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   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

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MICROFINANCE IN INDIA

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ABSTRACT
Microfinance once hailed as savior now turned into nightmare for not only the people who borrowed the money but also the Government and MF companies thanks to the inappropriate policies adopted by the companies. Coercive methods of collection of payment from the borrowers, high interest rates and commercialization were the reasons for the disaster of microfinance companies. Among that the commercialization has made the radical change in a way that the business operates. The failure in achieving the pre-determined objective of ensuring affordable credit to the poor and underprivileged people caused due to the profit motive of the company To contain the aftermath effect the commercialization, the RBI and Andhra Pradesh formulated the regulations for the MFIs as authors of this article considered that these regulations are not good and also have inflicted enough damages in the MFI business thus leads to complete collapse of the industry. This article deals with the issues arises because of a company went for IPO and the subsequent impact of that move and the remedial measures to be adopted to overcome the problems of MFI.

KEYWORDS
MFI-Micro Finance Institutions, Reserve Bank of India, Initial Public Offering, Securities and Exchange Board of India.

BACK GROUND
Microfinance once hailed as a savior for poor and underprivileged turns into horrendous for them thanks to ill-conceived policies of both the governments and MFI.I cannot rest the sole responsibility on the MFI Companies for the failure of the system as government claimed, the government policies are also the main culprits as so far, there is no steadfast approach in regulating this business.

The present problem was originated in the aftermath of a company went for the IPO. Despite knowing that the MF business is not for profit one and there is no scope for earning profit in the long run, none of the regulating agencies includes RBI,SEBI and Ministry of Finance nor the state governments opposed the move. Had any one of them prevented this move, subscriber's as well as borrowers interests would have been saved. An early advocate of the microfinance concept and founder of the highly successful Grameen Bank, Muhammad Yunus, expressed concern about the growing commercialization of microfinance institutions and how this would compromise the real mission of these institutions in the light of their new obligations to their shareholders.

He and others argue that an IPO of microfinance organization gives the message to the people that there is money to be made out of the poor. "This is pushing microfinance in the loansharking direction," says Yunus, who was awarded the Nobel Peace Prize for his work at Grameen Bank. "It's not mission drift. It's endangering the whole mission," he told *The Associated Press*. Despite this the company went through an initial public offering, fueling anger. The company raised more than $350 million on the stock market in August and started to disburse the money. But the company failed to note the trend of borrowing that the people borrowed the money to repay their dept that had been bought from the local moneylenders at the higher interest rate compared to one charged by the Microfinance companies. Once the honeymoon is over, the company had tried to collect the money from the borrowers to only know that the borrowers were not in a position to repay the money along with interest rate of about 26%.The company had the fire at the belly as the money lent by it borrowed from not from the banks as well as other financial institutions that could be repaid by restructuring , but it had obtained from the high aspired people whose aspirations on profit must be met because they had invested in the company with lot of hopes. In this situation, any one will adopt such hard measures to collect the money. In that sense, with no way to escape from the pressure from the investors, this company might also have espoused the coercive methods of recovery and charged higher interest rate thus perhaps leads to suicide. Andhra Pradesh, where three-quarters of the 76 million people live in rural areas, suffered a total of 14,364 suicide cases in the first nine months of 2010, according to state police. A growing number of microfinance-related deaths spurred the state to clamp down on collection practices in mid-October.

FAILURE OF FINANCIAL INCLUSION SCHEMES
Who is responsible for this situation? If we analyzed the reasons, we could easily find fault on regulatory systems rather than the company. Though the Governments have been adopting various schemes to alleviate the poverty in the rural area, none of them have actually reached the beneficiaries. So called financial inclusion schemes of the government got failed thanks to unproductive implementation of them. This can be evident from the report of CAG. In the report, it has been mentioned that the 3.81 crore households had registered under the Act, out of these, while 2.12 crore households had demanded employment, 2.10 crore households were provided employment. The report noted that there were several cases of delayed payment of wages, for which no compensation was paid.

