SUMMARY
OF
IMPACT OF MICRO-FINANCE ON SOCIO-ECONOMIC
DEVELOPMENT OF RURAL SECTOR IN INDIA

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SUMMARY

OF

IMPACT OF MICRO FINANCE ON SOCIO-ECONOMIC DEVELOPMENT OF RURAL SECTOR OF INDIA

Traditionally microfinance was focused on providing a very standardized credit product. The poor need a diverse range of financial instruments, to be able to build assets, stabilize consumption and protect themselves against risk.

Now with the presence of micro-finance institutions, emphasis shifted on the disbursal and accountability and both have improved. To most, micro finance mean providing very poor families with very small loans (micro-credit) to help them engage in productive activities or grow their tiny business. Over the time micro finance come to include a broader range of services (credit, saving, insurance etc.) as we have come to realize that the poor and very poor who lack access to traditional formal financial institutions require a variety of financial products.

The volume of micro finance increased from about INR 320 crore five years back to more than INR 2300 crore as at present. However, it is significantly below the present requirement of more than INR 50,000 crore. There exists a large gap in demand and supply of credit to these unorganized small size enterprises. Even though credit is made available to the poor through micro-finance, it is by and large, limited to consumption and production loans without asset creation and hence they are unsustainable.

Micro-finance helps the rural poor to avail and create economic growth opportunities. In India micro-finance has fueled the efforts at rural development, women improvements and wealth generation by providing small credits, savings, insurance and other financial services to poor and low income households. Now micro-finance is gradually emerging as one of the most
effective strategies to alleviate poverty. It can effectively generate employment and sustain the income of households by giving them opportunities of work.

Although microfinance institutions are effective weapons in the war against rural poverty, they alone cannot neutralize non-physical symptoms of poverty which deprive the poor of a full social existence. Efforts are needed to promote and strengthen micro-finance institutions to optimize their way against poverty, because there is a crying need for timely and adequate availability of funds for rural finance for improving the income and socio-economic status of the poor.

In this study undertaken by the scholar, it is intended to explore the use of microfinance to address the needs of indebted poor people in the rural regions of India. The study incorporated essential elements to ensure access to credit and sustainable production and employment opportunities in a highly volatile market. Innovative but risky this endeavor provides an opportunity to reduce poverty and improve the socio-economic standard of living in these rural regions of India.

The scholar has divided the entire study in the eight chapters. In nutshell, gist of chapters is as follows.

Meaning and concept of Microfinance and A brief history of development of microfinance have been discussed in **first chapter**. Besides this, introduction of Microfinance institutions, Importance of microfinance in rural development, Guiding principles of microfinance and its position in Indian perspective has also been discussed. This chapter has outlined that mechanism of microfinance has been developed across the world to enhance credit to poor in the absence of formal form of institutions. The Bangladesh Grameen Bank Model founded by Nobel Laureate Mohammed Yunus is Pioneer for financing the poor and downtrodden. In fact, microfinance is a
provision of thrift, credit and other financial services and product of very small amount to the poor for enabling them to raise their income levels and improve their living standards. Reserve Bank of India through NABARD (The National Bank for Agriculture and Rural Development), introduced a Pilot Project in 1992, for extending microcredit to the rural poor by linking about 500 Self Help Groups (SHGs) with commercial banks, cooperative banks and Regional Rural Banks in India. This project played a key role in initiating the unique SBLP model as a cost effective mechanism for providing financial services to our country's unreached and underserved poor. GOI and RBI have framed different guiding principles, policies and funds to strengthen the field of microfinance. Today, the concept of microfinance refers to loans, savings, insurance, transfer services and other financial products targets at low income clients. Recognizing the potential of micro-finance to positively influence the development of the poor, Reserve Bank, NABARD and SIDBI have taken several initiatives over the years to give a further fillip to the microfinance movement in India. Private equity players are also making investment in the burgeoning microfinance sector. Today, the view is increasingly focusing on expanded financial services to the poor and on integration of microfinance in financial systems development, which emphasizes favorable policy environment and institution building, has improved the overall effectiveness of microfinance interventions. This means, reaching Specific Millennium Development Goals (MDGs) in education, women's empowerment and health, the microfinance is an essential element in any country's financial system.

