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Indian Microcredit Industry: Challenges and Future Prospects

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Abstract: - **Microcredit is not just the ground idea of eradicating poverty and rural development but chiefly an important idea of financial inclusion of the most discounting proportion of an economy. The unique impression of lending very small amount of loan without any collateral, to make people self-employed in every manner, marks its achievement. However, its outreach is not expedient as compared to the population and requirement in India. More than a billion people faces dearth of financial services around the globe while some 200 million of these people belongs to India. This paper edifies micro credit delivery system in India, embracing stupendous role of NABARD, MFIs and SHGs, recent trends and unleashed potential of industry by pondering over its institutional structural design, viability and trade-off between inclusion and self-sustainability. Our paper subsumes aspects of both an empirical work and a literature review. Primary data in the form of a survey adopting questionnaire form is collected, targeting very low-income group and secondary data includes journals, PIB and Government reports. Graphical, percentage and ranking methods have been used to anatomize the data. The analysis shows that there is a prodigious market for Microcredit in India, backed by government's initiatives and growth in the country's low income but priority sector. The paper also focuses on the cardinal challenges confronted by Microcredit institutions like MFI's financial non- viability, improper targeting, huge compliance cost, high interest rates, inappropriate infrastructural resources and absurd repayment pattern on micro-loans. Concluding shortcomings and trends, we propose state-of- the -art reforms for future focusing mainly upon improving delivery structure, adopting less complicated process framework, tailored products and incorporating innovation in microcredit industry through technology.**

Keywords: **Microcredit, MFI-SHG, self-sustainability, outreach, Cost. JEL Codes: R51, G21, D61, L31.**

I. INTRODUCTION

Financial inclusion is a process of having an insured access to financial services timely and with adequate amount of credit as and when required to weaker sections of society, which forms the largest base for any developing nation. Financial inclusion is not only in terms of providing credit but also various other services like savings, insurance and money transfers through Cheque, ATM & Demand draft. A progressive economy cannot deny the importance of catering to unbanked section of society,which serves as most of the population. It broadens the resource base of the financial system by cultivating a culture of savings among large segment of rural population and plays important role in the process of economic development. To give a trigger affect to this development, microcredit industry plays a vital role. Microcredit is not just the ground idea ofrural development and eradicating poverty but chiefly an important idea of financial inclusion of the most discounting proportion of an economy. The unique impression of lending very small amount of loan without any collateral is to make people self-employed in every manner, marks its achievement. Microcredit is the extension of credit of very small amount to impoverished and non-traditional borrowers such as low-income group in rural or under-developed areas. These borrowers lack collateral, regular flow of income and stable employment along with no verifiable history. It fosters entrepreneurship and spurs various poverty alleviation programs by raising their income and standard of living.India has a diversified banking sector that addresses the needs of various sectors. However, traditionally, prior to nationalization of banks in India in 1969, they have not focused much on the economically backward classes due to high cost on marginal loans and lack of collateral. The main lenders of small loans in the organized sector were co-operative banks, as commercial banks were profit minded and not easily accessible to low-income groups. Then after Nationalization, banks started to open branches in the remotest locations. Various government schemes like the Twenty Point Program, Antodaya Program, subsidized differentiated Rate of Interest loan etc. were implemented through banks that focused mainly on upliftment of poorer sections. Then in 1990s, NABARD started its SHG bank linkage program for providing microloans through self help groups. Despite the best efforts of banks, large number of people are yet to be included in the formal financial system through access to formal credit. Microcredit industry with its various institutions has taken center stage in addressing the gap. The corpus of loans of the microcredit industry stood at Rs 1.2 lakh crore in June 2017 supplemented with loans under bank-SHG model amounting to 61600 crores. However, its outreach is not expedient as compared to the population and requirement in India. More than a billion people faces dearth of financial services around the globe while some 200 million of these people belongs to India. Not

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more than 20% of the total households is served through all channels of microloans while the World Bank estimates that around 24% of India populace or 28 crores lives below $1.25 per day on purchasing power parity. Around 2 billion people lack access to even a savings account and more than 200 million micro, small and medium-sized enterprises (MSME) lack access to adequate financing; these numbers highlight the extent of financial exclusion. The various Micro Credit delivery models prevalent in India are:

Model I (DIRECT FINANCING)-: Individuals or group borrowers are granted loans directly by banks without intervention/facilitation by any Non-Government Organisation (NGO) or agency. In this system, loans are directly financed by various commercial, regional rural and small banks. Loans are granted under various government schemes as well as under various products of respective banks.

