



A STUDY ON ISSUES AND CHALLENGES OF MICRO FINANCE IN INDIA

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Abstract: Since independence, unemployment and poverty have been two of the most important characteristics and challenges of India. The main reason for the above was the lack of sufficient credit opportunities for the poor and unemployed. These two factors have become the most difficult obstacle to the sustainable development of the country. A rapidly opening economy widens the gap between the rich and the poor. Combined with saving and investing for a sustainable lifestyle, microfinance enables the poor to access credit that leads to financial independence and growth. The poor use these loans productively to start their own business, own finances and get out of poverty once and for all. Microfinance is becoming a big buzzword in India. Over the last two decades, significant progress has been made in developing innovative technologies to deliver financial services to the poor in a sustainable manner. The purpose of these loans is to enable the poor to start their own business and grow money to achieve long-term financial independence and sustainability. Economic growth, sustainability and poverty alleviation can be effectively achieved through a tool such as microcredit. This article focuses on the challenges and initiatives to scale up microcredit in the context of sustainable development in India.

Keywords: Microfinance, financial institutions, poverty reduction, sustainable economic growth.

I. INTRODUCTION

One of the most prominent anti-poverty policy innovations of the past half century is microfinance, which has expanded dramatically over the past three decades. The primary benefit of microfinance in India is that it assists these unfortunate regions with accomplishing monetary autonomy over the long haul. Microfinance accomplishes practical effect by preparing recipients to begin their organizations and oversee and develop cash appropriately. India and several other nations are experiencing rapid expansions in the strength of microfinance. It was unquestionably successful in providing poor people with formal financial services. Individuals accept it has enabled cash to unfortunate families to increment interest in well-being, training, and ladies' strengthening. Microfinance foundations (MFIs) have constructed an enormous social framework that is exceptionally situated to arrive at a huge number of clients consistently. Microfinance is no longer just a way to get money, but also a strong distribution channel with a lot of credit products that require longer repayment terms. Time and sun-oriented lights, and burning effectiveness ovens are some of them. In the beyond two years, many organizations have created sun-oriented items through the dissemination channel of microcredit to sell their items.

There are numerous regions where slow or negative development is seen, particularly in provincial regions. Gross domestic product and HDI might be improving, however, the general advancement of the nation is still in the shadows. The benefits of development aren't shared equally among rich and poor nations and groups of rich and poor people in individual nations. Universally, the quantity of exceptionally poor and malnourished individuals stayed high and in certain social orders expanded. One of the main adverse consequences of improvement was on the climate and the current social construction. The expansion of forests, the presence of water bodies, and an abundance of fishing have all resulted in the demise of numerous traditional villages. The natural harm of improvement, on the off chance that not contained, can sabotage the accomplishment of advancement and even lead to the breakdown of a significant environment. Developing consciousness of the difficulties of customary improvement thinking has prompted developing acknowledgment of the idea of new turn of events, or maintainability.

II. STATEMENT OF THE PROBLEM

Financial services that can assist poor people in managing their assets and earning money are often out of reach for many of them. To end poverty, they need loans, savings, and investments. Microfinance is one of the ways of battling neediness in provincial regions, where a large portion of the world's least fortunate individuals live. It gives finance, protection, investment funds, and different administration support to the monetary areas that are available to poor people. Through microfinance foundations like non-administrative monetary associations, business banks, and even credit social orders, the poor can meet their little credit needs and secure their reserve funds.

III.OBJECTIVES OF THE STUDY

The broader objective of the study is to analyze the challenges and issues related to microfinance in India. However, the paper also sheds light on the following topics:

- Microfinance and IMFs: Its Current Context
- Challenges facing financial institutions
- Sustainable development through microcredit
- Proposals to address these challenges.

IV.RESEARCH METHODS

This study is a descriptive study. This study is mainly based on secondary data only. Secondary data is collected from various sources such as newspapers, magazines and reports. Thus, the accuracy of the information depends on the truthfulness of the source.

