

# A Study on Emerging Trends and Challenges In Micro Finance

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**ABSTRACT:-** This paper sheds light on the microfinance supply channels and assesses the current microfinance position. The microfinance industry in India was a strong contributor to the financial inclusion in India of underserved and unbanked people.

The study looks at some obvious problems, challenges and proposes few ways to make microfinance more efficient. Based on trends, problems and challenges relating to microfinance, the study sets out a new agenda for the future. Financial inclusion is strongly promoted to ensure that banking services are delivered at an affordable cost to the vast sections of the unbanked group.

Subsequently, The Government of India and the Central Bank (RBI) reaffirmed the role of microfinance institutions (MFIs) in financial inclusion by introducing guidelines for MFIs. Nowadays, banks are also focused on the microfinance sector with different schemes and the corporate sector considered microfinance as a way of fulfilling corporate social responsibility.

Although the Indian government 's recent move to demonetization (8 November 2016) and Andra Pradesh 's microfinance crisis occurred in 2011, this sector drops large collections and experienced loan defaults due to the cash crash. This study therefore explores emerging trends in Indian microfinance due to the impact of policy reforms, financial technology (Fintech) and bank initiations.

**Keywords: Micro Finance, Future Opportunities ,Challenges**

## 1. INTRODUCTION

Microfinance can be regarded as providing small amounts of money, credit and other financial services and products to the poor to enable them to raise their incomes and improve their living standards. It was clear that microfinance helps poor people meet their needs for small loans and flexible services offered to low-income borrowers to meet their modest consumption and livelihood needs have not only led to a rapid growth of the microfinance movement around the world, but in turn has also had a positive impact on people's lives.

The microfinance industry is highly dynamic and self-motivated in the current scenario. Recently, Governing Authorities such as RBI, the Ministry of Finance, Central and State Governments have implemented many amendments and regulations to ensure financial inclusion (FI) through banks such as priority sector loans, PMJDY, business correspondent, etc.

Later, the Bank also entered the microfinance sector with many products and schemes such as micro-credit, micro- insurance, micro- savings, the opening of specialized branches of microfinance.

## NEED OF MICROFINANCE

India is a country dependent on rural agriculture and approximately 60 percent of the total population is still living in villages.

Villages are India's heart. People are mainly engaged in cultivation, and they usually take cultivation as their way of life. India's development depends on the developments of rural sector. Micro finance need has increased after reading the report of NSSO. So MF becomes essential for rural India.

## CONCEPT OF MICRO FINANCE

The microfinance established by NABARD developed a definition that has become the definitive one "microfinance can be regarded as the provision of credit and other financial services and products of very small amounts to poor people in rural, semi-urban or urban areas, to enable them to raise their incomes and improve living standards. On other words, Microfinance is financial services of small quantity that provide by financial institution to the poor.

These financial services can include loans, savings, insurance, leasing, transfer of funds, transfer of equity, etc. type of financial services provide to customers to meet their financial needs And finally we can conclude that microfinance is a finance which fulfills two conditions, At first it transfers value of funds is small and secondly is consumers are poor.

## **OBJECTIVES**

- To study and evaluate the trends in micro finance.
- To study the effectiveness of micro finance delivery models.
- To explore the key issues in micro finance in India.

## **2. RESEARCH METHODOLOGY**

The study is a qualitative evaluation and quantitative analysis based on new trends and patterns in Microfinance operating methods. The study is exploratory research in nature, therefore data has been collected mainly from the PMJDY website, the Bharat Microfinance Report, etc.

### **Sampling Technique**

The researcher adopted simple random sampling method to collect the data.

### **Source of Data**

The researcher used only secondary data, to accomplish the objective of the study.

### **Secondary Data**

The theoretical aspects of the study are gathered from different sources, including books, magazines,

websites and other related projects.

