Assessing the Performance and Confronting the Challenges of Microfinance in Indian Economy

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Abstract

There has been a close relationship between credit availability and economic growth. In a country like India where according to world bank, 70% of its population lives in rural area and 60% is dependent on agriculture, micro finance plays a very important role in providing financial assistance to the poor, low income and otherwise neglected segment of the economy that lies at the bottom of the economic pyramid. This paper focuses on evolution, performance and challenges faced by micro finance sector including during this COVID 19 pandemic times. The study reveals that the micro finance sector has been undergoing transformation. In 2016, demonetization-imposed cash crunch on micro finance sector as indicated by 7.2% decline in the loan disbursement by banks to micro finance institutions. The Self-Help Groups (SHGs) – bank linkage programme has been found to be the most prominent model in India. The data published by NABARD in respect of loan disbursement and savings of the SHGs shows that tremendous efforts have been made and a lot has been achieved to make the credit available to the rural poor people. But in spite of these pioneering efforts, the microfinance situation is not very satisfactory in the country. Microfinance institutions generally lend to the same individual / group several times and thus causes multiple lending known as credit pollution. Thus, the micro finance sector requires proper regulatory framework to ensure that its delivery mechanism provides financial services to many the poor people.

Keywords: *Grameen Banks, India, Microfinance, NABARD, SHGs.*
JEL Classification: *G21*

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INTRODUCTION

The problem of reducing poverty has been a difficult and crucial challenge for many developing and underdeveloped nations for a considerable period. It has been a top priority for policymakers and is now considered to be the foundation of all developmental efforts. Sustainable Development Goal (SDG) 1, which is dedicated to eradicating poverty in all its manifestations worldwide, places a special emphasis on addressing extreme poverty, defined as surviving on less than $1.25 per day. Extreme poverty often manifests itself as poverty traps, a situation where poverty persists because the initial income level is insufficient to generate economic growth through productive endeavors. As financial deepening in an economy takes pace, the rate of economic growth increases. But during such deepening, the process becomes lopsided because firstly it favours big business firms and urban population and a large part of the population residing and depending upon rural sector have no access to such credit availability. The answer to this problem lies in the concept of microfinance. Microfinance, a powerful tool for financial inclusion and poverty alleviation, has made significant strides in India over the past few decades. This financial practice involves providing small loans, insurance, savings, and other financial services to the people typically excluded from the banking sector because of their limited income and lack of collateral. Ledgerwood (1999) suggests that financial services usually encompass more than just savings and credit. They may include other financial products as well such as insurance and payment services. In India, the concept of microfinance started in early 1970s when initiatives like the Self-Employed Women's Association (SEWA) and the National Bank for Agriculture and Rural Development (NABARD) began experimenting with micro-lending. However, it gained substantial momentum in the 1990s with the establishment of various microfinance institutions (MFIs). The formation of SHGs (Self-Help Groups) also played a pivotal role in promoting microfinance as it encouraged community-based savings and lending activities. Microfinance in India serves to enhance financial literacy, promote women's empowerment, and foster economic development in rural and underserved areas. The regulatory landscape for microfinance in India has evolved significantly. The Reserve Bank of India (RBI) introduced a dedicated regulatory framework in 2011, classifying MFIs into various categories and setting guidelines to ensure responsible lending practices and consumer protection. This regulation was introduced in response to concerns about over-indebtedness and aggressive recovery practices in some parts of the country.

OBJECTIVES OF THE STUDY

The microfinance sector has a long journey of tremendous growth in India. In this light, this present study attempts

(a) to explain the concept of microfinance and various microfinance delivery models in India.

(b) to evaluate the performance of microfinance sector in India, and

(c) to discuss the challenges faced by Indian microfinance industry.