Model II (SHG/JLG LINKAGE)-: Individuals or group borrowers are granted loans directly with the facilitation provided by agencies like Government, Commercial Banks, Micro-Finance Institutions (MFIs), NGOs, Non-Bank Financial Intermediaries, small banks and Co-operative Societies. Under this model, joint liability groups and Self-Help Groups are formed and linked with banks. Loans are granted to individual members of the groups through theseagencies and the liability in case of default is shared by all the members of group. SHGs-bank linkage programme (SBLP) started as a pilot project in 1992 by National Bank for Agricultural and Rural Development (NABARD) and today it is world's largest microfinance programme.

Model III (MFI APPROACH)-: Individuals or group borrowers are financed through NGOs and MFIs as both facilitators and financing agencies. MFIs and NGOs have better reach to the rural India as compared to other agencies. They finance the borrowers on individual basis generally at high interest rate but their procedure of disbursal is very fast when compared with the banks.India has some 223 MFIs, with the share of 32% of total micro credit amounting to 32820 crores.

Model IV (Bank Partnership Model)-: MFIs acts as agent of banks for handling credit, monitoring, supervision and recovery. In this model, the bank is lender, MFI is agent while the individual is the borrower. Moreover, MFIs take care of all relationship management with the client from loan disbursement to repayment. In this system, bank uses the reach and viability of MFIs for their loan disbursals to the targeted population. MFIs and similar agencies act as a mediator between the bank and end consumer.

II. LITERATURE SURVEY

Poverty alleviation and rural empowerment have always been major focus of researchers since beginning. Since the dawn of microfinance, many scholars have contributed to the literature stating various aspects of this sector right from its authenticity to remove poverty to its actual outreach. Countering our study is some of the literature on Impact of micro finance being appreciable in raising income level,skill development, empowerment, courage and bringing confidence. Seen positive contribution on social sphere and definite impact on social capital with marginal impact on income level. microcredit institutions registered an increase in asset from Pre- to Post SHG system [Devraja T.S., 2011]. S. Sarumathi and. K. Mohan found that microfinance brought psychological, social and economic empowerment within women. Women after enrolling themselves in SHG program were better off on household economic decision making, legal awareness, mobility, economic security and family decision making aspects. However, scenario analysis has always been popular and progressive in highlighting the challenges and shortcomings of this sector. Prevailing gaps in functioning of MFIs have been stated like credit delivery system inefficiency, not so profound product diversification, customer overlapping and duplications, more demand of consumption and personal loan with lack of mitigation measures, less thrust on productive loans, inadequate collection methods of savings/loans and high interest rates [Sibghatullah Nasir, 2013]. Similar study supports the failure of microcredit through its small outreach and loopholes in the system. Also, India's experiment with subsidized credit has proved unsuccessful, resulting in large NPAs. This study also enquires for the new regulatory body for MFI's working to keep a check on their unnecessary profit margins. [PADMALOCHAN MAHANTA; GITANJALI PANDA, 2012]. Some parts of literature deals with the regional disparity of microfinance industry[Sunil Sangwan, Narayan Chandra Nayak,1999], stating the fact that although MFIs have played an instrumental role in improving credit situation in rural areas, 50% of all microfinance clients and 49% of all microfinance loan portfolios of total MFIs are only in southern region of the nation. The north-eastern, northern, central, and western regions lag far behind in microfinance sectors, accounting for only 4%, 4%, 10%, and 7 % client outreach respectively. Therefore, denying the equitable and just financial inclusion of rural people in the economy. Despite existence of enormous work, on both positive and negative aspects of microfinance sector, literature still lacks on documenting analysis of ground realities of microcredit industry and its crisis management. Inability to increase income and raising standard of living are still the paramount issues that persist in this developing nation. The questions are