## **COMPONENTS OF MICROFINANCE**

### **Micro-savings**

Micro-savings is an important part of microfinance. It allows poor people( in developing countries such as India in particular) to live their lives. Micro- saving can be either voluntary or a forced saving to secure loans from the lender can be required. This is especially interesting, but usually in risky investments.

Voluntary savings usually provide security against unpredictable risks, such as infectious or epidemic diseases, natural disasters, etc. Small businesses generally use the micro-savings option.

### **Micro-credit**

Micro- credit is the extension of very small loans( micro- credits) to unemployed people, poor entrepreneurs and poor people who are not considered to be bankable. These individuals lack collateral, proper employment and verifiable credit history and therefore can not meet even the lowest credit qualifications.

Micro-credit has successfully enabled extremely poor people to engage in self-employment projects that enable them to earn steady incomes and, in many cases, to build wealth and end poverty.. Due to the triumph of micro-credit, many in the traditional banking industry have started to realize that micro-credit borrowers should be classified more correctly as pre-banked.

Therefore, micro- credit gains credibility in the mainstream finance industry and many traditional large financial organizations see micro- credit projects as a source of growth in the future.

### **Micro-insurance**

Micro- insurance is a term that is increasingly used to refer to insurance that is characterized by low premium and low caps or low coverage limits, sold as part of a typical risk pooling and marketing arrangement and aimed at providing low- income service to people and businesses not served by typical social or commercial insurance. Micro- insurance

products are primarily intended for low- income groups in the unorganized sector- farmers and artisans.

The amount of premium in these schemes ranges between Rs. 200 to Rs. 500 The coverage of the products is in the range of Rs.5000- Rs.5000 These products are available in various categories including health insurance, personal accident coverage, crop insurance and various equipment insurance.Ministry of Finance recently considered two schemes AamAdmiBimaYojana to extend death and disability insurance and RashtriyaSwasthyaBimaYojana, a health insurance scheme for below poverty line (BPL) families which gives benefits uptoRs. 30000. The premium in the second scheme is partially borne by center and state government.

#### **TYPES OF MFIS**

Domestic Commercial Banks, including Public, Private and Local Banks

- ❖ Regional Rural Banks
- ❖ Co-operative Banks
- ❖ Registered NBFCs
- ❖ Unregistered NBFCs
- ❖ Other companies and trusts

#### **MAIN FEATURES OF MICROFINANCE ARE**

- ❖ Loans to people living below the poverty line
- ❖ Members of SHGs may benefit from microfinance
- ❖ Maximum loan under microfinanceRs.25,000
- ❖ Microfinance is different from microcredit  
In microcredit, the borrower receives small loans but under microfinance, along with many other financial services including savings accounts and insurance.

#### **MAJOR ADVANTAGES OF CURRENT NEW MICRO FINANCE TRENDS**

- ❖ Microcredit helps women to become independent because in the past, women were not able to participate in economic activities. Microfinance institutions are now ready to provide funds necessary to start business projects for women.
- ❖ Microfinance helps manage poor people's assets and generates revenue through microfinance.
- ❖ Microfinance helps people access or save money at

minimum interest rates over a period of time. Also, by working together as a community, they could solve their own problems and this creates trust and social capital in their communities. It also leads to economic stability and growth in their households, as well as their communities.

- ❖ NABARD has also encouraged voluntary agencies, bankers, socially committed persons, other formal and informal organizations and government officials to promote and nurture SHGs.
- ❖ Micro finance institution reduced dependence of SHGs on local money lenders fully or partially. Loans given by banks to the groups 1-3 times higher than the saving of the groups.
- ❖ NGO and other government department also provide skill training to SHG members which prove beneficial for group members. For example after receiving training in animal husbandry the SHG convinced the local banker for a small loan for every member of an SHG for dairying. Realizing that private milk vendors are exploiting the dairy farmers, they decided to take over a defunct Milk society in the area and started collecting milk from all members and sell it to the Apex Milk Cooperative Federation. The individual member's daily income shot up from `50 to `84 daily and with it came a hope for the future of their family for a better standard of living, better education for the children and equally important is the transformation it brought about in the social status of the women members in the family and in the community. Today, the entire village is rejoicing at the success of these women in the village. They integrate microfinance into their main commercial retail loans, which is apparent from the acquisition of certain NBFC-MFIs by large planned commercial banks in India.

