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CHALLENGES OF MICRO FINANCE INSTITUTION IN FINANCIAL INCLUSION AND SOCIAL DEVELOPMENT

Social Science

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ABSTRACT

In the last two decades India has witnessed a whooping comprehensive, vigorous growth which has not only led for economic progress but also a cosmic social development especially in the areas of functional literacy, employment creation, empowerment of weaker sections, health care facilities, infrastructural development, rural and development through Micro Finance Institutions. It is said that services provided by the Micro Finance Institutions otherwise called as MFIs play a paramount role through financial inclusion in social development. MFIs in India are operated through NGOs, Cooperative Societies, Commercial Banks, Regional Rural Banks (RRBs) and other large lenders who provide financial services to the under privileged and needy with a affordable price. Streeshakti and Swashakti programmes were launched as part of promoting micro finance. The present study makes an attempt to understand the role of micro finance institution in the social development of weaker sections and challenges faced by them. The data is collected through secondary sources and a pertinent analysis is done in the interpretation of our findings.

Introduction

Milton Friedman quotes that "the poor stay poor not they are lazy but they have no access to the capital". This illustrates that a sizable population of the world particularly the Indian poor underprivileged, disadvantaged and vulnerable group of people does not have access to most basic financial services like a bank account, knowledge of financial transactions and financial services rendered by various MFIs. Financial empowerment accompanied with social empowerment is the prime basic need which in turn helps in the progress of our country. Micro Finance Institutions are the only one's equipped to reach the unbankable masses and make financial services access to them.

Financial inclusion is delivery of financial services like bank accounts, saving product. remittance and payment services, insurance, financial advisory services, entrepreneurial credit, micro finance and micro credit to the weaker section in rural and urban areas, also providing special care to the unemployed, women, old people , physically challenged people etc at an affordable cost.

Microfinance refers to broad range of financial services, primary credit, made available to people who don't have access to formal banking services. Normally these services would be required in areas with small population and ticket-size entailed would also be relatively smaller (factors makings presence available) facilitate the reach of financial services at a more micro level.

The development of microfinance in Karnataka dates back to 1984 when Mysore Resettlement and Development Agency (MYRADA) an nongovernmental organization (NGO) engaged in rural development promoted several co-operative societies that extended loans to their members later in the 1980s the National Bank for Agricultural and Rural development (NABARD) took the lead. After the launching of SHG-bank linkage programme (SBLP)in 1991-92 and under these programme the first micro credit was initiated by private Vysya Bank. NABARD scaled the programme by way of initiating a series of measures that include training of NGOs and bank staff. The Kavery Grammeena Bank of Mysore district became the first RRB in state to promote and credit-link several SHGs with state intervention.

Micro finance can be identified as provision of financial services such as savings accounts insurance funds and credit provided to poor and low income clients so as to help them their income. There by improving their stander of living.

Need for the study:

Financial inclusion in India is often closely connected to the aggressive micro credit policies. They were introduced without appropriate regulation, oversight or consumer education policies. The result was consumers becoming quickly over-indebted the point of committing suicide. Thus, it becomes pertinent to study or improvising these institutions in social development.

Objectives:

- To examine the role of financial institutions in social development
- To highlight the challenges faced by those financial institutions.

Methodology:

Secondary Data is collected from different sources like magazines, journals, Books, Newspapers, internet sources published or unpublished thesis.

Importance of microfinance institutions in social development:

Despite India boasting economic growth rates higher than most developed countries in recent years a majority of country's population still remains unbanked. Financial inclusion is a relatively new socio-economic concept in India that aims to change this dynamic by providing financial services at affordable costs to the underprivileged who might not otherwise be aware of or able to afford these services. Global trends have shown that in order to achieve inclusive development and growth the expansion of financial services to all sections of the society is at paramount importance. As a whole financial inclusion in the rural as well as financial backward pockets of cities is a win-win opportunity for everybody involved the banks NBFCs intermediaries.

As income levels and consequently savings in rural areas increase, it is essential to help earners manage their funds out going facilities incoming and outgoing payments. Allowing people to create simple no frills current and saving accounts relaxing KYC norms and directly crediting social benefits to account owners will bolster and inclusive approach to finance and banking in rural areas. In addition it also provides hassle free access to the financial services and product through formal sector with low rate of interest itself has a number of benefits of the poor.

