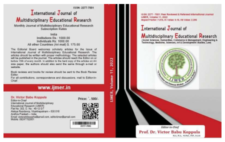

Cover Page

DOI: http://ijmer.in.doi./2022/11.11.68
www.ijmer.in

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY EDUCATIONAL RESEARCH
ISSN:2277-7881; IMPACT FACTOR :8.017(2022); IC VALUE:5.16; ISI VALUE:2.286
Peer Reviewed and Refereed Journal: VOLUME:11, ISSUE:11(4), November: 2022
Online Copy of Article Publication Available (2022 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd November 2022
Publication Date:10th December 2022
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf

MICROFINANCE INSTITUTIONS IN INDIA - PROBLEMS AND PROSPECTS

Dr. Md Sadat Shareef
Associate Professor of Commerce
Directorate of Distance Education, Maulana Azad National Urdu University
Gachibowli, Hyderabad, Telangana, India

Abstract

The importance of microfinance in the developing countries like India cannot be undermined it play a vital role for socio-economic upliftment of poor and low income peoples. Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socio- economic development. Hence Microfinance can play a vital role for improving the standard of living of poor. The economic development of any country is severely influenced by the availability of financial services. Microfinance is the form of a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to the poor and low income individuals. A well-developed financial system promotes investment opportunities in an economy. Therefore, it is necessary that govt. of India have to focus on extending financial services to both rural and urban to ensure sustainable and inclusive growth. The functioning of Microfinance institutions in India is playing an important role in rural areas since last two decades. The central government and RBI should take necessary measurements to sustain the growth of the microfinance sector in India. The concern state governments also take necessary measurements to create awareness among people to use the services of Microfinance institutions to strengthen their Economic status and improve their livelihood.

Keywords: Microfinance, MFIs, Poverty Alleviation, Sustainable Growth, Human Capital, Regulations, Policies of Microfinance, Sustainability.

INTRODUCTION
STATEMENT OF THE PROBLEM

"Microfinance stands as one of the most promoting and cost effective tools in the fight against global poverty"
Jonathan Morduch

From the time of independence unemployment and poverty has been two major characteristics and challenges of India. The major cause for the above two has been the unavailability of sufficient credit facilities for the poor and unemployed. These two factors have become the most challenging roadblock in the path of sustainable development of the country. The rapidly opening economy is widening the gap between the rich and poor. To have a sustainable life style along with saving and investment, microfinance allows the poor to get the loan that leads to financial independence and growth. The poor use these loans in a productive manner to create their businesses, assets of their own and get rid of poverty once and for all. Microfinance 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. These loans are aimed at empowering the impoverished people to start their own businesses and to grow their money so that they can achieve long-term financial independence and develop sustainably. Economic growth, sustainable development and poverty alleviation can be achieved effectively with the help of an instrument like Microfinance. This paper will focus the challenges and suggestive measures for growth of microfinance in Indian context for a sustainable development.

Microfinance is one of the most visible innovations in anti-poverty policy in the last half-century, and in three decades it has grown radically. The most important benefit of microfinance in India is that it helps long-term financial independence in these poverty-stricken areas. Microfinance help sustained impact by educating recipients on how to create their own businesses and how to properly manage and grow their money. There is a rapid growth in the strength of microfinance in India and several other countries. Undoubtedly it has been successful in bringing formal financial services to the poor. People believe that it has provided money to the poor families and it has the strength to increase investments in health, education and empowerment of women. Microfinance institutions (MFIs) have created a massive social infrastructure uniquely positioned to reach millions of clients on a regular basis. Microfinance is no more a financing channel but it has also emerged as a strong distribution channel with numerous credit products, repayable over a longer period of time, and solar lamps, fuel-efficient stoves are some of them. In the last two years, many companies are manufacturing solar products with microfinance distribution channel to sell their products.

