



Challenges of Microfinance Towards Urban Poverty with Special Reference to Hassan District

¹V. Dileepa Student and ²Renee Namratha

¹*M S Ramaiah University of Applied Science,*

²*Faculty of Management and Commerce, Ramaiah University of Applied Sciences, Bangalore 560054, Karnataka, India*

Key words: Microfinance Institutions (MFIs), urban poverty, challenges of microfinance, poverty, empowerment

Abstract: Microfinance plays a major role in terms of Poverty alleviation, women empowerment, development of economy and in many other aspects. But still in India microfinance have some challenges and issues with regards to their policies and procedures. Most of the Microfinance in India having less outreach compared to rural areas majority of the Microfinance institutions not operating much in the urban areas. A pilot study has been conducted before finalising the area of the study, based on pilot study the area of the study has been selected as Hassan Urban area. It has been observed that there are unethical practices followed by the Microfinance institutions in Hassan district while collecting loan recovery from clients. Along with this as per the 2014 millennium report Hassan urban district poverty is more as compare to rural areas. The data has been collected from primary and secondary source. The survey is carried out to identify the challenges of microfinance towards urban poverty with special reference to Hassan district. A structured questionnaire was framed to collect the data analysed using correlation, regression, reliability test and hypothesis. The study found that the outreach level of Microfinance in Hassan urban areas is very low as compare to Rural. But cost wise urban microfinance having the favourable impact. At presently in Hassan contribution of microfinance to reduce poverty is quiet good but there is need for improvement.

Corresponding Author:

V. Dileepa Student

M S Ramaiah University of Applied Science, Bangalore, Karnataka 560054, India

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INTRODUCTION

Microfinance is the most visible tool for poverty reduction in India. From the past three decades the contribution of microfinance is grown rapidly from all over the world. Especially in India microfinance sector helps poor to overcome from poverty. Using their various

schemes and activities microfinance institutions leads the rural women to make them self-empowered in various small business activities. According census report 2011-12 in India almost twenty seven percentage of total population still belongs to the below poverty line. Indian government also taken various steps to reduce and overcome the poverty. But still even all these efforts the

poverty will remain in rural and semi urban areas in India. Even in urban areas also there is poverty because of unemployment and many other reasons. The outreach level of microfinance in India is very low compared to other countries. In Bangladesh the level of Microfinance institutions outreach is sixty percentages and in India it is about eighty percentages. And there is only few microfinance institutions concentrating on urban areas, out of 800 MFIs in India only 8 MFIs are concentrating on urban areas. Because of all these reasons the poverty will remain same in many other areas in India. The main objective of micro finance institutions is reducing the poverty and making women empowerment. But this is not happening in urban areas even though the poverty is more in urban areas as compare to rural areas but still Microfinance institutions are not concentrating more on urban areas. The present issues or challenge regarding Microfinance institutions in India are Most of the Microfinance institutions are neglecting the urban poor areas. There is lot of reasons for this issue but if the Microfinance institutions are concentrating on urban poverty defiantly there is a chance of reducing poverty in those areas because finance is the basic need and it will help the people to overcome from poverty. Because microfinance institutions already successful in rural areas through reducing poverty and making women empowerment. In urban areas, the financial sector is improved a lot by banking institutions and many other financial institutions. But still the poverty level is high compared to rural in respective states in India.

Overview and concept of microfinance: The concept of Microfinance is first primarily established in Bangladesh. Microfinance sector has been grown rapidly from past the last few decades. The establishment credit of Microfinance is goes to the Nobel Laureate, Muhammad Yunus. He establishes and founded the modern MFIs with establishment of Grameen bank Bangladesh in 1976. And today it has been grown into a vibrant industry revealing a multiple business models. Microfinance sector or Institutions (MFIs) in India exists or registered as, NBFCs (Non-banking financial corporation's) according to section 25 company's act, exist as NGOs (Non-government organisations) registered as societies and trusts, exist as Regional rural banks (RRBs), commercial banks, Commercial Banks and cooperative societies (Table 1).

The history and evolution

Initial period 1974: In India Shri Sewamahila Sahakari Bank was the 1st microfinance institution which is completely owned and accomplished by the women to afford financial services to women in rural areas and make human empowerment especially in unorganized sector.

1984: The next development stage is NABARD has supported the SHG linkage and it consider as Microfinance institutions are an important, tool for poverty, alleviation. Other government, agencies, followed.

