The Role of Microfinance in Alleviating Poverty in India

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Abstract: *In a developing country, like India, which comprises of majority of population living in rural areas, the need of microfinance assumes great importance. The need stems not only for achieving financial inclusion but also for changing the livelihoods of the poor and alleviating poverty. The existing literature supports the argument that microfinance is useful in smoothening the consumption for the poor, but it needs the support of complementary factors such as entrepreneur skills and training, adequate infrastructure, etc. to effectively reduce poverty. In India, Self Help Groups-Bank Linkage Programme(SBLP) and Microfinance Institutions (MFIs) have been instrumental in financial inclusion by solving the last mile connectivity in the country and providing financial services to reduce poverty. However, the Andhra Pradesh Crisis in 2010 and some other challenges like misuse of funds, failure to reach the poorest of the poor, high indebtedness and low savings by the poor, inappropriate collection methods, profiteering, etc. by the MFIs are major challenges plaguing the industry which needs to be solved by stringent regulations and monitoring by the policy makers, regulators and the whole microfinance system. Overall, the steps towards this direction are proving to be positive in keeping poverty off edge for the poor.*

Key Words: *Microfinance, NABARD, SBLP, MFI, financial inclusion, poverty alleviation.*

1. INTRODUCTION:

The most widely held and understood definition of extreme poverty, established by the World Bank, defines poverty in strictly economic terms — earning less than $1.90 a day. India, with a population of over 1.2 billion, is the second-most populous country in the world with majority of people living in rural areas.

The expansion of branches and nationalisation of banks in 1969 shifted the focus from class banking to mass banking in India, however, it failed to satisfy the small and frequent needs of credit by the poor and the weaker sections of the society. This led to the search of alternative options by the government to cater to the credit needs of the poor and the underprivileged sections of the society.

What is the concept of microfinance? Microfinance is providing financial services to the low-income groups/individuals who do not have access to the conventional banking system. It has been recognized that microfinance helps the poor to meet their needs for small credit and other financial services. The informal and flexible services offered to the low-income groups to meet their basic consumption and livelihood needs have made the microfinance sector grow at a rapid pace and have impacted the lives of many poor around the world.

The success of the Grameen Bank Model in Bangladesh in the 1980s set the backdrop for microfinance efforts in India. The Grameen Bank (GB) was launched as a project in a village of Bangladesh in 1976 to assist the poor families by providing credit to help them overcome poverty. In 1983, it was transformed into a formal bank under a special law passed for its creation. It is owned by the poor borrowers of the bank who are mostly women. GB has reversed conventional banking practice by obviating the need for collateral. It has created a banking system based on mutual trust, accountability, participation and creativity. It offers credit for creating self-employment, income generating activities and housing for the poor, as opposed to consumption. It provides service at the doorstep of the poor based on the principle that the people should not go to the bank, but the bank should go to the people. To obtain loans, a borrower must join a group of borrowers. Although each borrower must belong to a five member group, the group is not required to give any guarantee for a loan to its member. The repayment responsibility solely rests on the individual borrower, while the group and the centre/branch oversee that everyone behaves in a responsible way and none gets into repayment problem. There is no form of joint liability, i.e., group members are not responsible to pay on behalf of a defaulting member. Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid. All loans are to be paid back in instalments (weekly or fortnightly). The GB initially focused on providing credit facilities and paid little attention to voluntary deposit mobilisation. This policy was changed in 2000, with increased emphasis on deposit mobilisation.

National Bank for Agriculture and Rural Development(NABARD) is the architect of the Self Help Group(SHG)-bank linkage programme(SBLP). It started SBLP as the pilot project in 1992 as a part of its microfinance efforts. This program was not only successful but also led to the development of Micro Finance Institutions(MFIs) subsequently.

The SBLP model has emerged as the dominant model in terms of number of borrowers and loans outstanding. NABARD launched the model after extensive consultations with Reserve Bank, commercial banks and Non-Governmental Organizations (NGOs) with the following objectives: (i) to evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions; (ii) to build mutual trust and confidence between the bankers and the rural poor; and (iii) to encourage banking activity, both on the thrift as well as on credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

It was expected that the pilot project would prove advantageous to both banks as well as the SHGs. The banks would gain by a way of reduction in their transaction costs due to reduction in work relating to appraisal, supervision and monitoring of loans. The SHGs would benefit by getting access to a larger quantum of resources, as compared to their meagre corpus generated through thrift. The banks were expected to provide credit in bulk to the group and the group, in turn, would undertake on-lending to the members. The quantum of credit given to the group by the bank would be in proportion to the savings mobilised by the group and could vary from 1:1 to 1:4. It was prescribed that the purposes for which the group would lend to its members should be left to the common wisdom of the group. The rate of interest to be charged by the SHG to its members was also left to the group to decide. The pilot project envisaged linking of only 500 SHGs to banks. By the end of March 1993, 225 SHGs were actually linked. With the figure reaching 620 at the end of March 1994, the pilot project was a success.

