**IV- MICROFINANCE**

**Introduction**

**INTRODUCTION**

In early 1980’s, the existing banking policies, procedures and systems were not suited to meet the requirements of poor. For borrowings poor people usually resort to unorganised sector. NABARD recommended that alternative policies, systems and procedures should be put in use to save the poor from the clutches of moneylenders. Thus microfinance was introduced in banking sector. Microfinance is a programme which includes a broad range of financial services such as deposits, loans, payment services, money transfers, insurance, savings, micro-credit etc. to support the poor people and low income individuals. Mohammed Yunus was awarded the Noble Prize for application of the concept of microfinance, with setting up of the Grameen Bank in Bangladesh

The concept of microfinance was created by Professor Muhammad Yunus founder of Grameen bank in Bangladesh and noble price winner in 2006.Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their micro-enterprises. Microfinance is defined as Financial Services (savings, insurance, fund, credit etc.) provided to poor and low income clients so as to help them raise their income, thereby improving their standard of living.The Asian Development Bank (2000) defines microfinance as the provision of broad range of services such as savings, deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro-enterprises. This definition of microfinance is not restricted to the below poverty line people but it includes low income households also.The task force on Supportive Policy and Regulatory Framework for Microfinance constituted by

 NABARD defined microfinance as “ the provision of thrift, saving, credit and financial services and products of very small amount to the poor’s in rural, semi urban and urban areas for enabling them to raise their income level and improve their standard of living.

Microfinance is a form of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. For some, microfinance is a movement whose object is a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Many of those who promote microfinance generally believe that such access will help poor people out of poverty. For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses. Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Microcredit is one of the aspects of microfinance and the two are often confused. Critics may attack microcredit while referring to it indiscriminately as either 'microcredit' or 'microfinance'. Due to the broad range of microfinance services, it is difficult to assess impact, and very few studies have tried to assess its full impact. Proponents often claim that microfinance lifts people out of poverty, but the evidence is mixed. What it does do, however, is to enhance financial inclusion.

Definition of Microfinance : Microfinance is the provision of a broad range of financial services such as – deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards.

The term 'microfinance' is often confused with the related term 'microcredit', so much so, that the two are often treated as synonymous and used interchangeably.

The term microcredit refers to a small size loan, to be repaid within a short period of time, used mostly low income households and micro entrepreneurs for the purpose of income generation and enterprise development. The mobilization of such credit is restricted to external sources such as banks and moneylenders.

Microfinance on the hand, provides a greater menu of options whereby the small loan can be garnered not just from the external sources but also through selfmobilization, by way of saving and sale of assets. Also, in case of microcredit, due to the definite obligation to repay the loan, a physical collateral may sometimes be needed. However, the biggest flexibility in the case of microfinance is the lack of any physical collateral, even in case of loan from the bank. The options available with microfinance, therefore, are much broader and flexible than the ones available with microcredit.

Difference between microfinance and microcredit

|  |  |  |  |
| --- | --- | --- | --- |
| Sl.No | Characteristics | Microfinance | Microcredit |
| 1 | Size of loan | Small | Small |
| 2 | Repayment of period | Short | Short |
| 3 | Sources of mobilization | Both external and internal | External |
| 4 | Repayment | Obligation if source external | Definite obligation to repay |
| 5 | Collateral | Not needed | May or may not be needed |
| 6 | May or may not be needed | Flexible, consumption income generation | Mostly fixed, limited scope for deviation |
| 7 | Scope of operation | Mostly group loans trickling down to individuals | Usually individual loans, though group loans might be given |

**Features of Microfinance**

1. It is an essential part of rural finance.

2. It deals in small loans.

3. It basically caters to the poor households.

4. It is one of the most effective and warranted Poverty Alleviation Strategies.

5. It supports women participation in electronic activity.

6. It provides an incentive to grab the self employment opportunities.

7. It is more service-oriented and less profit oriented.

8. It is meant to assist small entrepreneur and producers.

9. Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing.