Change 2002: The SHG loans are issued at the par value and the provisioning mode for the unsecured loaning to SHG carried on balance with the other security loan issued by the MFIs.

2004: The RBI recognises the MFIs are the financial inclusion. And MFIs treated as the lending tool for the priority sector especially for poor people.

2006: Because of Andhra Pradesh crises the Government shut down or closed the many MFIs branches. Some microfinance institutions follows the unethical practices for the collecting the debt from the clients. This issue leads the many clients to get suicide.

Growth and crisis 2007: After all these issues and government interference there is a favourable environment for MFIs. Because of favourable regulations economics of scale, polices and procedure leads and significant growth of MFIs. During this period there is an entry of private equity (PE) players enter into the market. And the MFIs loan book stood at Rs 35b.

2009: After the entry of PE players provides the favourable environment to MFIs. And during this period Microfinance institution network was established (MFIN) and all non-banking financial corporations and Microfinance institutions are eligible for members in MFIN.

2010: Andhra Pradesh crisis extended the forced debt collection from the poor borrowers leads them to committee suicide. This issue leads the government to issue order to clamp down of MFIs activities.

Consolidation and maturity 2012: Because of unethical practices of MFIs and other issues of MFIs the Melegam committee suggest and recommended important changes in the Microfinance sector and also RBI has issued the its final notifications. The MFIs loan book has been reduced to Rs209b from Rs216b.

2014: The Reserve bank of India has been issued the universal banking license to Bandana and Bandana is the largest micro lender in India in terms of assets. And Microfinance Institution Network (MFIN) was officially accepted by the RBI and treated as a self-regulatory organization.

Table 1: Topic in tasulated from of type of MFT and legel registration

| Type of MFIs | Legal registration |
|--|--|
| NGOs (Non-Government Organisation) | Society registration act, 1860 Indian trust act 1882 |
| Non-profit companies | Section-25 of Indian companies act, 1956 |
| Mutual benefit MFIs MFIs Mutually Aided Cooperative Societies (MACS) | Mutually aided cooperative societies, act enacted by state governments |
| NBFCs (Non-Banking Financial Corporations) | Indian companies act, 1956 Reserve bank of Indian act, 1934 |

2015: The government has announced the “MUDRA” scheme for providing finance to medium and small scale borrowers.

Literature review: This study is conducted to know the contemporary issues and challenges faced by the MFIs^[1]. Main focus is given to identification of problems prevailing in Microfinance in India and find out the solutions to MFIs. Major findings of the study describes that in India microfinance outreach is very low it, i.e., only 8% as compared to 65% in Bangladesh. The data has been collected from secondary source which includes various magazines, articles and newspapers. The author has suggested and finds that there is a need for a regulation authority in order to control and maintain the activities of MFIs. The author has listed out the many challenges but not highly impossible ones and good amount of data used for the analysis. MFIs plays the major role in empowering women and reducing poverty but because of some issues and regulations MFIs facing so many challenges and problems to avoid these issues a proper structures authority is necessary^[2]. The author has studies the challenges for microfinance and their key issues in India. In this study he focused and explained the major challenges for Microfinance and gave some suggestions for the growth of Microfinance institutions in India. Secondary data has been collected from the various journals, magazines and reports. And researcher finds that Low outreach, high interest rate, late payments, debt management are the major issues in Microfinance and Most of the microfinance institutions in India concentrating only in rural areas. They are neglecting the urban area. The limitation of the study is that it least focused on the risk of non-repayment of loan by the customers when the cost and interest is being increased. Sustainable microfinance requires local initiatives and careful donor support for the development of institutions. Enabling them to offer both saving and credit service and cover their cost from operational income and finance their expansion to the poor and non-poor from their profits.

Jain and Ekta^[3] the study was on the Microfinance in India and their challenges. The research used primary and secondary data from MFIs, journals, websites. He finds that Low outreach, interest rates, neglecting urban poor is the main problems for MFIs. The real success of MFIs will depends on the potential, reach and transparency, both from the financial side and social side. Accessibility,

