CHAPTER – VIII

PROBLEMS OF MICRO FINANCE

8.1 INTRODUCTION

Micro Finance may be defined as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve their living standards.

Access to financial services has been recognized as a human right. Strengthening credit delivery services and increasing their outreach has always been an important component of Indian development strategy. A large number of the poor continue to remain outside the fold of formal banking system, in spite of the expansion of the wide network of the organized banking system deep into rural areas. Market and the Government both fail to provide credit access to the poor. In fact the failure of institutional initiatives of rural credit and weakness of the exploitable informal credit system has given birth to Micro Finance. No doubt, Micro Finance has been successful in providing credit access to poor but it is facing some controversial issues.  

It has been argued that women are better clients as they are more inclined to save than men and their repayment performance is better than men. These characteristics of women clients constitute evidence in support of the inclination of Micro Finance to cater to the needs of women. Women may be better and more reliable clients, but in order to increase the outreach Micro Finance should not ignore problems.

8.2 PROBLEMS OF MICRO FINANCE

Client retention is an issue that creates problem in growing Micro Finance. This occurs because respondents are not properly informed and educated about services and products provided by Micro Finance, more over the current respondents have higher
default rate. Loan default is an issue that creates a problem in growth and expansion of SHGs. The rural area respondents have no or less education that leads to lack of understanding, they are not able manage the loans given to them. As a result, they are not able to pay back the loan.

Education level among the respondents is low as they find difficulty in communication which results in difficulty to understand policy and related details. The uneducated respondents are not able to manage the loans given to them and are not able to manage the debt which creates problems.

High formalities and transaction cost is a big challenge of Micro Finance. The volume of transaction is very small but the formalities and cost is high, Higher the respondent’s fixed cost in the proposition of his total cost, the element of risk increases in the same proposition. Moreover if demand for the product falls or the marginal cost increases, it becomes very difficult to adjust the cost by cutting output. This cut will reduce one’s revenue out of which the respondent pays principal amount as well as interest on the loan, which is to be rationalized.  

External environmental problems as large formalities, lack of understanding of Government formalities, lack of understanding officials, tight repayment schedules, lack of training, lack of capital, lack of infrastructure, problem of power cut, high transportation cost, lack of publicity, high competition and inadequate production creates a problem in growth and expansion of SHGs.

Internal environment as non co-operation of family members, resistance from husband, unable to balance home and SHG activities, Mental stress, lack of time and lack of communication are found as issues creating problems to the growth and expansion of SHG through Micro Finance.
8.3 ROTATED FACTOR MATRIX FOR PROBLEMS OF SHG MEMBERS (FACTOR ANALYSIS)

Before applying Factor Analysis, it is essential to check whether the data is adequate or not. For that purpose, Kaiser – Meyer – Olkin test has been constructed. The results of KMO test are as follows:

<table>
<thead>
<tr>
<th>KMO AND BARTLETT’S TEST RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</td>
</tr>
<tr>
<td>Bartlett’s Test of Sphericity</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

From Table 8.1, it is clear that KMO value is 0.724 which indicates that the data is adequate for further analysis. The Chi Square value is 4313.577 which is also significant at Degrees of Freedom 153.

The Rotated Factor Matrix for the variables relating to SHG members’ problems among the overall sample respondents is given in Table 8.2.
<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Problems</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Complicated Formalities</td>
<td>.892</td>
<td>.652</td>
<td>.342</td>
<td>.123</td>
<td>.024</td>
<td>.011</td>
</tr>
<tr>
<td>2.</td>
<td>Lack of understanding of government formalities</td>
<td>.802</td>
<td>.534</td>
<td>.432</td>
<td>.202</td>
<td>.112</td>
<td>.032</td>
</tr>
<tr>
<td>3.</td>
<td>Lack of understanding of official</td>
<td>.784</td>
<td>.430</td>
<td>.211</td>
<td>.107</td>
<td>.092</td>
<td>.019</td>
</tr>
<tr>
<td>4.</td>
<td>Tight repayment schedule</td>
<td>.189</td>
<td>.812</td>
<td>.654</td>
<td>.544</td>
<td>.430</td>
<td>.362</td>
</tr>
<tr>
<td>7.</td>
<td>Mental stress</td>
<td>.102</td>
<td>.672</td>
<td>.607</td>
<td>.489</td>
<td>.356</td>
<td>.243</td>
</tr>
<tr>
<td>8.</td>
<td>Unable to balance home and SHG activities</td>
<td>.089</td>
<td>.542</td>
<td>.421</td>
<td>.354</td>
<td>.243</td>
<td>.123</td>
</tr>
<tr>
<td>9.</td>
<td>Lack of training</td>
<td>.355</td>
<td>.299</td>
<td>.762</td>
<td>.697</td>
<td>.564</td>
<td>.456</td>
</tr>
<tr>
<td>10.</td>
<td>Lack of time</td>
<td>.280</td>
<td>.132</td>
<td>.712</td>
<td>.666</td>
<td>.541</td>
<td>.375</td>
</tr>
<tr>
<td>11.</td>
<td>Lack of communication</td>
<td>.235</td>
<td>.119</td>
<td>.621</td>
<td>.568</td>
<td>.476</td>
<td>.344</td>
</tr>
<tr>
<td>12.</td>
<td>Lack of capital</td>
<td>.249</td>
<td>.148</td>
<td>-105</td>
<td>.792</td>
<td>.657</td>
<td>.542</td>
</tr>
<tr>
<td>14.</td>
<td>Lack of publicity</td>
<td>.389</td>
<td>.256</td>
<td>.190</td>
<td>.523</td>
<td>.457</td>
<td>.441</td>
</tr>
<tr>
<td>15.</td>
<td>Problem of power cut</td>
<td>.679</td>
<td>.548</td>
<td>.496</td>
<td>.348</td>
<td>.812</td>
<td>.707</td>
</tr>
<tr>
<td>16.</td>
<td>Inadequate production</td>
<td>.453</td>
<td>.356</td>
<td>.254</td>
<td>.122</td>
<td>.762</td>
<td>.561</td>
</tr>
<tr>
<td>17.</td>
<td>High competition</td>
<td>.706</td>
<td>.644</td>
<td>.561</td>
<td>.429</td>
<td>.301</td>
<td>.716</td>
</tr>
<tr>
<td>18.</td>
<td>High transportation cost</td>
<td>.487</td>
<td>.342</td>
<td>.209</td>
<td>.188</td>
<td>-102</td>
<td>.572</td>
</tr>
</tbody>
</table>