REVIEW OF LITERATURE

The success of microfinance as a tool for poverty decline has been a topic of debate among development economists and the public. Adams and Pischke (1992) tried to compare modern MFIs with failed government-established credit agencies in rural areas and agricultural development banks of 1960s and 1970s and found that the modern MFI industry is likely to fail. Buckley (1997) analyzed data from Kenya, Malawi, and Ghana and suggested microfinance in order to be effective needs structural changes in socioeconomic conditions. In contrast, Woller et al. (1999) observed that prevailing microfinance models are very different from unsuccessful credit agencies of rural areas of the past, and Woller and Woodworth (2001) argued that the macroeconomic policies have also experienced significant failures in poverty alleviation. Gaonkar (2001) attempted to study the success of the microfinance programs on the expectations for basic necessities of its members in Goa, India. The study selected a sample of 5 HGs to gather essential information in the Goa region. The results indicated that the Microfinance program had a favourable effect on the members' living standards. The research conducted by Singh (2001) examined the impact of microfinance schemes on the financial status of members in Kanpur, Uttar Pradesh. In his research conducted in India, Dash (2002) discovered that the formation of self-help groups through microfinance initiatives can have a positive impact on citizens' engagement in the political sphere. The study revealed that as the ability of group members to collectively take action improves, their interests and concerns undergo a transformation, resulting in a continuous increase in the quantity and accuracy of citizens' political demands. Helms (2006) pointed out that although microfinance has been effective in reducing vulnerability and poverty in certain parts of the world, there are still three billion people who lack access to any form of financial services. Chintamani Prasad Patnaik (2012) emphasized the need for a long-term perspective for microfinance development under SHG structures, which includes technology backup, product market, and human resource development. However, Hiderink and Kok (2009) noted that despite the efforts of microfinance institutions to contribute to the UN Millennium Development Goal of poverty alleviation by 2015, progress has been slow. Meanwhile, Crabb (2008) suggests that the effectiveness of microfinance institutions is closely related to the degree of economic freedom in the countries in which they operate, as their sustainability depends on various economic policy factors. These studies shed light on the importance of microfinance programs in promoting financial inclusion and reducing poverty.

Bansal and Bansal (2012) concluded that microfinance and microcredit are widely identified as effective strategies for reducing poverty and advancing economic development. These programs are particularly beneficial in rural areas. By providing access to small loans at reasonable interest rates, these programs offer impoverished individuals the opportunity to start their own small businesses, thus enhancing their level of income and overall quality of life.

According to a study performed by Kumar et al. (2015), it was determined that MFIs and SHGs play an important role in providing microfinance services and promoting the development of impoverished individuals and those with low incomes in India. Nikita (2014) observed a decrease in the number of SHGs linking their savings with banks in 2012-13, following the introduction of SHGs - BLP. The study also revealed an increase in the outstanding loan amounts of SHGs, which contributed to a rise in non-performing assets (NPAs). Sharif Mohd (2018) attempted to find out the role of MFIs in poverty reduction in India. He found that MFIs are becoming more and more inclined towards urban areas as is evident from the statistic that proportion of rural clients has declined over time except for few states including Assam, Arunachal Pradesh, Nagaland, Andaman, and Jammu & Kashmir. Pallavi Sharma (2020) studied the influence of microfinance practices on people with low-income levels in India and found that it is an effective tool for splitting the vicious circle of poverty in India. Chauhan (2021) conducted a study employing both data envelopment analysis (DEA) and Tobit regression techniques to evaluate the effectiveness of MFIs in India, covering the period from 2009 to 2015. He found that NGO–MFIs demonstrated superior financial efficiency compared to their social-focused counterparts. Also, operational self-sufficiency (OSS) was found to be the key factor influencing the financial and social efficiency of NGO–MFIs. Rahman and Rajib (2022) conducted a critical literature review to see if microfinance fosters the development of the economy. They found positive influence of microfinance on GDP, reducing poverty and income inequality. Microfinance is found to have ambiguous effect on women empowerment.Chaturvedi and Kumari (2022) conducted a thematic review on microfinance and attempted to highlight the recent dimensions of research in the field of microfinance. They also identified directions for future research and offered insights to policy makers on various issues pertaining to microfinance.

Devi (2022) attempted to empirically test the association between microfinance services and economic growth for the Indian economy using the annual time series for the period 1991 to 2021. She tested stationarity of the variables using the Augmented Dicky Fuller (ADF) test and the OLS regression technique was used to estimate the relationship. The empirical findings showed that agricultural income which is a major component of GDP of the country depends on subsidy and rural credit which constitutes the microfinance services. She found that microfinance component is a significant variable in determining the agriculture income and thus the growth of the economy, although the responsiveness (elasticity) of the variable was found to be low.