Review of relevant studies, articles and reports of committees related with the subject of the study is discussed in chapter second. Review is followed by purpose, need, objectives of the study. Research design embodying the universe of the study, data collection, selection of the sample, tools and techniques, limitations of the study and relevance of the study are explained in
this chapter. For this purpose, the relevant literature through many books, journals and magazines containing various articles, empirical studies dealing with the micro finance attributing to socio economic development of rural sector of Indian economy have been reviewed.

Purpose of the study is to throw some light on the role played by micro finance in the development of rural economy which helped to improve the economic stability and financial inclusion of the country. Realizing the importance of microcredit in the development process, impressive growth of microfinance institutions and microfinance services has attracted the attention of scholar. Hence this study would help the existing and prospective financial and micro-financial institutions (MFIs), researchers, beneficiaries and policy makers to get an idea of the impact of micro-financial services, practices and performance of micro-financial institutions in India's rural development.

The main objectives of the proposed study are to highlight the meaning and concept of micro finance, study the development of microfinance services in India and selected regions, have clear idea of Regulatory Frame-work initiated for microfinance in India, study microfinance and credit lending models, examine the role of microfinance implementing organizations in rural sector development of selected regions, analyze the impact of microfinance on the socio-economic development of rural people of India, investigate the factors, examine various issues, challenges and problems related to micro finance in rural areas of selected regions of India, give some 'concrete suggestions which may help microfinance institutions to make an overall improvement in microfinance services in the rural areas of Indian economy to accelerate the socio-economic upliftment of rural people. The Sample of the study is based on multistage convenience sampling technique.
As the study is at the all India level, hence India is divided into three regions i.e. North-East Region, South Region and West Region for the convenience of the researcher. From each region, one state was purposively selected. The selected states include Punjab from North-East Region, Kerala from South Region and Gujarat from West Region. Then 100 rural poor people were selected from each selected state keeping in view their availability. The primary data regarding their socio-economic conditions before and after MFIs assistance were collected on a specially structured questionnaire. In Punjab, data is collected through personally filled Questionnaire and from Kerala and Gujarat; it is collected through postal Questionnaire.

The analysis of the data was done by applying simple tools like frequencies, percentages, averages, etc. as well as advance statistical techniques like Z-test, Analysis of Variance (ANOVA) and regression analysis. Limitations of the study are that study is confined to micro credits, saving and insurance services are not covered under the parameters of the study. The study concentrates only on the role of main micro financial institutions other than the commercial banks. Due to limited period of time and financial resources with the scholar, it is not feasible to have a detailed study of entire regions of Indian economy. It is earnestly hoped by the scholar that the proposed study will be proved as a useful tool to the rural people to access micro finance service as well as to the MFIs in providing a structured vision plan to reach specific level of comfort in micro finance lending and will give a new strategy to reach new expansion in lending portfolio.

In chapter Third, regulatory framework for microfinance in India has been discussed. Basically this chapter explains policy guidelines issued by Government, RBI's directive & support for effective regulation of microfinance programmes in India. Role of NABARD as regulator of microfinance services, Recommendations of Micro Finance Bill, various committees and work
groups and initiatives taken in this context has also been highlighted. This study provides an overview of the legislative and regulatory frameworks relevant to all actors operating or considering to operate in microfinance, from MFIs to governments, non-government organisations (NGOs), NBFCs and commercial banks etc. All these entities are covered in varying degrees of regulation under the respective state legislations’, there is no single regulator for this sector.

Various policy initiatives and regulations for MF-NBFCs regarding registration requirements, capital adequacy ratio, credit rating, interest rates, management, disclosures, formation of SHGs etc. are framed with flexibility to give a further fillip to the microfinance movement in India. NABARD provides refinance to financial institutions/ banks for on lending to SHGs. The self help group - bank linkage programme (SBLP) was further extended to Regional Rural Banks and Cooperative Banks in 1993 and is now permitted by the RBI as a component of priority sector lending. NABARD set up a task force on Supportive Policy and Regulatory Framework for Microfinance, Apart from making suitable recommendations to RBI for licensing and regulatory action and providing inputs from time to time.

NABARD has evolved and implemented suitable supervisory best practices pertaining to RRBs and Cooperative Banks. The issue of inappropriate legal form for MFIs is being addressed by a Task Force setup by the Reserve Bank of India, which among other things is looking into the regulatory and legal issues concerning microfinance in India.

