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Microfinance in India: Contemporary Issues and Challenges

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Abstract: Microfinance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. It is emerging as a powerful tool for poverty alleviation in India. This working paper tries to outline the prevailing condition of the Microfinance in India in the light of its emergence till now. The prospect of Micro-Finance is dominated by SHGs (Self Help Groups) - Banks linkage Program. Its main aim is to provide a cost effective mechanism for providing financial services to the poor. Recently Union Rural Development Minister Jairam Ramesh wanted the help of SHGs for the establishment of DRDO designed bio-toilets in rural areas. This paper discovers the prevailing gap in functioning of MFIs such as practices in credit delivery, lack of product diversification, customer overlapping and duplications, consumption and individual loan demand with lack of mitigation measures, less thrust on enterprise loans, collection of savings/loans and highest interest rate existing in micro finance sector. All these are clear syndromes, which tell us that the situation is moving without any direction. Finally paper concludes with practicable suggestions to overcome the issues and challenges associated with microfinance in India.

Key words: Microfinance · SHGs · MFIs · NABARD

INTRODUCTION

Micro Finance may be defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards" [1]. At present, a large part of micro finance activity is confined to credit only. Women constitute a vast majority of users of micro-credit and savings services.

According to the United Nations, microfinance institutions can be broadly defined as provider of small-scale financial services such as savings, credit and other basic financial services to poor and low-income people. The term “microfinance institution” now refers to a wide range of organizations dedicated to providing these services and includes NGOs, credit unions, co-operatives, private commercial banks, NBFCs and parts of State-owned banks [2]. Microfinance is a dynamic field and there is clearly no best way to deliver services to the poor and hence many delivery models have been developed over a period of time.

Access s to financial services has been recognized as a human right. Strengthening credit-delivery services and increasing their outreach has always been an important component of Indian development strategy [3]. A large number of the poor continued to remain outside the fold of the formal banking system, in spite of the expansion of the wide network of the organized banking system deep into rural areas. Market and the government both failed to provide credit access to the poor. In fact the failure of institutional initiatives of rural credit and to the weaknesses of the exploitative informal system of credit gave birth to Microfinance institutions. No doubt, microfinance has been successful in providing credit access to the poor. But in recent times the role of microfinance has become controversial, with various sections raising objections and criticisms in this regard. This article provides a brief overview of some of the important issues and challenges currently facing the microfinance institutions (MFIs) in India and finally concludes with practicable suggestions to overcome the issues and challenges associated with microfinance in India.

Objectives of the Study: In India so many micro lending institutions are working. Some are in very good condition in terms of lending, training to their clients for saving and small level entrepreneurship. Some are in bad condition and struggling for their existence. The present study is conducted to know the following things related to MFIs in India.

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- The main objective of the study is to identify the main problems prevailing in microfinance in India.
- The other objective of this study is to find the solution of the problems faced by MFIs.

