrower's demographic, economic, microfinance related, training, and MFI's supervision related factors.

The summary of the result of the null hypotheses test is shown in the following table:

**Table 3: Result Summary of the Hypothesis Test**

Hypothesis	Variable	Variable	p-Value	The Decision of the Null Hypothesis
<b>Borrower's demographic factors</b>				
1.	Causes of Default	Age	.304	Not Rejected
2.	Causes of Default	Education	.654	Not Rejected
3.	Causes of Default	Marital Status	.007	<b>Rejected</b>
<b>Borrower's economic factors</b>				
4.	Causes of Default	No. of earning family members	.493	Not Rejected
5.	Causes of Default	Individual economic activity	.145	Not Rejected
6.	Causes of Default	Family economic activity	.691	Not Rejected
7.	Causes of Default	Individual income	.095	Not Rejected
8.	Causes of Default	Family income	.435	Not Rejected
<b>Borrower's microfinance loan-related factors</b>				
9.	Causes of Default	No. of borrowing cycle	.163	Not Rejected
10.	Causes of Default	Loan amount	.253	Not Rejected
11.	Causes of Default	The period since the loan is taken	.004	<b>Rejected</b>
12.	Causes of Default	Installment Amount	.042	<b>Rejected</b>
13.	Causes of Default	No. of installments	.000	<b>Rejected</b>
14.	Causes of Default	Purpose of loan	.018	<b>Rejected</b>
15.	Causes of Default	Type of borrowing	.008	<b>Rejected</b>
16.	Causes of Default	Group formation	.000	<b>Rejected</b>
17.	Causes of Default	Homogeneity	.000	<b>Rejected</b>
18.	Causes of Default	Status of group loan	.000	<b>Rejected</b>
19.	Causes of Default	No. of installment paid	.000	<b>Rejected</b>
20.	Causes of Default	Time since payment of the last installment	.001	<b>Rejected</b>
21.	Causes of Default	Amount of the last installment	.020	<b>Rejected</b>
<b>Borrower's training</b>				
22.	Causes of Default	Receipt of training and information	.105	Not Rejected
23.	Causes of Default	No. of meetings conducted	.269	Not Rejected
<b>MFI's supervision</b>				
24.	Causes of Default	Frequency of staff visit	.000	<b>Rejected</b>
<b>Borrower's demographic factors</b>				
25.	Loan Amount	Age	.543	Not Rejected
26.	Loan Amount	Education	.868	Not Rejected
<b>Borrower's economic factors</b>				
27.	Loan Amount	No. of earning family members	.417	Not Rejected
28.	Loan Amount	Individual economic activity	.635	Not Rejected
29.	Loan Amount	Family economic activity	.072	<b>Rejected</b>
30.	Loan Amount	Individual income	.359	Not Rejected
31.	Loan Amount	Family income	.000	<b>Rejected</b>
<b>Borrower's microfinance loan-related factors</b>				
32.	Loan Amount	No. of installments	.000	<b>Rejected</b>
33.	Loan Amount	Purpose of loan	.016	<b>Rejected</b>
34.	Loan Amount	Type of borrowing	.000	<b>Rejected</b>
35.	Loan Amount	Status of group loan	.000	<b>Rejected</b>
36.	Loan Amount	No. of installment paid	.000	<b>Rejected</b>
<b>Borrower's training</b>				
37.	Loan Amount	Receipt of training and information	.000	<b>Rejected</b>
38.	Loan Amount	No. of meetings conducted	.278	Not Rejected
<b>MFI's supervision</b>				
39.	Loan Amount	Frequency of staff visit	.607	Not Rejected

Source: Compiled by the author based on the SPSS output generated from the primary data

As can be seen from the table above, thirteen variables have a significant association with the causes of a microfinance loan default. It was found that the borrower's marital status was associated with money spent on other things and family illness/death. Eleven out of thirteen variables of microfinance loan-related factors had a significant association with the causes of default which indicate that MFI should thoroughly evaluate the amount and number of installments, the purpose of the loan, group dynamics such as the number of members, homogeneity in the group, group formation, etc. before sanctioning loan to a borrower as these are associated with causes of default. The role of supervision by MFI is also found associated with the causes of default.

Eight variables have a significant association with a microfinance loan amount. But the more important analysis could be of the variable that is not significantly associated with the loan amount which ideally should be related to the loan amount. MFI must consider the borrower's age, education, number of earning family members, individual economic activity, and income before deciding the loan amount. But the hypotheses test indicates that all these factors are not associated with the amount of loan.

## FINDINGS

- The first objective of the research was achieved by applying frequency analysis. It was found that the demographic factors of the default borrowers were of married women having no or primary education, self-employed, and income below Rs. 5000. The borrowers had taken loans through the MFI employee, were into the second or third cycle of borrowing for investment in existing or new business but the loan amount was used to repay another debt.
- The second objective of the research intended to find out a combination of two or more characteristics of borrowers that led them to default by cross-tabulation. It was found that the borrower with more than one borrowing cycle had not received training before loan disbursement. It was found that the longer the time duration since the payment of the last installment, the lower the frequency of MFI's employee's visit to the borrower. The other related three characteristics of borrowers were of a higher number of family members and a higher amount of monthly installment but less number of earning members.
- The third objective was achieved through the chi-square test between the independent variable of causes of loan default and the dependent variable as borrower's different characteristics to understand which characteristic led to which cause of default. It was found that the married borrowers were in

loan default due to usage of the loan amount in non-economic generated activities such as family illness or death.

