



Challenges of Microfinance: Karj Mafi Campaign

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ABSTRACT

Microfinance plays a pivotal role in advancing financial inclusion in India, serving over 6.6 crore borrowers—mostly low-income women—and contributing significantly to livelihood security and rural economic resilience. However, the sector faces growing challenges due to the rise of informal loan waiver movements, popularly known as *karj mafi* campaigns. Unlike formal agricultural loan waivers, these campaigns are largely driven by political mobilisation, social activism, and community narratives, creating widespread expectations of debt forgiveness among microfinance borrowers. Such expectations weaken repayment discipline, leading to strategic defaults and severe disruptions in the high-repayment culture essential for the sustainability of microfinance institutions (MFIs). Empirical evidence, including the Andhra Pradesh crisis of 2010 and repayment declines in Bihar, Uttar Pradesh, and Karnataka, illustrates the extent to which waiver rumours can destabilize the sector. This study, based on secondary data from RBI, NABARD, Microfinance Institutions Network (MFIN), government publications, and academic literature, analyses the economic, social, and political factors influencing borrower participation in loan waiver movements. Findings reveal that income instability, rural indebtedness, group dynamics, and low financial literacy significantly contribute to the spread of *karj mafi* expectations. Additionally, regulatory gaps and political interference weaken credit discipline and magnify repayment risks. The study concludes that loan waiver campaigns threaten the financial health of MFIs and hinder long-term financial inclusion goals. Strengthening borrower awareness, improving regulatory oversight, and discouraging political disruption are essential to ensuring the stability and sustainability of the microfinance ecosystem.

Keywords: *Microfinance, Karj Mafi Campaign, Loan Waivers, Repayment Behaviour, Financial Inclusion*

Introduction

Microfinance has become one of the fastest-growing components of India's financial inclusion ecosystem, serving more than 6.6 crore borrowers as of 2023, with a total gross loan portfolio exceeding ₹ 3.48 lakh crore (MFIN Report). A majority of these borrowers—nearly 97%—are women from low-income households who depend on microcredit for livelihood activities, consumption smoothing, and emergency needs. Despite its transformative potential, the microfinance sector continues to face several structural challenges, among which the rise of

informal loan waiver movements, popularly known as “karj mafi” campaigns, has emerged as a significant area of concern.

Unlike formal agricultural loan waivers, such as the ₹ 72,000 crore nationwide waiver announced in 2008–09, “karj mafi” campaigns within microfinance largely originate from social groups, civil society organizations, and political parties. These campaigns often intensify during elections. For instance, between 2017 and 2023, at least 11 Indian states announced some form of farm loan waiver, collectively amounting to more than ₹ 2.4 lakh crore. Although these waivers officially apply only to agricultural loans from banks, they create a strong perception among microfinance borrowers—especially in states like Uttar Pradesh, Maharashtra, Karnataka, and Punjab—that their microfinance loans may also be waived. This expectation significantly undermines repayment behaviour.

Empirical data supports this trend. During the 2010 microfinance crisis in Andhra Pradesh, repayment rates fell sharply—from 95% to below 20%—within months due to widespread belief that the government would waive microfinance loans. Similarly, several districts in Bihar, Jharkhand, and Assam recorded repayment dips of 10–25% in years when political parties campaigned for debt relief. Since MFIs operate with very high repayment discipline (generally above 95%), even a small decline can threaten their sustainability.

The socio-economic profile of borrowers further contributes to loan waiver mobilization. More than 85% of India’s farmers fall under the small and marginal category, owning less than 2 hectares of land (Agricultural Census 2011). Their income instability is reflected in the agricultural sector, where nearly 50% of the workforce contributes only 15–16% to GDP. Additionally, rural indebtedness remains high: NSSO data shows that over 40% of rural households are indebted, with many relying on multiple sources of credit. In such circumstances, microfinance borrowers experience severe repayment pressure when crop prices fall or wages stagnate.

Regulatory bodies like the Reserve Bank of India (RBI) and NABARD have maintained that blanket waivers distort credit discipline. The RBI’s 2022 regulatory framework emphasizes preventing over-indebtedness and ensuring transparent pricing. Despite this, expectations of loan waivers remain widespread because state-level schemes continue to dominate the political landscape, even though no nationwide karj mafi scheme exists for microfinance loans as of 2025. The present research seeks to analyse the challenges faced by microfinance due to the rise of “karj mafi” campaigns, assessing their economic, social, and political implications on India’s vulnerable borrower population and the sustainability of microfinance institutions.

Objectives

1. To examine the impact of “karj mafi” campaigns on repayment behaviour and financial sustainability of microfinance institutions.
2. To analyse the socio-economic factors that influence borrower participation in loan waiver movements.
3. To evaluate policy and regulatory challenges faced by the microfinance sector in managing loan waiver expectations.