Different committees and working groups were formed by GOI and RBI to review the scope and objectives of regulations with regard to interest rates, lending and recovery practices, need for grievance redressal machinery, applicability of existing money lending legislations and other issues concerning the sector. These committees gave different recommendations for
structure, sustainability and operating norms to provide short term and unsecured loans to the low income borrowers for income generating activities and financial inclusion. The Micro Finance Institutions (Development and Regulations) Bill 2012 addresses all legal forms of microfinance institutions, providing a comprehensive legislation for the sector. Bill gives the central govt. authority to delegate certain RBI powers to the NABARD or any other central Govt. agency. The designation of RBI as the sole regulator would be a positive step forward for the Micro Finance sector. MFIN has already taken some steps such as building a credit bureau, creating task forces for transparency and establishing a code of conduct.

**Chapter Four** has thrown light on main microfinance and credit lending models used in Indian scenario. These models vary in their legal forms, in methods of delivery, their governance structure, their approach to sustainability and their approach to microfinance, source of their funds and how the money is governed. Group Model primarily involves a group of 10-20 individuals, unit of operation for the MFIs. All financial activities like savings, getting loans, repayment of loans and record keeping are managed at the group level. To ensure repayment, peer pressure and joint liability works very well. Community Banking Model essentially treats the whole community as one unit, consists of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities. NGOs train the community members in various financial activities of the community bank. Co-operative model creates an autonomous association of persons belonging to the same local or professional community united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Grameen model, according to ‘Muhammad Yunus’, is not based on any collateral, or legally enforceable contracts, but on trust. It provides service at the doorstep of the poor, gives high priority to building social capital through the
formation of groups and centers, develops leadership qualities and undertakes a process of discussion among borrowers. In Intermediary model, Individual lenders, NGOs, microenterprise/microcredit programmes, and commercial banks are appointed as intermediaries for funding, programme links, training and education, and research about borrowers. Individual lending model provides loans to an individual based on his/her own personal credit worthiness. Individual lending is more prevalent with clients who generally need bigger size loans and have the capacity to produce guarantee and generate enough comfort to the MFI. In Business Facilitator Model, as per RBI guidelines, banks are encouraged to use intermediaries, such as NGOs, Farmers' Clubs, cooperatives, community based organisations, as Business Facilitator (BF) for providing facilitation services, viz. identification of borrowers; collection and preliminary processing of loan applications; promotion and nurturing SHGs/ JLGs and follow-up for recovery. In Business Correspondent Model, RBI focuses on the use of information and communication technology (ICT) to expand access to banking facilities through Business Correspondent (BC), who carries a hand-held device which is networked to the bank’s systems.

As there are so many models for delivery of micro finance in India, but MFIs should move towards that model which balances growth with social equity by putting the poor at prime position instead of profit.

In chapter Five, Role of different Micro Finance implementing organizations i.e. (i) Traditional, formal and informal (ii) MFIs (iii) NGOs (iv) Banks and Governmental Agencies – NABARD & SIDBI etc. has been discussed. Initiatives taken for delivering Microfinance, Channels of Microfinance and Disbursement of micro credit, all these facets of micro finance sector have also been covered in this chapter. An increasing number of formal financial institutions like branches of RRBs, Commercial Bank branches and Cooperative Banking Institutions (DCCBs and PACS)
are offering Micro Finance services now. Today the key indicator for the success of SHG-Banking is the extent to which the vast network of commercial banks, cooperative banks and regional rural banks with 160,000 retail outlets is ready to cooperate. But in spite of the development of formal financial sector, people still prefer informal sources of finance, which are easily available.

Further MFIs are promoted as an alternative to the mainstream institutions to overcome possibility of continued failure of formal agencies as well as to create institutions capable of providing full-fledged financial services to the poor in a proactive way. In addition, NGO microfinance institutions can raise funds from savings accounts and term deposits captured from the public, and use the capital to provide financial services to far greater numbers of poor people over longer period of time. These financial institutions use a hierarchical network starting from the apex wholesale level to the retail level financial institutes.

RBI introduced General purpose Credit Card (GCC) and Kisan Credit Cards (KCC), appropriate technology combined with an effective use of banking correspondents and low-cost collaborations cum outsourcing models used in order to ensure greater financial inclusion and increase the outreach of the banking sector.