Source: Primary data
Table 8.2 presents the rotated factor loadings for the 18 statements (factors) of the SHG members’ problems. It is clear from the Table 7.1 that all the 18 statements have been extracted into nine factors, namely, F₁, F₂, F₃, F₄, F₅ and F₆. The factors identified with new names and their influence on the SHG members’ problems have been presented in the following tables.

**TABLE 8.3**

**FACTOR 1: LACK OF AWARENESS**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Factor Loadings</th>
<th>Eigen Value</th>
<th>Percentage Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Complicated Formalities</td>
<td>.892</td>
<td>9.893</td>
<td>32.176</td>
</tr>
<tr>
<td>2.</td>
<td>Lack of understanding of government formalities</td>
<td>.802</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Lack of understanding of official</td>
<td>.784</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Computed data

Among the SHG members’ problems, ‘Complicated Formalities’, ‘Lack of understanding of Government formalities’ and ‘Lack of understanding official’ are the factors with higher positive loadings on Factor I. The above said three factors with high loadings on Factor I are characterized as “Lack of Awareness”. Hence, F₁ is termed as **Lack of Awareness**. The eigen value for the above Factor I is 9.893 and the percentage variance is 32.176. It could be concluded that the problems of members of SHG’s have been solved by developing awareness about formalities in the study area and it ranks as the first important factor.
TABLE 8.4
FACTOR 2: LACK OF SUPPORT

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Factor Loadings</th>
<th>Eigen Value</th>
<th>Percentage Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Tight repayment schedule</td>
<td>.812</td>
<td>4.554</td>
<td>15.181</td>
</tr>
<tr>
<td>2.</td>
<td>Non co-operation of the family members</td>
<td>.764</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Resistance from husband</td>
<td>.712</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Mental stress</td>
<td>.672</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Unable to balance home and SHG activities</td>
<td>.542</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The factors such as ‘Tight repayment Schedule’, ‘Non co-operation of family members’, ‘Resistance from husband’, ‘Mental stress’ and ‘Unable to balance home and SHG activities’ are the factors with higher positive loadings on Factor II. The above said four factors with high loadings on Factor II are characterized as “Lack of Support”. Hence, $F_2$ is termed as Lack of Support. The eigen value for the above Factor II was found to be 4.554 and the percentage variance was 15.181. It could be concluded that the problem of the members in the SHGs are solved by taking efforts to balance the home and SHG activities and it has become the second important factor.
TABLE 8.5
FACTOR 3: LACK OF SKILLS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Factor Loadings</th>
<th>Eigen Value</th>
<th>Percentage Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lack of training</td>
<td>.762</td>
<td>3.188</td>
<td>10.626</td>
</tr>
<tr>
<td>2.</td>
<td>Lack of time</td>
<td>.712</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Lack of communication</td>
<td>.621</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Computed data

From the Table 8.5, ‘Lack of Training’, ‘Lack of Time’ and ‘Lack of Communication’ are the factors with higher positive loadings on Factor III. The above said three factors with high loadings on Factor III could be characterized as “Lack of Skills”. Hence, F3 is termed as Lack of Skills. The eigen value for the above Factor III is 3.188 and the percentage variance is 10.626. It could be concluded that the effective training has to be given to SHG members for time management and communication in the study area and it has become the third important factor.