RESEARCH METHOD

This study is a descriptive and exploratory study. The required data for this is collected from multiple secondary sources. Available secondary sources are extensively used for the study including publications of RBI – 'RBI Bulletin' and 'Handbook of Statistics on Indian Economy', NABARD reports on Status of Microfinance in India (various issues), The Bharat Micro Finance Report, Microfinance Pulse – the newsletter issued by SIDBI, research papers, newspaper articles, various press conference releases, and websites. Simple statistical tools of averages and percentages are used to derive inference from the study.

MICROFINANCE IN INDIA

1. Microfinance Delivery Models

In India, there are two main approaches for providing microfinance to the poor people in rural areas: the Self-Help Group - Bank Linkage Programme (SBLP) where banks play a major role, and the MFI approach. SHGs and MFIs are currently the two most dominant forms of microfinance models followed in India, which act as intermediary in providing credit services to the otherwise neglected segment of the rural poor of the economy. These intermediaries take bulk loans from banks and further disburse these loans to the poor people. Thus, the two prevailing microfinance delivery models in India are the (a) SHG-Bank Linkage Programme (SBLP) and (b) MFIs.

(a) SHG -Bank Linkage Programme (SBLP)

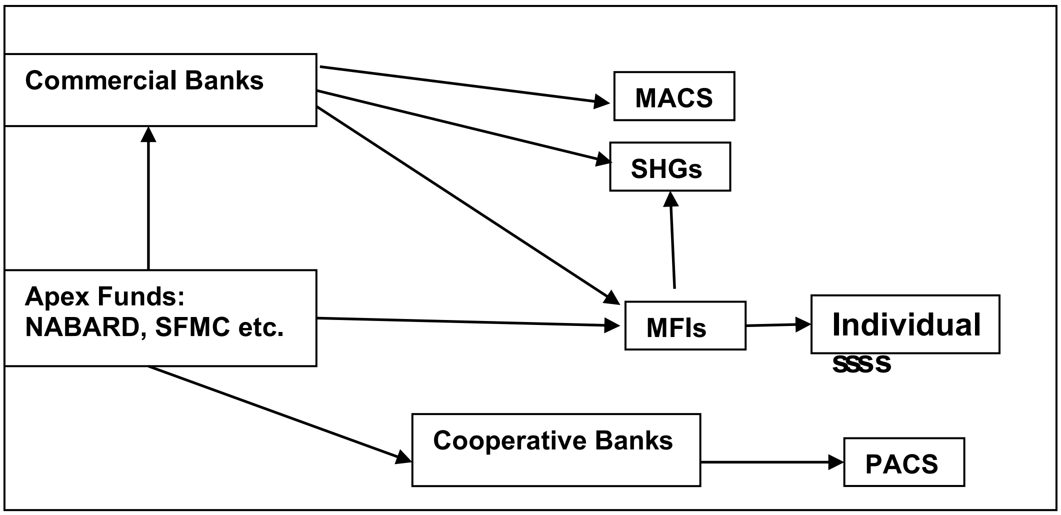
The SBLP was initiated by NABARD in 1991-92 as a pilot project, and after that NABARD has been continuously promoting this programme. Under this model, informal groups called SHGs are linked with formal financial institutions to provide credit. This model has now become the predominant model of microfinance in India, so far as the number of borrowers and loans outstanding are concerned. The SBLP model is flexible and allows members to save and borrow according to their requirements. In this model, SHGs act as intermediaries between banks and the rural poor. Over the past three decades, NABARD has provided policy support, capacity building, training, grant and refinance support to promote healthy and sustainable growth of this programme. The policy initiatives undertaken include relaxing collateral norms, opening savings bank accounts in the names of SHGs, introducing easy documentation, and introducing the Bulk Lending Scheme.

(b) Microfinance Institutions (MFIs)

The MFIs in India were established in late 1980s to address the issue of denial of access to banking services to the underserved rural population. These institutions use various credit methodologies and were established during the same time when SBLP was initiated. Many of these institutions were influenced by the Grameen Bank in Bangladesh.