accountability and sustainability will help the MFIs to lift themselves as social engineers effectively^[4]. Focused on the challenges for implementing Micro Finance for the empowerment of rural women in India. The author has used the secondary data for theoretical analysis based on past literature from journals, reports, newspaper and magazines. He finds that Shelf Help group bank linkage model was introduced as a core strategy to increase their outreach to the poorest of the poor. The study failed to address the issue of repayment, over debt etc. It is an important mean of halving poverty. When invested properly even these institutions can add fuel to Country’s economic growth^[1]. The study was conducted on financial ratios and survival of microfinance institutions in Ghana. The main focus of this study is to find out whether accounting ratios have the capacity to tell the fortunes of microfinance institutions. This study adopted logistic regression modelling technique. And the study relied on cross sectional and secondary data collected from 117 MFIs in Ghana. MFIs should be mindful of the current ratio, acid test ratio and debt equity ratio. The sustain level of MFIs also depends based on these ratio. The study is only restricted to Ghana and MFIs should be mindful of the current ratio, acid test ratio and debt equity ratio. The sustain level of MFIs also depends based on these ratio^[6]. This study makes an attempt to study the outreach of Microfinance in India through the cliental base trends and some other important trends for past decade. Available secondary data was extensively used for the study. Different news articles, Books and Web were used which were enumerated and recorded. It measures the performance of MFI in India for past 10 years. And based on research they found that there is a future growth in MFI. The study is mainly concentrated on past performance and not much focused to the outreach. Microfinance institutions are considered as an effective tool to deal with a major issue of Indian economy named as poverty. If MFIs reach to all the level of economy there is a good growth in economy.

This study is based on microfinance intervention in financial inclusion and comparative study of microfinance models^[7]. The researcher had done the comparison of two microfinance model that is clients of SHG model and clients of MFI models. To complete this he conducted the pilot survey, structured questionnaire and personal interview, Focus Group Discussions (FGDs) and semi-structured interviews of the bankers, NGOs and MFIs. He finds that compared to MFI models SHG models are

working good and they plays a major role in providing employment and making women entrepreneurs. He tells that the level of indebtedness to moneylenders is higher in the case of clients of Microfinance Institutions. This study is mainly limited to Varanasi district and the authors conclude that the level of indebtedness to moneylenders is higher in the case of clients of Microfinance Institutions (MFI) model and without complete information on the credit-worthiness of borrowers^[8].

This study conducts a comparative study between India and Bangladesh in terms of loan lent by institutes to the customers and financial sustainability of MFI's Institution. The data has been collected from the secondary source of journals, websites and books. The paper discovers that no doubt Indian MFI's are more profitable and operating more efficient than those in Bangladesh. The primary objective of MFIs in starting stage is to empower women and providing self-employment, etc. but in India most of the MFIs are concentrating profit prospective and compare to Bangladesh Indian MFIs outreach is very low. And the study is limited to only 2 countries. There is no comparison of MFIs of both countries. Indian MFIs are not as much concentration on the objective of social nature of helping poor in fighting against the poverty but they have become commercialized and focusing on the profit^[9].

The study is primarily based on Women empowerment through microfinance- A comparative study of rural and urban self-help groups in Madurai District. The main focus is given to study how MFIs help the women empowerment in rural and urban through self-help groups. And compare the some factors which are influencing both urban and rural area. They used both primary and secondary sources of data have been used for the study. The primary data were collected from the representatives of 100 group of rural and urban each area consisting 50 groups through interview schedule. From the study it is found that women representatives education of children, self-decision, ready to take risk and lending capacity have improved and there is high level of participation in their group meeting. The study is mainly based on questionnaires by direct interview method, rather than direct observation. It means the researcher has not physically seen how group members have benefited by joining the SHGs. The study reports that there is a high level of empowerment among women as compare to economic empowerment and there was a poor level of social empowerment^[10].

The main focus is given to how AMM urban microfinance institution makes the urban development through their lending and other polices. Theoretical analysis, secondary data and survey are the main methodologies. It finds that MFIs have good scope in urban areas and there is a marginal improvement in the

economic status of the beneficiaries which is reflected by >70% of the beneficiaries. Almost all the members 99% perceive that AMM has helped them save money every month, which would not have been possible otherwise. The study is limited to impact and analysis of Annapurna Mahila Mandal urban MFIs in Maharashtra. AMM has been successful in reaching the target segment of the society and in channelizing their resources for productive purpose through linking various activities such as identifying beneficiaries, providing training, guiding and monitoring their activities on a regular basis.

Aim: The aim of the study is to analyse the challenges of microfinance towards urban poverty.

Objectives of the study:

- To study the challenges faced by the Microfinance institutions in India
- To identify the Challenges faced by the customers of Microfinance institutions in Hassan District
- To give recommendations on the challenges identified

MATERIALS AND METHODS

Data collection: For the analysis of the objectives mainly primary and secondary data is being used in the study those are collected from different sources like, survey in selected area, MFIs and websites. An interview also taken from AKMI (Association of Karnataka Microfinance institutions) Bangalore. Study is mainly conducted in Hassan Urban district.