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY EDUCATIONAL RESEARCH
ISSN:2277-7881; IMPACT FACTOR :8.017(2022); IC VALUE:5.16; ISI VALUE:2.286
Peer Reviewed and Refereed Journal: VOLUME:11, ISSUE:11(4), November: 2022
Online Copy of Article Publication Available (2022 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd November 2022
Publication Date:10th December 2022
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf
Cover Page
DOI: http://ijmer.in.doi./2022/11.11.68
www.ijmer.in

There are many areas where slow or negative growth is seen especially in the rural areas. There may be improvement in terms of GDP and in HDI, but the overall development of the country is still under the curtains. The benefits of development have distributed unevenly between rich and poor nations and between rich and poor groups in individual nation. The global number of extremely poor and under nourished have remained high and in some societies it has increased. One of the major negative impacts of development has been on the environment and on existing social structure. Many traditional societies and villages have been devastated by development of forest, water system and intense of fisheries. Environmental damage of development, if unchecked, may undermine the achievement of development and even collapse of essential ecosystem. The growing awareness of the challenges to traditional development thinking has led to the increasing acceptance of a new concept of development i.e. sustainable development.

Many poor in the world don't have access to basic financial services which are helpful in managing their assets and create income. They need access to borrowings, savings and investment to eradicate their poverty. Microfinance is one of the ways of fighting poverty in rural areas, the place where most of the world's poorest people live. It provides funds, insurance, savings and other ancillary financial services within the reach of the poor. Through microfinance institutions (MFIs) such as financial non-governmental organizations, commercial banks and even credit unions, poor people can fulfill their requirement of small loans and safeguard their savings.

Microfinance is not a new concept. It dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. Over the past two decades, various development approaches have been devised by policymakers, international development agencies, non-governmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which have become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Johnson and Rogaly, 1997). According to the records of World Bank, India falls under low income class. It is second populated country in the world. 70 percent of its population lives in rural area. 60% of people depend on agriculture; as a result, rate of underemployment is high. Rural people have very low access to institutionalized credit (from commercial bank). Since 1990s, poverty reduction has taken priority at both national and international development levels. Within this framework, various initiatives have been taken by government. Microfinance has caught the attention as an effective tool for poverty reduction and socio- economic development. Hence Microfinance can play a vital role for improving the standard of living of poor. Microfinance is being considered as one of the successful instrument used to decrease the destitution and sexual orientation imbalance through ladies strengthening, to reinforce the weaker groups in creating nations. India is a country loaded with both, enormous riches and neediness. Neediness in India is far reaching and is predominant in about each city. The dissimilarity between the rich and poor is colossal, with the rich living luxuriously and the poor living on the streets and not having the capacity to nourish them. Moreover, India is loaded with regional, cultural and financial contrasts (Datta and Kornberg 2002, 87). India's poor make up 33% of the world's poor (Novogratz 2009, 254). The numbers demonstrate that in 1997 "35% of the Indian populace (with 37% in rustic regions and 31% in urban territories) was living underneath the poverty line" (Lazar 2008, 11). While the numbers have diminished, a fourth of the Indian populace is still in destitution. A valid example "India makes up 15% of the total populace and 27% of its one billion individuals were underneath the neediness line in 2001" (Premchander 2009). There is a distinction in the quantity of needy individuals living in the urban communities contrasted with those living in country regions; a few investigations demonstrate that there are around "240 million rustic poor and 72 million urban poor in India" (Lazar 2008, 11). In India, the beginning of microfinance movement could be traced to Self Help Group (SHG) – Bank Linkage Program (SBLP) started as a pilot project in 1992 by NABARD. This program proved to be very successful and has also developed as the most popular model of microfinance in India. The regulatory framework for microfinance in India is not unified. Microfinance is provided by commercial banks, Regional Rural Banks (RRBs), the SHG's, cooperative societies and institutions (MFIs) that take various forms, including those of NGO's and Non-Bank Financial Institutions (NBFI's). Banks and NBFI's are governed by the Reserve Bank of India (RBI), SHGs are regulated by NABARD, and the cooperatives are governed by Registrar of Cooperative Societies (RCS) etc. At least in India, there does not seem to be any working model of analyzing the financial performance and thereby sustaining of microfinance institutions. This problem is compounded by the lack of a committed legislation on working and management of microfinance institutions. The lack of a regulatory mechanism for financial disclosures by microfinance institutions also abets the problem. The present study is an attempt to study the importance of microfinance and to analyze the performance of microfinance institutions operating in India. It assumes significance because it is imperative that these institutions be run efficiently given the fact that they are users of marginal and scarce capital and the intended beneficiaries are the marginalized sections of society. MFIs must be able to sustain themselves financially in order to continue pursuing their lofty objectives, through good financial performance.