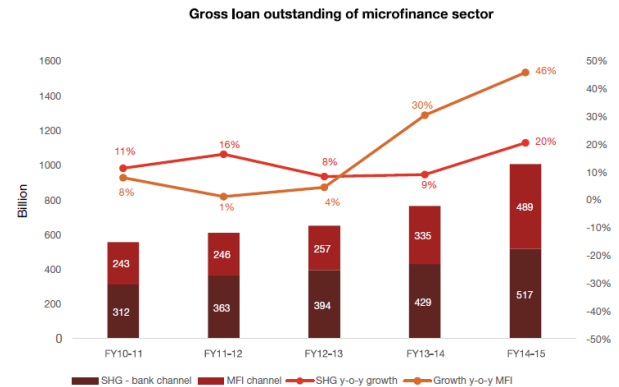
#### **DECREASING RATE OF MICRO FINANCE, CHALLENGES, STRATEGIES AND IMPLICATIONS**

- The cost in regards with delivery is relatively high
- Grants available to micro finance is relatively low
- Concerns regarding the rate of increase in Non Performing Assets with Micro Finance

- No adequate and favorable policy norms in aspect to micro finance
- Due to the actual traditional banking infrastructure

### ENABLE GROWTH IN MICRO FINANCE

- High performance increased in lead activity management
- Well-coordinated customer on-boarding and e-KYC
- Effective partner integrations
- Efficient analytics insights



### GROWTH AND DEVELOPMENT OF MICRO AND SMALL ENTERPRISES

Figure 1: MFI loan disbursement

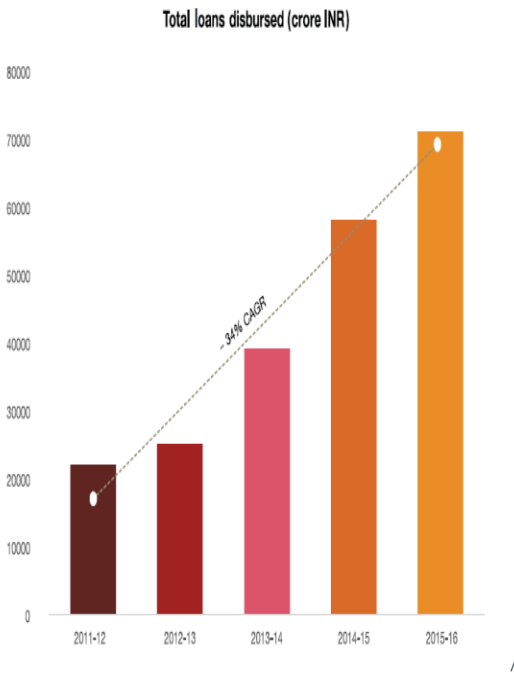


Figure 2 :Gross loan outstanding of microfinance sector

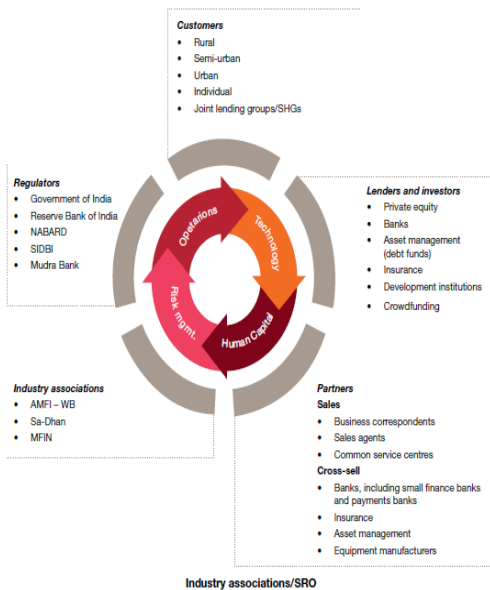
Here growth is referred as increasing size or other relative objects that have be quantified or process related to change and also referring to improvement being carried out.

