Educational Administration: Theory and Practice
2024,30(4), 10478 -10483
ISSN:2148-2403
https://kuey.net/

Research Article

A Study On Problems And Prospects Of Micro Finance In Karnataka – An Overview

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Citation:, Archana B ,et.al (2024), A Study On Problems And Prospects Of Micro Finance In Karnataka – An Overview ,Educational Administration: Theory and Practice, 30(4), 10478 -10483
Doi: 10.53555/kuey.v30i4.7315

ARTICLE INFO | **ABSTRACT**

This paper studies microfinance as a unique economic development tool that was introduced to support low-income families and women who aim to work their way out of poverty and its challenges and prospects. The microfinance industry in India, which has helped to bring financial inclusion in India in 2005 by the RBI providing basic no-frills banking accounts for making and receiving payments and other financial products to millions of rural families and women. MFI has become a dominant player when it comes to extending smaller credit limits, with Karnataka alone seeing 1 crore loan accounts with a portfolio of Rs.46000 crores outstanding as of March 2023, as per a report by the Association of Karnataka microfinance institutions, the loan portfolio of microfinance institutions stood as 3.48 lakh crores with 7 crore borrowers.
The sector has also been serving a crucial purpose in the Indian economy, which has been driven by many factors. Meanwhile, the Govt of Karnataka and RBI have been closely examining the sector to protect borrowers and lenders as a high level of financial risk is involved. Karnataka stands fifth in the country in the share of clients who opt for microfinance lending at the end of March 2022 the state had 9.4 million loan accounts covering 5.4 million unique clients as per the report by NABARD, the districts of Mysuru, Belagavi, and Tumakuru, Mandaya and Hassan were on top in terms of the number of loan accounts held with MFI'S.

Keywords: Women, NABARD, RBI, Banking, MFIs, Karnataka,

Introduction

Micro Finance 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 improving their standard of living. 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.

Micro insurance is a type of coverage provided to microloans borrowers these insurance programs have lower premiums than traditional insurance policies.
MFI's provide loans and financial services without any securities and enable the needy group to develop economically.

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 critics often point to some of the ills of micro credit that can create indebtedness, higher interest rates, less awareness of financial services in the economy etc many studies have tried to assess its impacts and prospects to assist the ever growing Indian population.

The year 2022-23 was the first year with RBI's new uniform regulations, applicable to all players in the micro-finance sector. The fact that the industry is back on track with an indication that the new regulations have been positive for the sector. The support of the RBI, the Central Government and the State government has been crucial. The industry has got back to normalcy after COVID disruptions, with healthy repayment collection rates for loans given and good growth of portfolio.
Microfinance sector has the potntial to serve 10 to 15 per cent of the population living in India's rural areas and is likely to build infrastructures to serve up to 30 per cent of the populations in the future. Microfinance will play a major role in India's rural economic growth MFIs don't just offer loans but bring the most vulnerable people into the mainstream of Indian economy which is going to scale new heights over a few years' time from now.
Financial inclusion is the way to have inclusive growth in our country, Microfinance Institutions have been playing a very crucial role in providing various financial services to the poor and low income household in Urban and Rural India. Reaching out to more than 2.67 Crores households with a loan portfolio of around 46,000 Crores outstanding, the Micro finance industry's contribution to the economy has been significant.

Objective:

To study impact of microfinance in Karnataka to promote social and economic development and on empowerment of women.

