High attrition, pricey loans key hurdles for MFI segment: Experts

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THE MICROFINANCE INDUSTRY has put disruptions relating to Covid-19 and demonetisation behind it. But the segment is still grappling with challenges due to high attrition rate and steep interest rates, say experts.

In its Inclusive Finance India Report 2023, ACCESS Development Services pegs the microfinance industry's attrition at 49%. The figure is much higher at 64% in smaller microfinance institutions.

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"The attrition is higher among field level staff, and around 70% of MFI staff are on the field. The field-level job is quite tough, and so many not be able to cope," says Jiji Mammen, executive director and chief executive officer, Sa-Dhan.

Apart from other microfinance institutions, Mammen notes that these individuals are finding employment opportunities outside the financial services segment too.

In recent years, microfinance enterprises have witnessed a steady growth in their loan books and an improvement in portfolio quality.

While the demand for microfinance loans has been strong, the higher operating costs associated with new regulations and the need to recover past losses has led to higher interest rates, say experts.

At a recent event, Reserve Bank of India (RBI) governor Shaktikanta Das asked microfinance institutions to be "judicious" in using the flexibility on interest rates they charge from borrowers.

Currently, microfinance institutions levy an interest rate ranging from 18-26%.

Some microfinance institutions provide housing loans and water sanitation and hygiene loans. Experts highlight that at these interest rates, it is difficult to envisage the affordability of these essential activities.