- The fourth objective was to understand the relationship between the level of loan amount and the different characteristics of borrowers by the chi-square test. Here, the purpose was to found that which characteristics of borrowers were not taken into consideration which deciding the level of the loan amount as this could be one of the reasons that might have led to loan default. It was found that the borrower's age, education, number of earning family members, individual economic activity, and income did not have an association with the loan amount and hence these factors were not considered before deciding the loan amount.

## CONCLUSION

- The frequency analysis showed that the major cause of default was another debt which highlighted the situation of multiple lending where different MFIs lends to the same borrower. Relating this situation to the literature review analysis that MFIs were yet to reach to the most remote places, it could thus be concluded that MFIs were providing microfinance services to the same areas rather than approaching the uncovered market which results in multiple lending.
- It was found that the purpose of the loan at the time of loan application was different from the actual usage of the loan amount. In most cases, money was spent in a noneconomic activity such as household expenses, illness, and repayment of other debt.
- The results of hypotheses tests show that MFIs were not considering demographic and economic factors of the borrower while deciding the loan amount and rather it was related majorly to the number of borrowing cycles. This means that the higher the number of borrowing cycle, the more the loan amount. Combining this result with the analysis of the borrower's demographic and economic factors, it was found that the borrower did not have repayment capacity.
- Training and supervision are important pre and post loan disbursement activities of microfinance respectively. But from the study, it was found that not much attention was paid to these two activities.

## OBSERVATIONS DURING THE SURVEY

- It was observed during the survey that borrowers were involved in economic activity which was dependent on day to day availability of work. For example, the majority of the women client was involved in

handicraft, stitching and other work which was purely dependent on the order received and did not guarantee work regularly and therefore their income was also not fixed. Moreover, the borrowers' belonged to the community where more importance was given to rituals and customs and so the majority of their income was spent behind such events. Thus, on one side income was not generated regularly and on the other side, this little income was utilized in non-economic activities.

- Borrowers belong to the lower class of society where they did not have much awareness about money management. Because of the lack of proper knowledge, the majority of them were not giving much importance to savings or they had not planned the repayment schedule when they had taken microfinance loans. They were just focusing on the current requirement and based on that they apply for the loan. Moreover, most of them did not know the basic information about loan terms and conditions. They just asked for the loan amount and the installment amount to be paid every month.
- It was observed that the MFI staff did not much believe in training and all the process of training was just a formality in the majority of the cases. That means the number of days or the number of hours of training was cut short and completed earlier. Moreover, the training was provided only for the new clients or borrowers and second and more time borrowers were not provided any training. In certain cases, there was a situation where borrowers themselves were not interested in receiving training and assumed that the training process was a waste of time and they only demanded the loan money.
- MFI staffs that were directly connected with the borrowers that are front line staff were found to be more professional in nature. That means they did not have much interest in understanding the problems or queries of the borrowers but were only concerned about the installment money.
- The approach of microfinance institutions toward their borrowers was found to be adequate in terms of the loan process, the methodology of collection, and other financial services such as savings, insurance, etc. But the problem of its proper implementation and reach to the client or borrower. For example, there was a provision of providing training, verification of repaying capacity of the borrower, visiting and meeting borrower frequently, etc. as a part of the microfinance loan process but all these things were not implemented properly.
- It was observed from the conversation with MFI staff at a different level than most of the staff was not satisfied

with the remuneration policy of the MFI. Because of this, it was observed that the employees of MFI were not performing their duties properly with the utmost integrity. And this could be one of the situations which may lead to misunderstanding between borrower and MFI staff and resulting in microfinance loan default.

## MANAGERIAL IMPLICATIONS

The following are managerial implications for MFIs that have emerged based on the research and its findings:

- To avoid the multiple lending that is different MFIs lending to the same borrower at the same time, a common database should be created of all the borrowers taking microfinance loans. This is similar to the common database used by the commercial banks which helps to know the past financial transaction of the borrower that comes to take a loan from the bank. A similar database should be created and used by the MFIs.
- Another way to avoid multiple lending is by exploring new avenues and reaching the most remote areas and covering the poorest.
- MFI's staff should ensure timely visit at borrowers' place. The staff should regularly interact with the borrower and create a bond wherein the borrower is comfortable to share his/her problems. This will lead to:
  - Usage of the loan amount in economic activity
  - Avoidance of ghost loan
  - Avoidance of cheating from a borrower
  - Timely update of the borrower such as migration
- The repayment capacity of the borrower should be analyzed considering the demographic and economic factors of the borrower before deciding the amount of loan.
- Microfinance institutions are in the service industry and their main asset is their employees and therefore they should properly be managed as if the employees are not satisfied, they will not provide proper service and it will affect the overall performance of MFIs. Thus it is required that MFI should revisit its remuneration policy to reduce dissatisfaction among staff.

## FUTURE RESEARCH SCOPE

- The objective of the research was to investigate the causes of default in microfinance loans and to achieve this objective; primary data was collected from default borrowers. Future research can be conducted by surveying MFI's staff at various levels of organizational structure.

- Respondents of the research were default borrowers. In the future, comparative research can also be carried out by analyzing regular borrowers.
- The research was conducted by selecting one cluster as one of the states of India. Future research can compare the current research analysis through the study of another cluster.
- The present research was focused on microfinance loan services of microfinance institutions and their impact. Future studies can be done on other services of microfinance to get the overall impact of microfinance.

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