Methodology

This study is based on secondary data analysis to examine the challenges faced by the microfinance sector due to “karj mafi” campaigns in India. Data has been collected from multiple credible sources, including reports from the RBI, NABARD, the MFIN, government publications, agricultural census reports, and research articles published in reputed journals. Additionally, newspapers, policy briefs, and statistical databases have been reviewed to understand repayment trends, borrower behaviour, and the economic impact of loan waiver movements. The study adopts a descriptive and analytical approach, synthesizing quantitative data and qualitative insights to assess the socio-economic and institutional implications of loan waiver campaigns on microfinance operations.

Influence of Loan Waiver Expectations on Repayment Behaviour

Expectations of loan waivers significantly influence borrower behaviour, especially in regions with high political mobilisation. When borrowers perceive the possibility of *karj mafi*, their repayment discipline weakens, leading to strategic defaults. MFIs, which traditionally maintain repayment rates above 95%, experience immediate repayment disruptions even when waiver announcements are unofficial or politically motivated.

Historical evidence substantiates this trend: during the 2010–11 microfinance crisis in Andhra Pradesh, repayment rates plunged from 95% to nearly 20% within months because borrowers assumed their loans would be waived by the government. Similar patterns have been observed in Bihar, Uttar Pradesh, and Karnataka during election cycles, where repayment rates dropped by 10–25% in certain districts.

Such behaviour is rooted in the belief that non-payment may lead to debt forgiveness, which diminishes the social pressure mechanism used in group-based microfinance models. Loan waiver negotiations, protests, and political speeches create a perception of entitlement to debt relief, ultimately weakening the ethical and economic motivations for timely repayment. As a result, even borrowers capable of repaying may postpone instalments, waiting for potential government intervention. This undermines the self-sustaining repayment culture on which MFIs rely.

Financial Implications for MFIs

For MFIs, repayment disruptions pose a severe financial threat because their credit model depends on consistent borrower cash flows. Unlike commercial banks, MFIs do not take collateral; therefore, repayment delays directly affect their liquidity. When *karj mafi* expectations spread, MFIs witness rising portfolio-at-risk (PAR), increased defaults, and a fall in recovery efficiency. A decline in repayments impacts three major financial indicators:

1. **Liquidity Position** – MFIs must continue meeting operational costs, such as staff salaries, loan disbursement expenses, and interest owed to lenders.
2. **Creditworthiness** – Higher default rates reduce their ability to secure funds from banks and investors.
3. **Operational Sustainability** – Reduced revenues hinder expansion into underserved rural areas.

According to the MFIN, even a 5% increase in default rates can reduce the net margin of small MFIs by 30–40%, pushing several institutions toward financial distress. Thus, loan waiver expectations do not merely disrupt repayment patterns; they threaten the viability of the entire microfinance ecosystem.

Regional Variations in Repayment Decline Due to Karj Mafi Movements

The impact of loan waiver campaigns varies by region depending on political activity, borrower vulnerability, and previous exposure to debt relief schemes. States with strong political campaigns, such as Uttar Pradesh, Maharashtra, Karnataka, and Punjab, show greater repayment fluctuations. Local protests, social media mobilisation, and political promises intensify these effects. In economically weaker districts—especially where agriculture is the main livelihood—borrowers are more likely to join debt waiver movements due to unstable incomes. The table 1 below presents showing repayment rate changes in selected states during years when *karj mafi* campaigns were prominent:

The analysis clearly demonstrates that *karj mafi* campaigns create widespread expectations of loan waivers, leading to repayment disruptions, increased default rates, and severe financial strain on MFIs. The resulting instability threatens the sustainability of microfinance operations and undermines the goal of financial inclusion.

Regional Variations in Repayment Decline Due to *Karj Mafi* Movements

The impact of loan-waiver (*karj mafi*) movements differs significantly across regions, influenced by the intensity of political mobilisation, borrower vulnerability, and earlier exposure to debt-relief schemes. States with strong political activity—such as Uttar Pradesh, Maharashtra, Karnataka, and Punjab—tend to exhibit sharper fluctuations in repayment behaviour. Local protests, social media activism, and electoral promises further amplify these effects, shaping borrowers' expectations of forthcoming waivers.

In economically weaker districts, particularly those dependent on agriculture, borrowers are more likely to participate in debt-waiver movements due to unstable and seasonal income patterns. This vulnerability increases the risk of repayment disruption whenever political narratives around *karj mafi* gain momentum. The table below presents repayment rate changes in selected states during the 2017–2019 period, when major *karj mafi* campaigns were prominently observed.

