

Emerging Challenges of Micro Finance in India

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ABSTRACT

Indian economy is characterized by low rate of growth, dominance of rural population, heavy dependency on agriculture. The last two factors poverty and unemployment create major challenges to the growth and wealth of the country. The newly developed sectors like micro finance are playing a vital role. Microfinance has been considered a powerful tool to fight poverty through the provision of basic financial services including savings, insurance, credit and transfer of funds. The objective of microfinance institutions is to serve poor people and enable them to access credit and fight poverty. It includes loans, savings, credit, insurance services, money transfer and other basic financial services to the economically weaker section of society. To ensure that micro finance products reach remote area and poor. It is considered as an effective tool for eliminating poverty in India. It provides credit and other financial services of small amount to the economically disadvantaged segment of society in urban as well as rural areas. Micro finance institutions include N.G.Os, Credit Unions, N.B.F.Cs. Cooperatives and banks. In India, the future of microfinance is largely depending upon the self-help groups (S.H.G.) in this study. This study is highlighted the current condition of Micro finance in India and its challenges and their solution.

1. INTRODUCTION

According to World Bank estimations there are about 7000 Microfinance institutions in the world. Micro finance institutions have been established to give financial aids to poor section of society. The objective of micro finance is not only giving small credit but also strengthen the economic condition of deprived sector of society. Micro finance includes services of credit, insurance, savings and other basic financial services to the poor. It also contains Non-financial services like training and counseling etc. Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are relationship based banking for individual entrepreneurs and small businesses; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Microfinance is a powerful tool to fight poverty. When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future. They invest in better nutrition, housing, health, and education. The loans are given for short period and without collaterals. Borrowers are from low income group and amount of loan is small. Micro-Finance has become the buzz word all over the World to improve the access of credit to unreached poor. Since the launching of the Pilot Project of Self-Help Groups(SHG) Bank linkage programme with a very modest target of 500 SHGs more than 19years back in 1992 by the National Bank for Agriculture and Rural Development(NABARD), much water has

flown and the MF programme in India has come up and established itself in its own right, both nationally and internationally. The SHG Bank linkage programme, evolved, promoted and supported by NABARD with 100%refinance support coupled with capacity building measures has registered an impressive growth.

2. OBJECTIVES OF THE STUDY

- To identify the problems of Microfinance in India
- To identify the issues in Microfinance in India
- To overcome the problems of Microfinance in India

3. METHODOLOGY OF THE STUDY

Secondary data has been used. Data has been collected from internet, books, journals and websites, various circulars of different government agencies etc.

SOURCES OF MICROFINANCE

- Formal institutions - i.e. rural banks and cooperatives
 - Semi-formal institutions - i.e. non-government organizations
 - Informal sources - i.e. money lenders
- Institutional microfinance includes microfinance services provided by both formal and semiformal institutions.

CHALLENGES OF MICRO FINANCE IN INDIA

RATE OF INTEREST

Uniform policy of rate of interest is not being followed. Generally, it has been observed that MFIs followed different pattern of charging interest rates and few one are also taking free deposits and additional charges. All this make the pricing very confusing and hence most of the borrowers feel incompetent in terms of bargaining power. Thus, a common practice for charging interest should be followed by all MFIs so that it makes the sector more competitive and the beneficiaries can easily make effective comparison of different financial products before buying.

The annualized effective interest rate (R) charged on loans will be a function of five elements, each expressed as a percentage of average outstanding loan portfolios: 2 administrative expenses (AE), loan losses (LL), the cost of funds (CF), the desired capitalization rate (K), and investment income

$$R = \frac{ae + ll + cf + k - ii}{1 - ll}$$

Each variable in this equation should be expressed as a decimal fraction: thus, administrative expenses of 200,000 on an average loan portfolio of 800,000 would yield a value of .25 for the AE rate. All calculations should be done in local currency, except in the unusual case where an MFI quotes its interest rates in foreign currency

PURPOSE OF LOANS

Loans should be for productive purposes. It should be for starting a business and for expansion of a micro business. It should be given to poor people only. It should not be mismanaged.

COST OF PROMOTING A GROUP

Self-help Groups requires an investment of both time and money. Someone has to incur the cost of promoting groups i.e. for organizing meetings, training the members. The estimate of this cost is controversial, with NABARD claiming it to be as low as Rs 1000 per group and NGOs saying it takes as much Rs 12,000

LACK OF CAPACITY TO PROMOTE

After the promotion of a group, these groups should be closely monitored to strengthen their internal capacity to undertake administrative tasks like accounting, meeting minutes, correspondence, and negotiations with bankers and commercial activities such as business start-ups, marketing, and reinvestment. The Self help group lack the required skills and local knowledge. Many groups have come collectively just because they want a credit. Insufficient attention to group quality could threaten the longer term reliability and feasibility of the whole program. Efforts are also needed to ensure the groups remain monetarily sustainable and have the capability to offset personal losses like accidents, illness, death and natural disasters.

REGULATIONS

The regulatory rules are hard. Many MFIs break rules. Only few do work as per R.B.I guidelines. Only a small number of Microfinance institutions are able in encouraging common savings among groups.