Review of Literature: There are lot of literature on opportunity and challenges of micro finance institution across the world, though only few studies have been carried out on the related topic, one such study done by Emerlson Moses [4], has studied that micro finance has emerged as a catalyst of rural development, especially in the overpopulated country like India. S.Sarumathi1 and Dr. K. Mohan [5] found that microfinance brought psychological and social empowerment than economic empowerment. Impact of micro finance is appreciable in bringing confidence, courage, skill development and empowerment. Devraja T.S. [6] has studied the India's achievement of the MDG of halving the population of poor by 2015 as well as achieving a broad based economic growth also hinges on a successful poverty alleviation strategy. In this backdrop, the impressive gains made by SHG-Bank linkage programme in coverage of rural population with financial services offers a ray of hope. In a similar study Mr. Nikhil [7] considered that the microcredit movement has proved that it is possible to deliver financial services to poor people living in rural areas at a large scale, free from any reliance on subsidies. Manisha Raj [8], in his research paper entitled "Microfinance Institutions in India and its Legal Aspects" states that Microfinance institutions have been proved a very important financial wing to incorporate the poor in the financial sector. Now on the other aspect like the challenges faced by the microfinance institutions Mr. Badrudduza [9] found the positive results shown by MFIs in many countries but still there are a number of challenges before the microfinance industry, he shown in his paper. Rajesh and Ravi [10] states in their paper, despite the role of microfinance is very good in poverty alleviation but the unethical and extortionist practices by MFIs led to arguably a draconian measure in its home turf Andhra Pradesh halting the industry in its tracks. In the line of challenges Dr. Sidhatha [11] and their co authors found that the Microfinance delivery involves macro and micro challenges. The macro challenges faced by MFIs include the inaccessibility of the micro finance services to the rural poor, the capital inadequacy of the MFIs, the demand supply gap in provision of microcredit and micro savings and the lack of women orientation in marketing, evaluation and delivery of microfinance. The micro challenges include the inability to reduce the high transaction cost involved in delivering microfinance, the non-availability of documentary evidence and collateral among majority of rural poor, difficulty in reducing the dependency of the rural poor on money lenders and lastly the problem of repayment tracking where lending is not based on documentary evidence. K. Muralidhara Rao [12] found in his paper that Private MFIs in India, barring a few exceptions, are still fledgling efforts and are therefore unregulated. Jonathan Morduch and Stuart Rutherford [13] in his study "Microfinance: analytical issues for India" states that the microfinance movement is thus striving to match the convenience and flexibility of the informal sector, while adding reliability and the promise of continuity and in some countries it is already doing this on a significant scale.

Statement of the Problem: We can say that the microfinance institutions are playing a vital role in the alleviation of poverty, uplifting living standard of very poor people. But what are the problems coming in the path of micro financing? The paper focuses on the issues and challenges prevailing in India regarding the micro financing. Are the microfinance institutions in very bad condition in India? An attempt is made through the paper to solve these problems.

Significance of the Study: The paper will help to know the condition of microfinance institutions in India. The research paper also tells why the microfinance institutions charges high interest to the borrowers. Here, in this research article, the attempt has been made to focus the problems of microfinance at social and cultural level, political level, educational level etc. The study presents some suggestions and recommendations to overcome from these problems.

MATERIALS AND METHODS

The data for the present study is collected from the primary and secondary sources. Various magazines, news papers, research articles, referred journals and books have been studied and used for the collection of data.

Microfinance in India

An Overview: The field of Microfinance is much researchable. There is a lot of literature on Microfinance is available but there is hardly any universally accepted definition of microfinance. Researchers and microfinance visionaries have not a single opinion when it comes to microfinance. According to Sriram and Upadhyayula

"It appears that what microfinance means is well understood, but ot clearly articulated" [14]. However, microfinance is term that refers to the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises [15]. The need of microfinance comes from the disadvantaged sections of the society - who are unable to access to services of formal sector financial intermediaries - and are typically excluded from the formal banking system for lack of survival [16] collateral, in short the poor and the very poor. The definitions of these groups vary from country to country. The clients of the microfinance institutes are normally employed in the informal sector, with closely interlinked household and business activities and earning low income [17]. In a much narrower sense though, microfinance is often referred to as microcredit for tiny informal businesses of micro entrepreneurs, the services being mainly delivered by socially oriented non-governmental organizations (NGOs) [18].

Delivery Models of Microfinance: Microfinance is a dynamic field and there is clearly no best way to deliver services to the poor and hence many delivery models have been developed over a period of time. Each delivery model has its share of problem and success. In India, various delivery models have been adopted by microfinance institutions and they can be categorized in to following broad categories, discussed one by one.