Reality of the sector in Karnataka

The microfinance industry has served 6.6 crore borrowers as of march 31 2023, with an outstanding loan amount of INR3,48,339 crore across all states in Karnataka it is estimated to have grown upward at 10%during the year 2022-2023,considering both Joint Liability Group (JLG) and Self-Help Group (SHG) loans, reaching to around 46,000 CR portfolio, making Karnataka one of the largest states in terms of portfolio size. The Microfinance sector has played a key role in the state in providing credit support to vulnerable sections of population. India's microfinance sector has recorded an overall portfolio growth of 21% during 2022-23, as per data from industry body Sa-Dhan as per market data, the number of loan accounts for the microfinance industry increased to 136.3 million in FY23, from 123.9 million in FY22, posting a year-on-year (y-o-y) growth of 10%. From February 2017 to June 2022, the MFI sector underwent several transformations in terms of inclusivity and expansion, said the joint study conducted by consultancy major Price water house Coopers (PWC) and the Association of Microfinance Institutions of India. Over the past year, the MF sector witnessed a 14.6% growth in active loan accounts ,reaching a total of 13.0 crore accounts as of march 31,2023 .within the MFIN NBFC-MFIs members network, the assets management recorded a substantial YOY rise of 38.7% to reach Rs.1.31 lakh crore as of 2023.the NBFC-MFIs collectively operate though a network of 18739 branches, employing approximately 161010 individuals.

Statement of the problem

Many poor people 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, and women require finance to generate their own income. MF provides money, insurance, savings and other ancillary financial services to the poor. Through microfinance institutions (MFIs), such as financial nongovernmental organizations, commercial banks and credit unions, the poor can meet their small loan needs and manage their savings

Literature review

Vipin Kumar, Monu Chauhan, Ritesh Kumar (article on the microfinance sector) - India 70% of the population live in villages and 60% of heir income comes from the agricultural sector. Thus, microfinance plays an important role in providing loans and financial assistance to the poor. The objective of this study is to understand the current situation of microfinance and its role in the economic growth of the country.Thus, microfinance plays an important role in improving the standard of living of the poor and helping them earn money. It is an effective tool to reduce poverty and the socio- economic conditions of the country. Therefore, the Indian government should focus on microfinance to ensure sustainable and inclusive economic growth. Susy Cheston (2002) explores how microfinance can have a powerful impact on women's empowerment. Although microfinance does not always empower all women, most women experience some degree of empowerment as a result. Licensing is a complex change process, and everyone experiences thein a slightly different way. Women need, want and benefit from credit and other financial services. Strengthening women's economic base and their economic contributions to their families and communities is an important part of their empowerment. Product design and program design must consider the needs and strengths of women. By increasing awareness of the potential impacts of their programs, MFIs can design products, services, and service delivery mechanisms to reduce negative impacts and increase positive impacts.

Eoin Wrenn (2005) explores how microfinance creates access to productive capital for the poor, as well as to human capital through education and training, and to social capital through the creation of grassroots organizations, enabling people to escape poverty (1999). Providing material capital to the poor enhances their dignity and can help a person participate in the economy and society. As we have seen, the impact of microfinance on poverty reduction is a hotly debated topic and it is widely accepted that it is not a panacea and generally falls short. expectations (Hulme and Mosley, 1996). However, when implemented and managed carefully and when services are tailored to meet client needs, microfinance can have a positive impact not only on clients but also on their families and the wider community. Srinivasan, Sunderasan (2007) Research shows that microbanks have helped many citizens in developing countries by supporting the creation and growth of microenterprises. However, the microfinance movement has developed 4344 in the context of passive reproduction and must be revived through new products offering innovative services. Renewable energy systems, viz solar power systems, biogas stoves, etc., improve indoor air quality, provide excellent lighting, and extend work and study time. These applications are essentially non-income generating, and the performance of these investments derives from cost aversion, but should be eligible for microfinance because these quality of life investments reflect the maturity of the borrower which contributes to the sustainability of microfinance institutions. Kamath, R., Dattasharma, A and Ramanathan, S (2013) Analysis of financial diary method for 90 poor households in Ramanagaram, Karnataka, India Cash flow effects of households with and without loans from microfinance institutions. This observation suggests that the Indian microfinance movement is still far from having truly taken off. There is still a long way to go to achieve a true bottom-up approach. Nasir, S (2013) has attempted to give an overview of the situation of microfinance in India in light of its current emergence and plans to establish a cost-effective mechanism. provide financial services to the poor. The findings reveal shortcomings in MFI operations such as lending practices, lack of product diversification, overlapping clients and practical recommendations to address the issues and challenges facing microfinance in India. Vijender, A. et al. (2012) focus on increasing the effectiveness of agribusiness in achieving their economic and social goals through microfinance and microinsurance, with success generally considered limited nowadays. The results show that microfinance institutions must be committed to supporting poverty reduction and that state governments play a key role in increasing agricultural investment, microfinance, microinsurance, facilitating private investment and institutionalization to help the poor achieve inclusion.

