



ORIGINAL RESEARCH PAPER

COMMERCE

CHALLENGES OF MICROFINANCE BENEFICIARIES IN AGRICULTURAL AND NON-AGRICULTURAL CREDIT

KEY WORDS: Microcredit , agricultural credit, non-agricultural credit, challenges of credit, rural Kerala , rural entrepreneurs

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ABSTRACT

Microfinance programs are a great way for low income people in rural areas to start their own income generating activities and makes their ends meet. Since, borrowing itself is a big challenge, there will always be a challenge in everything doing with that money. Borrowing for Agricultural and Non agricultural activities ultimate objective is to make at least an income which meets the repayment of the borrowed capital without any additional credit. Gestational period payments , complication in sale of products due to competition of branded products, limitation in area of marketing due to lack of storage and transportation , loss due to technical inefficiency and underutilisation of capacity etc are the main challenges faced by agricultural and non agricultural microfinance borrowers

Introduction

Microfinance sector can be treated as an important instrument for providing social protection for the poor, mainly the individuals who are living in rural areas. So the implementation of microfinance program as a social protection tool for the rural poor may help the rural households to reduce their vulnerability. Having access to financial services allows rural women to procure the inputs, labour and equipment they need for their agricultural or rural off-farm activities (World Bank, FAO and IFAD, 2009). Microfinance products are ultimately implemented for rural poor households belongs to the poverty line or just above the poverty line . In early stages of microfinance ,the schemes were limited to only female beneficiaries. Nowadays the male beneficiaries are also benefited from the schemes . Since the microfinance lending is group oriented ,the group members can individually use this fund for their own productive economic activities.

Every economic activity consists of some challenges of risk to be faced in its successful running and the overall economic development. The risk arrived through this challenges affected more in the vulnerability of the person if he is a poor borrower. Micro finance beneficiaries are poor and has no or low access of formal financial sources. So it is very essential to find out the challenges involved in accessing micro credit for agricultural and non agricultural activities which is funded from microfinance schemes. Here makes an attempt to enlist the challenges in the selection of activity and allocation of fund, running of activity, livelihood management, repayment etc, in agricultural and non agricultural borrowing from micro credit schemes.

MICRO CREDIT

Micro credit is the major microfinance product. Simply Microfinance means provision of small /micro credit facilities to its customers. Various studies found that the rate of financial inclusion of rural people through microfinance is too high. Normally the credit provided may be for establishing income generating activity , product purchasing and consumption purposes.

Rural people faces lot of problems in their economic and social life. Starting an economic activity, is also a huge task , almost impossible to them. Lack of finance and creative ideas are the major problems faced by the rural people in Kerala. While microfinance schemes let them raise mobilised sum of money without or very less formalities. Which enable them working together with each ones abilities and inabilities in a balanced way. Group lending or borrowing also ensures efficiency in planning and financial management among the rural clients. .

Objectives:

- To analysis the nature of investment and return pattern of agricultural and non-agricultural microfinance activities.
- To enlist the problems being faced by microfinance clients with respect to agricultural and non agricultural credit .

Agricultural Credit-challenges

Most percentage of people in rural Kerala depends on agricultural activities for livelihood. The micro credit for agriculture are two types, Production Credit and Investment credit. Micro credit plays a crucial role not only in the modernisation of agriculture, but also in helping to remove financial constraints and in the provision of the means and incentives for accelerated agricultural development(Fareeda Shaheen Rasul(1993) . Production credit being mainly advanced for a single purpose, namely to meet seasonal agricultural expenses like purchase of seeds, fertilizer, labour charges, pesticides, etc. and investment credit being advanced for digging of wells, purchase of wooden and iron ploughs, tractors, power tiller and water pumps etc. Most number of beneficiaries in Kerala borrows for agro based activities , because of

- Rural people highly depends on agricultural activities.
- Resources are easily available
- Expertised knowledge in agro based activities.
- More comfortable in their routine lif
- No need for additional skill training and
- Low investment

Challenges on Agricultural Investment through Microfinance Schemes

Financial stagnation during gestational period

The time gap between borrowing and marketing of agricultural product is a very crucial period for each microfinance borrower. The rate of production / product is influenced by many factors such as climate, fertility of land ,price variations, season, pest infestation etc.. In case of dairy products, the purchase of farm machinery and equipments and living stocks requires a large lump sum initial payment (which is also very high compared with the annual cash flow generated by the investment). Due to this high dependence of investments in agriculture on biological processes, they have to invest the whole loan amount in the activity. since almost all crop yields obtained only after a certain period of time , the invested capital will only amortizes over a period of several months or may be in years. It will be a great challenge to the poor clients to keep up with the maintenance of the farm and cost of living during this period.