Cover Page

DOI: http://ijmer.in.doi./2022/11.11.68
www.ijmer.in

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY EDUCATIONAL RESEARCH
ISSN:2277-7881; IMPACT FACTOR :8.017(2022); IC VALUE:5.16; ISI VALUE:2.286
Peer Reviewed and Refereed Journal: VOLUME:11, ISSUE:11(4), November: 2022
Online Copy of Article Publication Available (2022 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd November 2022
Publication Date:10th December 2022
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf

OBJECTIVES OF THE STUDY

The broad objective of the study is to analyze the challenges and issues of microfinance in India. However the paper also throws some light on the following issues:

- Microfinance and MFIs: its present context
- Challenges faced by the MFIs
- Sustainable development through microfinance
- Suggestive measures to tackle those challenges.

RESEARCH METHODOLOGY:

The present study is a descriptive study. This study is mainly based on secondary data only. Secondary data is collected from various sources like journals, magazines and reports. So, trueness of the data depends on the trueness of the source.

SUSTAINABLE DEVELOPMENT:

The most common definition of sustainable development refers to a pattern of resource use that "meets the needs of the present without compromising the ability of future generations to meet their own needs" (1987 UN World Commission Report). The term broadly encompasses a number of inter-related global issues such as poverty, hunger, inequality, and degradation of environment.

In the extensive discussion of the concept of sustainable development since then, there has been recognition of three aspects of sustainable development: economic, environment and social. An economically sustainable system must be able to produce goods and services on a continuing basis to maintain manageable levels of government's internal and external debt and to avoid unhealthy sectorial imbalance which damage agriculture or industrial production.

MICROFINANCE: PROBLEMS AND PROSPECTS

Micro Finance may be defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and institutional initiatives of rural credit and to the improve living standards". At present, a large part of micro finance activity is confined to credit only. Women constitute a vast majority of users of micro-credit and savings services. Microfinance is the supply of loans, savings, and other basic financial services to the poor. (http://cgap.org)As these financial services usually involve small amounts of money - small loans, small savings, etc. - the term "microfinance" helps to differentiate these services from those which formal banks provide. The poor rarely access services through the formal financial sector. They address their need for financial services through a variety of financial relationships, mostly informal.

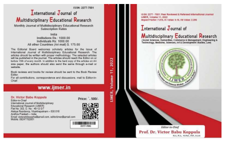
Microfinance is provided through Microfinance Institutions (MFIs). To be sustainable, MFIs ultimately have to:

- Organize their own resources through savings and equity, enhanced by other domestic resources Recover their loans
- Cover their costs from their operational income Finance their expansion from their profits
- Acquire an appropriate legal status
- Submit to appropriate regulation and super- vision

CHALLENGES OF MICROFINANCE & MFIs IN INDIA

Poor people do not live in a static environment of poverty. Many millions of people get out of poverty by successfully embracing new farming technologies, investing in new business opportunities, or by locating new jobs. At the same time, large numbers of people fall back into poverty due to financial setbacks, health problems, and other shocks. If available at critical moments, effective tools for savings, payment, credit, and insurance can help households capture an opportunity to climb out of poverty or weather a crisis or emergency without falling deeper into poverty.

Worldwide, approximately 2.5 billion people do not have a formal account at a financial institution, according to the World Bank's Global Financial Inclusion Database. As a result, most poor households operate almost entirely in the cash economy, particularly in the developing world. This means they use cash, physical assets (such as jewelry and livestock), or informal providers (such as money lenders and payment couriers) to meet their financial needs—from receiving wages to saving money for fertilizer. However, these informal mechanisms tend to be insecure, expensive, and complicated to use. And they offer limited recourse when major problems arise, such as a serious illness in the family.


Cover Page

DOI: http://ijmer.in.doi./2022/11.11.68
www.ijmer.in

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY EDUCATIONAL RESEARCH
ISSN:2277-7881; IMPACT FACTOR :8.017(2022); IC VALUE:5.16; ISI VALUE:2.286
Peer Reviewed and Refereed Journal: VOLUME:11, ISSUE:11(4), November: 2022
Online Copy of Article Publication Available (2022 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd November 2022
Publication Date:10th December 2022
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf

Following are some issues in MFIs in providing microfinance which become a challenge for them and ultimately pausing sustainable development:

Low Outreach: In India, MFI outreach is very low. It is only 8% as compared to 65% in Bangladesh.

High Interest Rate: MFIs are charging very high interest which the poor find difficult to pay.