Table 1: Repayment Rate Decline During Karj Mafi Campaign Years

State	Repayment Rate Before Campaign (%)	Repayment Rate During Campaign (%)	Percentage Decline (%)
Andhra Pradesh	95	21	74
Uttar Pradesh	93	78	15
Bihar	92	70	22
Karnataka	96	81	15
Maharashtra	94	82	12

Source: MFI reports, State Economic Surveys (2017–2019), and loan-waiver policy documents.

The analysis clearly indicates that *karj mafi* campaigns generate widespread expectations of loan waivers, which subsequently lead to repayment disruptions, higher default rates, and financial stress on MFIs. Such instability threatens the long-term sustainability of microfinance operations and undermines broader financial-inclusion objectives.

Income Instability and High Rural Indebtedness

One of the strongest socio-economic drivers pushing borrowers toward *karj mafi* movements is the instability of rural income. In India, more than 85% of farmers are small and marginal, owning less than 2 hectares of land, which limits their productivity and earnings. According to NSSO data, nearly 40% of rural households are indebted, often relying on multiple sources of credit, including MFIs, informal lenders, and self-help groups. When incomes fluctuate due to crop failure, price crashes, or seasonal unemployment, borrowers struggle to maintain regular loan repayments.

Microfinance loans typically require weekly or monthly instalments, which impose pressure on households with irregular earnings. During periods of financial distress, borrowers perceive loan waiver campaigns as a form of economic relief. The presence of political leaders or activists promising debt forgiveness provides temporary hope to those whose daily survival is threatened. Thus, income instability, combined with pre-existing debt burdens, makes low-income borrowers highly receptive to *karj mafi* movements.

Moreover, rising agricultural input costs—such as seeds, fertilizers, and labour—have increased farmer dependency on credit. When the cost of cultivation rises faster than income growth, debt becomes unmanageable. In such environments, borrowers see loan waiver mobilization as a rational response to structural economic pressures rather than merely a political act.

Social Pressure, Group Dynamics, and Community Mobilization

Microfinance often operates using the Joint Liability Group (JLG) model, where 5 to 10 women form a group and collectively guarantee each other's loans. While this mechanism promotes repayment discipline, it also creates opportunities for collective resistance during times of distress. If even a small number of borrowers begin advocating for loan waivers, the message spreads rapidly within the group, influencing others to do the same.

Social pressure plays a dual role: it encourages timely repayment under normal conditions, but during loan waiver agitation, it fosters group-level solidarity against repayment. In districts where protests have taken place, women borrowers often join movements not because they individually reject repayment, but because their peers perceive non-payment as a form of empowerment or relief. The presence of social activists, village-level organizations, and political intermediaries' further fuels participation.

Additionally, cultural norms in many rural areas emphasize collective behaviour. When neighbours and community members participate in *karj mafi* rallies, individual borrowers feel compelled to join, fearing social isolation or criticism. Thus, group dynamics significantly shape participation in loan waiver campaigns.

Limited Financial Literacy and Misunderstanding of Loan Waiver Policies

Another critical socio-economic factor is the limited financial literacy among microfinance borrowers. Studies show that a large proportion of rural borrowers do not fully understand loan terms, interest rates, or the difference between microfinance loans and formal agricultural loans. This confusion makes them vulnerable to misinformation spread during political campaigns.

For instance, when state governments announce farm loan waivers worth thousands of crores, many microfinance borrowers mistakenly assume that their loans will also be included. Lack of clarity about eligibility criteria and loan categories leads borrowers to believe that non-payment may eventually result in debt cancellation. Political leaders often exploit this gap in knowledge, intentionally or unintentionally blurring the distinction between formal bank loans and microfinance loans.

Limited awareness also results in borrowers perceiving MFIs as exploitative, especially when interest rates appear high compared to subsidized banking loans. Misunderstandings encourage the belief that loan waivers are a justifiable corrective measure, thereby increasing participation in *karj mafi* movements.

Weak Enforcement of Credit Discipline and Political Interference

One of the major policy challenges faced by the microfinance sector is the weakening of credit discipline due to political interference. When political parties make public statements promising debt relief during election campaigns, it creates confusion among borrowers about repayment obligations. Even without official announcements, informal assurances influence borrower behaviour, leading to strategic defaults. MFIs operate without collateral, making them more vulnerable to repayment disruption.

The regulatory framework does not currently impose strict guidelines preventing political actors from influencing credit culture. As a result, borrowers often assume that non-payment will eventually force the government to offer loan waivers. This expectation is particularly strong in states where large farm loan waivers have been implemented. Therefore, inadequate policy safeguards against political disruption create long-term uncertainty and threaten the stability of the microfinance ecosystem.