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unanswered on why even with parallel existence of these institutions and credit availability, beneficiary populace is unable to set up their own business ventures successfully

OBJECTIVES

India has various microcredit delivery systems under various schemes. Large number of formal institutions registered under different laws to service these loans. In spite of all these, the total microloans sanctioned arefar behind the desired level. This paper is conducted to gain insights about the following topics:

•To study the microcredit scenario in India with various delivery channels

•To study the challenges and shortcomings of institutions involved with microloans

•To suggest innovative measures for subduing challenges and paving way for future prosperity

RESEARCH METHODOLOGY

The paper presents an empirical and meticulous aspect in efficiency of microcredit industry. Primary data in the form of a survey adopting questionnaire form, targeting low-income group and secondary data from different sources like journals, books, magazines, Government report, PIB, RBI reports, surveys and websites have been taken to support and fathom every aspect of this study. Graphical, percentage and hypothesis analysis have been used to anatomize the data. The paper subsumes aspects of both an empirical work and a literature review.

SURVEY

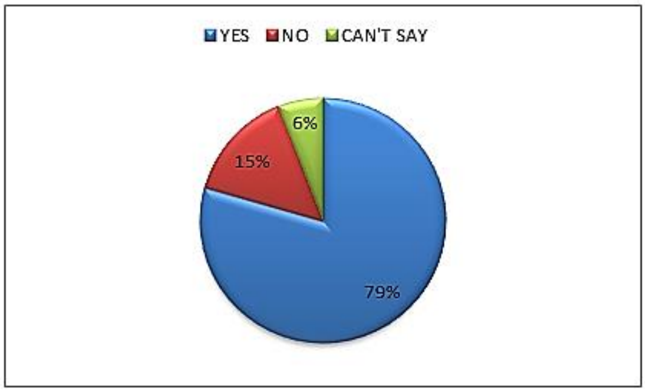
We conducted a survey in the form of a questionnaire on the effectiveness of microcredit primarily targeting lower income group from district of Bihar and Uttar Pradesh. It focussed on various aspects of microloans ranging from amount and number of loans to their repayment rate. It seeks opinions on challenges to micro loans both in formal channel as well as in informal channel. Responses were sought from 40 people, of which 34 responded effectively. Non-probabilistic convenience sampling method was adopted. Analysis was done using statistical tools like Hypothesis testing, percentage method and charts.

RESPONDENT PROFILE

Mainly lower income people were targeted through this survey. Their prime source of occupation encompasses farming, servants, caretaker, driver and maids. Most of them reside in rural areas while few of them have migrated to urban centres and has taken employment there.

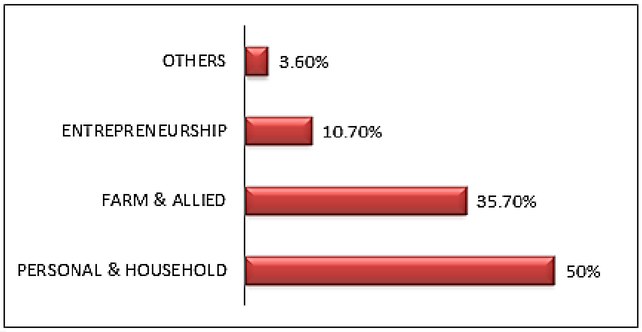
1. NEED OF MICROLOANS:

Respondents expressed their views about their actual need of loans.