Self Help Group Model: The Self Help Group (henceforth, SHG) model has evolved in the NGO sector and works on the belief that the poor can help themselves and the NGOs can provide networking and education to them. Almost 90% of the SHGs in India are female only due to the known fact that world's poorest households tend to rely more heavily on income generated by women of the house. In India, SHGs have been the most popular way to help the poor and make them bankable. An SHG is a small group of about 20 persons from a homogeneous class, who come together voluntarily to attain certain collective goals, social or economic. The group is democratically formed and elects its own leaders. The essential features of SHGs include members belonging to the same social strata and sharing a common ideology. Their aims should include economic welfare of all members. The concept of SHGs is predominantly used in the case of economically

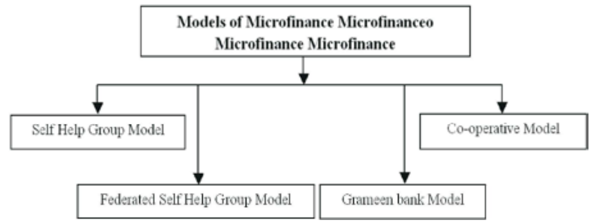

Fig. 1:

poor people, generally women, who come together to pool their small savings and then use it among themselves. The group members meet regularly (once in a week) and carry out their financial transactions [19].

The group mobilizes savings among its members only and provides need based loans to the members only (based on the funds created by savings). The rules and norms pertaining to finance or other matters are made by the group. The internal transactions are strengthened first and after that, the NGO supporting the group links them to banks for more financial assistance. There are many disadvantages of SHG models and they have been discussed in literature, a lot. Despite that fact, the advantages of the SHG have outnumbered the disadvantages and have made the SHGs as the most popular delivery model for microfinance in India. We can gauge the popularity from the following simple fact that even the government programs have SHG as the core of their strategies

Federated Self Help Group Model: Self Help Groups have been very successful in empowering women by providing direct and indirect benefits to them. However, SHGs are small in size (usually 10 – 15 members) and are limited in the types of financial services they can provide. Since Self Help Groups are a widely successful delivery model a need arises to scale them up without compromising with the success. The Federated Self Help Group model is one such way to scale up the previous model. Federation of SHGs bring together several SHGs. Compared to a single SHG, federation of SHGs have more than 1000 members. In Federated SHG model, there is a three tier structure the basic unit is the SHG, the middle tier is a cluster and the topmost unit is an apex body, which represents the entire SHG. At the cluster level, each SHG is represented by two of its members. The representatives of each SHG meet regularly. Information about the groups to the apex body and vice versa is given by the cluster unit. The apex body usually made up of 10 – 15 members and they form the link between the SHGs and the NGO supporting them. With the help of federations, an NGO with limited resources can have an impact on a large number of people. Few notable examples of Federated Self Help Group model are PRADAN, Chaitanya and SEWA.

Grameen Bank Model: The Grameen Bank model has been a case of exceptional success in Bangladesh. It turns out that many organizations in India have adopted the Grameen Bank model with little variations and good success. Some of the notable examples are SHARE Microfinance Limited, Activists for Social Alternatives (ASA) and CASHPOR Financial and Technical Services Limited. Some of the significant features of Grameen bank model are low transaction costs, no collateral (peer pressure is sufficient), repayment of loans in small and short interval and quick loan sanctions with little or no paper works and no formalities. Repayment of loans in small chunk is one of the major reasons of high loan recovery rate of a Grameen Bank. Furthermore, loans are provided for all purposes like housing loans, sanitation loans, supplementary loans etc. Also the interest rates are nominal making it easy for the poor people to repay their loans timely.

Co-Operative Model: A co-operative is an organization owned by the members who use its services. This model works on the principle that every community has enough human and financial resources to manage their own financial institutions. The members who own it are the members who use its services and can come from different sections of same community like agriculture, retail, wholesale etc. By proper networking small scale local institutions scale up and become sustainable while locals maintain ownership and control over their institution. The organization which has been vastly successful in co-operative form in India is Sahavikasa or Co-operative Development Foundation (CDF). CDF's approach relies on the well known Credit Union model involving a savings first strategy. Found in 1975 by a group of individuals, Sahavikasa has now emerged as the leading co-operative in India. Based on women's thrift group and men's thrift group, CDF has built up a network of financial cooperatives and had convinced the Andhra Pradesh government to form legislation for proper and flexible functioning of co-operatives in the state. The legislation is known as Mutually- Aided Societies Act (MACS). The act helps the CDF to register the thrift groups promoted by CDF under it. The activities of CDF involve