HIGH COST OF FUNDS

Huge Cost of funds for Indian MFIs has to be incurred unlike in Bangladesh and a number of other Countries. Indian MFI sector has not benefited from grants and subsidized funding.

UNBALANCED GROWTH OF SCHEME

Kisan Credit Cards issued by commercial banks, RRBs and cooperative banks are not truly credit cards. These cards are not distributed evenly.

UNEQUAL DISTRIBUTION OF MICRO FINANCE

As we know Microfinance has become a major channel in providing credit to poor for poverty reduction. But MFIs are not covering all deprived people. Also these have not covered all states so far in India. The main centre of attention of these institutions is to supply credit to the rural poor and less interest to urban poor. However, now-a-days urban poverty is very serious issue with increasing population and migration. There is a need to take more efforts to exploit the potential of microfinance in meager states like Bihar, Uttar Pradesh, Assam, and Jharkhand etc. NGOs and MFIs are more active in southern states than northern states. People are more

literate. The financial infrastructure, supportive culture is other reasons for their success. Government should also take more steps for creating effective banking structure in backward region. The poor section should be targeted without any difference in rural or urban poor

INSUFFICIENT FUND GENERATION

Insufficient funds generation by MFIs is also a major concern. Some NBFCs have generated funds through private equity investments which are for profit motive. These MFIs are restricted from taking public deposits. Many non profit MFIs have to primarily rely on donation and grants from government, NABARD and SIDBI etc. Banks are also a source of funds for these MFIs.

POOR QUALITY OF SHGS

Although there is huge growth in the quantity of SHGs in the last decade, but the quality has suffered a lot. The reasons for declining of quality are inadequate training to staff, misutilization of funds, less knowledge, staff shortage in financial institutions etc. There should be focus on Information and Technology for monitoring the working of SHGs.

EMPLOYEES TRAINING

Inadequate knowledge of working is also a major challenge. Staff should be given periodical training. They should have knowledge of all relevant issues. NABARD is promoting technical assistance for the staff of banks. A MIS should be developed to increase the efficiency of MFIs

REQUIRE APPROPRIATE INSPECTION

The chunk of credit is given to small businesses, housing loan, dairy, poultry farming, housing loan etc. They may mismanage the amount of loan. There should be appropriate system of inspection for proper utilization of credit. Periodical training should be imparted to the borrowers.

POLITICAL MEDDLING

Too much political interference in MFIs may harm their sustainable growth. Government should not make strict rules and regulations. In 2010, Andhra Pradesh Government has passed an Act, which includes a number of measures that greatly restricts MFIs workings. This Act of Andhra Pradesh Government has put a destructive impact on microfinance sector. Recent example of this can be taken from Andhra Pradesh crisis 2010. The act was passed on the basis of media and Government speculation that MFIs are earning huge profits by charging extraordinary high rate of interest. The media also highlighted extreme example of suicides linked to repayment stress. As a result of this Act loan repayment dropped dramatically and Andhra Pradesh which was the forefront of microfinance now became the home of one of the largest group of blacklisted creditors in the world. Thus, government should make a regulatory frame work to strengthen the microfinance movement rather than block innovation with rigid rules.

4. SUGGESTIONS

The success of MFIs in India is a big challenge for all concerns like Government, NGOs, SHGs, borrowers etc. India is a big country both in terms of population and area. But the chances, too, are big. Government should come forward in a manner to provide quick delivery of microfinance to the poorer and needed people. Healthy political environment should be created. Government should formulate acts as per requirement of different stakeholders of Microfinance. Microfinance must be provided as per the needs of small entrepreneurs. The quality of SHGs is a major factor for the success of Micro finance programme Government should check the group quality and of financial sustainability of MFIs. Microfinance has been treated as an important tool for Economic Development. The microfinance services should be reached to poor people of all areas for balanced growth. It is essential to engage this section of society in the economic mainstream to achieve balanced growth which is critical for the long term sustainability of social development and economic prosperity. Financial services should be distributed to people living in rural areas and lower income group for the social economic development. This will help in utilization of full potential of the nation's physical and human resources nation's physical and human resources.

5. CONCLUSION

The main objective of microfinance is to provide credit to poor so that they can improve their lives. Microfinance in India has helped a lot in upliftment of a number of poor people. The coverage of micro finance is uneven with large number of people in rural area still untouched. Government can play a vital role to create a supportive environment in which MFIs can flourish. All concerns should formulate a harmonized action plan to boost microfinance sector in India. Poor people are ignorant about the functions of MFIs. They should be given latest knowledge relating to microfinance services. Recently Government of India has launched a massive Jan- Dhan scheme for poor people. This scheme will help in providing banking services to every person. Huge response has been given by people to this scheme. Women can also play a vital role in the development of microfinance. Special campaign must be launched to educate women about the benefits of microfinance. Banks should be more professional into social banking system for poor. There should be transparency in the functioning of MFIs. Healthy competition among MFIs will decrease the cost of services. Microfinance is playing a very important role in eradicating poverty in India. This trend must be continued by providing timely, qualitative, low cost services to the poor people of all corners of the country

6. REFERENCES

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