

**A STUDY ON EMERGING TRENDS AND CHALLENGES IN MICRO FINANCE**

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## **ABSTRACT**

### **A STUDY ON EMERGING TRENDS AND CHALLENGES IN MICRO FINANCE**

The present paper highlights the micro finance delivery channels and evaluates the present position of micro finance. The Indian microfinance industry has been a strong enabler of financial inclusion of underserved and unbanked people in India. The study explores some glaring issues, challenges and offers some suggestions to make micro finance more effective. On the basis of trends, issues and challenges related to micro finance, the study predicts the new agenda for future. Financial inclusion is vigorously promoted to ensure delivery of banking services at an affordable cost to the vast sections of the unbanked group. Subsequently, The Government of India and Central Bank (RBI) reaffirmed the role of Microfinance Institutions (MFIs) in financial inclusion by introducing MFIs guidelines, Nowadays banks also concentrate on Microfinance sector with different schemes and corporate sector considered Microfinance as a mode to fulfill the corporate social responsibility (CSR). Even though the recent movement of the Indian government towards demonetization (8th Nov-2016) and Andhra Pradesh Microfinance crisis happened in 2011, this sector is dropping large collections and experienced loan defaults due to the cash crunch. Hence, this study explores emerging trends in Indian Microfinance due to impact of policy reforms, financial technology (Fintech) and banking initiations.

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

## **INTRODUCTION**

Micro finance is the provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and improve their living standards. It has been recognized that micro finance helps the poor people meet their needs for small credit and flexible services offered to low income borrowers for meeting their modest consumption and livelihood needs have not only made micro finance movement grow at a rapid pace across the world, but in turn has also impacted the lives of millions of poor positively.

In the current scenario, microfinance sector is highly dynamic and self motivated. Recently, many modifications and regulations have been implemented by Governing authorities like RBI, Ministry of Finance, central and state governments to ensure Financial Inclusion (FI) through Banks like Priority Sector Lending, PMJDY, Business Correspondent etc. Later on, Bank also entered into Microfinance sector with many products and schemes such as Micro Credit, Micro Insurance, Micro Savings, opening of specialized Microfinance branches

## **NEED OF MICRO FINANCE**

India is agriculture based rural economy and about 60 percent of total population still resides in villages. Villages are heart of India. The main occupation of rural people is agriculture and usually they take agriculture as their way of life. Indias repaid 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 micro finance set up by NABARD came up with a definition which has become the definitive one “micro-finance is provision of thrift credit and other financial services and products of very small amounts to poor in rural, semi-urban or urban areas, for enabling them to raise their income levels and improving living standards”. On other words, Microfinance is financial services of small quantity that provide by financial institution to the poor.

These financial services may include saving, credit, insurance, leasing money, transfer of funds, equity

transfer etc. type of financial services provide to customers to meet their financial needs And finally we can

say's that microfinance is a finance which full fill two conditions Firstly is transfer value of funds is small and secondly is costumers 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.

## **RESEARCH METHODOLOGY**

The study is a qualitative assessment and quantitative analytical study based on new trend and patterns occurred in operational methods of Microfinance. The study is exploratory research in nature, therefore data have been collected through secondary sources mainly from PMJDY website, 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 is collected from various sources which includes books, journals, magazines, websites and other related projects.

## **COMPONENTS OF MICROFINANCE**

### **Micro- savings**

Micro-savings is an important part of micro-finance. It enables poor people (especially in developing countries) a small cash cushion them. Micosaving can either be voluntary or it may be a forced savings requested to secure loans from the lender. This is particularly interesting in risky investments but usual. Voluntary savings usually serves as security against unpredictable risks, such as infectious disease or epidemic, natural disasters, etc.. In general, small business use the option of micro-savings.

**Micro-credit**

Micro-credit is the extension of very small loans (micro-loans) to the unemployed, to poor entrepreneurs and to others living in poverty that is not considered bankable. These individuals lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. Micro-credit is a part of microfinance, which is the provision of a wider range of financial services to the very poor. Micro-credit has successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate an income and, in many cases, begins to build wealth and exit poverty. Due to the success of micro-credit, many in the traditional banking industry have begun to realize that these micro-credit borrowers should more correctly be categorized as pre-bankable; thus, micro-credit is increasingly gaining credibility in the mainstream finance industry and many traditional large finance organizations are contemplating micro-credit projects as a source of future growth.

### **Micro-insurance**

Micro-insurance is a term increasingly used to refer to insurance characterized by low premium and low caps or low coverage limits, sold as part of a typical risk-pooling and marketing arrangements, and designed to service low-income people and businesses not served by typical social or commercial insurance schemes. Micro-insurance products are mainly targeted at low income groups in the unorganized sector- farmers and craftsmen. The amount of premium in these schemes ranges between Rs.200 to Rs.500. The coverage provided by these products is in the range of Rs.5000- Rs.50000. These products are available in various categories such as health insurance, personal accident cover, crop insurance and insurance for equipment. Finance ministry recently considered two schemes Aam Admi Bima Yojana to extend death and disability insurance and Rashtriya Swasthya Bima Yojana, a health insurance scheme for below poverty line (BPL) families which provides benefits up to Rs.30000. The premium in the second scheme is partially borne by center and state government.

### **TYPES OF MFIS**

- Domestic Commercial Banks including Public Sector, Private Sector and Local Banks
- Regional Rural Banks
- Co-operative Banks
- Co-operative societies

- Registered NBFCs



- Unregistered NBFCs
- Others include Societies and Trusts

## **MAIN FEATURES OF MICROFINANCE ARE**

- Loans to those people who live below the poverty line
- Members of SHGs may benefit from micro finance
- Maximum limit of loan under micro finance Rs25,000
- Microfinance is different from Microcredit-
- In micro credit, small loans are given to the borrower but under microfinance alongside many other financial services including savings accounts and insurance.

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

Microcredit empowers women to become independent because in the past, women were not able to participate in economic activities. Microfinance institutions now provide women with the capital they require to start business projects.

Microfinance also helps to manage the assets of the poor and generates income through microfinance.

Microfinance helps the poor people get access or save funds over a period of time with low interest rates. Also, the poor could solve their own issues by working together as a community and this creates trust and social capital in their communities. It also leads to stability and growth in their households, as well as their communities.

NABARD has also been encouraging voluntary agencies, bankers, socially spirited individuals, other formal

and informal entities and also government functionaries 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.

Micro financing can help create new employment opportunities, which has a beneficial impact on the local economy.

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

- High cost of delivery
- Low level of grants to micro finance
- Fear of increasing NPAs with micro finance
- An unfavorable policy environment
- Substantial traditional banking infrastructure

## **ENABLE GROWTH IN MICRO FINANCE**

- Lead activity management
- Customer on-boarding and e-KYC
- Partner integrations

- Analytics insights

## **CONCLUSION**

The study concludes that micro finance is an important tool for improving the standard of Living of poor. In spite of many organizations of micro finance, micro finance is not sufficient and increasing in India. Microfinance sector has grown rapidly over the past few decades. The study concludes from the year 2010-16. The study also finds out there was growth in the loan outstanding of SHG and which was responsible of increases in NPAs. At last we find out that the major share belongs to commercial banks when agency wise loan issued to MFI. At last steps should be taken to improve the performances of programs launched under Micro finance time to time.

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