The target group mainly comprise the marginal farmers, landless labourers, artisans and craftsmen and others engaged in small businesses such as hawking and vending in the rural areas. The main advantages of the programme are timely repayment of loans to banks, reduction in transaction costs both to the poor and the banks, doorstep “saving and credit” facility for the poor and exploitation of the untapped business potential of the rural areas.

While SBLP gained success in reaching out to the target group, the MFI model also gained momentum subsequently and is characterized by a diversity of institutional and legal forms. MFIs in India exist in a variety of forms like trusts registered under the Indian Trust Act, 1882/Public Trust Act, 1920; societies registered under the Societies Registration Act, 1860; Co-operatives registered under the Mutually Aided Cooperative Societies Acts of the States; and nonbanking financial companies (NBFC)-MFIs, which are registered under Section 25 of the Companies Act, 1956 or NBFCs registered with the Reserve Bank.

In the MFI model, the bank is the lender and the MFI acts as an agent for handling items of work relating to credit monitoring, supervision and recovery, while the borrower is the individual. The MFI acts as an agent – it takes care of all relationships with the client, from first contact through final repayment.

Another variation of this model is where the MFI, an NBFC, holds the individual loans on its books for a while, before securitizing them and selling them to the bank. Such refinancing through securitization enables the MFIs a greater funding access.

Pursuant to the announcement made by the Union Finance Minister in the Union Budget 2008-09, banks were permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs), thus addressing the last mile problem.

SHGs work at the grass root level and besides, providing uncollateralized loans to the poor help in empowering lakhs of women and entrepreneurs all around the world.

The main purpose of microfinance is financial inclusion of the poor by providing an access to the formal financial institutions without procedural hassles and using these financial services to diversify their livelihood and achieve the mission of poverty alleviation at the same time.

2. LITERATURE REVIEW:

The question of poverty alleviation was answered by the Economic Professor Muhammad Yunus who is the pioneer of microfinance and is credited with disbursing the first micro loan in Bangladesh and later found the Grameen Bank. This fuelled the efforts of other countries towards microfinance.

Despite the various developments and expansion in the banking system, financial inclusion or the last mile connectivity has always been a distant dream for the formal banking system. The lending to the poor have been a major challenge because of the problems of adverse selection, moral hazards, collateral which effectively overcame by the concept of ‘group lending’.

Microfinance has been extensively examined over the past 10 to 15 years, and the resulting literature is now huge. A focused review of the literature was conducted to evaluate recent publications regarding the impact of microfinance on poverty reduction.

Dale W Adams and Robert C. Vogel(2014) in their article –“Microfinance approaching middle age” have traced the journey of evolution of microfinance industry and the various challenges faced by the policy makers, banks, MFIs, NGOs, credit unions and others involved in the process, such as the transaction costs of forming and servicing group of borrowers, the social mission of alleviating poverty, high interest rates for lending, large loans to only successful borrowers at the expense of new, possibly poorer and newer clients, clients being trapped in debt, etc. It highlights new systems adopted by the governments of various countries for solving the last mile connectivity, namely, branchless banking and government to person payments(G2P). It argues that there is very little evidence reflecting that there has been a reduction in poverty due to micro lending, although loans may help to take poverty off the edge by smoothening household consumption and dealing with emergencies. Most credit assessments provide no information on the increase in family employment that is associated with micro-borrowing, thereby reducing poverty.

The working paper of Anis Chaudhary (2009) on 'Microfinance as a Poverty Reduction Tool- A Critical Assessment' has attempted to provide a critical appraisal of the debate on the effectiveness of microfinance as a universal poverty reduction tool. It argues that microfinance is not the prime tools for reducing poverty, which needs both complementary supply-side and demand-side factors. Supply-side factors—such as good infrastructure, entrepreneurial skills, etc.—are needed to make micro-enterprises more productive. But the potential for increased productivity will remain mostly unrealized in the absence of demand-side factors. In other words, without a supportive macroeconomic, trade and industry policy framework, micro-enterprises will remain micro, with no backward or forward linkages or employment creation possibilities.