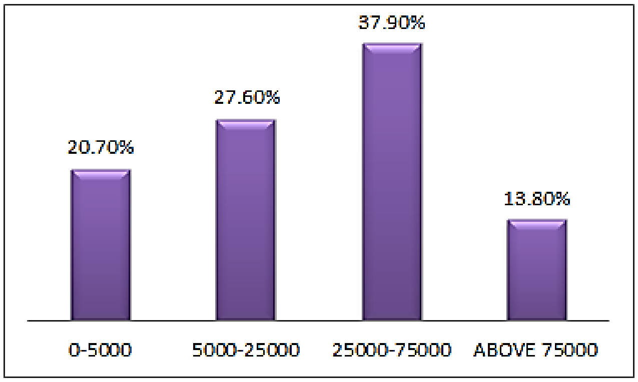
2. PURPOSE OF MICROCREDIT LOANS:

Various purposes for which borrowers opt for loans were assessed. They specified their purpose for loan in categories of Personal, Farm, Entrepreneurship and others.



3. AMOUNT OF LOAN NEEDED

Survey also focused on the quantum of loan needed by borrowers for various purposes. Respondents mentioned their preference for amount of loan in accordance to their requirements and paying capacity.



4. Frequency of demand for credit

Respondents provided insights about how often they need

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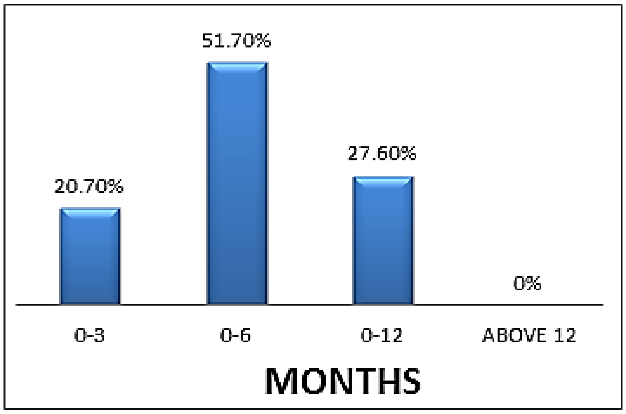
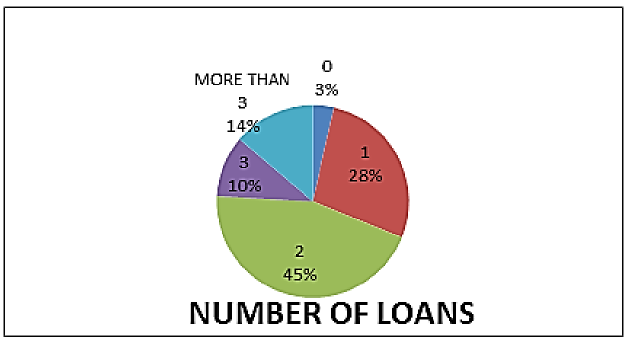
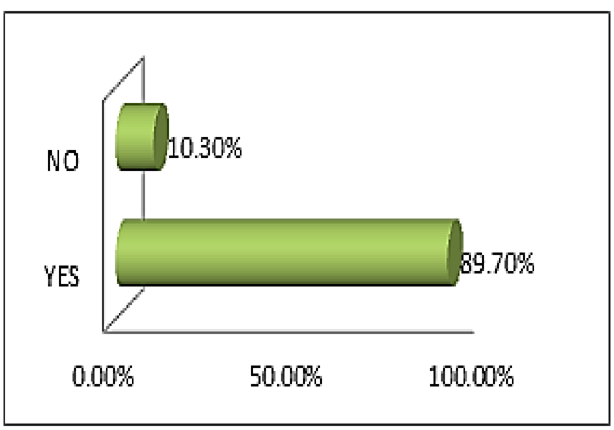
funds. This varies from once in a quarter to once a year.



5. NUMBER OF LOANS TAKEN:
Respondents provided about their current status of number of borrowings. This has a direct consequence on repayment rate and indebtedness on part of borrowers.



6. Repayment of Loan:
Survey also attempted to find out the repayment rate of loans. Respondents were asked about their ability to repay the loan considering the high interest rate. It is specified for whole of microcredit industry irrespective of the source from it is borrowed.