Unlike the SBLP model, which is specific to India, the MFI model is used globally. In this model, the MFIs borrow significant funds from financial institutions and banks to provide credit to individuals or groups, such as SHGs, using the Joint Liability Group (JLG) concept. A JLG is an informal group of 4 to 10 people who join hands to apply for credit either individually or as a group with mutual guarantee. In India, MFIs take different forms, such as trusts registered under the Indian Trust Act 1882, societies registered under Societies Regulation Act 1860, registered cooperatives, non-banking financial companies (NBFCs), etc.

2. Institutional Linkage in Delivery of Microfinance in India



Source: The Author

MACS (Mutually Aided Cooperative Society), PACS (Primary Agricultural Cooperative Society), SFMC (SIDBI Foundation for Micro Credit)

3. Performance of Microfinance Sector in India

(a) SHG – Bank Linkage Programme (SBLP) Performance

It is heartening to see that the SBLP has successfully financially empowered millions of rural poor in India, particularly women. The fact that the programme has been widely adopted by various financial institutions, including regional rural banks, cooperative banks and scheduled commercial banks has contributed to its success. It is also worth noting that NABARD has been assisting partner agencies in promoting and developing SHGs, which has contributed to the program's expansion and outreach. In the last 25 years, the SBLP has progressed significantly, with SHGs being able to access large loans under the programme. As of March 31, 2020, the SBLP had achieved several milestones, covered more than 1 crore groups and extended loans to the extent of over Rs. 1 lakh crore. However, it is important to note that the programme still faces challenges, such as the regional imbalance in the number of accounts and loan sizes, as well as the problem of multiple borrowing and credit pollution.

Table : 1 – Progress of SHG – BLP Model (SBLP)

Particulars	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
	No. of SHGs	Amount (Rs. Lakh)	No. of SHGs	Amount (Rs. Lakh)	No. of SHGs	Amount (Rs. Lakh)	No. of SHGs (Lakhs)	Amount (Rs. crore)
Total Savings of SHGs with Banks as on								
31st Mar 2019	5476914	1324023	3078473	769201	1458856	239224	100.14	23324.48
31st Mar 2020	5473833	1566218	3261879	781127	1507611	267860	102.43	26152.05
31st Mar 2021	6128387	2259633	3696731	951168	1498282	536960	112.23	37477.61
31st Mar 2022	6887508	3072648	3583219	1379125	1422326	272275	118.93	47240.48
% Share	57.91	65.04	30.13	29.19	11.96	5.76		
Loans Disbursed to SHGs by Banks during the year								
2018-19	1512907	3449247	940818	1955264	244575	427252	26.98	58317.63
2019-20	1796099	4843109	1093788	2423162	256115	499664	31.46	77659.35
2020-21	1457333	3795251	1184775	2449430	245286	562387	28.87	58070.68
2021-22	2079254	6122577	1105178	3259124	213835	591221	33.98	99729.22
% Share	61.19	61.39	32.52	32.68	6.29	5.93		
Loan Outstanding against SHGs as on								
31st Mar 2019	2901209	5564111	1695534	2619599	480589	526106	50.77	870981.5
31st Mar 2020	3294643	7121582	1849225	3032101	533203	653824	56.77	108075.07
31st Mar 2021	3218302	5978570	2032734	3592322	529208	758079	57.80	103289.71
31st Mar 2022	4181656	10265757	2029015	3948866	529286	890507	67.40	151051.30
% Share	62.04	67.96	30.10	26.14	7.85	5.90		
NPAs as on								
31st Mar 2019		289739 (5.21)		12748 (4.87)		35179 (6.69)		45241 (5.19)
31st Mar 2020		360467 (5.06)		132526 (4.37)		39177 (5.99)		532170 (4.92)
31st Mar		303388		143460		42075		488921

2021		(5.7)		(3.99)		(5.55)		(4.73)
31st Mar 2022		331856 (3.23)		124172 (3.14)		118343 (13.29)		574371 (3.80)
% Share		57.78		21.62		20.06		

Source: NABARD, Status of Microfinance in India Report, 2018-19 to 2021-22.

Note: Values in paratheses represent %.

