

A Study on Issues and Challenges of Micro Finance in India

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Abstract: *Micro finance institutions are playing a vital role in the alleviation of poverty in India. This paper mainly focuses on micro finance issues, challenges and problems discussed by various authors. It is found that micro finance is facing problems with regard to high interest rates, loan disbursement, and lack of awareness among individuals regarding micro credit. And it is concluded that government should support the micro finance institution financially and awareness programmes to be conducted.*

Key Words: *Micro Finance, Challenges, SHGs, Micro Credit.*

INTRODUCTION:

India is a developing country where full fledged development can be seen when it can abate poverty. Government of India has taken various steps regarding it, but in spite of various efforts, majority of population in India is still below the poverty line. Increasing financial inclusion has been long driven objective of financial sector in India, but the target of complete inclusion is still a isolated dream. It can be met only, when the financial services can be fully utilized by everyone including the poor. Micro finance is a way through which government is able to eradicate poverty which enables economic empowerment and inclusive growth. It aims at financing the poorest of the society who did not get any financial assistance from any banks. Micro finance helps in uplifting the low income groups and raises their standard of living. "Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services."

Micro finance institutions not only offer micro credit but also provide financial services like savings, insurance, remittance and other financial services like training, counseling and assistance to individuals to start their own business in the most convenient way. Micro finance in India operates through self help groups-bank linkage programmes and micro finance institutions.

SHG is a Bank led micro finance channel initiated in 1992 by NABARD. Women's are the member under the SHG Model who form groups of around 10-15. The members of the group contribute their savings in the groups periodically which form the base for banks to provide loans for these SHGs for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs and institutions like NABARD and SIDBI

Self help group bank linkage programmes, which is the largest microfinance programmes in the world, touches nearly 11 crore households through more than 87 lakhs SHGs with deposit of over Rs. 19500 crore and annual loan off take of more than rs.47000 Crore and loan outstanding of over rs.75500 crore (source NABARD status of Micro Finance in India 2017-2018 report).

Micro finance institutions are those institutions whose main business is to provide micro finance. A large number of organizations with varied size and legal form offer micro finance services. They work on the concept of joint liability group, which are informal group consisting of 5-10 members who come together for the purpose of availing bank loans.

2. OBJECTIVE OF THE STUDY:

- An exploratory study have been conducted about MICRO FINANCE in detail
- To study in detail about various micro finance channels, its challenges, problems and ways to overcome it.

3. LITERATURE REVIEW:

(Uppal, 2011) has analyzed micro finance of commercial banks considering SHGs has parameters and have revealed that inspite of many micro finance organizations it is not sufficient. It is suggested for starting awareness programmes in rural areas and also providing short term training programs to the unemployed youth. The paper also emphasized to

develop micro finance has qualitative program for enriching the lives of poorest of the poor in the context of globalize socio economic environment.

(Nasir, 2013) had aimed to provide a cost effective mechanism for providing financial services to the poor. It emphasized out the problems prevailing in the functioning of MFIs such as credit delivery practices, lack of product diversification, customer overlapping and duplications, consumption and individual loan demand with lack of mitigation measures, collection of savings/loans and high interest rate existing in micro finance sector. It was suggested for an exclusive regulation to regulate MFIs in India and provide training for the clients, and ensure the uniform distribution of micro financing in both rural and urban areas.

(Sayed & Trivedi, n.d.) had examined the impact of micro finance institutions on growth and development of small and medium enterprises and conducted a survey on 110 SMEs owners using statistical techniques. And found out that most of the respondents were satisfied with the products offered by MFIs and were able to expand their business and the study concluded that accessibility to the products offered by micro finance institutions had positive effects on the performance of Micro Enterprises.

(Sunitha, 2014) has studied the conceptual framework of micro finance institution in India, their types and benefits extended by MFIs, drawbacks and future prospects of it. It has been suggested that proper design and implementation of micro finance leads to provide sustainable development. It was found out that clients want and deserves a safe place to save their money and borrows money indefinitely at the most convenient places. It was observed that more effective and enduring development strategy of micro finance would lead to sustainable development strategy.