Hierarchy of Financial Institutions for Microfinance Disbursement

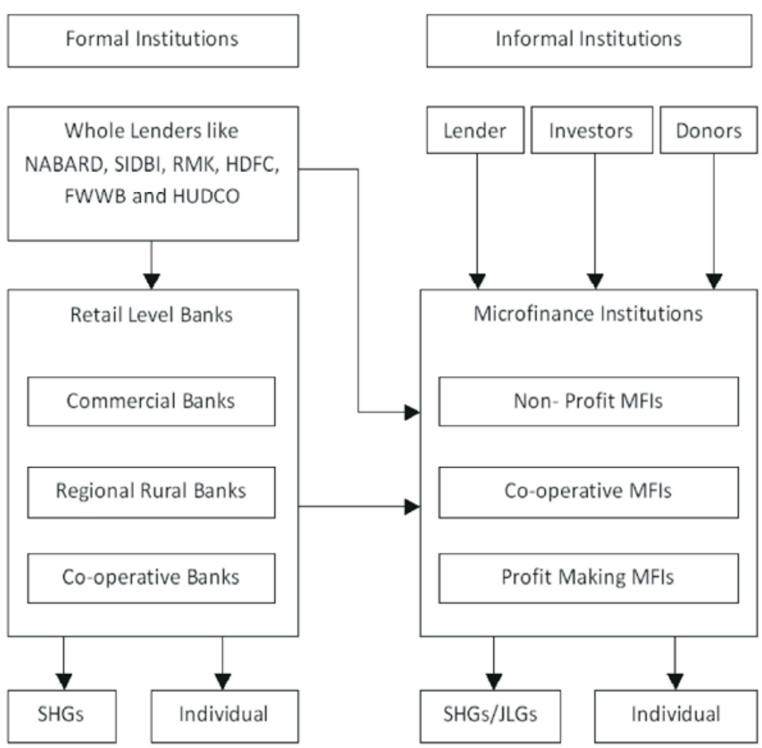

Fig. 2 : Institutional Arrangements for Microfinance Disbursement in India

Table 1:

Legal Forms of MFIs			
S.No.	Type of MFI	Number	Legal registration
		Not for Profit	
1.	NGOs	400-500	Social Registration Act, 1980, Indian Trust Act, 1882
2.	Non-Profit Companies	20	Section 25 of Indian Companies Act, 1956
		Mutual Benefit MFIs	
3.	Mutual Benefit MFIs, Mutual Aided Co-operative Societies	200-500	Mutually Aided Co-operative Societies, Act enacted by state government
		For Profit MFIs	
4	Non- Banking Financial Companies	45	Indian Companies Act, 1956, RBI Act, 1934

(Source: NABARD issues Related to Microfinance[1])[20]

assisting rural women and men in the areas of operation in forming and developing self sustainable co-operatives. CDF also provide education and training to the co-operators from its work area.

Microfinance Institutions: Microfinance institutions (MFIs) are the organisations or associations of individuals that provide financial services to the poor. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. In India, there is a wide range of such organisations with diverse legal forms, varying significantly in size, outreach, mission and credit delivery methodologies. Figure 2 represents the hierarchy of financial institutions for the microfinance disbursement.

Legal Forms of MFIs: The MFIs are an extremely heterogeneous group registered as Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts. All such institutions are operating in microfinance sector constitute MFIs and together they account for about 42 percent of the microfinance sector in terms of loan portfolio. On the basis of their legal forms, the MFIs in India can be broadly subdivided into three categories: Non-profit making, Mutual benefit making and profit making MFIs as shown in Table 3.2. The MFI channel is dominated by NBFCs which cover more than 80 percent of the total loan portfolio through the MFI channel.