Table 2 - Agency-wise Average Savings, Loan Disbursement and Loan Outstanding per SHGs (Rs. Lakhs)

Category of Agency	Average Savings of SHGs with Banks			Average Loans disbursed to SHGs by Banks			Average Outstanding Bank Loans against SHGs		
	2021-22	2020-21	Change (%)	2021-22	2020-21	Change (%)	2021-22	2020-21	Change (%)
Commercial Banks	44,612	36,872	20.99	2,94,460	1,91,806	53.52	2,45,495	1,85,768	32.15
Regional Rural Banks	38,488	26,445	45.54	2,94,896	2,06,742	42.64	1,94,620	1,76,724	10.13
Cooperative Banks	19,143	35,838	-46.58	2,76,485	2,29,278	20.59	1,68,247	1,43,248	17.45
Total	39,721	33,392	18.95	2,93,471	2,01,118	45.92	2,24,113	1,78,694	25.42

Source: NABARD, Status of Microfinance in India Report, 2018-19 to 2021-22.

Commercial banks, regional rural banks, and cooperative banks play an important role in supporting and enhancing the SBLP by providing savings and credit services. Table 1 provides a comprehensive overview of the SBLP status by agency. As of March 31, 2022, Commercial Banks have demonstrated exceptional performance, with more than 69 lakh SHGs maintaining savings accounts with them. The average savings held by SHGs in banks have shown a notable increase in all agencies, except for cooperative banks, which experienced a significant 47% decrease. On an average, savings per SHG have risen from Rs 33,392 in the year 2020-21 to Rs 39,721 in the year 2021-22. Also, the average loans disbursed to SHGs have surged by 45.92% compared to the previous year, and this increase has been observed in all agencies. Furthermore, the average loans outstanding per SHG has also shown an upward trend for all agencies, with Cooperative Banks registering the highest percentage increase. Despite several challenges faced by the microfinance sector in India, such as the Andhra Pradesh Crisis of 2010, the Assam crisis of 2019, Demonetization of 2016, and the recent Pandemic of 2020, the sector has displayed resilience and adaptability. Despite the challenges posed by the pandemic, reasonable growth for the microfinance sector was seen during the year.

Technology performed a significant role in mitigating the impact of the pandemic. It became an operational necessity for MFIs, offering various efficiency-enhancing benefits. The adoption of technology was accelerated due to external events, such as demonetization, which prompted MFIs to credit loan amounts to bank accounts, reducing reliance on cash disbursements. To fully harness the capability of technology, there is a growing need for investments in improving the digital and financial learning of the users. This will empower clients to confidently engage in cashless transactions, ensuring the continued growth and success of the microfinance sector.

(b) Progress of MFI-Bank Linkage Programme

Microfinance has become a significant source of credit for a wide range of people in India. It's interesting to note that the industry is diverse, with various types of organizations involved in providing microfinance, including SFBs, NBFCs, NBFC-MFIs, Non-profit MFIs, and banks. Moreover, it's good to see that the government is taking steps to expand access to credit for landless farmers through initiatives like the JLG scheme. By relying on mutual guarantees from members and leveraging social collateral, this scheme enables people without conventional collateral to access credit. The impressive growth in the scheme's adoption during 2020-21 is a positive sign of its effectiveness in reaching those who need it the most.

Table 3 – Progress under MFIs – Bank Linkage Model

Financing Agency	Period	No. of Reporting Banks	Loan disbursed to MFIs during the year		Loan outstanding against MFIS as on 31st March	
			No. of loan accounts	Amount (Rs. Crore)	No. of loan accounts	Amount (Rs. Crore)
Commercial Banks	2018-19	32	427	25218.35	1585	24471.75
	2019-20	31	3622	18636.13	9756	26602.83
	2020-21	23	5742	11204.83	11964	20732.51
	2021-22	28	13079	22191.98	19206	33718.69
Regional Rural Banks	2018-19	12	7	5.86	181	32.66
	2019-20	10	867	17.97	3005	42.07
	2020-21	10	994	19.26	3296	37.65
	2021-22		1408	33.26	4153	80.32
Cooperative Banks	2018-19	21	8296	722.87	33132	938.23
	2019-20	23	16239	1128.88	39471	1218.17
	2020-21	19	21826	1515.24	45921	1831.61
	2021-22	16	10164	1448.78	35447	1824.34
SIDBI	2018-19	1	20	905	84	1715.87
	2019-20	1	16	1093	56	2032.79
	2020-21	1	39	2583	78	1892.26
	2021-22	1	35	2893	43	3183
Total	2018-19	66	8750	26852.08	34982	27158.51
	2019-20	65	20744	20875.97	52288	29896.67
	2020-21	53	28601	15322.33	61259	24494.04
	2021-22	45	24686	26567.02	58849	38806.35