Negligence of Urban Poor: It has been noted that MFIs pay more attention to rural areas and largely neglect the urban poor. Out of more than 800 MFIs across India, only six are currently focusing their attention on the urban poor.

Client Retention: Client retention is an issue that creates a problem in growing the MFIs. There is about 28% client retention in the MFIs.

Loan Default: Loan default is an issue that creates a problem in growth and expansion of the organization because around 73% loan default is identified in MFIs.

Low Education Level: The level of education of the clients is low. So, it creates a problem in the growth and expansion of the organization because its percentage is around 70% in MFIs.

Language Barrier: Language barrier makes communication with the clients (verbal and written) is an issue that creates a problem in growth and expansion of the organization because around 54% language barrier has been identified in MFIs.

Late Payments: Late payments are an issue that creates a problem in growth and expansion of the organization because late payments are around 70% in MFIs.

Geographic Factors: The Geographic factors make it difficult to communicate with clients of far-flung areas which create a problem in growth and expansion of the organization. MFIs are basically aimed to facilitate the BPL population of the country but due to lack of infrastructure in those areas it becomes difficult to reach them.

Debt Management: Clients are uneducated about debt management. 70% of the clients in MFIs are unaware

Of the fact that how to manage their debt.

Table: Factors Contributing to Slow Growth of Microfinance

Internal Factors	**External Factors**
High Transaction Cost	Uneven Population Density
Lack of access to Funding	Regional Disparity
Loan Collection Method	Deserving Poor are Still not Reached
Fraud	Low Depth of Outreach
	Unregulated Microfinance Institutions
	Lack of Insurance Services

Source: Compiled from collected data

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.

Cover Page

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY EDUCATIONAL RESEARCH
ISSN:2277-7881; IMPACT FACTOR :8.017(2022); IC VALUE:5.16; ISI VALUE:2.286
Peer Reviewed and Refereed Journal: VOLUME:11, ISSUE:11(4), November: 2022
Online Copy of Article Publication Available (2022 Issues)
Scopus Review ID: A2B96D3ACF3FEA2A
Article Received: 2nd November 2022
Publication Date:10th December 2022
Publisher: Sucharitha Publication, India
Digital Certificate of Publication: www.ijmer.in/pdf/e-CertificateofPublication-IJMER.pdf

DOI: http://ijmer.in.doi./2022/11.11.68
www.ijmer.in

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 aneye 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.

Summing Up

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 sustainable financial services such as savings, credit and insurance provided by self-reliant, sustainable financial institutions in a conductive macroeconomic policy environment and development of MFIs. Sustainable rural microfinance requires local initiative and careful donor support for the development of institutions, enabling them to offer both savings and credit services, mobilise their own resources, have their loans repaid, cover their costs from their operational income, and finance their expansion to the poor and non-poor from their profits.

References

1. Basheer, M. (2013). What Does Sustainable Development Really Means? - A Study on Different Dimensions of Sustainability. IJRCM, 3(10), 114-116.
2. Devaraja, T.S., 2011. "Microfinance in India - A Tool for Poverty Reduction"
3. Ehsan, Nadia, (December 2011), "Issues in the growth of Micro Finance Banks: Impact of Customer, Internal and External Environment", Interdisciplinary Journal of Contemporary Research in Business.' 3: 8.
4. Emerlson Moses, 2011. in his study "An Overview Micro Finance in India", International Referred Research Journal, RNI-RAJBIL 2009/29954.VoL.III
5. Microfinance – Current Status and Growing Concerns in India http://www.iitk.ac.in/ime/MBA_IITK/avantgarde/?p=475
6. Microfinance and Its Delivery Models. StudyMode.com. Retrieved 08, 2007, from http://www. study mode.com/essays/Microfinance-Its-Delivery-Models-119718.html
7. Sarumathi, S. and K. Mohan, 2011. in their paper "Role of Micro Finance in Women's Empowerment", Journal of Management and Science, 1(1): 1-10
8. Srinivasan, N., 2009. Microfinance India State of the Sector Report 2008, Sage Publications, New Delhi.
9. Sriram, M.S. and R.S. Upadhyayula, 2004. The transformation of the microfinance sector in India: experiences, options and future. Journal of Microfinance, 6(2): 89-112.
10. Vijayaragavan, T. (2013). Microfinance: A Sustainable Tool for Economic Growth. IJRCM, 3(06), 89-91