Limitations in Regulatory Oversight and Monitoring Mechanisms

Although the RBI introduced a revised regulatory structure for microfinance in 2022, several gaps remain in monitoring borrower indebtedness, recovery practices, and credit exposure. Microfinance borrowers often take multiple loans from different lenders, including banks, self-

help groups, and informal sources. Even though the Credit Information Bureau (CIBIL) and microfinance credit bureaus track borrower profiles, duplication of loans persists due to incomplete reporting or gaps in data integration.

Weak monitoring leads to over-indebtedness, which increases the appeal of *karj mafi* campaigns among borrowers who feel trapped in debt cycles. Smaller MFIs, in particular, may lack the technological resources required for rigorous data reporting. Additionally, regulatory audits often occur after repayment crises emerge, rather than preventing them in advance. Thus, stronger real-time monitoring mechanisms and unified databases are needed to ensure effective supervision. Without robust oversight, loan waiver expectations continue to spread unchecked, making the sector vulnerable to repayment shocks.

Insufficient Policy Measures for Borrower Protection and Financial Literacy

A significant regulatory challenge lies in the limited emphasis on borrower protection and financial literacy. Although RBI and industry bodies like MFIN have issued guidelines on fair practices, many borrowers remain unaware of their rights, loan terms, or grievance redressal procedures. Low financial literacy makes them susceptible to misinformation about loan waivers, leading to unrealistic expectations regarding debt cancellation.

Furthermore, existing policies focus more on institutional regulation than on empowering borrowers with financial knowledge. Without proper awareness programs, rural borrowers often misunderstand the difference between state-sponsored agricultural loan waivers and microfinance loans, assuming both fall under the same category. This confusion intensifies during political campaigns and weakens repayment culture.

To ensure long-term sustainability, policies must address borrower awareness through structured financial education initiatives, transparent communication, and community-level training. Strengthening borrower protection frameworks would reduce the spread of loan waiver misconceptions and help rebuild trust between MFIs and borrowers.

Results and Discussion

1. **Effect of Loan Waiver Expectations on Repayment:** The study shows that *karj mafi* expectations significantly weaken repayment discipline. Borrowers often delay instalments during political mobilisation, assuming future waivers. Past crises—such as the 2010 Andhra Pradesh repayment collapse—demonstrate how quickly repayment behaviour deteriorates when waiver rumours spread.
2. **Financial Impact on MFIs:** Repayment disruptions harm MFIs' liquidity, raise Portfolio-at-Risk, and reduce their ability to borrow from banks. Even small increases in defaults substantially erode margins, threatening operational sustainability, especially for smaller MFIs.
3. **Regional Differences:** States with strong political activity (Andhra Pradesh, Uttar Pradesh, Bihar, Karnataka) show sharper repayment declines. Agricultural districts with unstable incomes are most affected. Andhra Pradesh recorded the highest fall (74%), confirming the role of regional vulnerability.
4. **Income Instability and Indebtedness:** High income volatility among small and marginal farmers, along with high rural indebtedness, drives participation in waiver campaigns. Borrowers view *karj mafi* as financial relief when crops fail or wages decline.
5. **Group Dynamics and Social Pressure:** Joint Liability Groups promote discipline under normal conditions but enable collective default during mobilisation. Group norms shift quickly when a few members advocate non-repayment, reinforced by community pressure.
6. **Low Financial Literacy:** Many borrowers misunderstand loan categories and assume agricultural waivers apply to microfinance loans. Limited financial knowledge makes them vulnerable to misinformation during elections, disrupting repayment routines.

7. **Regulatory and Political Weaknesses:** Political promises of loan waivers create confusion and strategic defaults. Gaps in borrower tracking and credit bureau data allow over-indebtedness, increasing susceptibility to waiver movements.
8. **Need for Better Awareness:** Stronger financial literacy, clearer communication of loan terms, and improved borrower protection frameworks are essential to counter waiver expectations and rebuild repayment culture.

The results show that *karj mafi* campaigns exert significant economic, social, and political influence on the microfinance sector. They disrupt repayment behaviour, weaken institutional viability, and threaten the long-term goals of financial inclusion. Addressing these challenges requires stronger regulatory oversight, borrower education, and community-level interventions.

Conclusion

The study concludes that *karj mafi* campaigns pose a significant challenge to the microfinance sector by weakening repayment discipline and creating widespread expectations of debt forgiveness. These movements, often driven by political mobilisation, misinformation, and socio-economic distress, directly disrupt the high repayment culture on which MFIs depend. The analysis shows that regions with unstable agricultural incomes, high indebtedness, and strong political activity experience the sharpest repayment declines. As a result, MFIs face increased portfolio risk, declining liquidity, and long-term threats to financial sustainability. Low financial literacy, group dynamics, and gaps in regulatory enforcement further intensify the problem. To safeguard microfinance operations and promote financial inclusion, there is a pressing need for stronger borrower awareness, improved credit monitoring, and clear policy measures that discourage political interference in repayment behaviour.

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