Among government agencies, NABARD has played a particularly important role in microfinance in India. NABARD provides 100 per cent refinance assistance to banks for financing SHGs, grants to NGOs, also provides other types of support, such as, for training of bank staff, NGOs, and government agencies involved in the area of micro-finance. NABARD has brought out a number of schemes and initiatives for the benefit of women micro-entrepreneurs, vulnerable poor and up scaling of SHGs. The SIDBI Foundation is supposed to assist NGOs and voluntary organizations on soft terms, which would in turn extend micro credit
to poor people. FWWB, as an affiliate of Women’s World Banking, a global network created to focus on the need for women’s direct access to financial services. Over these years, FWWB combined its loans with technical assistance to ensure sustainable growth of Micro Finance Institutions (MFIs).

There has been a growing realization that the needs of rural credit cannot be adequately served by the use of all these apex financial institutions and commercial banks. Therefore Indian micro finance developed two operational approaches viz. Self-Help Groups Bank Linkage Programme (SBLP) and Micro Finance Institutions (MFIs) to help the poor. The first approach uses SHGs as an intermediation between the banks and the rural poor to help in reducing transaction costs for both the banks and the rural clients. There are three models of SHG-bank linkages that have evolved over time, especially in India. In MFI model, MFIs borrow large amount of funds from the apex financial institutions, donors and banks for on-lending to the individuals or groups. In addition to the microfinance delivery methodologies, MFI management approach, services and performance are influenced by their legal form. MFI has adopted three kinds of methodologies in India. 1. Individual Banking Program (IBP) 2. The Grameen Model 3. Mixed Models. Both SBLP and MFIs put together achieve outreach of 64.93 lakh clients during 2012–13, which is more by 2.8 per cent of their customer base in the previous year. A region-wise analysis, however, shows a disturbing feature with Southern and Central regions showing an increase of nearly 20% and 10% in the number of SHGs extended fresh loans and Northern region too with a marginal increase of 1.74% and all other regions points to negative growth in the numbers. Backward states like Bihar, Chhattisgarh and Jharkhand reported a decline of over 20% while North Eastern States recorded as high as over 50% decline.
The regional distribution of outreach and loan portfolio estimates revealed that the dominance of the southern region still continues. The Southern region accounts for almost 50 per cent in both outreach and portfolio followed by the Eastern region (25 per cent). The outreach share of the Northern region remains below 5 per cent. Among the agencies lending funds to MFIs, the major share belonged to Commercial Banks. The average per capita loan size during the reference year was Rs.7,803 which is still smaller compared to the demand for livelihood development. SHGs and MFI are supposed to be not as competitive but complementary institutions. It would be desirable to create an environment of convergence in the functioning of the two institutions of SHGs and MFIs.

Chapter Six has covered the main area of research i.e. Impact of Microfinance on Socio-economic development of rural people of India. Impact is measured by the degree of empowerment, income generation, employment generation, level of living, decision making at household level and self-perception in selected regions.

This chapter has also highlighted different factors affecting Micro Finance services. Analysis has shown that availability of basic services to the rural poor was considerably to a satisfactory extent, but there is still a broad scope of further increasing the availability and access to the basic services. North-East, South and West region (Regions under study) indicated that overall employment of MFI beneficiaries has increased after getting assistance from MFIs. The mean score of living status came to be 0.77, 0.74 and 0.71 in North-East, South and West region respectively, which indicated that overall living status of MFI beneficiaries has bettered after getting assistance from MFIs.
The analysis also showed that the decision making regarding use of loan amount, business/work to be started with the loan money and use of income generated through business was to large extent while the decision making regarding household infrastructure and purchases of households was to some extent in all the regions as well as the whole. As much as in 80.00 percent of the families, males dominated the decision making regarding assets building before joining MFIs which declined to 60 percent after joining MFIs. The decline was significant due to increase in their literacy level. Analysis showed that the respondents in all the regions disagreed that they faced any problem after getting assistance from MFIs.

Study revealed that there was general agreement on the increase in mobility, freedom and development of network of rural poor after getting assistance by MFIs. This showed that MFIs emerged as a tool of social and economic change. Overall, the analysis indicated that political empowerment of rural poor could not improve after being assisted by the MFIs. The analysis highlighted that MFIs helped significantly the rural poor to get rid of the attitude related, psychological and family problems. This in turn helped them to develop and grow, to enhance voicing concerns and revolutionizing attitude of the society towards rural poor. The significant regression coefficient indicated that there would be an increase in the awareness and knowledge of respondents with the increase in attainment of skills of work, better linkages with banks and market. Overall this study revealed that socio-economic level has increased after being assisted by the micro-finance institutions.