10. The borrowers are generally from low income backgrounds

11 .Loans availed under microfinance are usually of small amount, i.e., micro loans

12 The loan tenure is short

13. Microfinance loans do not require any collateral

14.These loans are usually repaid at higher frequencies

15.The purpose of most microfinance loans is income generation

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Micro credit and micro-finance both are different. Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Micro-finance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans, etc. for poor people.

**Evolution of Microfinance in India**

The evolution of Indian Microfinance sector can be broadly divided into four distinct phases:

**Phase 1: The Cooperative Movement (1900-1960):** During this phase, credit cooperatives were vehicles to extend subsidized credit to villages under government sponsorship.

Phase **2: Subsidized Social Banking (1960s - 1990)**

With failure of cooperatives, the government focused on measures such as nationalization of Banks, expansion of rural branch networks, establishment of Regional Rural Banks (RRBs) and the setting up of apex institutions such as the National Bank for Agriculture and Rural Development (NABARD) and the Small Scale Industries Development Bank of India (SIDBI), including initiation of a government sponsored Integrated Rural Development Programme (IRDP). While these steps led to reaching a large population, the period was characterized by large-scale misuse of credit, creating a negative perception about the credibility of micro borrowers among bankers, thus further hindering access to banking services for the low-income people

**Phase 3: SHG-Bank Linkage Program and Growth of NGO-MFIs (1990 - 2000)** The failure of subsidized social banking triggered a paradigm shift in delivery of rural credit with NABARD initiating the Self Help Group (SHG) Bank Linkage Programme (SBLP), aiming to link informal women's groups to formal banks. The program helped increase banking system outreach to otherwise unreached people and initiate a change in the bank's outlook towards low-income families from 'beneficiaries' to 'customers'. This period was thus marked by the extension of credit at market rates. The model generated a lot of interest among newly emerging Microfinance Institutions (MFIs), largely of non-profit origin, to collaborate with NABARD under this program. The macroeconomic crisis in the early 1990s that led to introduction of the Economic Reforms of 1991 resulted in greater autonomy to the financial sector. This also led to emergence of new generation private sector banks that would become important players in the microfinance sector a decade later.

**Phase 4: Commercialization of Microfinance**: The First Decade of the New Millennium Post reforms, rural markets emerged as the new growth drivers for MFIs and banks, the latter taking interest in the sector not only as part of their corporate social responsibility but also as a new business line. On the demand side, NGO-MFIs increasingly began transforming themselves into more regulated.

**Role and Importance of Microfinance**

According to the research done by the World Bank, India is home to almost one third of the world’s poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living.

Thus Microfinance plays a major role in upliftment of Indian economy in following ways:-

Credit to Rural Poor:-Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.

Poverty Alleviation:-Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.

Women Empowerment:- Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.

Economic Growth:-Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

Mobilisation of Savings:-Microfinance develops saving habits among people. Now poor people with meagre income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Thus microfinance helps in mobilisation of savings.

Development of Skills:-Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

Mutual Help and Co-operation:-Microfinance promotes mutual help and co-operation among members. The collective effort of group promotes economic interest and helps in achieving socioeconomic transition.

Social Welfare:- With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

**Microfinance institutions**

Poverty is the main cause of concern in improving the economic status of developing countries. A microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services.

A great scale of organizations is regarded as microfinance institutes. They are those that offer credits and other financial services to the representatives of poor strata of population

Microfinance institutions (MFIs) are financial companies that provide small loans to people who do not have any access to banking facilities. The definition of “[small loans](https://www.bankbazaar.com/personal-loan/small-amount-loans.html)” varies between countries. In India, all loans that are below Rs.1 lakh can be considered as microloans.