Samples selected: The primary data has been collected from various SHGs which operating in Hassan urban district. The information has collected from members covering various aspects such as interest rates, level of satisfaction towards Microfinance products, training, pattern of loan lending, repayment procedure and other aspects relating urban poverty. (Appendix A). A structured interview has been conducted with Microfinance officers covering the aspects like regularity in conducting meeting, decision on financial transaction, participating in meeting, utilisation of income, operational cost and other aspects are discussed with MFIs officers. Sample size is 195. Surveys were carried out through questionnaires. With the help of Hassan urban statistical data BPL card holders in SHGs are considered as the people who are poor.

Data analysis and interpretation: Hypothesis are framed for the initial analysis, for testing the hypothesis Correlation are used. Reliability test are conducted to

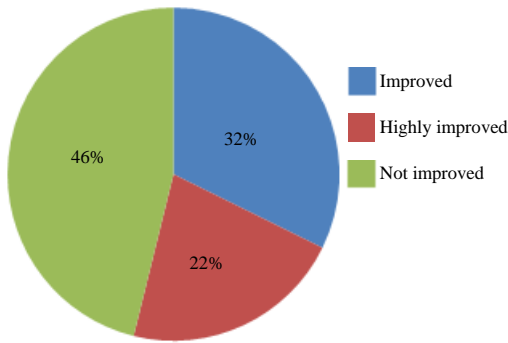


Fig. 1: Standard of living

check the validity of the data while using ‘IBM SPSS 23’ software. Mainly descriptive Fig. 1 and tables are framed to analyse the result.

Data analysis and interpretation

Reliability test: The term reliability means the consistency or exactitude in measurement. The survey was conducted during the period of 5-28th June 2017 to analyse the reliability and confirm the internal consistency of the questionnaire.

“Reliability refers to the property of measurement instrument that causes it to give similar results for similar inputs. It is difficult or impossible to establish absolute Standards for the meaning of human responses to a survey. One can only hope to establish scales that are reasonably consistent.”

The main objective of the Cronbach's Alpha is measure the questioner’s consistency. The overall coefficient was found that 0.763 which exceeds the minimum recommendations. i.e., 0.7 therefore the validity of the instrument is deemed to be sufficient.

From the above chart it is clear that 46% of the respondents are in the opinion that the standard of the living of the people is not satisfied. And 32% respondents saying that their standards of living level increased because of MFIs. And remaining 22% opinions says that their highly satisfied with the MFIs service. However majority respondent says that MFIs programmes or participation in MFIs activity does not help the most of the respondents to increase their standard of living.

From the above result it is indicates that 33% of the respondents are dissatisfied with the interest rates charged by the MFIs. And 22% the respondent are just satisfied with the interest rates charged by the MFIs. 22% of the respondents are highly dissatisfied towards their interest rates. And 17% of the respondents are highly satisfied with the interest rates charged by the MFIs. 6% of the respondents don’t have any opinion about interest rates Fig. 2.

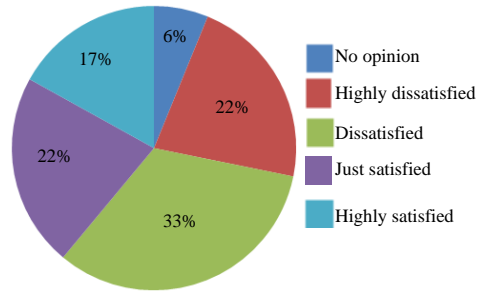


Fig. 2: Satisfaction towards interest rates charged by MFIs loans

Table 2: Case processing summary

| Cases | N | Percentage |
|-----------|-----|------------|
| Valid | 176 | 90.3 |
| Excludeda | 19 | 9.7 |
| Total | 195 | 100.0 |

List wise deletion based on all variables in the procedure

Table 3: Reliability statistics

| Cronbach's alpha | N of items |
|------------------|------------|
| 0.763 | 19 |

RESULTS AND DISCUSSION

Hypothesis test with correlation: The correlation analysis is been conducted between schemes offered by the MFI’s and standard of living. This analysis is done to understand whether the standard of living of the customers is being increased by the increase in income through the different activities of MFI’s.