It argues that while microfinance has developed some innovative business practices involving product design and management, its impact on poverty reduction cannot be established.

It states that microfinance fulfils an important safety-net task by providing smooth consumption over periods of cyclical downturns or unexpected crises. MFIs have also created a dent on the informal sector by providing credit on terms which are better than those offered by the moneylenders. The rapid expansion of microfinance has empowered not just women, but all small borrowers. Microfinance, through learning by doing effect, gives the unemployed and the poor some employment opportunities, hope and self-esteem.

In summation, this paper emphasizes that for any significant impact on poverty, the focus of public policy should be on growth-oriented and equity-enhancing programs, such as broad-based productive employment creation.

Yash Aggarwal (2016) research on 'Microfinance and Poverty Alleviation' describes the basic idea of microfinance and its benefits to the poor. However, it also highlights the problems, such as, corruption plaguing the microfinance industry and other barriers that stand in the way of micro financial options being available to the beneficiaries in the developed and developing countries. It concludes by highlighting the role it plays in providing a financial safety net, along with providing the start up for a modest business to the poor.

Kamal Vatta (2003) research article- 'Microfinance and Poverty Alleviation' makes a point that though microfinance efforts through the formation of SHGs in India have significantly benefitted the poor in terms of social empowerment and economic progress, the arguments against micro credit such as, failure to reach the poorest of the poor, strict repayment requirements and penalties for delays, skewed growth of SHGs across the regions, finding an economic activity that will yield a rate of profit necessary to cover the interest rate on the loan and marketing of the produce, intervention by the politicians and bureaucrats and continued presence of informal lenders in the rural credit market, calls for a more effective role by development agencies in promoting micro-credit. It highlights the contribution of microfinance towards women empowerment. It argues that this is a good mechanism for achieving the goal of alleviation of poverty, if the bad features of formal credit can be minimized.

Nnenna Christiana Irobi (2008) thesis on 'Microfinance and Poverty Alleviation' studied the impact of micro financing on a group of women - Obazu Progressive Women Association, Mbieri, Owerri in Nigeria involved in poverty alleviating activities for their members. The findings of this study stated that though providing credit and other financial services were rooted traditionally in Nigeria, microfinance intervention had a positive impact on the poverty alleviation and empowerment among the women of this association, some of whom testified that it increased their income leading to improved standard of living, social and political empowerment as well.

Tessie Swope (2010) in his paper- 'Microfinance and Poverty Alleviation,' shows that benefits of microfinance outweigh its costs. Even though there are various criticisms with respect to microfinance, there is sufficient evidence that proves that microfinance can lead to an increase in income, better nutrition for families, greater high school attendance, empowerment of women, and alleviation of poverty. It can uplift families from poverty and contribute towards the achievement of six of the seven millennium development goals.

Jonathan Morduch and Barbara Haley (2001) research on - 'Analysis of the Effects of Microfinance on Poverty Reduction' also supports the positive impact of microfinance on poverty reduction. There is large evidence substantiating a beneficial effect on income smoothing and increases to income. However, there is less evidence to support a positive impact on health, nutritional status and increases to primary schooling attendance.

Dan Matovu (2006)- 'Microfinance and Poverty Alleviation -a case study of Uganda finance trust', conducted a field study in central Uganda to investigate the impact of micro finance programmes on household welfare, reduction of risk faced by clients through savings based microfinance programmes, its implication on women empowerment and poverty reduction. The study indicated that the clients who participated in the programme registered a higher standard of living and increased household welfare as a result of improved incomes, strengthening the position of women in their households and in the society, however, when it comes to the question of reduction in poverty, the study reveals that microfinance is just one factor and requires the supports of other factors to alleviate poverty such as women entrepreneurial skills in business management, efficient functioning markets, etc.

Britta Augsburg, Ralph De Haas, Heike Harmgart, Costas Meghir. (2013) – 'Microfinance and Poverty Alleviation', conducted an experiment by allocating loans to applicants considered to be too risky and unreliable, i.e, the poorer and the marginal segment of the population who were rejected, in Bosnia and Herzegovina, where microfinance loans were already well established. The key hypothesis that was tested was whether this excluded population, which is poor, could benefit from access to loans by developing businesses. Access to credit allowed beneficiaries to start and expand small-scale businesses. There is little evidence that this lead to net increases in household income. In households where the borrower had more education and already had business, savings depleted, possibly to pay back the loan and achieve the minimum investment amount. In less-educated households, investment was made in agriculture sector which is a low return activity, loans could hardly rescue them from their state of poverty. For these households the labour supply of teenage children aged 16-19 increased, and their school attendance declined. It suggested that liquidity constraints may not be the only ingredient, training of human capital and identification of opportunities may be more desirable to motivate the poor into self-employment. Also, appropriate government policy like conditional cash transfer may counter the act of pulling children out of the school and into business.

