Original Research Paper

Volume-7 | Issue-9 | September-2017 | ISSN - 2249-555X | IF : 4.894 | IC Value : 79.96

FINANCE

MICRO FINANCE IN INDIA: CONTEMPORARY ISSUES AND CHALLENGES

V.Vijaya Lakshmi Asst.Professor in Management Studies G.Narayanamma Institute of Technology and Science, shaikpet, Hyderabad

T .Malathi Latha Asst.Professor in Management Studies G.Narayanamma Institute of Technology and Science, shaikpet, Hyderabad

ABSTRACT The term Micro Finance sometimes is used interchangeably with the term micro credit. Micro finance refers to Small savings, Credit and Insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation in India. The rapidly opening economy is widening the gap between the rich and poor. To have a sustainable life style along with saving and investment, micro finance allows the poor to get the loan that leads to financial independence and growth. Micro Finance is becoming a significant buzzword in India. Remarkable progress has been made during the last two decades in innovating techniques to deliver financial services to the poor on a sustainable basis. Economic growth, sustainable development and poverty alleviation can be achieved effectively with the help of an instrument like "Micro Finance". The potential for growing micro finance institutions in India is very high. There are several key issues in Micro finance in India which I would like to cover through this paper. The study explores some suggestions to make micro finance more effective. This paper will focus the challenges and suggestive measures for growth of Micro Finance in India for a sustainable development.

KEYWORDS : .Micro finance, MFIs, Poverty Alleviation, Challenges, Contribution

Introduction

Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognized that micro finance helps the poor people meet their needs for small credit and other financial services. The informal and flexible services offered to low-income borrowers for meeting their modest consumption and livelihood needs have not only made micro finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively. In the case of India, the banking sector witnessed large scale branch expansion after the nationalization of banks in 1969, which facilitated a shift in focus of banking from class banking to mass banking. It was, however, realised that, notwithstanding the wide spread of formal financial institutions, these institutions were not able to cater completely to the small and frequent credit needs of most of the poor. This led to a search for alternative policies and reforms for reaching out to the poor to satisfy their credit needs. The beginning of the micro finance movement in India could be traced to the self-help group (SHG) - bank linkage programme (SBLP) started as a pilot project in 1992 by National Bank for Agricultural and Rural Development (NABARD). This programme not only proved to be very successful, but has also emerged as the most popular model of micro finance in India. Other approaches like micro finance institutions (MFIs) also emerged subsequently in the country. Recognising the potential of micro finance to positively influence the development of the poor, the Reserve Bank, NABARD and Small Industries Development Bank of India (SIDBI) have taken several initiatives over the years to give a further fillip to the micro finance movement in India.

Objectives of the study

- To study the history of Micro finance and how micro finance has evolved in India.
- To examine the current status and growth of microfinance in India.
- To identify and study the major problems and challenges prevailing in micro finance in India.
- This paper attempts to give suitable suggestions to tackle those challenges.

Review of Literature

Nasir, Sibghatullah (2013) was of the view that the major disconnect in operations of MFIs were on account of credit delivery, lack of product diversification, customer duplications, financing consumption loan demand with less thrust on enterprise loans, collection of savings/loans and very high interest rate in micro finance sector; all of which are clear indicators that the situation is moving without any direction.

Chawla, Sonia (2013) analyzed that microfinance is one of the ways of building the capacities of the poor and developing them to self-employment activities by providing financial services. Creating self-employment opportunities through micro finance is one way of attacking poverty and solving the problems of unemployment. The micro finance movement has almost assume d the shape of an industry, embracing thousands of NGOs/MFIs providing financial and non-financial supports to the poor in an effort to lift them out of poverty. These institutions have assumed the responsibility of making available much needed micro credit to the poor section of the society for generating the self employment.

Mahanta, Padmalochan, Panda Gitanjali and Sreekumar (2012) opined that there are three distinct phases of microfinance. First, growth of microfinance in India and some other countries; second, contribution of NABARD and other Nationalized Banks in growth of SHGs and Grameen Bank and third, role of government in framing legislation for protection of rights of micro borrowers as well as regulation, development and guidance of the various MFIs and NGOs working in the field of microcredit.

Emerlson Moses (2011) has observed that micro finance has emerged as a catalyst of rural development, especially in the overpopulated countries like India.

Devraja T.S. (2011) has studied the India̎s achievement of the Millennium Development Goals of having the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy. In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial offers a ray of hope.

Methodology

This is a descriptive research paper based on secondary data. Secondary data are collected from various magazines, news papers, research articles, Journals, books, reports, and websites.