The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state. The relatively growth of a firm is in regards and as well corresponding to the supply of capital, labour and as well as the appropriate management and opportunities for the investments that made in order to generate profit.

The prime factors that for a firm’s growth is in regards to the availability of the necessary resources to the firm MFI s considering the growth of Micro and Small enterprises developed large-scale operations by offering a few highly standardized products with few advantages like Streamlined loan administration. As for the field staffs simplified decision making reduces the information requirements from clients. Including low operational cost simplifies the repayment obligations.

But on the flipside the related standardization also has its own disadvantages. Therefore MFI’s pays closer attention to product flexibility. On the same line the individual need bases loans are made more suitable as they are designed and tailored down in order to cater the specific requirement for the client.

## STRATEGY FOR THE EVOLVING ECOSYSTEM



### 3. THE LATEST TRENDS IN MICRO FINANCE

#### Marginal markets

Extreme poverty, insignificant economic activity and temporary emergencies such as wars and disasters continue to prevent access to formal financial channels for certain sections of the population. Initiatives are needed to bring these groups to the radar of financial institutions with basic services that enable them to enter a more decent and stable stage.

#### Clients will determine the supply

The closing of the quality gap is a major and new challenge: the difference between the services offered and the services best suited to the needs of customers. There is a continuous learning process for both suppliers and customers and the basis for product diversification is laid in their interaction.

#### New providers on the scene

The role of "non- traditional" microfinance providers is increasing in parallel with product diversification. Based on the profitability of the MF market and the

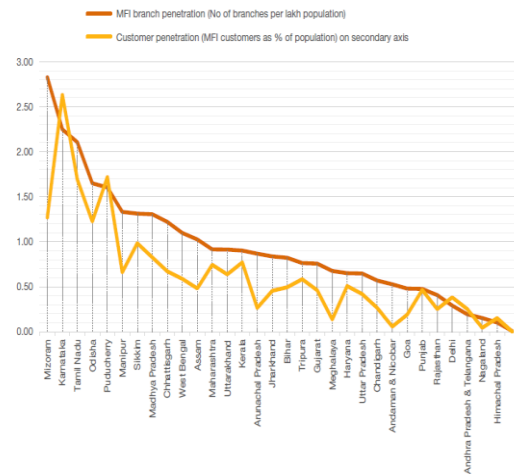
belief that the poor are an interesting market, banks are increasingly present as microfinance providers. They integrate microfinance into their main commercial retail loans, which is apparent from the acquisition of certain NBFC-MFIs by large planned commercial banks in India.

The presence of other suppliers is also growing: supermarket chains, insurance companies and others have discovered the poor market and have applied various downscaling strategies. Enhanced use of technology is the biggest enabler in the remote part of the country in terms of providing financial services. As technological infrastructure (the Internet, cellular networks) is improved, customers make transactions without physical contact with an MF credit officer.

As a consequence, transaction costs have decreased and the distance from a physical outlet is no longer a reason.

## MARKET STRATEGY

### STATE-WISE MICROFINANCE PENETRATION IN INDIA



### 4. CONCLUSION

The study concludes that microfinance is an important instrument in improving the living standards of the poor. Despite many microfinance organizations, microfinance is not sufficient and growing in India.

In the last few decades, the microfinance industry has grown rapidly. The study ends in the year 2010-16. The study also found that SHG 's loan was growing and was responsible for increases in NPAs. Finally, we learn that the biggest share belongs to commercial banks when MFI receives a wise loan from the agency.

Finally, steps should be taken to improve the performance of the programs initiated from time to time under microfinance.

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