Key Issues in Microfinance in India

Low Outreach: In India, MFI outreach is very low. It is only 8% as compared to 65% in Bangladesh. Data show the great potential of MFIs in increasing their outreach and scale of operations. It has been observed that MF programmes focus a great deal of attention on women. It has been argued that women are better clients as they are more inclined to save than men, they borrow smaller amounts than men and their repayment performance is better than men. These characteristics of women clients constitute evidence in support of the inclination of MFIs to cater to the needs of women. Women may be better and more reliable clients, but in order to increase their outreach MFIs cannot ignore men as clients.

High Interest Rate: MFIs are charging very high interest rates, which the poor find difficult to pay. It has been argued that MFIs are private entities and hence need to be financially sustainable. They do not receive any subsidized credit for their lending activities and that is why they need to recover their operational costs from borrowers. In the process, the basic reason for their existence-and their primary objective-is being lost. It is important that these NGOs should be willing to operate at narrow margins and to bear a low effective interest rate so that they can maintain a balance between their dual objectives of commercial viability and serving the poor.

Negligence of Urban Poor: It has been noted that MFIs pay more attention to rural areas and largely neglect the urban poor. Out of more than 800 MFIs across India, only six are currently focusing their attention on the urban poor. However, the population of the urban poor is quite large, amounting to more than 100 million. With increasing urbanization, this number is expected to rise rapidly in the coming years. In this situation, MFIs need to pay equal attention to the urban poor because they too need financial assistance for various activities.

Client Retention: Client retention is an issue that create a problem in growing the MFIs. There is about 28% client retention in the MFIs. This occurs because people are not properly informed and educated about services and products provided by the institutions more over the current client has higher default rate [21].

Table 2:

S.No.	Name of MFIs	Purpose of Loan	Interest Rate
1.	SHARE	Production / Housing	15 %
2.	Nari Nidhi	Production	12 %
3.	WWF	Production	18 %
4.	RDI	Production / Consumption	24 %
5.	Shanti Dhan	Production / Consumption	13 %
6.	MYRADA	Production / Consumption	24-36 %
7.	SPMS	Production / Consumption and Marriage	24-60 %

(Source – Studying by EDA Rural System, Gurgaon[2])

Loan Default: Loan default is an issue that creates a problem in growth and expansion of the organization because around 73% loan default is identified in MFIs. Lack of understanding on the part of the clients, they also cannot correctly manage the loans given to them. As a result, they are not able to pay back the loan.

Low Education Level: The level of education of the clients is low. So it creates a problem in the growth and expansion of the organization because its percentage is around 70% in MFIs. Target population of MFIs is people of rural areas and they have no or less education level. As the percentage of people who have very less education.

Language Barrier: Language barrier makes communication with the clients (verbal and written) is an issue that creates a problem in growth and expansion of the organization because around 54% language barrier has been identified in MFIs. As the education level of clients is low so it is difficult to communicate with them. For this reason it is also difficult for the MFIs employees to make the clients to understand the policy and related details.

Late Payments: Late payments are an issue that creates a problem in growth and expansion of the organization because late payments are around 70% in MFIs. This usually occurs because clients are uneducated and they don't know how to manage their debt. They are unaware of the fact that late payment increases their loan payments..

Geographic Factors: Around 60% of MFIs agrees that the Geographic factors make it difficult to communicate with clients of far-flung areas which create a problem in growth and expansion of the organization. MFIs are basically aimed to facilitate the BPL population of the country but due to lack of infrastructure in those areas it becomes difficult to reach them.

Debt Management: Clients are uneducated about debt management 70% of the clients in MFIs are unaware of the fact that how to manage their debt. Because of the lack of education and understanding on the part of the clients, they also cannot correctly manage the loans given to them. So for this reason debt management creates a problem in growth and expansion of the organization.

Internal Environment

High Transaction Cost: High transaction cost is a big challenge for microfinance institution. The volume of transactions is very small, whereas the fixed cost of those transactions is very high. It cannot vary with the size of the loan. The higher a producer's fixed costs in the proportion of his total cost, the element of risk increases in the same proportion. Moreover, if the demand for the product falls or the marginal costs increases, it becomes very difficult to adjust the cost by cutting output. This cut will reduce revenue out of which he has to pay principal amount as well as interest on the loan. This needs to be rationalized [22].

