

Challenges and Prospects of Micro Finance Institutions A Detailed Study in India and Saudi Arabia

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Abstract

This paper is an attempt to explore some major challenges as well as prospects to the successful provision of micro financing in India and Saudi Arabia that can be stated as improved governance, professional management, improved internal transparency, lowering costs, better targeting of the low income group, expanding beyond credit to meet the diverse needs of borrowers, and a better financial infrastructure. The question arises here is if the transformation from an NGO to NBFC helps or hinders an MFI's ability to meet these challenges. This study explores the growth and status of Microfinance in India and Saudi Arabia during 2015-16. This further explores the salient features of MFIs both in India and Saudi Arabia perspective.

Keywords: Microfinance, Solvency, Risk, Return, Non Performing Assets (NPAs), Strategic Management Framework.

Introduction

Microfinance the best way to define as small scale financial services provided to small scale entrepreneurs that are basically low income enterprises.

In this sector the target and objective to enhance small scale and low income households and enterprises.

Microfinance can further be defined as financial organization that provides microfinance lending services ranging from small scale enterprises to large commercial banking institutions.

It plays significant role to socio-economic development of governmental and non- governmental institutions.

Micro financial institutions provide a culture of disciplined loan repayment by the upliftment of borrowing institutions.

Classifications of MFIs

MFIs presently include non-governmental institutions or organizations (NGOs), credit unions, commercial co-operative banks and non-banking financial companies (NBFCs)

Challenges

There are many challenges ahead to form MFIs and smooth functioning as follows,

Building confidence amongst small investors and stake holders is major concern to contribute in the microfinance sector.

There is still lacking proper framework in expanding outreach to poor by enhancing MFI's access to capital.

The MFIs industry is still in its pioneering stage worldwide still no proper regulation and monitoring to commercialize its activities.

Only the few MFIs have been striving hard to achieve its objectives and genuinely functioning and profitable.

There are other ownership issues and difficult to sort out.

Day by day more and more new MFIs are coming and with insufficient capital structure they are bound to fall down their business as there is no bailout packages are meant to them specially in some south east countries.

Small scale MFIs are not able to establish themselves in the presence of their already established counterparts such big NBFIs, Commercial banks and other renowned MFIs.

Most of Non-governmental MFIs do not get adequate support from supervisory and regulatory bodies because of following reasons.

1.) Solvency:- The newly established MFIs face problems of solvency due to improper capital structure and regulatory bodies primarily focus their attention to

solve their critical issues first such as licensing and recognition.

2.) Capacity and Potential:- Many regulatory bodies lack proper training and staff to focus on less profitable MFIs as their main focus is streamed on profit oriented financial institutions.

3.) Risk:- There is risk prevalent in newly established MFIs and due to this reason regulatory bodies overlook these institutions.

4.) Return:- Since most MFIs do not focus merely on profits hence regulatory and monitoring bodies do not sufficiently pay attention towards them as their primarily focus on those financial institutions earning huge returns.

Strategy formulation at Competitive stage of MFIs

After reaching at competitive stage most of MFIs are supposed to retain market share while to be in profitable state.

They need to study the behavior of the clients and choose among them the most prospective and keep studying core competitors.

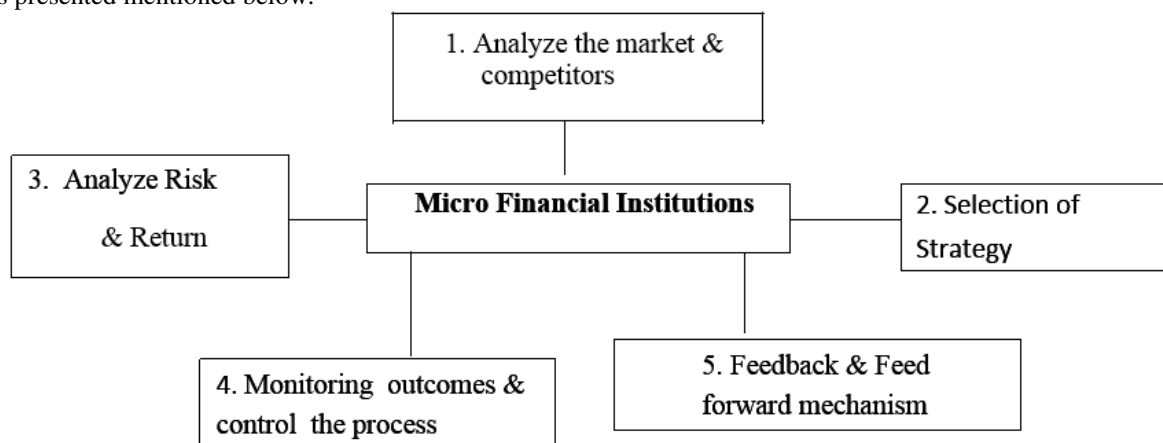
In prevailing competition MFIs need to drive motivation in order to attract customers.

Client demand is taken on priority as it is the vital part of strategy formulation.