Source: NABARD, Status of Microfinance in India Report, 2021-22.

Table 4 – Type of Lender and Loan Outstanding in Microfinance Sector

Type of Lender	2020-21			2021-22			Growth over the previous year (%)	
	No. of Lenders	No. of Active Loans (Lakhs)	Outstanding Balance (Rs. Crore)	No. of Lenders	No. of Active Loans (Lakhs)	Outstanding Balance	No. of Active Loans	Outstanding Balance
NBFC – MFI	86	359.40	78952	82	412.89	94096	15%	19%
Banks	17	416.20	110122	18	405.29	102527	-3%	-7%
SFB	9	178.71	40623	9	171.94	44154	-4%	9%
NBFC	58	78.38	19017	71	77.68	19076	-1%	0.3%
Non – profit MFI	39	11.20	2113	45	13.42	2745	20%	30%
Total	209	1044	250826	225	1081	262599	4%	5%

Source: NABARD, Status of Microfinance in India Report, 2021-22.

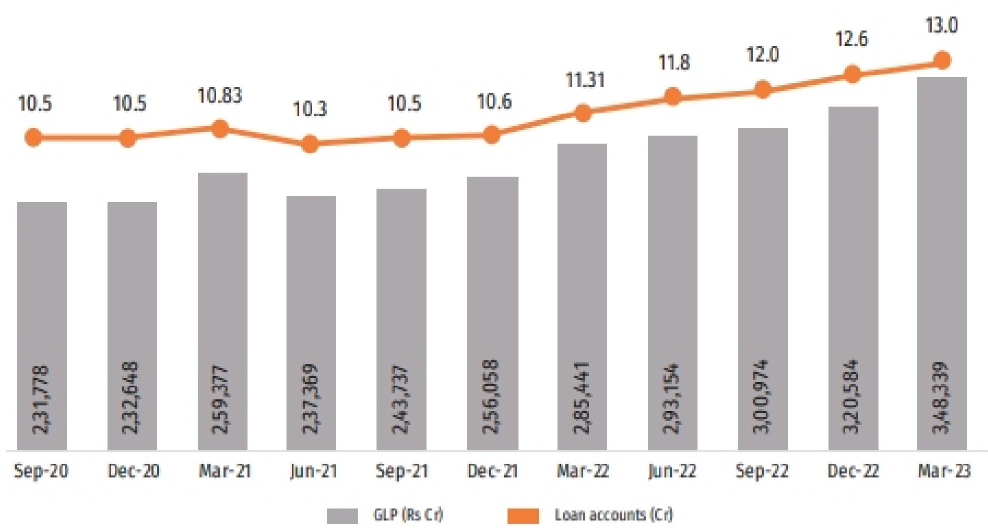


Figure 1- Client Outreach of Microfinance Industry

Table 5 - Performance of Microfinance Industry during 2022-23

Particulars	As on 31st March 2023
Clients (Cr)	6.6
Loan Accounts (Cr)	13
Total Loan Portfolio (TLP - Rs. Cr)	3.,48,339
Loan Disbursed (during the year, Cr)	2.3
Loan Disbursed (during the year, Rs. Cr)	1,00,800

Source: MFIN (Microfinance) Annual Report 2022-23.

There are approximately 211 lenders operating within the microfinance sector. This group encompasses NBFC-MFIs, Banks, Small Finance Banks (SFBs), and other entities, including non-profit organizations. As of March 31, 2023, the microfinance industry extended credit to more than 6.6 Crore customers across India, with a total loan portfolio amounting to Rs 3,48,339 crore. Among these lenders, NBFC-MFIs emerged as the leading providers of microcredit, contributing 39.7% to the overall industry portfolio. Banks came in as the second-largest contributors to the microcredit landscape, holding a substantial 34.2% share of the total micro-credit market.