- H₀: no relation exist between scheme offered by MFI’s and standard of living
- H₁: relationships exist between offered by MFI’s and standard of living

Since, the 2 tailed Sig value is <0.05 the null hypothesis is rejected and alternative hypothesis is accepted that there is a significant relation between the schemes offered by the MFI’s and the standard of living of the customers. The existing relationship is highly negative (-0.837) which means any the schemes offered by the MFI’s negatively contributing to the standard of living. And as per the Table 2 and 3 majority of the respondents have the same opinion that their standard of living is not increased through the activities by the MFI’s.

Challenges of Microfinance in India

Risk of failure to pay: The major problem in India for MFIs is loan recovery most of the MFIs lend the loans to rural costumer’s because of uncertainty and irregular income; peoples are unable to pay the loan amount to MFIs. This lead to huge loss for the MFIs and sometimes MFIs practices unethical events for the recovery of the

Table 4: Pearson correlation standard

| Standard of living | Standard of living | Schemes offered by MFIs |
|-------------------------|--------------------|-------------------------|
| Pearson correlation | 1 | -0.837 |
| Sig. (2-tailed) | | 0.026 |
| N | 195 | 195 |
| Schemes offered by MFIs | | |
| Pearson Correlation | -0.837 | 1 |
| Sig. (2-tailed) | 0.026 | |
| N | 195 | 195 |

amount lended. The SHG linkage programme is associated with bank and if the borrowers are not able to repay the loan it will create risk for both bank as well as MFIs Table 4.

Low outreach: In India the outreach level of MFIs very low as compared to the original requirement and potential. The outreach level Indian MFIs is only 8% as compared to the Bangladesh. In Bangladesh the outreach level of MFIs is 65% but in India it very less. Most of the Indian MFIs are concentrating on profit motive. MFIs contribution towards rural areas is very good if they really contribute more definitely the result are going to be very high.

No proper usage of loan: Improper usage of the loan is the other main issue in MFIs. The Loan raised through microfinance is mainly used for the consumption purpose not for productive purpose. MFI's providing the loan with the objective of making empowerment, but many cases it is not serving the real purpose of Micro-credit.

High interest rate: High interest rates remain the major issues faced by the MFIs in India. Especially for the poor people it's a burden. Most of the MFIs do not have proper legal structure on interest rates. MFIs mainly in India comes under four heads that's registered as NBF, cooperative society, trustee and NGO. For these institutions interest rates will differ from one institution to another. And also in MF products interest rates also vary from one product to another. Because of interest rates most of the poor people leaving the MFIs.

Weak regulatory framework: There is no proper regular framework in terms of lending finance to rural and urban customers. MFI doesn't have any proper framework for their activities sometimes which may cause the borrowers. The government should make certain framework for MFIs for their activities in terms of loans, client retentions, incentives, interest rates etc.

Challenges faced by the customers of microfinance institutions in Hassan district: MFIs operating in Hassan district having some issues and challenges while operating in the district. In 2016 there was an issue that MFIs in Hassan urban areas are making unethical practices while recovering loan from their clients. The other major issues and challenges are as follows:

High interest rates and less products: MFIs operating in Hassan urban areas are charging high interest rates for their loans and recovery. And also the products offered by the MFIs is very less there are only few number of products offered by the MFIs in Hassan urban areas.

Low outreach level: The outreach level of MFIs in Hassan urban district is very low. The majority of the MFIs clients' portfolio consists of 65:35 means that 65% of the rural customer and remaining 35% the urban customers. So MFIs should concentrate on urban areas also to overcome poverty. If they concentrate more urban areas the poverty level will be reduced slightly.

Client retention: Handling and maintaining the clients is the biggest problems in MFIs. In Hassan urban district most of the clients are leaving the MFIs because of interest, loan recovery and many other aspects. Most of the clients in Hassan urban areas exit because of trust worthiness problem compare to rural. Most of clients are not ready to bare the loss which is going happen from other members. In MFIs usually if any one left the SHG the debt amount will be compensate by the rest of the members but usually in urban areas the trustworthiness is very low, because of this reason majority of the clients are leaving from MFIs.

Less focus on urban areas: Majority of the MFIs in Hassan district having more rural clients than urban clients. This is because of many other reasons, MFIs get more benefit if they finance in rural areas they will get support from government. But the major reason is most of the MFIs are looking forward to rural areas because in rural majority of the clients are having their own assets like land, but in urban this will be very less. If MFIs lend loan to rural they have the confidence that these rural customers will not leave their place and definitely they will refund the loan one or the other day and there are lot many trust worthiness, but in urban this is not happening because of this issue majority of the MFIs are neglecting the urban areas.