(Kartik Khandelwal) has studied prevailing market condition of micro finance and the procedure followed by micro finance institution in sanction of loans and the future prospects of it. For this an exploratory survey was conducted covering 50 different districts in the state of Maharashtra through questionnaire and was analyzed with the help of sampling techniques. It revealed that many were unaware regarding micro finance and the interest rates charges by it were very high. It was found that micro finance provided employment opportunities and reduced poverty rate. It was concluded that government should provide financial support for micro finance institution and awareness should be created regarding micro finance which would lead to the growth of the economy.

(Mahanta, Gitanjali Panda, & Sreekumar, 2012) has studied about the growth of microfinance in India and other countries, discussed the role of NABARD and other nationalized banks in growth of SHGs and Grameen Banks. It also discussed about framing legislation by the government for the protection of right of micro borrowers. And it suggested for providing skill based development training program and based on the special skills priority for lending micro credit should be considered. It was concluded that if government and MFIs are working together than poverty eradication can done through micro finance.

(Reddy & Shafi, 2017) has studied emerging trends in Indian micro finance due to impact of policy reforms, financial technology and banking initiations. An analysis has been done to know the effect of financial technology on micro finance sector with respect to usage of POINT OF SALES for payment transactions for this purpose statistically tool have been used and found that the usage of debit cards and credit cards has been increased after demonization. And interpreted that there is significant increase of MFI s clients on pos usages.

(Aggarwal, n.d.) has identified problems and issues of microfinance in India such as rate of interest, cost of promoting a group, regulations, high cost of funds, unequal distribution of micro finance, poor quality of SHGs. And suggested that government should play a vital role for the growth of micro finance and more schemes like Jan Dan should be launched so that banking services can be reached to every individual. It was also suggested to start special campaign to educate women about the benefits of microfinance and banks should be more professional into social banking system for poor. The paper also suggested that more transparency should be there in the functioning of MFIs, healthy competition reduce the cost of services among MFIs. In eradicating poverty in India micro finance plays a important role and this should be continued by providing timely, qualitative and low cost services to the poor people of the country.

(Mittal, 2016) has studied the importance of micro finance and current position of micro finance in India. Micro finance is an important tool for improving the standard of living of poor but the finance provided by is not sufficient. It was found that micro finance has a wider scope for development in India to achieve greater financial inclusion and growth of priority sectors which are unorganized. It was suggested that government should initiative awareness programmes regarding the benefits and availability of micro credit. Micro finance should be provided at a low interest rates and training should be provided for entrepreneurs for proper utilization of loans.

(Taruna & Yadav,2016) has studied some glaring issues, challenges faced by micro finance institutions in India. And it was concluded that micro finance is playing vital role in improving the standard of living of poor people .the success of micro finance can be known by the repayment rate of 98 % across the country which indicates that it would certainly help in reducing poverty. It has been found that inability to get sufficient funds is a major challenge for MFIs. Micro finance has encouraged the poor people by training and developing their skills.

3. RESEARCH METHODOLOGY:

It is an exploratory study conducted on the basis of findings, suggestions and conclusion of different journals, reports and magazines, in order to gain in depth knowledge on Micro finance in India.

4. FINDINGS:

From the study it is found that the finance provided by MFIs is not sufficient and government should give financial assistance and initiate setting up new MFIs. It is also found that many problems are being faced like credit delivery practices, lack of product diversification, customer overlapping and duplications, consumption and individual loan demand with lack of mitigation measures, collection of savings/loans and high interest rate existing in micro finance sector.

5. RECOMMENDATIONS:

An exclusive regulation to regulate MFIs should be initiated by the government. Awareness programmes should be conducted and appropriate skill based training should be given. More transparency should be there in functioning of MFIs. A more effective and enduring development strategy of micro finance would lead to sustainable development strategy. As micro finance is giving credit to poor people the rate of interest charged on it should be much less than the bank interest rate.

6. CONCLUSION:

Micro finance has been an important tool in the hands of the government for upliftment of poor section of the society by providing employment opportunities and developing their skills. Poverty can be eradicated from India if every individual makes the optimum utilization of micro finance services. Micro finance is growing at a faster phase in India but still some rural areas are untouched. Micro finance has vast opportunities to expand their business and develop in a country like India. Government should play an important role for the development and growth of Micro finance institutions in India.

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