3. METHOD:

The study is basically based on secondary sources of data, i.e., online journals, magazines, articles and published papers and reports. A thorough review of literature has been done to understand the various studies done in this area by researchers and practitioners. The help of various sources of data was sought to understand the scenario of microfinance sector in India and the challenges faced by the stakeholders involved. The study made it possible to make recommendations and conclusions about the research area.

4. MICROFINANCE AND INDIAN SCENARIO:

The following have been the significant microfinance initiatives in India:

- Encouraging National Bank for Agriculture and Rural Development (NABARD) to set targets for the self-help group (SHG) – Bank linkage programme
- Emergence of SIDBI Foundation for Micro-Credit as a financier of microfinance institutions (MFIs).
- The pronouncements of the Reserve Bank of India (RBI) from time to time –such as
    - including lending to SHGs as a part of priority sector targets
    - exempting non-profit companies doing microfinance from registering as an NBFC
    - permitting the establishment of local area banks (now withdrawn)
    - Appointed a committee to study about regulatory measures to implement for smooth functioning of MFIs. (Melegam committee)
- Setting up of the Rashtriya Mahila Kosh to re-finance microfinance activities of NGOs
- Routing some poverty oriented schemes such as the Swarnajayanti Gram Swarozgar Yojana (SGSY) through SHGs
- The close linkage built by DWCRA schemes
- The initiatives of various state governments in promoting schemes such as Swa-Shakti(Gujarat), Velugu (Andhra Pradesh), Kudumbasree (Kerala) etc.
- Capitalization of MFIs by equity investments from specialized microfinance investment vehicles (MIVs) and mainstream private equity funds.

SHG-Bank Linkage programme is a strong step towards the financial inclusion of the bottom of pyramid. What started as a medium for banking services to reach the poorest of the poor has now become a platform for changing their livelihoods and alleviating poverty. Not only this, it has become a major platform for empowering rural women with 85.4% women groups in total. It has become a large community with about 85.77 lakh SHGs as on 31 March 2017 covering more than a hundred million rural households. The increase of 6.73 lakh savings linked SHGs during 2016-17, a major portion (70.4%) from priority States indicated the need for connecting the poor households in less developed States through SHG-BLP. An addition of nearly 2.9 lakh SHGs under National Rural Livelihood Mission(NRLM) have been possible with coordinated efforts of NABARD and NRLM during the year. All the important parameters viz. the number of SHGs with savings bank accounts, amount of credit disbursed during the year, the bank loans outstanding as well as the quantum of savings outstanding had shown an upward trend during the past three years (table below).[1]The year 2016-17 has witnessed a positive growth of SHGs.

OVERALL PROGRESS UNDER SHG-BANK LINKAGE PROGRAMME DURING PAST THREE YEARS

(No. of SHGs in lakh, Amount in ₹ crore)