To make itself financial viable they need to focus on reaching out more and more low income starters and entrepreneurs. And proper strategy formation ought to be focused.

Strategic Decision Making of MFIs to counter challenges

At the competitive stage after establishment al MFIs need know proper strategy formulation and thus one model is presented mentioned below.



Although we are focusing MFIs nature , scope and challenges in India and Saudi Arabia perspective but it is essential to know that the concept actually came from Bangladesh banker Mohammed Younus , he is brain behind establishment of MFIs worldwide during 1976 by providing short term credit to low income group out of his pocket and with his efforts Gramin Bank was established and for his achievements and contributions he was given Nobel prize in peace and in the modern world of micro financing he is known as father of micro credit system.

Nature and Scope of Micro Financing Institutions in India and Saudi Arabia

As discussed that MFIs worldwide still in its pioneering stage and need to be focused by monitory as well as regulatory bodies in both the countries yet these institutions are in great demand by small scale entrepreneurs, self employed women, NGOs etc.

In India it is meant to those people that cannot afford high credit rating commercial loan. Micro Finance in India is type of banking services where cash is not deposited and target customers mainly are either unemployed, low income group, self employed women or individuals that have dream but due to lack of their financial approach to traditional banks .

In India RBI and other monitory agencies under law do not permit MFIs to deposit cash but allow them to sell insurance plans (restricted) and provider of small amount loan to certain class of society that is paid back normally in monthly installments or lump sum money after their settlement period.

The MFIs have gained significance hype in its customer base since 2015 and crossed 37.1 million. Statistics show that most of customers belong to urban India as compared to Rural India. The quality of assets also got improved in most of MFIs except few MFIs in Andhra Pradesh, India where due to many economic

reasons the **Non Performing Asset (NPAs)** got increased.

But in urban India the growth is phenomenal because of many urban focused MFIs have been functioning effectively and fulfilling objectives of an institution itself and the concern body or an individual. These MFIs are mainly named as Janlakshmi Financial Services Pvt Ltd, Bandhan , SKS micro finance Ltd and Satin Credit Card Network Ltd. Last year altogether they showed higher growth than overall industry growth and statistics also witnesses that most of their customers belong to urban India . The rise in urban India also signifies the cultural problem developed in commercial banks as they do not focus on small businesses like vegetables vendors, fishery, cab and taxi drivers etc. while MFIs see tremendous potential in these low but steady income profile individuals.

Microfinance is not merely giving micro credit to small scale entrepreneurs, self employed women , unemployed individuals etc. but to ensure as an economic development tool to get rid of poverty or at least lowering unemployment by providing easy access short term loans to borrowers.

Following are the salient features of MFIs in India:-

1. Short duration of loans
2. Short Loans are provided – Micro Loans
3. Borrowers are basically lower income group
4. Loans are given for employment purpose
5. Loans are offered without mortgage
6. Most of MFIs share in Profit and Loss of the business

As per the statistics there are one of tops 25 Microfinance Companies in India are as follows.

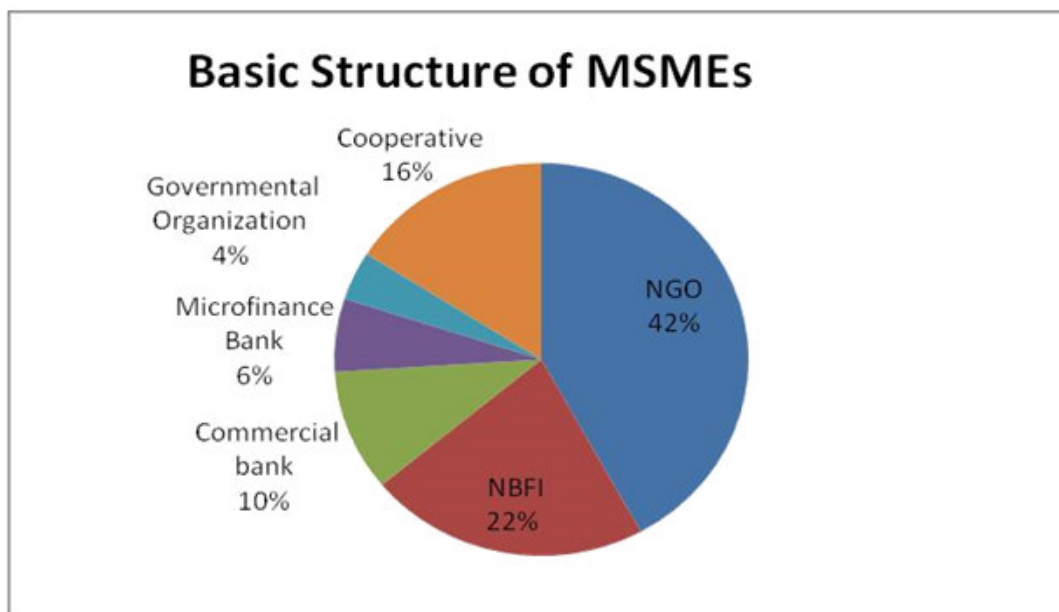
1. Annapurna Microfinance Pvt Ltd
2. Arohan Financial Services Pvt Ltd
3. Asirvad Microfinance Pvt Ltd
4. Bandhan Financial Services Pvt Ltd
5. BSS Microfinance Pvt Ltd
6. Cashpor Micro Credit
7. Disha Microfin Pvt Ltd
8. Equitas Microfinance Pvt Ltd
9. ESAF Microfinance and Investments Pvt Ltd
10. Fusion Microfinance Pvt Ltd
11. Grama Vidiyal Micro Finance Ltd
12. Grameen Financial Services Pvt Ltd
13. Janalakshmi Financial Services Pvt Ltd
14. Madura Micro Finance Ltd
15. RGVN (North East) Microfinance Limited
16. Satin Creditcare Network Ltd
17. Shree Kshetra Dharmasthala Rural Development Project
18. SKS Microfinance Ltd
19. S.M.I.L.E Microfinance Ltd
20. Sonata Finance Pvt Ltd
21. Suryoday Micro Finance Pvt Ltd
22. SV Creditline Pvt Ltd
23. Swadhaar FinServe Pvt Ltd
24. Ujjivan Financial Services Pvt Ltd
25. Utkarsh Micro Finance Pvt Ltd