INFERENCE:
Need of microloans is rising continuously India. The large demand of funds will stimulate growth at grass root level as well as provide financial assistance to the poor people. These microloans are borrowed for variety of purposes like personal & household, farm & allied and entrepreneurship. Some of them specified transfer payment to family members and repayment of previous loan amount as their prime reason for borrowings. This highlights the issues of cycle of unproductive loans and indebtedness. The amount of loan ranges from 0 to 75000 in correspondence to paying capacity and nature of purpose. Majority loans are of small amount, which is largely due to farming on small fragmented lands and need of funds for personal usage. Borrowers demand for loans are not structured. Their demands vary from quarterly loans to yearly loans. Most of them demand twice in a year in line with Rabi and Kharif sowing season. This demand pattern has a direct bearing on the number of loans borrowed. The number of outstanding loans on borrowers provides us insight about repayment rate. Higher the number of loans borrowed will expand the growth and reduce poverty provided the loans are of productive nature. The loans should be given to generate goods & services and employment opportunities. Despite majority of them taking minimum of two loans, their repayment rate is quite high as of 90%. This high repayment ratio of microloans accords institutions a viable profitable opportunity to magnify their existence in India.

HYPOTHESIS TESTING
We assume 60% of desired lower income group has been served well by microcredit institutions.

- Hypothesis formation-:

Null hypothesis: Microcredit is effective in delivering services to targeted lower income and poor population.

Alternate Hypothesis: Microcredit is not effective in delivering services to targeted lower income and poor population.

Now,

$H0: P \geq 0.6$

$Ha: P<0.6$

Where P= proportion of poor people or borrowers availing services of microcredit.

- This being a consumer survey with responses from 34 persons, the sample can reasonably be assumed as a normal distribution with level of significance as 5%. Critical value Z = -1.65 (from Z-distribution table)

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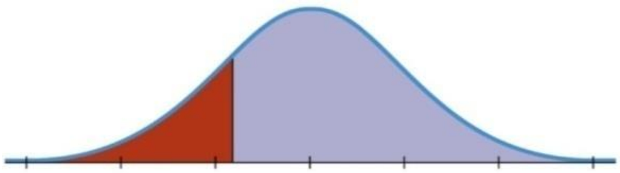
REJECTION AREA



➢ Here, $S.E_p$(Standard Error) = $\sqrt{\frac{P(1-P)}{n}}$ = $\sqrt{\frac{0.6(1-0.6)}{34}}$ = 0.084

1. Access to financial sector:

Respondents informed about their current status of access to various formal financial agencies for availing the services.

ACCESS OF FINANCIAL SECTOR	NUMBER OF RESPONDENTS
YES	24
NO	10

p (success)= proportion of respondents having access to formal sector

p = 24/34 =0.7058

Z = (p-P)/(S.E) =(0.7058 -0.6)/0.084 = 1.259

Result: Z value is greater than critical value (-1.65). Hence, null hypothesis is accepted.

2. Source of loan

Respondents described their source of loan. They described about many source corresponding to their needs and their place of residence. These Sources of micro loans is grouped in following categories: moneylender, bank, SHGs, MFIs, post offices and other informal sources.

SOURCE	NUMBER OF RESPONDENTS
Informal source	2
Moneylender	11
Bank	5
SHGs	3
Post office	2
MFIs	4

p (success)= proportion of respondents not opting informal and moneylender source of loan.

$p = \frac{14}{34}$ = 0.4117

Z = $\frac{p-P}{S.E}$ = $\frac{0.4117-0.6}{0.084}$ = -2.241

Result: Z value is lesser than critical value (-1.65). Hence, null hypothesis is stands **rejected in favour of alternate hypothesis**.

3. Loan products satisfying need

Respondents were asked about the desirability of products of microcredit institutions. They expressed their satisfaction regarding the loan product satisfying their borrowing needs.