## Goals of Microfinance Institutions

Microfinance institutions have been gaining popularity in the recent years and are now considered as effective tools for alleviating poverty. Most MFIs are well-run with great track records, while others are quite self-sufficient. The primary goals of microfinance institutions are the following:

* Transform into a financial institution that assists in the development of communities that are sustainable.
* Help in the provision of resources that offer support to the lower sections of the society. There is special focus on women in this regard, as they have emerged successful in setting up income generation enterprises.
* Evaluate the options available to help eradicate poverty at a faster rate.
* Mobilise self-employment opportunities for the underprivileged.
* Empowering rural people by training them in simple skills so that they are capable of setting up income generation businesses.

**Key Benefits**

The part that microfinance plays in economic development is noteworthy. Some of the key benefits of MFIs include the following:

* It enables people expand their present opportunities – The income accumulation of poor households has improved due to the presence of microfinance institutions that offer funds for their businesses.
* It provides easy access to credit – Microfinance opportunities provide people credit when it is needed the most. Banks do not usually offer small loans to customers; MFIs providing microloans bridge this gap.
* It makes future investments possible– Microfinance makes more money available to the poor sections of the economy. So, apart from financing the basic needs of these families, MFIs also provide them with credit for constructing better houses, improving their healthcare facilities, and exploring better business opportunities.
* It serves the under-financed section of the society – Majority of the microfinance loans provided by MFIs are offered to women. Unemployed people and those with disabilities are also beneficiaries of microfinance. These financing options help people take control of their lives through the betterment of their living conditions.
* It helps in the generation of employment opportunities – Microfinance institutions help create jobs in the impoverished communities.
* It inculcates the discipline of saving – When the basic needs of people are met, they are more inclined to start saving for the future. It is good for people living in backward areas to inculcate the habit of saving.
* It brings about significant economic gains – When people participate in microfinance activities, they are more likely to receive better levels of consumption and improved nutrition. This eventually leads to the growth of the community in terms of economic value.
* It results in better credit management practices – Microloans are mostly taken by women borrowers. Statistics prove that female borrowers are less likely to default on loans. Apart from providing empowerment, microloans also have better repayment rates as women pose lesser risk to borrowers. This improves the credit management practices of the community.
* It results in better education – It has been noted that families benefiting from microloans are more likely to provide better and continued education for their children. Improvement in the family finances imply that children may not be pulled out of school for monetary reasons.

**Groups Organised by Microfinance Institutions in India**

There are several types of groups organised by microfinance institutions for offering credit, insurance, and financial training to the rural population in India:

1. **Joint Liability Group (JLG)**

This is usually an informal group that consists of 4-10 individuals who seek loans against mutual guarantee. The loans are usually taken for agricultural purposes or associated activities. Farmers, rural workers, and tenants fall into this category of borrowers. Each individual in a JLG is equally responsible for the loan repayment in a timely manner. This institution does not need any financial administration, as it is simple in nature.

2. **Self Help Group (SHG)**

A Self Help Group is a group of individuals with similar socio-economic backgrounds. These small entrepreneurs come together for a short duration and create a common fund for their business needs. These groups are classified as non-profit organisations. The group takes care of the debt recovery. There is no requirement of a collateral in this kind of group lending. The interest rates are generally low as well. Several banks have had tie-ups with SHGs with a vision to improve financial inclusion in the rural parts of the country.

The [NABARD](https://www.bankbazaar.com/personal-loan/nabard.html) SHG linkage programme is noteworthy in this regard, as several Self Help Groups are able to borrow money from banks if they are able to present a track record of diligent repayments.

3. **Grameen Model Bank**

The Grameen Model was the brainchild of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s. It has inspired the creation of Regional Rural Banks (RRBs) in India. The primary motive of this system is the end-to-end development of the rural economy. However, in India, SHGs have been more successful as MFIs when compared to Grameen Banks.

4. **Rural Cooperatives**

Rural Cooperatives were established in India at the time of Indian independence. The resources of poor people were pooled in and financial services were provided from this fund. However, this system had complex monitoring structures and were beneficial only to the creditworthy borrowers in rural India. Hence, this system did not find the success that it sought initially.