Particulars		2014-15		2015-16		2016-17	
		No. of SHGs	Amount	No. of SHGs	Amount	No. of SHGs	Amount
SHG Savings with Banks as on 31st March	Total No. of SHGs	76.97 (3.59%)	11059.84 (11.74%)	79.03 (2.68%)	13691.39 (23.79%)	85.77 (8.53%)	16114.23 (17.69%)
	Of Total, All Women SHGs	66.51 (6.38%)	9264.33 (15.61%)	67.63 (1.68%)	12035.78 (29.92%)	73.22 (8.26%)	14283.42 (18.67%)
	% of Women Groups to Total	86.41	83.77	85.58	87.91	85.36	88.64
	Of Total, NRLM/SGSY Groups	30.52 (34.92%)	4424.03 (78.56%)	34.57 (13.27%)	6244.97 (41.16%)	37.44 (8.30%)	7552.70 (20.94%)
	% of NRLM/SGSY Groups to Total	39.65	40.00	43.74	45.61	43.65	46.87
	Of Total, NULM/SJSRY Groups	4.33	1071.81	4.46 (3.00%)	1006.22 (6.12%)	5.45 (22.42%)	1126.86 (11.99%)
	% of NULM/SJSRY Groups to Total	5.63	9.69	5.64	7.35	6.36	6.99
Loans Disbursed to SHGs during the year	Total No. of SHGs	16.26 (19.03%)	27582.31 (14.84%)	18.32 (12.67%)	37286.90 (35.18%)	18.98 (3.60%)	38781.16 (4.01%)
	Of Total, All Women SHGs	14.48 (25.69%)	24419.75 (16.07%)	16.29 (12.50%)	34411.42 (40.92%)	17.16 (5.34%)	36103.13 (4.92%)
	% of Women Groups to Total	89.05	83.53	88.92	92.29	90.42	93.09
	Of Total, NRLM/SGSY Groups	6.43 (28.45%)	9487.69 (27.26%)	8.16 (26.91%)	16785.78 (76.92%)	8.86 (8.58%)	17336.26 (3.28%)
	% of NRLM/SGSY Groups to Total	39.54	34.40	44.54	45.02	46.69	44.70
	Of Total, NULM/SJSRY Groups	1.05	1871.55	1.11 (5.71%)	2620.22 (40.00%)	1.06 (-4.5%)	2675.77 (2.12%)
	% of NULM/SJSRY Groups to Total	6.46	6.79	6.06	7.03	5.60	6.90

(Source: www.nabard.org ,'Status of Microfinance in India 2016-2017')
NRLM: National Rural Livelihood Mission
NULM: National Urban Livelihood Mission

Loans Outstand-ing against SHGs as on 31st March	Total No. of SHGs	44.68 (6.46%)	51545.46 (20.06%)	46.73 (4.59%)	57119.23 (10.81%)	48.48 (3.74%)	61581.30 (7.81%)
	Of Total, All Women SHGs	38.58 (13.27%)	45901.95 (26.97%)	40.36 (4.61%)	51428.91 (12.04%)	42.84 (6.14%)	56444.24 (9.75%)
	% of Women Groups to Total	86.35	89.05	86.37	90.04	88.36	91.66
	Of Total, NRLM/SGSY Groups	18.46 (41.24%)	19752.74 (94.08%)	21.91 (18.69%)	26610.16 (34.72%)	24.91 (13.69%)	29994.43 (12.72%)
	% of NRLM/SGSY Groups to Total	41.32	38.32	46.89	46.59	51.37	48.71
	Of Total, NULM/SJSRY Groups	3.18	3462.62	3.13 (-1.57%)	3979.75 (14.93%)	3.18 (1.60%)	4133.29 (3.86%)
	% of NULM/SJSRY Groups to Total	7.12	6.72	7.00	6.97	6.55	6.71

(Figures in parentheses indicate increase/decrease over the previous year)

SGSY: Swarnajayanti Gram Swarojgar Yojana

SJSRY: Swarna Jayanti Swarozgar Yojana

5. CHALLENGES:

Though micro credit was meant to alleviate poverty, a lot of MFI's started misusing the funds allocated by the government and exploiting the people who they were meant to be helping.

Many MFI's have been accused of using inhuman methods of repayment collection from the target beneficiaries, such as, harassing, intimidating, abusing and even torturing physically and mentally in the name of loan collection.

Micro credit in India have often taken the form of a vicious cycle of debt which borrowers find hard to repay, i.e., the borrowers sometimes end up taking loan from another MFI to repay the loan taken from the first MFI. A lot of MFI's have been accused of charging exorbitant rates of interest on micro loans. Sometimes it is more than what a traditional moneylender would charge.

These problems and the corruption that engulf the industry need to be solved and calls for strict monitoring by the concerned institutions. (reported in 2011: microloan.in).

Andhra Pradesh Microfinance Crisis, 2010

During 2005-10 Indian microfinance sector was one among the largest microfinance sectors in the world and Andhra Pradesh was the largest beneficiary. However, in 2010, there were allegation of suicides due to unethical means of recovery of loans, charging higher rate of interest by MFIs, profiteering and over-indebtedness in Andhra Pradesh which resulted in the enactment of Andhra Pradesh Microfinance Institutions (regulation of money lending) Act, 2010.

The picture that emerged was that the households of Andhra Pradesh had more indebtedness than their income levels and ability to repay. The reports linking MFI practices with suicides led the state government to impose new conditions on MFIs which hampered loan collections and operational efficiency of MFIs. This made it difficult to refinance their loans with commercial banks or to raise new equity. Liquidity crunch affected client base, profitability and sustainability of MFIs. Crisis hit the operational self-sufficiency of Andhra Pradesh based MFIs very badly as it fell from 150 per cent to 40 per cent in FY 2011-12. Crisis affected the portfolio quality of MFIs to the extent to make it worst performer on the global platform.