SUSTAINABLE DEVELOPMENT

The most common definition of sustainability 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 covers a number of interconnected global problems such as poverty, hunger, inequality and environmental degradation. Since then, the broad discussion of the concept of sustainability has recognized three aspects of sustainability: economic, environmental and social. An economically sustainable system must be able to continuously produce goods and services to maintain a manageable level. reduce the country's internal and external debt and avoid unhealthy sectoral imbalances that harm agriculture or industrial production.

MICROFINANCE: AN OVERVIEW

Microcredit can be characterized as "the arrangement of reserve funds, credit, and other monetary administrations and items in tiny sums to the poor in provincial, semi-metropolitan or metropolitan regions to build their pay and institutional drives to further develop credit and expectations for everyday comforts in country regions.; At the moment, most microcredit activities are restricted to credit only. The majority of people who use savings and microcredit services are female. Microfinance is the arrangement of advances, investment funds, and other fundamental monetary administrations to poor people. (<http://cgap.org>) Since these financial services typically involve low sums of money, such as low loans, low savings, etc. the expression "microfinance" assists with recognizing these administrations from those presented by formal banks. The poor seldom get administrations through the formal monetary area. They fulfill their requirement for monetary administrations through various, generally casual, monetary connections. Institutions that provide microcredit (MFIs) do so. To be manageable,

MFIs must:

- Organizes own funds through savings and equity with the help of other household resources
- return the loan
- Expenses are covered by operating income Finance their expansion at the expense of profits
- Get the right legal status
- Be subject to appropriate regulation and supervision

CHALLENGES OF MICRO FINANCE AND MONEY IN INDIA

Destitute individuals don't live in a static climate of neediness. A huge number of individuals get away from destitution by effectively taking on new cultivating methods, putting resources into new business open doors, or securing new positions. Simultaneously, financial misfortunes, medical conditions, and different shocks push many individuals back into destitution. Successful investment funds, installment, credit, and protection instruments can assist families with getting away from destitution or enduring a crisis or emergency without falling further into neediness assuming they are accessible at crucial points in time. As indicated by the World Bank's Worldwide Monetary Incorporation Information base, around 2.5 billion individuals overall don't have a proper record with a monetary organization. Therefore, most unfortunate families work essentially on a money economy, particularly in non-industrial nations. This implies that they use cash, actual resources (like gems and domesticated animals), or casual workers (like moneylenders and settlement messengers) to meet their monetary necessities - from getting compensation to saving manure. Nonetheless, these casual components will generally be unreliable, costly, and hard to utilize. What's more, they offer restricted legitimate guidance when difficult issues emerge, like difficult diseases in the family. The issues that they face with providing microcredit pose a challenge and ultimately prevent sustainability.

Coming up next are a portion of the issues with the arrangement of microcredit that challenge them and eventually stop manageability:

- **Wide spreads:** MFIs in India have extremely low spreads. This amounts to just 8%, compared to 65% in Bangladesh.
- **Exorbitant loan fee:** Monetary establishments charge exceptionally exorbitant loan fees which are hard for the poor to bear.
- **Disregarding metropolitan poor:** It has been seen that MFIs focus closer on country regions and general. disregard the metropolitan poor. Of India's above 800 MFIs, just six presently center around the metropolitan poor.
- **Client Maintenance:** Client maintenance is an issue that is creating some issues for developing MFIs. The client degree of consistency of monetary organizations is roughly 28%.
- **Awful credit:** Terrible credit is an issue that makes it challenging for an association to develop and extend, as roughly 73% of awful credit is tracked down in monetary organizations.
- **Insufficient education:** The degree of schooling of the clients is low. As a result, the organization's growth and expansion are hindered by its roughly 70% stake in MFIs.
- **Language hindrance:** The language hindrance makes client correspondence (verbal and composed) an issue that brings on some issues in the development and extension of the association because roughly 54% of language boundary is seen in monetary organizations.
- **Payment Delays:** Late installments are an issue that makes it challenging for an association to develop and grow because late installments in monetary establishments are around 70%.
- **Topographical Elements:** Geological variables make it challenging to speak with clients situated in far-off places, which creates some issues in the development and extension of the association. MFIs mean to work with the BPL populace of the nation, yet because of the absence of a framework in those areas, they are challenging to reach.
- **Obligation The board:** Clients are uninformed about the obligation of the board. 70% of clients of monetary establishments don't have the foggiest idea how to deal with their obligations