## Top 10 Microfinance Companies in India

1. [Equitas Small Finance](https://www.bankbazaar.com/personal-loan/equitas-microfinance.html)

The lender offers small loans between Rs.2,000 and Rs.35,000 to the Economically Weaker Section (EWS) and Low Income Group categories in the country.

Loan Details:

|  |  |  |
| --- | --- | --- |
| Loan Amount |  | Processing Fee |
| Up to Rs.25,000 | 24% p.a. | Nil |
| More than Rs.25,000 | 23% p.a. | 1% + GST |

2. [ESAF Microfinance and Investments (P) Ltd](https://www.bankbazaar.com/personal-loan/esaf-microfinance.html)

ESAF Microfinance is a leading MFI in India that has empowered more than 4 lakh members through its 150 branches. It offers an extensive range of business development and financial services to the economically and socially challenged members of the society. The institution offers a bouquet of loan products to suit the varied needs of customers:

Loan Details:

|  |  |
| --- | --- |
| Loan Amount | Rs.1,000 - Rs.1 lakh |
| Interest Rate | 22% - 26% p.a. on diminishing basis |
| Processing Fee | 1% - 2% of loan amount + GST |
| Loan Tenure | 3 months – 60 months |

3. [Fusion Microfinance Pvt Ltd](https://www.bankbazaar.com/personal-loan/fusion-microfinance.html)

Fusion Microfinance is an RBI registered NBFC-MFI that works on a JLG lending model of Grameen. The institution offers loans to women in the rural and semi-urban regions. Apart from offering financial support and insurance protection, the company also imparts financial literacy to its customers.

Loan Details:

|  |  |
| --- | --- |
| Loan Amount | Rs.3,000 – Rs.60,000 |
| Loan Tenure | 8 months – 2 years |
| Interest Rate | 21% - 21.50% p.a. on reducing balance method |
| Processing Fee | 0 – 1% of loan amount + GST |

4. [Annapurna Microfinance Pvt Ltd](https://www.bankbazaar.com/personal-loan/annapurna-microfinance.html)

The purpose of Annapurna Microfinance is to provide loans to the financially underserved population. Technical and financial education is also imparted to beneficiaries to strengthen their entrepreneurial skills. It is one of the top ten NBFC-MFIs in India today.

Loan Details:

|  |  |
| --- | --- |
| Loan Amount | Rs.1,500 – Rs.25 lakh |
| Loan Tenure | 12 months – 240 months |
| Interest Rate | 18% - 26% p.a. (reducing) |
| Processing Fee | 1% - 2% + GST |

5. Arohan Financial Services Limited

Eastern India’s largest NBFC MFI, Arohan Financial Services Limited offers financial inclusion products to 1.9 million customers throughout India. The local partners of the company help in improving its reach to remote locations. Non-financial products are also offered by the company at affordable costs. Arohan also has an MSME lending business in its portfolio.

Loan Details:

|  |  |
| --- | --- |
| Loan Amount | Rs.1,100 - Rs.50,000 |
| Loan Tenure | 3 months - 24 months |
| Interest Rate | 20.70% - 21.25% p.a. |

6. [BSS Microfinance Limited](https://www.bankbazaar.com/personal-loan/bss-microfinance.html)

The company offers microloans to poor women so that they can be part of income generating activities that bring them out of poverty. The institution offers loans in the states of Maharashtra, Karnataka, Tamil Nadu, and Madhya Pradesh.

Loan Details:

|  |  |
| --- | --- |
| Loan Amount | Rs.8,000 - Rs.60,000 |
| Interest Rate | 25% p.a. |
| Processing Fee | 1% + GST (for loans above Rs.25,000) |

7. [Asirvad Microfinance Limited](https://www.bankbazaar.com/personal-loan/asirvad-microfinance.html)

This microfinance institution has an extensive network of branches throughout 22 states in India. It offers microloans to women entrepreneurs from low-income households for income generation activities. Currently, three types of loans are offered to borrowers, i.e., Product Loan, Income Generation Program (IGP) Loan, and Small and Medium Enterprise (SME) Loan.