Models of Micro Finance Practices

The SHG-Bank Linkage Model

The predominant model in the India microfinance context continues to be the SHG linkage model that accounts for nearly 20 million clients. It started as an Action Research Project in 1989. Under this model, self help promotion institution usually a NGO, helps groups of 15-20 individuals through an incubation period after which time they are linked to banks. The SHG had proved their efficacy overtime but they suffer from a meager resource base which handicapped their capacity to expand the economic activities of their members. The factors received by the SHG members were the lack of information, time-consuming and expensive procedures for obtaining bank loans, rigid lending policies of the banks in respect of unit costs, unit sizes and

group guarantee for loans. There are three linking model in the country.

Model - I : SHG formed and financed by banks : In this model, the banks play dual role of promotion of SHGs and also provider of credit to SHGs.

Model - II : SHGs formed by formal agencies other than banks (NGOs and other) but directly financed by banks : In this model, the NGOs and other agencies have played the role of facilitator.

Model - III : SHGs financed by banks using NGOs and other agencies as financial intermediaries : In this model, the NGOs and other agencies play the role of financial intermediation.

Grameen Model

Potential clients are asked by the MFO to organize themselves into 'groups' of five members which are in turn organized into centers of around five to seven such groups. The loans for productive purposes are provided by the MFO directly to the members of small groups on the strength of group insurance. Grameen model is being followed by India by Association for Sarva Seva Farms (ASSEFA), Activities for Social Alternatives (ASA) and other financial and technical services limited.

Cooperative Model

This has been initiated by Cooperative Development Forum, Hyderabad which has relied upon a 'credit union' involving the saving first strategy. It has built up a network of Women Thrift Groups (WTGs) and Men Thrift Groups (MTGs). They are registered under Mutually Aided Cooperated Society Act (MACs) and mobilize savings resources from the members and access outside/supplementary resources from the individual system.

Partnership Model

The partnership model pioneered by ICICI Bank attempted to address the following key gaps :

- To separate the risk of the MFI from the risk inherent in the microfinance portfolio.
- To provide a mechanism for banks to incentivize partner. MFIs continually, especially in a scenario when the borrower entered into a contact directly with the bank and role of
- he MFI was closer to that of an agent.
- To deal with the inability of MFIs to provide risk capital in large amounts, this limits the advances from banks, despite a greater ability of the later to provide implicit capital.

In this model, the MFI collect a service charge from the borrowers to cover its transaction costs and margins. The lower the defaults, the better the earnings of the MFI as it will not incur any penalty charges vis-a-vis the guarantee it.

Asmitha: Provides rural women access to financial resources in the form of collateral free small loans for income generation and livelihood promotion. This enables them to set-off small start up business as a result, low-income women become economic agents intrinsic to development rather than simply home workers.

Bandhan: Bandhan was set up to address the dual objective of poverty alleviation and women empowerment. The microfinance activities are carried on by Bandhan Financial Services Pvt. Ltd. (BFSPL), incorporated under the companies Act, 1956 and also registered as a Non-Banking Financial Company (NBFC) with the Reserve Bank of India.

Cashor India: The mission is to identify and motivate poor women in the rural area and deliver financial services to them.

Hand in Hand: It is a development organization whose objective is to eliminate poverty by creating enterprises and jobs. Focusing on help self-help, we take a holistic approach that combines microfinance and support for women to start enterprises with work in four other areas that matter most to poor communities: education and child labour elimination, health and sanitation, a sustainable local environment and information technology access.

Microfinance Institutions

Microfinance institutions (MFIS) are the organizations or association of individuals that provide financial services to the poor. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. In India there is a wide range of such organizations with diverse legal forms, varying significantly in size, outreach, mission and credit delivery methodologies.

Challenges of Microfinance and MFIs in India

(a) Regional Disparity
(b) Deserving Poor are still not reached
(c) Limited Spread in Poorer States
(d) High Interest Rates
(e) Low Outreach
(f) Lack of Insurance Services
(g) Binding of Saving, Meetings and Regular Payments
(h) Legal structure and regulation
(i) Financial illiteracy
(j) Inability to generate sufficient funds
(k) Dropouts and Migration of group members
(l) Transparent Pricing
(m) Cluster formation – fight to grab established market
(n) Negligence of Urban Poor.
(o) Low Education Level
(p) Debt Management
(q) Unregulated Microfinance Institutions
(r) Client Retention

Measures to Overcome Challenges

The following are some measures to overcome the challenges faced by MFIs in providing microfinance services to have a sustainable development.

1. Proper Regulation

When the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models, the need for a regulatory environment was not a big concern. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment is needed that protects interest of stakeholders as well as promotes growth.