Lack of access to Funding: Another factor contributing to the lack of growth in MFIs is that requisite financial support has not been provided to MFIs by concerned agencies. Around 68% of MFIs response was in favour of that government and SBP don't support them to meet the funds requirement as MFIs cannot alone remove the poverty from the country.

Loan Collection Method: Loan Collection Method is found an issue that creates a problem in growing the organization. Around 55% of MFIs agrees that due to weak law and legislation they are not able to make their loan collection system as effective as they want to do so.

Fraud: Fraud is an issue that creates a problem in growth and expansion of the organization because its percentage is around 67% in MFIs. Mismanagement of loans on the part of the clients creates the problem of fraud and financial embezzlement on the part of clients.

External Environment: Increased Competition: Increased competition is an issue that creates a problem in growth and expansion of the organization because its percentage is around 72%. As there has been growth in the banking sector with regard to the loan facilities therefore there is a greater competition among such institutions.

Uneven Population Density: Uneven population density is an issue which create problem in growth and expansion of the organization because loans and funds are required by rural population not urban areas.

Challenges Before the MFIs: No doubt, microfinance programme has shown impressive achievements, but a number of challenges are there: Did this programme reach the underprivileged? Whether everyone in need of microfinance intervention had been reached by any of the agencies? Even if everyone had been reached, did they get the required quantum of assistance to have sustainability? These questions are still very inconvenient to be answered because there are certain challenges associated with this programme. Some of the main challenges have been discussed in the following paragraphs.

Quality of SHGs: The third challenge is how to ensure the quality of MFIs in an environment of exponential growth. Due to the fast growth of the SHG-Bank Linkage Programme, the quality of MFIs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts etc. The deterioration in the quality of MFIs is explained by a variety of factors including:

- The intrusive involvement of government departments in promoting groups;
- Inadequate long-term incentives to NGOs for nurturing them on a sustainable basis; and
- Diminishing skill sets on part of the MFIs members in managing their groups. In my assessment, significant financial investment and technical support is required for meeting this challenge [23].

Regional Disparity: It has been observed that the microfinance programme is mainly run by formal financial institutions with the help of SHGs. As a result, microfinance programme is progressing in those areas of the country where there is tremendous growth of formal financial institutions. Microfinance institutions were expected to reach those areas where the formal banking system failed to reach and the poor people have to depend on the money-lenders in order to meet their financial requirements. But actually, many big MFIs are activating in those states where the banking network is very strong. In the southern states, such as Andhra Pradesh, Tamil Nadu, Karnataka and Kerala, the spread of SHG bank linkage programme as well as the MFI programme is very large. But the north and north-eastern region is almost neglected. In the southern India the spread of commercial bank branch network is the highest (27.94 per cent) and these states cover 48.15 per cent of the country's total SHG members and 54.77 per cent of the MFI members. So, approximately 50 per cent of the total microfinance programme beneficiaries belong to these four south Indian states. In contrast to this, in the north-eastern region of India, bank branch network is very limited and the coverage of microfinance programme is just 2.93 per cent. The table also shows the region-wise branch network and the microfinance members covered under SHG-Bank Linkage and MFI model in these different regions.

Deserving Poor are Still not Reached: The microfinance delivery models are not exclusively focused on those who are below the poverty line or very poor. Though the programme is spreading rapidly but with a slow progress in targeting the bottom poor households. About 50 per cent of SHG members and only 30 per cent of MFI members are estimated to be below the poverty line. According to Ghate (2008), approximately 75 million households in India are poor and about 22 per cent of these poor households are currently receiving microfinance services. In order to run the groups successively and to achieve higher repayment rates, they generally select the non-poor people as programme beneficiaries. The study finds that the core poor are often not accepted in group lending programmes by other group members because they are seen as a bad credit risk [24].

In spite of the various institutional barriers, various psychological problems relating to the poor people restrict them to join the programme. The extreme poor often lack self-confidence so they hesitate to join a group where they have to deal with the other group members, bank officials and other promoting institutions. The core poor are generally too risk averse to borrow for investment in the future. They will therefore benefit only to a very limited extent from microfinance schemes.