TABLE 8.6
FACTOR 4: LACK OF FINANCE

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Factor Loadings</th>
<th>Eigen Value</th>
<th>Percentage Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Lack of capital</td>
<td>.792</td>
<td>2.380</td>
<td>7.934</td>
</tr>
<tr>
<td>2.</td>
<td>Lack of infrastructure</td>
<td>.612</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Lack of publicity</td>
<td>.523</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Computed data

The factors ‘Lack of Capital’, ‘Lack of Infrastructure’ and ‘Lack of Publicity’ have higher positive loadings on Factor IV. The above said three factors with high
loadings on Factor IV could be characterized as \textit{“Lack of Finance”}. Hence, F\textsubscript{4} is termed as \textit{Lack of Finance}. The eigen value for the above Factor IV was found to be 2.380 and the percentage variance was 7.934. It could be concluded that steps are to be taken to solve the financial problems of SHGs in the study area and it has become the fourth important factor.

\textbf{TABLE 8.7}

\textbf{FACTOR 5: PRODUCTION GRIEVANCES}

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Factor Loadings</th>
<th>Eigen Value</th>
<th>Percentage Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Problem of power cut</td>
<td>.812</td>
<td></td>
<td>5.893</td>
</tr>
<tr>
<td>2.</td>
<td>Inadequate production</td>
<td>.762</td>
<td>1.768</td>
<td>5.893</td>
</tr>
</tbody>
</table>

Source: Computed data

Among the factor rotation, ‘Problems of Power cut’ and ‘Inadequate Production’ are the factors with higher positive loadings on Factor V. The above said three factors with high loadings on Factor V could be characterized as \textit{“Production Grievances”}. Hence, F\textsubscript{5} is termed as \textit{Production Grievances}. The eigen value for the above Factor V is 1.768 and the percentage variance is 5.893. It could be concluded that Government has to focus on the problems of power cut in the study area and it has become the fifth important factor.
TABLE 8.8

FACTOR 6: COMPETITION AND TRANSPORTATION PROBLEMS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>Factor Loadings</th>
<th>Eigen Value</th>
<th>Percentage Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>High competition</td>
<td>.716</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>High transportation cost</td>
<td>.572</td>
<td>1.441</td>
<td>4.805</td>
</tr>
</tbody>
</table>

Source: Computed data

The factors regarding ‘High competition’ and ‘High Transportation Cost’ are the factors with higher positive loadings on Factor VI. The above said three factors with high loadings on Factor VI could be characterized as "**Competition and Transportation Problems**". Hence, F6 is termed as *Competition and Transportation Problems*. The eigen value for the above Factor VI is 1.441 and the percentage variance is 4.805. It could be concluded that the SHG’s activities are affected by so many problems in the study area and it has become the sixth important factor.

The variables with the highest loadings for the SHG members’ problems are provided in Table 8.9.
TABLE 8.9

VARIABLES WITH THE HIGHEST FACTOR LOADINGS FOR

SHG MEMBERS’ PROBLEM

<table>
<thead>
<tr>
<th>Factor</th>
<th>Name of newly Extracted Factor</th>
<th>Selected Statement (Variable)</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>F₁</td>
<td>Lack of Awareness</td>
<td>Complicated Formalities</td>
<td>0.892</td>
</tr>
<tr>
<td>F₂</td>
<td>Lack of Support</td>
<td>Tight Repayment Schedule</td>
<td>0.812</td>
</tr>
<tr>
<td>F₃</td>
<td>Lack of Skills</td>
<td>Lack of Training</td>
<td>0.762</td>
</tr>
<tr>
<td>F₄</td>
<td>Lack of Finance</td>
<td>Lack of Capital</td>
<td>0.792</td>
</tr>
<tr>
<td>F₅</td>
<td>Production Grievances</td>
<td>Problem of Power cut</td>
<td>0.812</td>
</tr>
<tr>
<td>F₆</td>
<td>Competition and Transportation Problems</td>
<td>High Competition</td>
<td>0.716</td>
</tr>
</tbody>
</table>

Source: Computed data

It is clear from Table 8.9 that ‘Complicated Formalities’ with a factor loading of 0.892; ‘Tight Repayment Schedule’ with a factor loading of 0.812; ‘Lack of Training’ with a factor loading of 0.762, ‘Lack of Capital’ with a factor loading of 0.792; ‘Problem of Power cut’ with a factor loading of 0.812, ‘High Competition’ with a factor loading of 0.716 are found to be the variables with the highest factor loadings under factors F₁, F₂, F₃, F₄, F₅, and F₆. Therefore, these are the identified variables which have influenced the SHG members’ problems for the present study.
8.4 SUMMARY

Although the micro finance sector is growing at a healthy rate, there have been a number of concerns related to the sector like grey areas in financial literacy, over indebtedness, fraud and so on. It is observed that so many problems are associated with Micro Finance. If these shortcomings are eliminated, it will have positive result on the efficiency and growth of SHGs. Elimination of these problems may improve the living standards of the thousands of poor.

References:

