ISSN No:-2456-2165

Issues and Challenges of Micro Finance Institutions in Karnataka

[1]ANANDKUMAR G
UGC – SRF, Department of Commerce,
Maharaja's College, University of Mysore
Mysuru – 570005, Karnataka, India

Abstract:- In the modern era of economic development, the need and essence of micro finance and micro credit providing institutions are very significant. Micro finance is a credit investment system availed by the poor people and small scale, medium scale, cottage industrialist for finance requirement. For any kind of industry weather, it is small or large, finance is fundamental component, large scale business concerns mobilise funds easily from various sources but collection of financial resources is difficult to micro industries comparatively because of various determinants. This is a descriptive form of article which envisages various key issues, problems and challenges related to micro finance institutions in Karnataka.

Keywords:- *Micro-finance, Issues, Challenges,*

I. INTRODUCTION

A. Components of Micro finance

a) Micro Finance
Microfinance refers to providing financial, credit and other product related services to enable the poor in rural, semi-urban or urban areas to increase their income levels and improve their standard of living. Microfinance is defined as financial services such as a savings account, insurance funds and debt provided to poor and low-income clients, thereby helping to increase their income, thereby improving their standard of living. MFI's provide loans and financial services without any securities and enable the needy group to develop economically.

b) Microloans
Microfinance loans are important because they are provided to borrowers without any collateral securities. The end result of Microloans is that its recipients need to be able to outperform small loans and prepare for traditional bank loans. The borrower is not obligated to hold anything as security to repay the loan. This gives a better overall loan repayment rate than a traditional banking product. This is a sustainable process that increases the likelihood of future investment of economic household and business concerns.

c) Micro saving
Micro Savings Accounts allow entrepreneurs to maintain a savings account with minimal balance. These accounts help users to maintain financial discipline and develop savings interest for the future. These accounts do not bind people to manage their accounts with a certain amount of fixed money.

d) Micro insurance
Micro insurance is a type of coverage provided to microloans borrowers. These insurance programs have lower premiums than traditional insurance policies. The importance of micro insurance is that it is a tool to protect the poor people from all possible hazards in the future, such as accidents, chronic illness, and so on. It addresses low-income group people and coverage all kinds of risks facing by the poor group community globally.

B. Important features of micro finance

- Microfinance does not require any collateralan important feature of microloans under microfinance is that it requires no collateral. Not creditors
- Borrowers are generally poor.The purpose of microfinance is to help people in need. Generally, microfinance borrowers are people from the underdeveloped part of state and small entrepreneurs.
- The money that can be obtained under microfinance is usually a small amount such as microloans. Money paid to the poorest sections of society and small entrepreneurs in the form of microfinance is usually small in volume.
- The loan period is shortthe loan period is really short because the amount offered in microfinance is so small. Borrowers are required to repay the loan within the stipulated time, it is not committed to promising anything as security for the repayment of loans. They do not have to worry about assets being kept in banks for security purposes.
- The purpose of microfinance loans is to generate incomeIt is well known that microfinance loans are issued only to low income groups and small entrepreneurs. So the main focus of microfinance loans is to generate income for the poor people in the undeveloped part of India so they can work smoothly.

ISSN No:-2456-2165

II. REVIEW OF LITERATURE

Rajesh and Ravi (2011) Despite the role of microfinance in poverty alleviation, materials and methods are stated in their paper, but the unethical and extortionate practices of the present study's data were collected from MFIs whose arguments for home turf primary and secondary have led to arguably stricter sources.

Sanjeeb Kumar Dey (2015)the authordescribes the various problems and challenges of micro finance firms. The reasons behind the lack of development of small financial institutions, internal factors and external factors that contribute to the slow growth of firms such as high transaction costs, lack of access to funds, debt collection methods, fraud, uneven population density, regional inequality and MFI's lack of services have been studied.

Ashok Kumar Kothari (2016)author opines that Indian microfinance a critical review on issues and challenges are discussed, micro finance investment layers, problems of micro financing institutions, challenges and possible remedial measures are noted. Reducing regional disparities lessen operating cost; avoidance of middlemen leads to improve of credit extending facility to reach the various strata of business and investment operative’s classes.

III. STATEMENT OF THE PROBLEM

Many poor people in the world do not have access to basic financial services to help manage their assets and generate income. They need access to credit, savings and investment to eradicate their poverty. Microfinance is one of the ways to fight poverty in rural areas, where the world's poorest people live. It provides money, insurance, savings and other ancillary financial services to the poor. Through microfinance institutions (MFIs), such as financial non-governmental organizations, commercial banks and credit unions, the poor can meet their small loan needs and manage their savings.

A. Objectives of the study

- To understand the role of microfinance institutions in Karnataka
- To evaluate the problems and challenges of microfinance institutions

IV. METHODOLOGY

This current article focuses on the requirements of the study objectives. The research design used for the study was descriptive. This research design was adapted to have in-depth analysis of research studies based on available secondary data. The investigator collects the necessary data through a secondary survey method, various papers, books and annual reports, articles published in various journals, essays and discussion with scholars and website information focusing on various aspects of microfinance institutions in Karnataka.

Size	**Scale of Finance**	**No of MFIs**
Tier 1	< 0.5 lakh	205
Tier 2	0.5 to 2.5 lakh	40
Tier 3	> 2.5 lakh	23
Total		268

Table 1: No. of MFIs across India

Source: Directory of Microfinance Institutions (MFIs) in India

Forms	**No. of MFIs**
Society	111
Trust	21
Section	25
Company	26
Cooperative	18
Local area bank	1
NBFC	91
Total	**268**

List of MFIs based on Registration

Source: Directory of Microfinance Institutions (MFIs) in India

Sl No	States	No. of MFIs
1	Andhra Pradesh	10
2	Assam	18
3	Bihar	11
4	Delhi	7
5	Haryana	1
6	Gujarat	7
7	Jharkhand	8
8	Karnataka	18
9	Kerala	13
10	Madhya pradesh	10
11	Maharashtra	13
12	Manipur	8
13	Odisha	29
14	Punjab	1
15	Rajasthan	9
16	Telangana	11
17	Tamil Nadu	33
18	Uttar Pradesh	14
19	Uttrakhand	2
20	West Bengal	45
	Total	**268**

State wise distribution of MFIs

Source: Directory of Microfinance Institutions (MFIs) in India

A. Key issues and challenges of microfinance institutions

Microfinance firms that serve retail customers, these institutions are facing a number of specific challenges and major key issues which need to look after these challenges, includes the following:

- Outreach Cost - Reaching the world's unbanked population means meeting small debt amounts and serving the remote and sparsely populated areas of the planet, which are not dangerously profitable without the automation and mobile delivery of high-rate processing.
- Lack of scalability - Small microfinance systems often struggle to preserve profitability and performance in these markets, as FI's experience results in high growth rates and poor availability of service delivery. This hampers the growth of these institutions.
- Quality of Self-Help Groups - With the rapid growth of the SHG-Bank Linkage Program, the quality of MFIs has come under pressure. This is due to various reasons, for example:
  - Intrusion of government departments in promoting groups
  - Reducing skill sets on the part of MFIs in managing their groups.
  - Changing group dynamics
- Geographical Factors - About 60% of MFIs agree that geographical factors make it difficult for them to communicate with clients from far off areas that can pose a problem in the growth and expansion of the organization.
- Diverse business models - The most widespread features and lending activities are difficult to support and require considerable cost and effort.
- High transaction costs - High transaction costs are a big challenge for microfinance. The volume of transactions is very small, but the fixed cost of those transactions is very high.
- KYC and Security Challenges - Customers who serve through microfinance instructions usually have no or very limited official identity or are able to provide clear security, which makes it extremely difficult for organizations to offer any kind of banking services.
- Limited budgets - MFIs are unable to make provisions for more upfront investments, which limits their ability to buy world-class banking solutions to help meet their needs and support their growth goals.
- Excessive debt
- High interest rates compared to mainstream banks
- Widespread reliance on the Indian banking system
- Inadequate Investment Valuation
- Lack of adequate awareness of financial services in the economy
- Regulatory issues
- Selection of the appropriate model

V. SUGGESTIONS

In light of this investigation and examination of difficulties looked at by MFIs in Karnataka here are a portion of the proposals that can help in improving the circumstance of these foundations with the goal that these MFIs can likewise effectively uphold the public authority's intension of destitution mitigation and quicken their development.

