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Cash-based microfinance industry struck with dilemma

By [Atmadip Ray](#), ET Bureau | Updated: Nov 09, 2016, 07.11 PM IST

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KOLKATA: [Microfinance](#) sector, which work in the grassroots handling cash more than any other institution are in quandary on the strategy they should adopt now after the government demonetised high value currency notes.

Sector leaders like Ujjivan [Financial Services](#) has told customers to defer all repayments temporarily while medium sized Village Financial Services has decided to offer one-day window to customers for repaying loans in old Rs 500 and Rs 1000 denominated currency notes, which ceased to be legal tenders post November 8 midnight.

Companies have also stopped loan disbursement in physical cash, creating gaps in borrowers' daily cash credit requirements. There are borrowers who get their loans credited to bank accounts directly but the scheme limits cash withdrawal at Rs 10,000.

"Most of our borrowers repay in high value currency notes with the rise in quantum of loans. So, we have advised our borrowers in the morning not to repay loans for some time," Ujjivan Managing Director Samit Ghosh told ET.

MFI's average loan size has grown 27% to Rs 19,930 at the end of June, compared with Rs 15,662 a year back.

Microfinance Institutions Network (MFIN), the self-regulator for the sector, said it is in touch with [Reserve Bank of India](#) for more clarity on the issue of depositing cash in banks.

"As the announcement didn't touch on the granularity of how the institutions should go about depositing money in the banks but has spoken only of individuals, MFIN has sought a suitable clarification from RBI," MFIN chief executive [Ratna Vishwanathan](#) said.

Village Financial's Managing Director [Kuldip Maity](#) said his company will stop accepting old currency notes from November 10. "We are accepting old currency notes today (November 9) from borrowers who have already arranged cash for repayment. They should not face difficulty."

Kolkata-based Uttrayan Financial Services, on the other hand, has directed its field workers not to accept any pre-payment while it has not [place](#) any restriction on loan repayment. "This is an extra-ordinary situation. [People](#) with unaccounted money could try to channel high value currency notes through borrowers in the disguise of pre-payment. We don't want this to happen," Uttrayan's Managing Director [Kartick Biswas](#) said.

"But there is no restriction on repayment as we don't want to let our borrowers go through any hardship. We have bank channels to deposit high value notes."

MFIN acknowledged that the microfinance [business](#) is predominantly cash driven still now and there are challenges more with reference to disbursal. "There could be a challenge of adequate [money supply](#) of accepted denomination n the system," Vishwanathan said.

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