6. IMPACT OF REGULATIONS:

The Andhra Pradesh micro finance crisis and the post regulatory regime had a significant impact on the micro finance institutions and their customers. Stipulation of minimum net owned funds, introduction of the concept of "qualifying assets", strict IRAC (Income Recognition and Asset Classification) and capital adequacy norms, cap on operational income, compliance to credit bureau checks and emphasis on corporate governance for NBFC-MFIs meant only a few who adhere to these regulations would be allowed to continue. This was a huge blow on the growth strategy and profiteering of the small and medium scale MFIs with the emphasis that sustainability of the MFIs should not be at the cost of the poor.

Another such regulation that has impacted both the customers and institutions is the norms of lending for income generating activities, to protect the poor from over indebtedness by assuring regular loan repayments. However, activities such as agriculture and animal husbandry do not provide quick and continuous income due to which the target population look for alternate sources of income for repayment and often end up taking a fresh loan from the moneylenders as there is restriction on the number of MFIs for borrowing, to adhere to the repayment schedule of the institutions. Therefore, whenever financing of such activities happens through institutional micro credit, the risks or challenges, anticipated to be managed through the guidelines on sound assessment of repayment capabilities might continue to remain unaddressed. The inadequacy of credit from institutional sources compels the poor to seek help from traditional moneylenders, making themselves prone to the vicious cycle of debt and thereby, failing to change their state of poverty and livelihood.

7. WAY FORWARD:

NABARD's Microfinance Report 2016-2017 highlights the growth/future of microfinance in India through the following:

- With the entry of the private banks, the latest being Bandhan, NABARD views emergence of third model in microfinance besides SHG-BLP and MFIs, i.e., bank's dedicated vertical working on the lines of MFI. There may also be an increase in the P2P financing in the near future. However, statutory safeguards, supervision and monitoring are the key requirements to serve the target group of microfinances effectively.
- There still exists a substantial potential for covering families and promotion of SHGs in priority States.

- Identification of livelihoods, skill development and capacity building, taking forward the programme of SHG members as agents/Business Correspondents/Bank Sakhi and collaboration with new partners for strengthening/ deepening the SHG movement at Pan India level may be the future direction for SHG-BLP. Some RRBs have started using the services of their partner SHPIs as agents/ BF for credit linkage of SHGs and recovery of dues from them on the lines of ICICI bank model.
- The digitization of the SHG-BLP through the Eshakti Initiative is a step towards systematization and achievement of the goals of SHG movement.
- SHG Federations may emerge to aid the SHG eco system by providing both financial and non-financial supports in the near future.

8. FINDINGS:

Microfinance can serve as a catalyst for reducing poverty, if it serves the beneficiaries for whom it is meant and is strictly monitored and regulated by the micro financial system.

9. RECOMMENDATIONS:

- It is imperative that MFIs design loan products for planned household expenses. For meeting unplanned household expenses, a mix of savings and micro insurance products should be developed by MFIs.
- Beneficiaries need to be educated and made aware about the importance of savings over micro credit in meeting their household expenses. MFIs, regulators, government and multilateral institutions have a vital role in enhancing financial literacy of the poor.
- There should be some incentive for the MFIs to explore the untapped markets and lead the mission of financial inclusion and poverty alleviation.
- RBI should adopt stringent measures to monitor the activities of MFIs, design fair lending practices and ensure healthy competition in the market.
- The micro credit availability should be able to provide credit, particular to women and help them in reducing poverty by investing these funds in income generating activities by strengthening consumer's sources of income.

10. CONCLUSION:

The study reveals that microfinance industry is still evolving and trying to outreach the poor beneficiaries with a broad range of financial services. The SHG-BLP has witnessed a huge success in not only empowering the women but also keeping them off the poverty edge and changing their livelihoods. However, problems such as inadequacy of credit, delivering high quality financial services while ensuring appropriate client safeguards, good governance, operational policies, incentive structures at all levels etc. needs to be addressed by not only the providers, but also the policy makers, donors and investors, and the global microfinance community. As the local markets mature and the target population becomes more proactive and aware of the financial services available to them, the delivery models must evolve to support the mission of financial inclusion and poverty alleviation in India.

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