(Source India Microfinance 2015-16)

Out of these MFIs it is evident that their operations consist of following types as given below in the graphical presentation of 50 MSMEs;

They function as NGOs, NBFIs, Commercial Banks, Co-operative Banks, Microfinance Banks, and Governmental Organizations.

NGO	21
NBFC	11
Commercial bank	5
Microfinance Bank	3
Governmental Organization	2
Cooperative	8



Many of these MFIs(MSMEs) in India have been trying to transform themselves into NBFCs under act of RBI to get more freedom and smooth approach to tap more and more customers from all walk of life .

If they transform themselves into NBFCs then MFIs will be able to provide better and prompt services to meet the real needs of customers rather than giving micro credit alone and claiming that it is for entrepreneurial activities.

Furthermore their credit rating will be improved and reduce the cost of operations and the economies of scale can be achieved effectively.

In Saudi Arabia Government spending is the most common way to remove poverty and enhance employment yet MFIs with the co-ordination of Grameen Bank , Bangladesh have sprawled its wings and gaining momentum among the section that seek some guidance and financial support.

In Saudi Arabia the scope is less but significant as gaining popularity in the kingdom.

Grameen Jameel a MFI initiated by Alrajhi Bank founder Suleiman Abdul Aziz Al-Rajhi Charitable Trust is the most recognized MFI functioning in Saudi Arabia. Its objective is to enhance women empowerment and to provide financial support to unemployed individuals so that they establish themselves and play significant role in the economic development of country.

In Saudi Arabia MFIs are to work under Islamic Laws (Shariah Compliant) System and all transactions (Lending and Borrowing) are under PLS(Profit & Loss Sharing) System.

In Saudi Arabia all MFIs have been functioning under monitoring and supervision of **Saudi**

Arabian Monetary Agency (SAMA).

Following are the salient features of MFIs in Saudi Arabia:-

1. Mission to women empowerment e.g. JANA GRAMEEN
2. Islamic Microfinance system where loans are provided on mutual trust
3. Supports low income group
4. Short term interest free loans
5. **MUSHARAKA** i.e. Profit and Loss sharing system
6. No collateral is received from clients

Conclusion

Micro Finance institutions play major role to uplift employment status of low income group and empowerment of women in India and Saudi Arabia.

Although there is lack of proper regulation, supervision and assistance from apex financial bodies in both countries as MFIs are regulated and monitored in India by **RBI** and in Saudi Arabia by **SAMA**.

Statistics shows enormous growth of MFIs businesses in both the countries especially in India as it has seen during year 2015-16.

In this paper we have tried to explore poverty assessment and social performance methods by using Micro Financing tools and techniques in India and Saudi Arabia. It is also evident that most MFIs in India have been trying to transform themselves into NBFCs in coming future in order to perform effectively under license from Reserve Bank of India.

In Saudi Arabia the scenario is different from India as population is less and most of employment generating tasks and women empowerment tasks managed and controlled by government alone and very less freedom granted to Micro Credit Companies.

Since there are many challenges in the pre and post establishment of MFIs and the major one is adequate capital support in order to finance low income group and individuals .

If MFIs functioning in any form such as NBFCs, Co-operative Banks, Commercial Banks, come up with initial public offerings (IPO) after getting nod from SEBI(Securities and Exchange

Board of India) . This helps them to get rid of funding challenges and thus they can accelerate growth in economy.

Furthermore proper guidelines in dealing with defaulters and proper audit methodology are required as per AICPA and GAAP guidelines for maintaining financial records on yearly basis in India and Saudi Arabia.

Last but not least for robust functioning and businesses both Indian and Saudi's MFIs are required to establish Risk Management Framework as per guidelines.

It is essential to get confidence from Customers and other Stakeholders for all MFIs in India and Saudi Arabia.

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