Loan Details:

|  |  |
| --- | --- |
| Loan Amount | Rs.2,498 - Rs.45,000 |
| Loan Tenure | 12 months - 24 months |
| Interest Rate | 21.70% p.a. |

8. [Cashpor Micro Credit](https://www.bankbazaar.com/personal-loan/cashpor-micro-credit.html)

Cashpor is a microfinance institution that works towards bringing the economically backward sections of the society out of poverty. The products offered by the company include credit facilities, savings services, insurance coverage, and pension services.

Loan Details:

Credit facilities offered by Cashpor is predominantly for undertaking income generation activities. Loans are also provided for non-income generation activities and acquisition of assets that improve the health and social status of the beneficiaries. For instance, loans for the construction of toilets, women empowerment, and the procurement of gas connections are commonly offered by the company.

9. [Bandhan Financial Services Limited](https://www.bankbazaar.com/personal-loan/bandhan-financial-services.html)

The motive of the institution is to reduce socio-economic poverty by generating employment opportunities for low-income households. Cost-effective financial and non-financial products are provided in this regard.

10. Fincare Business Services Limited - The Fincare group consists of two NBFC-MFIs, i.e., Disha Microfin Ltd. (now referred to as Fincare Small Finance Bank) and Future Financial Services Pvt. Ltd. (FFSPL). The company caters to the semi-urban and rural households of the country, offering Microenterprise Loans (MEL) and loan against gold with quick disbursals.

**Regulations for MFIs**

The regulations pertaining to MFIs are usually based on their statuses. A microfinance bank will be required to adhere to all banking regulations like traditional banks. Cooperatives and NGOs will not be expected to comply with the same regulations. However, they may be regulated by similar oversight authorities.

## Traditional Banks versus Microfinance Institutions

MFIs, more often than not, function on a unique operating model when compared to traditional lending institutions.

* Evaluation of eligibility - When loans are provided by microfinance institutions, the eligibility of a borrower is not scrutinised on the bases of stong financial guarantees like traditional loans. Mainstream banks assess the salary and assets of a loan applicant before granting the loan. Microfinance banks rely more on the “human” criteria instead.

If the loan helps in the setup of a new activity that brings income to the borrower, the chances of it being sanctioned are high. The viability evaluation of the loan will include talks with the borrower, and not just the review of the loan application form.

* Group solidarity as guarantee - While traditional banks consider hypothecation as guarantee for some loans, MFIs replace this practice with a group solidarity mechanism. For instance, when investing in mutual funds, each borrower serves as a guarantor for each of the other members in the group. Self-help groups are examples of the same.
* Training programmes – Unlike traditional banks, MFIs are liable to building bonds with the beneficiaries of microloans. They also offer strong support to the borrowers. Since the motive is to help borrowers succeed in their projects, MFIs also undertake training programmes that focus primarily on educating beneficiaries on the budgeting of projects.
* Flexible repayment schedules – MFIs usually configure the repayment method for microloans in such a way that is suits the financial capabilities of the target customer base. Thus, there are MFIs that are likely to provide loans with weekly repayment dates, unlike traditional banks.
* Flexible credit schemes – Microlending has products that are usually adapted to suit the repayment capabilities of borrowers. This is one of the main differences between a traditional lender and an MFI.

**Challenges Faced by MFIs in India**

Although microfinance institutions have been profitable in India, there have been regulations and populist politics that have proved to be unfavourable to them. The small size of these institutions imply that they will be affected by small adverse developments resulting in fragile finances.

Banks usually have multiple products and an assured deposit structure. On the other hand, micro lending institutions are highly dependent on the market for funding. This means that at the smallest of events affecting business, MFIs could find it difficult to procure financing.