- Economical and Psychological Constraints on Technological up gradation

Agricultural productivity is usually considered to depict the efficiency of the production process. When an additional new technology adopting to this traditional way of farming, it must be efficiently combined the technical efficiency, and methods with the farmers through training processes. Compared to other investors, the ultimate goal of a microfinance beneficiary is, to start generating income within maximum shortest period of time rather than making a huge profit. Since most of the rural farmers are resisting these modern methods and technologies, they are often not ready to make technological up gradations to their farming. So, the dependence on time consuming traditional farming methods for the production processes reduces their productivity up to an extent. It will become a challenge to the micro finance client to make income within a shortest possible time period for making their repayment and meeting livelihood expenses.

And a single source of micro credit may not be enough sufficient to adapt the new technologies available to them. Majority of the field level investigations indicate that only the group of farmers equipped with better financial resources is able to derive mostly the benefits of new technology. So the financial constrains of microfinance beneficiaries limit them to adopt new technologies and methods.

Repayment on Gestational Period

The repayment schedule of most of the microfinance loans starting from the next month proceeding the borrowing date. Since the returns from the agricultural activity only withdraw able after minimum of 3 months, (In case of long term crops more time is required for harvesting) The big question is how far this is possible for the clients, who are financially very backward and have no other source of income. As long as there is no other source of income to the borrower it will leads to new financial troubles in their lives.

Otherwise the Joint Loan Group (JLG) schemes provides 10 months gap to agricultural loan repayments as onetime instalment. In this case the huge credit burden also a huge problem to the poor borrower. In both cases the borrower has to face some challenges in their allocation and repayment of the fund. The activity/crops must be selected according to their general economic status and repayment schedule. The efficiency of selection of activity is related with their education, knowledge, experience in the activity etc.

Risk of Loss and Seasonality of Return

Uncertainty and variation of return from agricultural activity is very high. The return may influenced by various factors, which are uncontrollable also. Climate changes, natural calamities, excessive/inadequate rainfall, pest infestation etc. will adversely affects the agricultural productivity. The biggest challenge is in agricultural activity is the one time investment for a season, ie, losses that occur after some stages of the processes of the season, can not be overcome by replacing the activity/ process. The another challenge is that the price of the same product may highly varied year by year. The Demand for the products may fluctuate due to the over/under supply of the season, so the return from the activity highly varied at the time of harvesting season. Yearly changes of this price variation cannot be predicted.

Limited Transportation and Storage Facilities

Since the agricultural products can't be stored in open air for too long, there should be separate storage facilities to safely store it. The insufficiency of fund for storage facilities, restricts the bulk production and maximum effective utilisation of resources which is already acquired by them. Lack of storage facilities restricts the bulk production and the area of operation into local markets. Local markets consist of

very low number of customers, meanwhile storage as well as transportation facilities needed for wide market accessing, which also require more investment.

Challenges in Agricultural credit

- Return from the activity is only receivable after harvesting the crops (minimum of 3 months)
- Unexpected natural / climate changes affects the return
- Marketing of bulk product is limited to their transportation and storage facilities.
- Seasonal products gives one time return only
- Price variations in season of harvesting
- The fund available is insufficient to adopt new technologies
- Lease rent of land
- Agricultural investment credit makes repayment burden on their return.

Non Agricultural Credit- Challenges (nature of investment and return)

Normally small scale business ideas are encouraged through microfinance schemes. Handicrafts, tailoring, packed food items, catering and hotels, taxi driving etc. are the major non agricultural borrowing purposes in Kerala. The area of operation is generally localized catering to the local or regional demand. The overall resources at the disposal of this activity units are limited and as a result of this, it is forced to confine its activities to the local level. Which require more capital investment than agro based activities, in acquiring machineries, building, raw materials etc.. A portion of the project is only allowed by the institution as credit to them, At the time of initiating the project they are not in a position to anticipate their financial requirements and the size of market for their products. A huge portion of this fund raised may allocated to acquiring raw materials, machineries and all other services related with the activity. It also require comparatively high working capital and additional skills and training than agriculture. The return of any activity during the gestation period may be low or sometimes that has to be run at a loss. Repayment schedule of most of the microfinance credit is started on the next month of borrowing. But the return from the activity may not be availed in the next month itself. So the gestation period repayment of credit is the major challenge faced by the both agricultural & non agricultural micro credit beneficiaries. Another challenges to be faced by non agricultural creditors are discussing below.