2. Field Supervision

In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will keep an eye on the performance of ground staff of various MFIs and their recovery practices. This will also encourage MFIs to abide by proper code of conduct and work more efficiently. However, the problem of feasibility and cost involved in physical monitoring of this vast sector remains an issue in this regard.

3. Encourage Rural Penetration

It has been seen that instead of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending. This will also increase rural penetration of microfinance in the state.

4. Complete Range of Products

MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people don’t have access to banks, providing a complete range of products will enable the poor to avail all services.

5. Transparency of Interest Rates

As it has been observed that, MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid). All this make the pricing very confusing and hence the borrower feels incompetent in terms of bargaining power. So a common practice for charging interest should be followed by all MFIs so that it makes the sector more competitive and the beneficiary gets the freedom to compare different financial products before buying.

6. Technology to Reduce Operating Cost

MFIs should use new technologies and IT tools & applications to reduce their operating costs. Microfinance institutions should be encouraged to adopt cost-cutting measures to reduce their operating costs. Also initiatives like development of common MIS and other software for all MFIs can be taken to make the operation more transparent and efficient.

7. Alternative sources of Fund

In absence of adequate funds the growth and the reach of MFIs become restricted and to overcome this problem MFIs should look for other sources for funding their loan portfolio. Various alternative sources of fund for the MFIs may be by getting converted to for-profit company i.e. NBFC, Portfolio Buyout, and Securitization of Loans etc.

Conclusion

Highlighting the importance of Microfinance plays a crucial role in building confidence and improvement in small saving. To obtain sustainable development there must be continued growth and diversification of the rural economy. All segments of the population including farmers, rural micro-entrepreneurs and the poor should have easy access to the sustainable financial services such as savings, credit and Insurance provided by self-reliant, sustainable financial institutions. Microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programmes. Policies could be more appropriately designed if they took into consideration the differential impact of microfinance on women and men. If the above shortcomings will be eliminated from the MFIs, it would have positive results on the economy, lead to greater efficiency and improvement of living of the thousands of poor.

References:

1. Beils Sehdev Krishnan and Naleeni Ramawat(2016).Microfinance and its Impact on Living Standard of Urban poor, International Journal of Current Research and Academic Review,4(6),68-76.
2. Chawala, Sonia(2013).Micro Finance: A Tool for Poverty Alleviation", International Jouranal of Research Economics & Social Sciences, 3(1),157-167.
   Devraja, T.S. (2011). Micro finance in India- A Tool for poverty reduction, Working Paper University Grant commission, India.
3. Ekta Puri(2014).Development and Innovations in the area of Microfinance in Rajasthan, International Interdisciplinary Research Journal, 4(6),84-89.
4. Kumar, Manish, Bohra, N.S., Johari, Amar. (2010). Micro-Finance as an Anti Poverty Vaccine for Rural India, Int. Rev. Business and Finance, 2(1), 29–35.
5. Mahanta, Padmalochan, Panda, Gitanjali, Sreekumar.(2012). Status of microfinance in India - A review, Int. J. Marketing, Financial Services & Management Res., 1(11).
6. Nasir, Sibghatullah.(2013). Microfinance in India: Contemporary Issues and Challenges, Middle-East J. Scientific Res., 15(2), 191-199.
7. Sanjeeb Kumar dey(2015),Challenges & Issues of Microfinance in India, Journal of Economics and Sustainable Development,6(7),195-198.
8. Seema Sangwan(2015). Micro finance: Challenges and Contribution in poverty alleviation,International Journal of Applied Research,1(4),161-164.
9. Sibghatullah Nasir(2013), Microfinance in India: Contemporary Issues and Challenges, Middle-East Journal of Scintific Research, 15(2),191-199.
10. S.L.Gupta,Shahid Akther Ansari(2014),Status of Microfinance and Its Delivery Models in India,IJAFMR,4(4),13-24.
11. Nikita(2014),An Analysis of Performance of Micro Finance in India,IJMRR,4(7),715-721.
12. Roy, Satyajit. (2011). Microfinance in India: An Overview of Microfinance and SWOT Analysis of Microfinance. SSRN.http://dx.doi.org/10.2139/ssrn.1 747874.
13. Vipin Kumar,Monu Chauhan,Ritesh Kumar(2015),An Overview of Microfinance in India,Abhinav National Monthly Referred Journal of Research in Commerce & Management,4(10),19-26.
14. W.A.Wijewardena(2009), Microfinance: Issues in the Current Context, Seminar on Microfinance Services in Sri Lanka,29th June,2009.