SATISFACTION	NUMBER OF RESPONDENTS
YES	10
NO	2
CAN'T SAY	2

p (success)= proportion of respondents satisfied with the loan products.

$p = \frac{10}{34}$ = 0.2941

Z = $\frac{p-P}{S.E}$ = $\frac{0.2941-0.6}{0.084}$ = -3.641

Result: Z value is lesser than critical value (-1.65). Hence, null hypothesis is stands **rejected in favour of alternate hypothesis**.

4. Interest rate accuracy

Respondents were asked about the accuracy of interest rate charged by the various microcredit institutions. They mentioned their responses whether interest rates are reasonable or not.

INTEREST RATE REASONABLE	NUMBER OF RESPONDENTS
YES	6
NO	5
CAN'T SAY	2

p (Success)= proportion of respondents mentioning interest rate as reasonable and accurate.

p = $\frac{6}{34}$ = 0.1764

Z = $\frac{p-P}{S.E}$ = $\frac{0.1764-0.6}{0.084}$ = -5.04

Result: Z value is lesser than critical value (-1.65). Hence, null hypothesis is stands rejected in favour of alternate hypothesis.

STATISTICAL INFERENCES:

1. Null hypothesis has been accepted in 1 out of 4 cases, leading us to the conclusion that microcredit is not effective in reaching and serving the target population of India. It has been accepted only in first case of access to financial sector, which is corroborated by the fact that only 19% of Indian population is unbanked. The rural and lower income people are registered with the formal agencies like MFIs, SHGs, Banks etc but they are not able to avail the benefits of various programmes and services of these institutions.

2. Whereas, rejection of the null hypothesis in 3 cases has led to the conclusion that besides access to formal financial sector, there is hardly any good signs on part of microcredit goals. Major borrowers' demands are still met by informal sources of finance. They are facing difficulties in terms of loan products not corresponding to their needs, inappropriate and time consuming loan sanctioning process, financial illiteracy etc. Moreover, they are also experiencing the high rate of interest on micro loans which ranges from

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12% to 30%. This high rate of interest is subject to high cost of capital and inadequacy of capital on part of microcredit institutions but the impact on end consumers is colossal.

SHORTCOMINGS OF MICRO CREDIT INDUSTRY

1. Financial struggling/ investor backing:

Microcredit institutions find it very difficult to arrange financial backing for them. In this current scenario of providing timely loans, the industry needs financing in form of fresh equity of Rs 1,500 crore and debt funding of Rs 20,000 crore at conservative growth estimate of 25% for FY18. In addition to this, MFIs are restricted to accept deposits and to comply with 10% margin cap on interest rate charged. All this leads to conversion of MFIs to Non-bank finance company and small finance bank as they can raise large amount of funds from varied sources. However, this conversion is limited to few MFIs and small institutions.

2. Exorbitant interest rate:

Micro credit industry being just a decade old is still unable to reach its breakeven point. MFIs' charge nearly (12-30%) as compared to (8-12%) charged by commercial banks. Our findings from survey revealed that around 53% of respondents were not satisfied with the interest rate. They found rate of interest unreasonable in accordance with their level of income. This is because MFIs borrow capital at interest rates ranging from 12 percent to 15 percent and then has additional expenditure on fixed costs; protect against high credit risk, supplementary financial products along with return margin. Another rationale for such high interest rate is the insignificant quantum of loan and short repayment cycle. The loan amount varies from (2500-75000) with same amount of costing as that of high quantum of loan, thereby making cost per giveaway very high.

3. Depth of Outreach:

As per the NABARD report 2016-2017, only 31.4 per cent of the rural households and 22.4 % urban dwellers have access to finance from any source including informal. This infers that more than 70% Indians remained without access to finance. The savage reality of low outreach of formal agencies is that 44% cash loans are still met from informal moneylenders with 17% rural household access to formal credit institutions. Our survey shows that about 40% of microloan demands are still met by informal sources. It may be due to institutional reasons, lacking proper infrastructure and logistics or respondent's inability to unleash the services. Also, study shows microcredit industry flourishes where there is strong banking & formal financial system, which corroborate the fact that strong ancillary financial backing is important for microcredit to be successful in untapped areas where moneylenders has taken over their space.