- Reducing regional disparity
- Technology to lessen operating Cost
- Schemes to support MFIs
- Insurance services
- Securitization of loans

VI. CONCLUSION

As we know, financial institutions are an integral part of our economy because it plays an important role in economic development. The sustainable growth and diversification of the rural economy requires sustainable development, and all sections of the population, including farmers, rural small entrepreneurs and the poor to have easy access to sustainable financial services such as savings, credit and self-insurance. Micro loans credit, insurance and other allied services andto contribute to the sustainable financial institutions in the development of framing macroeconomic policy environment and MFIs. So, Indian financial institutions are very strong but the traditional operations are hostile, we are lacking in effective implementation. However small financial institutions play an important role in alleviating poverty, many banks in India have started lending money to a micro finance company. It works towards empowerment of women and self-help group which is a great step towards the development of the country.

REFERENCES

[1.] Srinivasan, N., 2009. Microfinance India State of the Sector Report 2008, Sage Publications, New Delhi. 9Sriram, 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.
[2.] Emerlson Moses, 2011. in his study “An Overview Micro Finance in India”, International Referred Research Journal, RNI-RAJBIL 2009/29954.VoL.III
[3.] Vijayaragavan, T., 2013 Microfinance: A Sustainable Tool for Economic Growth. IJRCM, 3(06), 89- 91.
[4.] Sanjeeb Kumar Dey., 2015“Challenges & Issues of Microfinance in India”, Journal of Economics and Sustainable Development, ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.6, No.7, 2015, pp 195-198
[5.] Kothari A. (2016). Indian Microfinance: A Critical Review on Issues and Challenges. International Journal of Social Impact, 1(3), 134-144. DIP: 18.02.017/20160103, DOI: 10.25215/2455/0103017

[6.] https://www.legalserviceindia.com/legal/article-2281-role-of-microfinance-in-india.html

[7.] https://www.sidbi.in/files/article/articlefiles/FINAL_MFI_Directory_19_11_14.pdf

[8.] KarmarkerK.G. (2008), who worked with NABARD on microfinance, accepts that a good numberof SHGs are struggling to graduate from the microfinance to the microenterprise stage.

[9.] P.J.Christabell (2009) carried out an empirical study to know and understand the contribution of microfinance in bringingabout changes among the members of the SHGs in the Ullorpanchayat in Kerala. The study is an effort to determine the effect of microfinance on the development of various capacities, economic, social, democratic, and political- among the members of SHGs.

[10.] P. ChristurajandS. Saraswathy (2009) studied the socio-economic changes and empowerment amongthe SHG members. Their focus was on the group approach and the resultant benefits. The socio-economic changes were measure with twenty parameters with parameter rated on a scale ofone to five. The study concluded that thegroup approach has resulted in socio-economic changes among the members.

[11.] https://finezza.in/blog/7-challenges-faced-by-microfinance-institutions/

[12.] Karmarker K.G. (2008), who worked with NABARD on microfinance, accepts that a good numberof SHGs are struggling to graduate from the microfinance to the microenterprise stage.

[13.] P. J. Christabell (2009) carried out an empirical study to know and understand the contribution of microfinance in bringingabout changes among the members of the SHGs in the Ullorpanchayat in Kerala. The study is an effort to determine the effect of microfinance on the development of various capacities, economic, social, democratic, and political- among the members of SHGs.

[14.] P. ChristurajandS. Saraswathy (2009) studied the socio-economic changes and empowerment among the SHG members. Their focus was on the group approach and the resultant benefits. The socio-economic changes were measure with twenty parameters with parameter rated on a scale ofone to five. The study concluded that thegroup approach has resulted in socio-economic changes among the members.

[15.] KarmarkerK.G. (2008), who worked with NABARD on microfinance, accepts that a good numberof SHGs are struggling to graduate from the microfinance to the microenterprise stage.

[16.] P.J.Christabell (2009) carried out an empirical study to know and understand the contribution of microfinance in bringingabout changes among the members of the SHGs in the Ullorpanchayat in Kerala. The study is an effort to determine the effect of microfinance on the development of various capacities, economic, social, democratic, and political- among the members of SHGs.

[17.] P. ChristurajandS. Saraswathy (2009) studied the socio-economic changes and empowerment amongthe SHG members. Their focus was on the group approach and the resultant benefits. The socio-economic changes were measure with twenty parameters with parameter rated on a scale of one to five. The study concluded that the group approach has resulted in socio-economic changes among the members.