It provides consumption as well as production loan without any collateral. It also enables SHG members to reap economic benefit out of mutual help, solidarity and joint responsibility. The programme also ensures long-term help from a promoting institution for number activities most notably the income generation activities. As SHGs are formed by economically poorer women with low level of capabilities to deal with bank Self-help group promoting institution (SHPI) play a critical role in the formation of SHG and their operations in the initial stages.

Poverty is the main cause of concern in improving the economic status of developing countries. A micro finance institution is an organization that offers financial services to low income population. Microfinance is increasingly being considered as one of the most effective tool of reducing poverty. Microfinance has a significant role in bridging the gap between the formal financial institution and the rural poor. The micro finance institutions (MFIs) accesses financial resources from the bank and other mainstream financial institutions and provide financial and support service to poor. MFIs the pivotal overseas organizations in each country that make individual microcredit loans directly to villages, micro entrepreneurs, impoverished women and poor families. An overseas MFI is like a small bank with the same challenges and capital needs confronting any expanding small venture but with the added responsibility of saving economically marginalized populations. Many MFI are credit worthy and well-run with proven records of success many are operationally self-sufficient.

Micro Finance challenges and issues:

Visions and Missions: It's often ridiculed that the social performance of MFIs is just a talk and not a walk. This means many of the MFIs are unable to fulfill their vision, mission goals and objectives. Though they boast of many dreams and plans buut when it comes to implementation they face lots of hurdles and obstacles. Thus the challenging task is bringing the goals to reality.

Interest rates and cost of delivery: Micro finance practitioners have long argued that such high interest rates are simply unavoidable because the cost of making each loan cannot be reduced below a certain level while still allowing the lender to cover costs such as offices and staff salaries. In recent years micro finance industry has shifted its focus the objective of lending capital available. To address the challenge of providing microfinance loans more affordably.

Out Reach: Reaching to every nook and corner of the country is indeed a herculean task . India is not only diversed in its culture but also spread of population. From densely populated to sparsely populated we can find variations. There has been a long-standing debate over the sharpness of the trade-off between outreach (the ability of micro finance institution to reach poorer and more remote people) and its sustainability. So reaching the people who are in isolated or remote areas frequently is the most challenging task as it's not easy to open MFIs in each and every place. But still these institutions should maintain the number of customers.

Development of Interpersonal relations: There is a clear wall between the top management and common people. Top management and board members lack the understanding of the common problems faced by the under privileged and the reasons can include language, caste and class, regional variations, cultural background etc from both the side that is management and common people. So the challenging task is improvement of interpersonal skills from both the sectors.

Infrastructural development: Human or financial or technological infrastructural development is an uphill task of the MFIs which are limited in access. In the growing demand for MFIs maintaining these are really a challenging task.

Gender Issues: Micro finance generally agrees that women should be primary focus service delivery. Evidence shows that they are less likely to default on their loans than men.. Micro finance's emphasis on female oriented lending is the subject of controversy as it is claimed that micro finance improves the state of women through an alleviation of poverty women it is argue that by providing women with initial capital they will be able to support themselves independent of men in manner which would encourage sustainable growth of enterprise and eventual self sufficiency.

Along with these there are many number of risk and challenges that MFis face in terms of frauds, staff turn over, credit risk, liquidity etc.

Suggestions:

For inclusive growth, besides financial inclusion, SHGs must strive for health inclusion, education inclusion, housing inclusion, legal inclusion and equity. Identification of unbanked districts and opening bank branches. There should be better interaction between bank official and SHG member and common men is essential. Transparency should be maintained in keeping records. Simplification of KYC norms.

Conclusion:

The international, national and regional level experiences clearly termed as inclusive for lack of sustenance. Finance is the key stimuli for growth leading to socio-politico outcomes. NGOs are vital functionaries in supporting and framing growth. They help in integration of the structured, semi-structured and unstructured systems in rural backgrounds of the underprivileged and downtrodden. Financial inclusion has reached the needy because of NGOs intervention. Moreover, NGOs participation results in inclusive growth by availing opportunities and choices to the underprivileged. Their initiative at the grassroots level has resulted in encouraging outcomes. Inclusive growth has become increasingly inclusive because of the contributions of NGOs. Hence, NGOs and inclusive growth are positive correlates in the growth process. However, transformation of the NGOs into MFIs can have better outcomes of inclusion.

Engineering of NGOs to MFIs can help in better addressing the needs of the underprivileged. Resource mobilization will be easier through more sources and investments can be made in a more professional manner. It will enthuse an era of professional management and responsible and accountable actions.

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