Additionally, banks today have a presence in the microlending space and they are also partnering with MFIs through strategic stakes. MFIs are also finding it difficult to grow independently without any support from anchor investors.

As of 2017, there were 223 MFIs that included NGO-run units and societies. 47 non-banking finance companies – microfinance institutions (NBFC-MFIs) had also been registered with the Microfinance Institutions Network (MFIN). The top 10 MFIs always find it easy to get bank loans or equities; the smaller entities are usually at a disadvantage here.

Several microfinance institutions have converted into small finance banks. This implies that they can lend at higher interest rates. Moreover, they will have access to deposits that are low-cost. Banks are now some of the largest providers of micro-finance as per MFIN reports. MFI-turned banks are still the major providers of micro finance.

Since financial inclusion is on the rise, MFIs have many more years of opportunity remaining. The key to their survival is the constant backing from investors.

There are over 10,000 microfinance institutions serving in excess of 150m customers, 100m of them being the poorest families. Microfinance is gathering momentum to become a significant force in India. Some challenges faced by micro finance in India are:

* 1. Financial illiteracy: One the major challenge in India towards the growth of the microfinance sector i.e. illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients.
  2. Lack of information : There are various sources of credit information in India, but none of these focuses on small, rural borrowers. Credit information on such borrowers is difficult to obtain because the majority of the rural poor rely on moneylenders and other informal lenders, and it is not in the interest of such lenders to pass on a borrower’s good credit repayment record to other providers of finance.
  3. Inability to generate funds: MFIs have inability to raise sufficient fund in the microfinance sector which is again an important concerning challenge. Through NBFCs are able to raise funds through private equity investment because of the for profit motive, such MFIs are restricted from taking public deposits.
  4. Heavy dependence on banks & FIS: MIF’s are dependent on borrowing from banks & FIS. For most of the MFI’s funding sources are restricted to private banks & apex MFI’s. In these available banks funds are typically short term i.e. maximum 2 years period. Also there is a tendency among some lending banks to sanction and disburse loans to MFI,s around the end of the accounting year in pursuit of their targets.
  5. Weak governance: Many MFI’s are not willing to convert to a corporate structure; hence they trend to remain closed to transparency and improved governance, thus unable to attract capital. MFI’s also facing a challenge to strike a balance between social and business goals. Managements need to adapt business models based on changing scenarios & increased transparency; this will enable attracting capital infusion and private equity funds.
  6. Interest Rate: MFIs are charging very high interest rates, which the poor find difficult to pay. MFIs are private institutions and therefore require being economically sustainable. They do not get any subsidized credit for their lending activities and that is why they need to recover their operational costs from borrowers
  7. Regional Imbalances: There is unequal geographical growth of Microfinance institutions and SHGs in India. About 60% of the total SHG credit linkages in the country are concentrated in the Southern States. However, in States which have a larger share of the poor, the coverage is comparatively low. Main reason for this is the state government support, NGO concentration and public awareness

Indian microfinance industry came a long way from 1975 with the development of RRB (Regional and Rural Banks). It is one the major steps taken by the government to reach the poorer section of the society who are not part of the formal financial system. During the course, the industry faced various highs and lows and which can be seen through a spate of crises over the years. This industry needs to improve the quality of services and its operational structure.

Government has to involve in the course of the action in order to make this industry thrive. Smooth functioning of Indian microfinance industry can be enabled through setting up of a separate regulatory authority to discourage malpractice and political influence. Strengthening the credit check and debt collection processes and educating the villagers about products and consequences is important. Specific representatives of the legal system should be appointed who will visit the villages on a regular basis. The government is trying to aid this sector by helping the linkage between the self-help group and banks to grow through **NABARD**, the section of RBI that regulates the micro finance industry. However the stakeholders should take a lot more measures to address the issues identified above.