Technical Inefficiency

Another challenge of non agricultural credit is that the lack of efficiency due to low experience and training. The most percentage of microfinance clients are illiterate and low literate. The use of new technologies, methods and manners may could not be suddenly affordable by them too. This leads to inefficiency and underutilisation of resources. Under utilisation of capacity increases the cost of production, and then affects the profitability and return of the activity. Inefficiency reduces productivity and quality of product. The competition from the standard market products in the quality, packing, advertisement, transportation facilities etc. will also affects the return from the activity of microfinance borrower. Here competing with the products or services of technical experts is the challenging factor.

Local Area Operations & Credit sales

Most of the micro producers deliver their product to the neighbourhoods or their own village areas. So the customers are socially related persons like friends, relatives, neighbour etc. This social relationships compel them to make more credit sales. After the initial capital investment, The fund available for regular activities to the creditors are very minimum, so, the credit recovery period will hardly affects the day to day operations of the small producers, Which says the local area operations may become a

challenge to the micro credit users to the successful running of their activities. Credit sales and its recovery from clients within short period of time from the socially related customers is the another challenging factor to be faced by the micro creditors.

Competition from Branded Products

The price of almost small scale micro credit products are higher than the wholesale branded products. due to lack of economies of scale , inefficient and inexperienced manual operations, lack of technical knowledge etc. Sale of higher priced products among the lower income group is much difficult to the producers where the lower priced products are available.

Another important competition factor which affects the sales of the local product is the prejudiced image of the quality of local products. There is two extreme perceptions about local products among customers ie. the local producers makes the best products than branded , using natural raw materials , low quantity of chemicals, by the best hygienic manual methods. The another perception is that the local products are always low quality than branded products, due to the inefficient production manners , unhygienic manual operations, low quality locally available raw materials , low quality packaging and storage facilities etc. both of these cases makes same impact in the demand of product among rural local clients, because of Local customers are being low income people, who always give preference to the low priced other market products rather than its quality.

Attractiveness in the products outlook and packing, advertisements, availability, etc are the main other competition factors of branded products which creates challenges to the successful sales of micro producers.

Group and Individual Commitments of Borrowings for the Activity

The common challenge for both agricultural and non-agricultural credit beneficiary is that the allocation of income from the activity for their personal and group financial needs. The income derived from the activity should enough for meet the livelihood of the beneficiary , day today expenses and working capital for the micro activity and repayment related with the individual and group credit commitments. The next most important challenge is to find out and implement an activity which produce maximum output enough for their whole needs. Challenge of insufficiency of capital is always there, due to allowed amount through microcredit is always only a portion of the estimated amount to implement the project. So the group members may depend on other credit options too for meeting all other needs. if there is no enough return the repayment of a huge amount of borrowing instalments will be a challenge for the economic development of the beneficiary.

The above discussed challenges to be faced by the non-agricultural microfinance borrower can be enlisted as follows

- Repayment on Gestation period(zero gestation period)
- Inefficiency in operation of machineries
- Adaptation of new technology reduces the fund availed to the allied activities
- Under utilisation of resources
- Local area operations and marketing
- Lack of economies of scale due to small scale productio
- Underutilisation of capacity of machineries due to lack of experience
- Local social relationships makes more credit sales
- Competition from branded products
- Group and individual commitments of borrowings for the activity
- Insufficiency of return for repayment and beneficiary empowerment

Conclusion

The basic and greatest challenge of every microfinance beneficiary is to find out the best investment option that can be effectively implemented with the amount given to them. Investment in Agricultural as well as non agricultural activities with a minimum capital of amount , faces many challenges in order to make their repayment amount within the prescribed time period. Unless there is no income option for the clients family ,the stress on making the repayment amount and other income for their day to day activities reduces their productivity as well as profitability. Some natural factors also affects the profitability and working conditions of their tiny business units, or agro based activities. .Lack of experience, efficiency, limited marketing , competition from branded products , large investment in compare with the return in prescribed time etc are the other challenging factors being faced by all the microfinance clients.

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