"While there was inadequate assurance that all demands for work were being captured, there were also instances of non-payment of unemployment allowance which became due to employment seekers even where the records indicated that employment was not provided within 15 days from date of demand. However, no one was fined for violation of the Act. Further the report said that the poor record maintenance further diluted the purpose of the Act, systems for financial management and tracking were deficient, as monthly squaring and reconciliation of accounts at different levels to maintain financial accountability and transparency was not being done.

The above report clearly states the sorry state of affairs on implementation of financial inclusion schemes, since the money intended for the poor has not been given, these people would have been left out with the option of borrowing money from the MFI and money lenders. By not curtailing this menace, the government had indirectly fed the unconventional lending methods thus leads to mushrooming of companies which have exploited the poor and underprivileged. Even after this, it has not making an attempt to put their house in order rather than, they have introduced the MFI which makes the matter worse to the extent no MF companies could collect the money lent to the borrowers. This created the mess in the industry that has not been solved so far.

While making regulations on recovery and interest being charged, the government should do due diligence with the stakeholders involved to ascertain the views from them. No borrower has repaid the money and even they don't have the thought of it thanks to these regulations, thus leads many small companies to shut the business and left with the big companies crying for survival. This is absolutely unwarranted because the government only encouraged these companies to lend the money while its system of financial inclusion got failed. The Reserve Bank of India (RBI) and the Andhra Pradesh government seeking to regulate the sector in the state can be seen as an example of multiple regulators vying for control. Such instances would only lead to harmful consequences, the report said

"The experience of cooperative banks in India suggests multiple regulators may not be as effective as a single, strong regulator. MFIs may also find it difficult to comply with different sets of guidelines. A common and consistent set of regulations would add stability to MFIs' operations and enhance creditor comfort", said Ananda Bhoumik, senior director (financial institutions), Fitch.

MFI loans in Andhra Pradesh were the worst hit in the country, owing to uncertainty over regulation of the industry in the state. Collection efficiencies dropped from 99 per cent in September 2010 to below 50 per cent in December 2010. Andhra Pradesh accounts for about 29 per cent of the total MFI loans in the country, and the deterioration in portfolio delinquency in the state resulted in many large MFIs seeking to restructure their own borrowings from banks, the report said. Rising delinquencies in Andhra Pradesh could also spill over to the adjacent states of Karnataka and Tamil Nadu, it added.

Rather than implementing half –cooked measures to gain political mleage, the government should incorporate constructive measures to solve the issues of MFI and the borrowers as to ensure the win-win situation for both of them.

Following measures can be adopted to solve the current issues of MF

1) Formulation of separate regulatory body to regulate the MF

The government can appoint a separate and exclusive regulatory body like in the line of SEBI for share market, TRAI for telecom and IRDA for insurance industries that should be headed by an expert to formulate the policies and monitor the day to day operations of the MFI.

The institution can also be mandated to conduct the social audit to ensure the achievement of objectives i.e., providing fund to the under-privileged people for constructive purpose.

2) Microfinance banks can be established

In the selective places, where the need for loan is high, the government can establish MF banks as part of their financial inclusion programme to directly lend the money to the borrower at the lowest interest.

3) Offers loans at the lower interest rate

The government should offer the loan to the MF companies at the lowest interest rate (4%to5%) so that these companies in turn will lend the money to the borrower at the appropriate interest rate that ensure the smooth recovery

4) Fix maximum capital entry barrier

There should be higher capital to be fixed as entry fee for the MFI which wants to enter in to the business as to avoid the non serious players to enter in the micro lending.At present it is Rs 2crores and that should be increased to 10 crores.

5) Establishment of separate legal forum to short out the issues

Exclusive nodal centers should be established at the nearby towns of the villages where the lending is happening to facilitate the borrowers and the lenders to file the complaints, if any to expedite the arbitration process.

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Thanking you profoundly

Academically yours

Sd/-

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