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.

Problems

Incapacitate poverty is a characteristic trait of the modern Indian economy. Both the central government and state government-run multiple poverty alleviation programs. The microfinance sector has seen sustained growth over the past few decades. What we see as a vibrant industry empowering a variety of business models today, had humble beginnings. Despite the thriving growth rate, the Microfinance sector is disturbed by numerous ills in its functioning.

1. A large section of the population is still unbanked India has the fastest fin tech growth with an acceptance rate of 87 % globally however, despite increased internet usage and tremendous growth 190 million Indians are still un banked.
2. Product specification: MF generates different outcomes for men and women. MFIs should therefore tailor product specification.
3. Insufficient funds: Inability of MFI to raise sufficient funds remains one of the important concern in the MF sector. Some MFIs are restricted to take public deposits, and some relay on donations and they need to sell their equity to raise the funds or they should depend on bank loan which is leading to high debt and insufficient funds.
4. Cluster formation: MFIs fight to grab an established market and reduce their initial costs in group formation of clients, educating them and creating awareness about MF is resulting in formation of cluster in some areas.
5. Over-indebtedness: MFIs used as a tool to the development of poorer section of the society MF is provided to encourage them to earn the income to improve their standard so successes is unpredictable which makes them to have more debt it leads to over indebtedness.
6. Higher interest rates: when it is compared other forms of loan models microfinance charges high interest rates to the growing and poorer section of the society where they are unable to bear the interest rates charged by the MFIs as the income generated through MF is not highly profitable.
7. Financial Illiteracy of People: One of the major problem in the growth of the MF sector is financial illiteracy

of the people there are various programs has conducted to educate them regarding MF but it is dangerous when a person doesn't know to read and write but they can make their signature training should focus on the literacy of people.

8. Inadequate Investment Validation: Another problem faced by microfinance institutions in India is inadequate investment validation. Investment valuation is a crucial capability for the healthy functioning of an MFI. However, due to the developing nature of the markets in which MFIs operate, market activity is often limited. This limitation makes it difficult for MFIs to gain access to market data for valuation purposes. The lack of consistent and reliable valuation procedures hinders MFI management teams from obtaining the quality information they need to make investment decisions effectively.
9. Choice of Appropriate Model: The choice of the appropriate lending model is another problem of microfinance institutions in India. Most Indian MFIs follow the Self-Help Group model (SHG model) or the Joint Liability Group model (JLG model) of lending. However, the selection of the model is often based on random choices rather than scientific reasoning or considering the situation. This increases the risk of borrowings for the weaker section beyond what they can bear, and once the decision is made, it becomes irreversible. The choice of the model significantly affects the long-term sustainability of the MFI organization.

Findings

- Rural populations are less educated and the fact of cooperation in microfinance is manipulated. They have not received enough orientation and training in this area, which has prevented them from fully introducing the pros and cons of microfinance.
- When people repay their loans, except for those unfamiliar with financial institutions, 25% repay by taking money from their family and the rest pay from their savings.
- It is also found that women have lack of mobility and looked at as suspicious in the society to act of owning vehicles and many financial independent.
- Due to lack of backup plans and competition people facing the problem of repayment of loans, due to which financial institution itself not supporting the people borrow the loans practically
- In the traditional banking system control on the loan is not provided to individual person it's given a family which is a huddle for empowerments of a women.