Today microfinance is in agenda of public policy of GOI, as it has created a positive impact in the lives of beneficiaries. Study has outlined some positive as well as negative factors which have affected the microfinance services. There are so many (1) Social factors like illiteracy, poverty, gender issues, migration, mindset and age-profile of members of SHGs etc.
(2) **Economic factors** like lack of margin in market activities of groups, economic growth, higher degree of formalization and industrialization, immigration, economic status of the area of operation etc. (3) **Institutional factors** like low education, lack of access to health, housing and infrastructure facilities, nature of occupation, quantum of rainfall, family income, Debt/Equity Ratio, population density, rate of inflation, interest rates, poverty incidence, number of financial outlets, post offices, connectivity to infrastructure etc. (4) **Operational factors** like lack of marketing support, lack of awareness, malfunctioning of groups, high interest rate and administrative cost etc. (5) **Risk factors** like MFI’s competition, unorganized scattered groups, low capital and low skill base, limited prospects, insufficient infrastructure, vicious financial cycle, weak accounting practices, unsecured credit exposure etc. All these factors had a large impact on demand and supply, outreach, effective usage of micro finance services. By adjusting all these factors, microfinance could surely become a medium to uplift the rural poor from below the poverty line and remove them from the shackles of deprivation to self-sufficiency and independence.

**Chapter Seven** is based on the study of main issues and challenges faced by the Indian microfinance sector. This chapter has discussed some important issues like regulatory issues, issues related to structure, sustainability, funding and taxation etc. Major challenges in the way of growth of microfinance sector are also studied. Various regulatory and operational hurdles are a great hindrance to its growth. It appeared that the main hindrance faced by MFIs (including banks) in financing the very poor was the comparatively high transaction cost and low profitability in reaching out to the populace who need very small amounts of credit at frequent intervals. Issues relating to funding, structure, sustainability etc. affect substantially the outreach
and growth of MFIs as well as quantum of micro-credit. All this has caused regional disparity and excluded vulnerable poor from the ambit of micro finance.

Many macro level challenges like lack of conducive legal and regulatory framework, 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, lack of women orientation in marketing, evaluation and delivery of microfinance, quality of SHGs etc. are coming in the way of MFIs of providing full-fledged services to the poor. Tax issues may present obstacles to rural finance and microfinance institutions from more effectively providing access to financial services. With an increasing number of MFIs and expansion of operations, the issue of overlapping membership and potential over-indebtedness is beginning to emerge, particularly in certain areas of the country. Simultaneously, certain macro economic conditions like the structural adjustment program, global economic crisis and banking sector reforms which seem to be having certain adverse effects on rural banking and weaker sections lending in the country.

The micro challenges include the inability to reduce the high transaction cost involved in delivering microfinance, issues relating to existing lending models, the non availability of documentary evidence and collateral among majority of rural poor, inability of MFIs to provide flexible composite services, lack of capital and skill base of SHGs, 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. There is also the scenario of microfinance being pushed under the global agenda of bringing in market-based developments and state agencies with their own limitations co-opting microfinance for scaling-up under such circumstances.
In Chapter Eight, main findings are reported and it also covers the testing of hypothesis. This chapter also explains the problems in Micro Finance and focuses on suggestions which may prove to be helpful for the growth of Micro Finance sector in future.

Study has found that In India, SHG Bank Linkage Scheme and MFIs have been successful with the help of different apex banks and financial institutions, big foreign donor agencies etc. But still rural people are dependent on non-institutional sources up to some extent due to low outreach and regional disparity. Govt. has set up different funds, poverty alleviation schemes and subsides etc., which has contributed towards institutional growth and transformation, simplifying governance procedures, accessing new sources of funding, building institutional capacity and to support different activities of SHGs, ultimately for social and economic welfare of poor people.

Analysis indicated that overall income, employment, literacy level and living status of MFI beneficiaries has improved after getting assistance from MFIs, which enabled the poor to build assets and thereby reduced their vulnerability. The recovery rate of these institutions is remarkably high when compared to the whooping non-performing assets of banks in the traditional sector. But existence of number of MFIs operating in a common area and disbursing credit in an uncoordinated manner, resulted in multiple lending, over financing, under financing, financial indiscipline and diversion of scarce resources to unproductive purpose. The study has indicated that Govt. performs as a facilitator rather than of a regulator, therefore there is a scope for substantially improving the quality and efficiency of service delivery by the organizations providing micro finance services.