4. Lack of risk management framework:

Microcredit industry works on concept of providing loans to poor people without any collateral increases the risk of bad debts. As per NABARD report 2016-2017, the NPA under SBLP is 6.5% and NPA of bank loans provided to MFIs stood at 4.6%. Micro institutions in awe of fulfilling the target of providing loans to low income but priority sector generally weakens their profile study of borrowers thereby, giving unproductive/consumption loans without any regenerating value. This leads to borrowing more amount of money thus, ending up in debt trap. Our analysis shows over-indebtedness and multiple loans are the major concerns for failure of credit risk management.

5. Poor organizational structure:

Our analysis supports the fact that microcredit industry deals with inappropriate organizational framework, simplifying this conundrum it can be divided into three aspects:

a) Financial structure: Over dependence on banks for financial funding make these credit institutions incompetent and unsupportive of unbiased lending. Around 80% of funds for non-government organization come from bank, mostly private banks charging high interest rates for short period. This also increases the cost on loans making them highly unapproachable for poor people. Around 68% MFIs raise their apprehension of not getting support by government and SBP to meet the funds requirement. Generally, banks provide loans to MFIs at the end of accounting year just to meet their targets, which is not in line with agricultural seasonal demand.

b) Infrastructural framework: The problem not only confines to brick and mortar disequilibrium but also to inappropriate repayment method. MFIs, do not adequate capital to invest in technology and human resource. This culminates in using locally developed solutions that proliferates cost and inefficiency. These also impacts credit ratings of microcredit institutions which directly influences fund raising capability.

c) Operational structure: MFIs incur considerable cash-carrying cost in form of interest foregone along with an insurance premium to safeguard against risk of loss in cash-in-transit. They also target wrong audience since they do not have robust credit verification system. Moreover, to overcome these, they depend on urban poor for maximizing efficiency and cutting cost defeats the basic purpose of microcredit.

6. Financial illiteracy:

Going by (Sud,2017) 76% of India's adult do not understand financial concepts. Lack of awareness has its roots deepened enough to make financial exclusion persist dominantly. It is a challenge for both consumers and agencies to avail benefits from each other through accurate resources and knowledge.

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Financial illiteracy is not just limited to remote areas but also engulfs urban poor, who despite being in reach are unable to join these organizations.

7. Internal governance:

Microcredit institutions are generally reluctant in coming under legal framework of corporate governance. To subsist their freedom of choice of lending and borrowing, they avoid transparent pricing and indulge in encouraging parallel economy thereby targeting wrong borrowers and exorbitantly priced lending. This is very much discernible from the Andhra Pradesh crisis as well as SKS 15.8 cash embezzlement case.

8. Migration and dropouts:

Generally, microfinance loans are disbursed to groups based on their past credit records. Migration and dropout of member distorts their credit value thereby affecting their ability of access of financial and additional services. The MF India –state of the sector report (N.Srinivasan) provides us the fact that 43% of the SHGs reported drop out at the rate of 8.2 % of members. It is also reported that most prominent cause was the dissatisfaction of the members of SHG with 43.5 % reporting the same followed by migration.

STATE-OF-THE-ART REFORMS

1. SINGLE WINDOW SYSTEM:

Micro credit distribution system is complex and critical because of the simultaneous working of the various agencies and delivery system, a single simplified platform that assimilates whole of the procedure should be introduced. A pan India single window operator should be set up for whole set of activities ranging from record keeping, processing microloans to repayment tracking. All the agencies must come on a single software channel for their operation. Adopting the process will not only reduce corruption from grass root level but will also cut the cost into half through reduced paper work and lethargic proceedings record. Also, inappropriate methods by agents at the time of repayment cycle would be vanished. A simplified version would be available throughout the national boundaries which will help the customers in availing credit facilities even in transfer cases where wage workers are required to travel from one place to another frequently.