Recommendations

1.Proper Regulations:

Unscrupulous ways of lending followed by some MFIs call for greater scrutiny and need for still stricter regulation. With the introduction of innovative operational models, regulations have become a necessity. Given the high growth trajectory of MFIs, it's important to have a regulatory environment that not only protects the interest of stakeholders as well as promotes further growth.

2.Field Supervision:

Field visits are an optimum way of monitoring the conditions on the ground. These ensure a strict check on the performance of the ground staff of various MFIs and their recovery practices and timely initiation of corrective action if needed. Field supervision also encourages MFIs to abide by proper code of conduct and work in the most efficient way possible. The sector as a whole need to work out the problem of feasibility and cost involved in physical monitoring of this vast sector.

3.Encourage Rural Penetration:

Hoping to reduce the initial cost of operations, MFIs are interested in opening their branches in places which already have fully operational MFIs. There is a need to encourage MFIs for opening new branches in areas of low financial penetration by providing financial assistance and subsidies. This is a proven way to increase the outreach of microfinance in the state.

4.Complete Range of Products:

MFIs are renowned for offering a range of products including credit, savings, remittances, financial advice and also non-financial services like training and support. Playing the role of a substitute to banks in areas where people are financially illiterate and severely underbanked, MFIs need to offer a complete range of products to help the poor break the cycle of poverty.

5.Transparency of Interest Rates:

Different MFIs employ different patterns of interest rates and additional charges like interest-free deposits. This boils down to confusion about pricing in the poor borrowers. It also renders the borrower incompetent in terms of bargaining
power. It is recommended that uniform interest rates be charged by all MFI players in the market, which would

give the beneficiary the freedom to compare different financial products before buying.

6.Bring in Technology to Reduce Operating Costs:

It is for the best if MFIs leverage technologies and IT tools to reduce their operating costs. NBFCs are adopting such cost-cutting measures in a widespread way. Not only do automation tools lead to a low cost per unit of money lent (9%- 10%) but also make loan origination processes more transparent and efficient for the borrower's perspective. Finezza is one such lending management software tool that leads to a complete overhaul of the loan disbursement process of NBFCs leading to cost-effectiveness and brings home higher returns.

7.Alternative sources of Fund:

With restricted funding, the growth and outreach of MFIs remain limited. In the absence of investment by outside investors, MFIs are severely limited to what they can borrow to a multiple of total profits and equity investment. In order to grow, MFIs need to raise their Equity through outside investors. The only way to overcome this problem is that MFIs should look for other sources for funding in their loan portfolio. MFIs always have an option to opt for conversion into a for-profit company i.e. an NBFC.Along with the change in status, the MFI should also develop a strong board, a quality management information system (MIS) and obtain a credit rating to attract potential investors. If a financial institution purchases the rights to future payment stream from a set of outstanding loans granted by MFIs, it is called portfolio buyout and can be a good alternative source of funding for MFIs.

8.Ensuring High Repayment Rates for MFIs with Mobile Banking Platforms:

While all MFIs emphasize on achieving high repayment rates, the process demands massive manpower on-field. Manual intervention further makes the process slow and inefficient. Given the circumstances, technology is transforming the industry radically by increasing outreach.

Conclusion

In the end, it would be simple to conclude that the most impactful influences that changed the way microfinance industry functions in India is the rapid rate of digitalization. Automotive lending management solutions and other software tools not only speed up the way microfinance is executed, but also leverage the internet penetration in the rural areas. Using tools that streamlines the process of loan origination and evaluation and adds to the functionalities of the lending platform. Not only does it enhance the overall user experience for the borrower, but it also makes the process simpler for the lending partner as well.
The unique 360-degree lending management solution allows microfinance lenders to access the huge untapped sector of the Indian economy without any need for manual intervention, excessive paper load and massive wait times.

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