No doubt, microfinance program has shown impressive achievements, but a large number of problems are faced by the micro-finance sector in India. Some of the main problems
associated with this program are lack of savings, irregular meetings, heterogeneity in SHGs, low penetration and bureaucratic hurdles in regulations, low depth of outreach, incomplete functioning of credit bureau, problems in the current record management system, gaps in microenterprise and self-employment, lack of insurance services etc. However, the focus of most of the microfinance service providers has remained on expanding the outreach of microfinance program with little attention on the depth, quality and viability of the financial services.

Besides removing these problems, there are many suggestions which can be listed and applied in this field to make this program more effective. (1) A significant expansion of microfinance should entail certain prerequisites in terms of institutions, innovations, and evaluation that could go a long way in developing an inclusive financial system. (2) There is a great need to increase the accessibility and reach of the MFI activities to a large number of rural poor, especially the poorest. The microfinance sector is at a stage where it calls for a flexible and conducive regulatory framework for the needs of microfinance and the diverse players involved in delivering it. (3) Policy initiatives needed to be taken by the state are ensuring adequate funding of MF sector for meeting the need of equity and loanable funds, capacity building to enhance the quality of SHGs and to meet the growing human resource development needs for an effective performance. (4) The success of Microfinance activity in the future should be a function of the coordinated approach of the MFI, NGOs, SHGs and banks for all types of resources including information sharing and delivery, client feedback on a regular basis, training in basic education, management and accounting that would enable the poor to run their micro enterprises effectively and to compete with city businesses. (5) Market surveys, new business model, product design strategies and building greater client awareness on financial aspects of loans should become a part of the promotional work of the institutions. (6) MFI's having lower-
than-average profit margins and loan size should be permitted to flourish even while bringing in a system of checks to ensure compliance with higher operational, ethical and governance standards. (7) To make micro finance a sustainable activity, the repayment rates for the SHGs need to be improved by proper monitoring. (8) SHGs need to be transformed from being just a savings and credit group to groups who undertake some income generating activities to realize the real potential of the SHG. (9) Financial inclusion envisages low-cost banking services to the financially excluded population and regions of the country which is possible by harnessing low cost technology, and provision of technical, financial and policy support from Government of India, RBI and NABARD. (10) Profitable models for financial inclusion need to be adopted by banks and MFIs in the form of No Frill accounts, BCs, BF, SHG-Bank Linkage Program, Joint Liability Group financing, Financial Literacy, CBS and ICT-enabled KCC/GCC, multipurpose smart cards, mobile banking, and mobile banking vans in the supply side. 11) In order to extend the micro-finance sector to rural sector MFIs should add other various types of coronary services where its potential exists. Such services may include as credit for health care in villages, credit services for commercial use etc.12) MFIs should make alteration and expansion in the scope of existing services to attract more and more rural people benefit and as such increasing profitability of MFIs.13) MFIs should disburse more and more of its sanctioned financial assistance to rural sector people so that more benefits can be attained. MFIs should minimize the gap between the assistance sanctioned and disbursed. 14) MFIs should have to diversify its financial product mix to compete with other financial institutions. This diversification should be done in accordance with the need of rural people. 15) RBI, Government of India, State Governments and other regulatory apex institutions should liberalize lending policies and make the procedure of lending simplified and affordable to the people living in rural areas and villages.
16) It is also suggested that MFIs and NGOs should formulate long-term strategy to maintain the current levels of its capital adequacy ratio. Furthermore, it should enhance its capital base to meet the diverse requirements of rural sector of India. 17) For appraisal of the projects and proposals for credit, experts should be engaged for ensuring the recovery and creditworthiness potentiality of the beneficiary. 18) MFIs and NGOs should provide consultancy services and programmes for such people who are unaware or illiterate and can’t pay consultancy fee for the sake of promoting or extending their business for which they have attained the credit. 19) MFIs should start and arrange awareness programmes also for rural people for starting up new ventures in different spheres.

While the policy has brought the sector to its current state of development, to enable the sector to grow further in an orderly manner, the state in India is to come out without any delay with a proactive policy and an understanding law for microfinance so that its full potential for poverty alleviation and empowerment is realized.