Microfinance Outreach in Seven Poorest States of India: Unfortunately, these seven states, Orissa, Bihar, Chhattisgarh, Jharkhand, Uttaranchal, Madhya Pradesh and Uttar Pradesh are lagging behind in microfinance programme. These states hold approximately 53.5 % of the total poor in India and the share of these seven states is just 23.60% of total microfinance outreach in India. The reasons for this skewed distribution of microfinance programme may be the intense support extended by the state governments, local culture and practice and concentration of MFIs.

Low Depth of Outreach: Another problem faced by the microfinance programme is the depth of services provided. Though the outreach of the programme is expanding, large number of people is provided with microfinance services but the amount of loans is very small. The average loans per member in both MFIs and SHGs are between Rs. 3,500 [25] his amount is not sufficient to fulfil the financial needs of the poor people. The duration of the loans is also short. The small loan size and short duration do not enable most borrowers to invest it for productive purposes. They, generally, utilise these small loans to ease their liquidity problems.

Unregulated Microfinance Institutions: In India, micro finance is provided by a variety of institutions. These include banks (including commercial banks, RRBs and co-operative banks), primary agricultural credit societies and MFIs that include NBFCs, Section-25 companies, trusts and societies. But only the banks and NBFCs fall under the regulatory purview of the Reserve Bank of India. Other entities, e.g., MFIs are covered in varying degrees of regulation under their respective State legislations. There is no single regulator for this sector. As a result, MFIs are not required to follow some standard rules and are not subject to minimum capital requirements and prudential norms. This has weakened their management and governance, as they do not feel it mandatory to adopt some specific systems, procedures and standards. Therefore, there is a need for regulating the varied number of microfinance providers which are influencing the lives of millions of poor people. The regulation would, therefore, help in improving the growth of MFIs in an orderly approach.

Lack of Insurance Services: Poor people are vulnerable to financial shocks. A small change in their earning patterns due to natural calamities, health problems, death of earning member etc. Can push them to destitute. So, a provision of insurance under the microfinance programme is very essential to help the poor to cross the poverty line. But, in reality, the current microfinance programme in India is just focused on regular saving and micro-credit. SHG-BLP developed by NABARD is also providing saving and credit services mainly and the provision of insurance is very less. However, some of the MFIs have started providing insurance services but the efforts are still at an experimental stage. A research report by Invest India Market Solutions Pvt. Ltd. (IIMS, 2007) indicates that the penetration of life insurance is only 12 per cent among the rural poor and 19 per cent among the urban low-income population [26] The penetration ratio for insurance in India was estimated at 4.80 in 2006, whereas for Asia it was 6.60 and for Europe at 8.30 [27]. So, in India the provision of insurance services is at the initial stage and this integral part of the microfinance programme is still neglected.

CONCLUSIONS

On the above findings we observe so many problems are associated with the MFIs. The Microfinance institutions are lagging behind in terms of loan and credit the real needy, regional imbalance, a proper regulation etc. Internal, external and client based challenges are prevailing from starting of the MFIs in India.

Finally in my view MFIs in India have so many lacunas in their running, though the MFIs paid an important role in the poverty alleviation and enhancing the living standards of the poor. If the above shortcoming will be eliminate from the MFIs, it would have positive results on the economy, lead to greater efficiency and improvement of living standards of the thousands of poor.

Suggestions:

- Presently, there is no distinctive regulatory framework for the MFIs in India. Regulation of the MFIs is largely in the purview of the state governments. So there is a need of an exclusive regulation to regulate to MFIs in India.
- Ensure the quality of MFIs in an environment of exponential growth. Due to the fast growth of the SHG-Bank Linkage Programme, the quality of MFIs has come under stress. This is reflected particularly in indicators such as the poor maintenance of books and accounts etc.
- Proper training for the clients should be organized in an efficient way so that they could know each and every small things about their debt
- Ensure the uniform distribution of micro financing in both rural and urban areas of each states of India.

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