2. Unique ID:

Our study suggests the major problem of increasing NPAs due to overlapping of loans and underperforming of institutions in client profiling. An upgraded system of digital linkage could provide easy access to client information at one click. There should be unique interface identification number to both the institution as well as borrowers so that any duplicity in loan disbursal will be obliterated. Also, a unique ID allotted to borrowers would curb the chief issue of inter-transferability from one organization to another. This is in tune to avoid frauds on part of MFIs and to keep track of indebtedness.

3. Digitalization of Real Estate:

Loans sanctioned to low income group generally creates liability on real estate in form of collateral. There is prevailing issues of counterfeit registry deeds and multiple loans on single property. To vanquish this, there should be digitalisation of real estate by providing them with QR codes or unique serial number to check its validity on single platform. This will lead to single source of truth as well as better price discovery mechanism.

4. NODAL agency:

Microcredit sector of India, being multifaceted has various models of distribution due to which a complex web is created. SHG-Bank linkage credit distribution is regulated by NABARD, those working as NGOs come under Societies registration act 1860, cooperative societies have to register themselves under cooperative societies act 1912,while private individual MFIs now are being regulated under Micro Finance Institutions (Development and Regulation) Bill 2012. Under this bill a regulator under RBI will supervise the lending and activities of NGOSs and MFIs, registration is made compulsory for MFIs. The Bill empowers the central government to form a council with officers from different ministries and RBI putting limit on maximum interest rates and their profit margins. Despite of having these reforms, the web of credit structure tangles the accountability of these institutions and end up having scapegoat amongst them. There should be one nodal agency to deal with both regulation and facilitation of microcredit industry participants in contrast to various regulators (NABARD,Small Industries Development Bank of India (SIDBI), Reserve Bank of India), various legislations (Bank act, FCRA, NBFC) as of present situation. It will help in overcoming the multi layered accountability set up and double reporting to the Apex institutions thereby, reducing compliance cost and opportunity cost.

5. Personalized Products:

Lack of innovation and upgradation of financial products according to the demands and needs of low income borrowers is one the major area to focus for increasing the efficiency of microcredit sector. The availability of short term credit should be complimented along with need to diversify the products in terms of saving, insurance and pension for complete inclusion. Early repayment cycles are difficult to be followed by these set of people. Therefore, long term credit with relatively long repayments rather than weekly will built loyalty for the institution within the customers. Following the need correspondence approach in designing products would also increase their client base.

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III. CONCLUSION

Microcredit in its wholesomeness involves giving out small loans to low income group of people without any collateral to provide them with entrepreneurial opportunities and alleviate poverty. This sector has established its significance and evolved as an instrumental tool in financial inclusion and upliftment of real unbanked common masses. It has witnessed huge upsurge in the number of MFIs, SHGs, RRBs, NGOs and similar agencies. This sector has achieved tremendous growth in terms of number of households served, total amount of loan outstanding as well as phycological and social upliftment. Despite of significant existence, microcredit institutions have struggled to accomplish their prime motive. Large amount of micro loan demand is still met by informal sector. The formal agencies have failed to reach the grass root level as it is evident from the data that supports the minuscule existence of microcredit institutions in northern, central and eastern parts of India. Our findings reveal that the cardinal shortcomings of this sector are inequitable loan disbursements, high interest rates, financial illiteracy and inadequacy of capital in institutions. Other relevant demerits accounts for risk management framework, improper internal governance and migration and dropouts from SHGs/ JLGs. Based on certain setbacks, we have suggested some beneficial reforms to upgrade and overcome the lucrative existing structure which includes single window system to provide same platform for all loan disbursements. A Single nodal agency in place of various regulators and apex institutions will lead to overall efficiency of micro credit system through reduced cost and simplified procedure. There is a need for innovating and customising financial products according to needs of borrowers. This should be augmented by digitalisation of whole process and assignment of unique identification numbers to both borrowers and agencies.

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