Table No.1 Factors Contributing to Slow Growth of Microfinance

| Internal Factors | External Factors |
|------------------------|---|
| High transaction costs | Uneven population density |
| Funding not available | Regional differences |
| Debt collection method | The poor servants have not yet been reached |
| Fraud | Low scope |
| | Unregulated microfinance institutions |
| | institutions Lack of insurance services |

Source: Compiled from collected data

MEASURES TO OVERCOME THE CHALLENGES

The obstacles MFIs face in providing sustainable microcredit services can be overcome by taking the following measures:

- **Related arrangement** When microfinance was all the while arising and individual establishments were allowed to take on imaginative working models, the requirement for an administrative climate was not a main pressing issue. However, in order to safeguard stakeholders and encourage economic expansion, an enabling regulatory environment is required as the industry reaches nearly two decades of rapid growth.
- **Horticultural control** notwithstanding legitimate guidelines of the microfinance area, on-location visits can be utilized as a device to screen the circumstances in the field and, if essential, start remedial measures. It notices the exercises of the ground staff of different MFIs and their reimbursement strategies. It additionally urges MFIs to effectively adhere to pertinent rules and work more. Nonetheless, the practicality and cost of genuinely observing this enormous region remain an issue.
- **Advances in the extension of country life** Monetary foundations are seen opening their branches in regions where a few monetary organizations are as of now working as opposed to lessening fire-up costs. Empowering MFIs to open new branches in regions with low microcredit entrance by giving monetary help will build the span of microcredit in the nation and control different loaning. It will likewise expand the spread of microcredit to provincial regions in the country.
- **Complete item range** MFIs should offer all items, including credit, reserve funds, cash moves, monetary guidance as well as non-monetary administrations like preparation and backing. Offering a wide range of products enables the poor to take advantage of all services as MFIs take over banks in areas where banks are unavailable.
- **Straightforwardness of loan fees** as noted, monetary foundations utilize different interest repayment models, and some likewise charge extra expenses and sans-interest stores (a piece of the credit sum is held as a store that doesn't pay interest). This makes evaluating extremely befuddling and accordingly the borrower feels awkward regarding haggling power. In this way, all MFIs

ought to follow the general act of charging interest for it to do so more seriously and the recipient gets the opportunity to look at changed monetary items before purchasing.

- Innovation to diminish working costs MFIs ought to utilize new advances and IT apparatuses and applications to lessen their working expenses. Microfinance organizations ought to be urged to embrace cost-saving measures to decrease their working expenses. Drives, for example, fostering a typical MIS and other programming for all monetary establishments can likewise be required to increment functional straightforwardness and productivity.

Other sources of funding in the absence of funding, financial institutions' growth and operations are limited; consequently, to address this issue, they must seek other funding options for their loan portfolios. Different elective wellsprings of subsidizing can be utilized for MFIs, for example, NBFCs, paper buys advance securitization, and so on.

V. Conclusion

To accomplish manageability, the development and expansion of the rustic economy should proceed and all portions of the populace, including ranchers, provincial miniature business visionaries, and poor people, have simple admittance to feasible monetary administrations like investment funds, credit, and self-support. insurance, reasonable monetary organizations in a main macroeconomic contract climate, and the improvement of MFIs. Reasonable provincial microfinance requires neighborhood drive and cautious benefactor backing to foster establishments that can give the two reserve funds and credit administrations, prepare value, recuperate advances, cover expenses of working pay, and money development to poor people. furthermore, the non-poor for their advantage. We shouldn't uphold specially appointed or impromptu arrangements that get no opportunity for institutional maintainability.

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