Migration: Migration or movement of people from one place to other place. Another main reason for neglecting the urban areas is migration of the urban people. Urban clients having the migration problem compare to rural clients. Clients of urban areas can easily exit MFIs and move forward to other areas so because these MFIs will face recovery problems so they will avoid the urban areas.

Recovery policy: The loan recovery in urban areas is very tuff. The MFIs recovery in urban areas especially in Hassan is unethical. And because of this issue the loan portfolio in urban areas has been reduced. And most of the clients leave the MFIs because of their unethical practices.

Key findings: In Hassan Majority of the MFIs are operating in rural areas only few number of MFIs are operating in urban areas. The numbers of clients and loan portfolio is also more in Rural area compare to urban area the clients proportion is 65% in rural and 35% in urban areas. Means that MFIs are targeting rural clients than urban clients.

Most of MFIs are targeting the rural areas because rural customers having their own property like land, house and other aspects but in urban most of the customers are not having any proper assets or properties. So keeping this as a base majority of MFIs targeting rural people than urban.

Migration is the major problems in urban areas because people in urban area may not stay in one place, they will move or migrate from one place to another but rural customer having their house and land in rural areas they will be staying in one particular place for a long time.

CONCLUSION

In India microfinance institution's role and its impact plays a vital role in making rural development. Microfinance institutions mainly established in rural areas with the intention to reduce poverty and making women empowerment. Compare to the Bangladesh the outreach level of MFIs in India is very low and at the same time India's Microfinance institutions is very profitable than Bangladesh.

Most of the MFIs are neglecting their primary objective and concentrating more on profit. In India most of the urban areas have high poverty than rural areas. MFIs are more profitable in urban areas in terms of opportunity cost, transaction cost and other prospects. But still the outreach level of MFIs in Urban areas is very low. MFIs having lot of opportunities in urban areas, they can achieve the sustainable growth and also makes the empowerment in every segment.

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SUGGESTIONS

It is the need of time that the focus should be shift from micro- credit to micro-finance and then to income generation activity. For income generation activities and enterprises to be successful, there must be a supportive environment that does not place unnecessary legal barriers or constraints in the way of development. For this government have to make the supportive policy. To be successful in business poor people need access to information, knowledge about the enterprise, knowledge about finance and making new products and reaching the market. They also need the opportunity to learn new skills such as book keeping and managing finance.

Micro finance in Hassan district has failed to receive active support of the state government of Karnataka. MFOs have to face competition with money lenders. Micro finance is able to provide credit facilities to the poor people who have been relatively neglected in the past both by the co-operatives and commercial Banks. The Government of Karnataka should take initiative in the formation of SHGs of the small farmers; lend less labourers, rural artisans and persons of low income who engaged in various occupations.

The success of the Micro Finance would depend upon its credit administration, credit play an important role in Development of any income generating activity. So government and NGOs have to develop a policy for monitoring the progress of loans and efficient recover of loan.

The success of the anti-poverty programme depends to a large extent on the interaction between NGOs and development agencies. This is essential for the identification of borrower families, selection of activities and provision of back up support for the income generating activities. The income generation activity should be location specific with adequate forward and backward support. There is also a great need for a broad co-ordination of the policies and procedures of the various rural banks at state level.

NGOs an MFO must have to review the performance of SHGs and set guidelines and plans for SHGs. For orderly and rapid growth of micro finance sector we need transparency and good governance in micro finance sector. We have to set area related methods of operation. Specify accounting norms and audit norms of NGOs and MFOs. There is a need to establish a committee to advise NABARD at state level for formulation of policies related to the orderly growth and development of the micro finance sector. Government, NGOs and MFOs have to develop this approach that members of SHGs are the main actors of the micro finance. The government, NGOs and

MFOs, under any circumstances, will not give any grant or cash subsidies to any SHG or any group member. Before the actual income generation programme the NGOs conduct a feasibility survey for employment generation programme. It includes product survey, Raw material survey, workers skill survey and marketing survey and environmental survey. Karnataka State needs to build a separate structure for the development of micro finance. Government of Karnataka have to develop a policy for vocational education and formal education, because education as an instrument plays a vital role in the versatile development of human being and influences the social as well as economic development of a country or region. As the contribution of skilled and educated work force accelerates the pace of economic development to a great extent, it is essential to uplift the qualitative characteristics of the human resource.

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