The overall performance figures from the above table indicate that the performance of the microfinance sector has not been very satisfactory. It may be the Covid-19 pandemic that has impacted the business during the year 2020-21. The performance of banks has shown improvement with an increase in loans outstanding. The loans outstanding of NBFCs also showed slight positive growth, with a small decrease in the number of active loans. Non-profit MFIs witnessed growth in both the number of active loans and the amount of loans outstanding. As of 31 March 2021, the total industry loan outstanding is estimated to be Rs. 247839 crores with 1028 lakh active borrowers, showing an overall growth of 17% and 12%, respectively, from the previous financial year. However, in 2020-21, NBFCs and SFBs experienced a negative growth in active loans and outstanding portfolios.

Challenges Faced by Microfinance Sector in India

Inspite of continuous efforts by the government and non – government bodies, the microfinance sector is still facing some big challenges to meet with. The microfinance sector in India has faced various challenges over the years. Despite the disruptions caused by the pandemic, the microfinance sector demonstrated resilience, gradually returning to normalcy by the third quarter of the fiscal year 2020-21. Despite the pandemic's impact, it marked another year of reasonable growth for the sector. Some of the key challenges faced by microfinance sector in India are:

i) Procedures ad products are unfriendly to the borrowers

Due to a lack of literacy among most customers, and the fact that many require consumption loans without collateral or high documentation, microfinance products may not be reaching the rural poor. This can make the products unfriendly to borrowers.

ii) High transaction costs

Even though the interest rates charged to borrowers are regulated, the associated transaction costs, such as the number of visits required and the documents that need to be submitted, as well as any illegal charges that need to be paid, can increase the overall cost of borrowing, making it less appealing to borrowers.

iii) Inflexibility and delays

The inflexible systems and processes lead to significant delays for borrowers, which can discourage them from seeking additional loans in the future.

iv) Difficult to measure the social performance of MFIs

There is a lack of appropriate methods and tools to accurately measure the social impact and return of loan programs for impoverished individuals. Furthermore, the few tools that are available often use proxies to estimate the extent of poverty reduction and social change resulting from micro-entrepreneurship.

v) Non availability of customized solutions for the Poor

Most of the time, the MFIs fail to understand the different needs of the micro entrepreneurs. To address this issue, MFIs should spend more and more time in the field with their clients, conducting research to gain a better understanding of their needs.

vi) Microfinance training gaps for human resources in MFIs

Microfinance officers and volunteers need specialized training to effectively engage with micro entrepreneurs and understand their unique needs. They should be able to communicate in a language that the micro entrepreneurs understand and build long-lasting relationships with them.

vii) Insufficiency of information about microfinance investment opportunities and poor distribution system of MFIs

Microfinance providers may become complacent with their existing client base in certain urban areas and may not reach the poorest populations. Also, they may lack awareness of the existence and needs of certain micro entrepreneurs, which can result in inappropriate targeting and exclusion of potential borrowers.

CONCLUSION AND RECOMMENDATIONS

In conclusion, it is evident that the rapid digitization of the microfinance industry has had the most significant impact on its operations in India. Software tools like automotive lending management solutions have accelerated the process of microfinance and taken advantage of the increasing internet adoptions in rural areas. Finezza is a loan management software developed by a fintech company called Finfortech. It provides a digital platform for MFIs to automate various processes such as loan origination, underwriting, disbursement, and collection, thereby reducing manual errors and processing time. This 360-degree lending management solution provides better experience for the borrower along with simplification of the lending partner's process without the need for manual intervention, excessive paperwork, or long waiting times.

For past three decades, the microfinance sector in India has shown significant progress, and NABARD has performed a vital role in improving the rural poor population's access to formal institutional credit through its microfinance programs. Although all microfinance institutions prioritize achieving high repayment rates, it demands a large workforce on-field, which introduces process slowness and inefficiencies. Thus, technology is revolutionizing the industry by transforming the sector radically through increasing outreach. Demonetization in 2016 led to a continuous surge in the use of digital cashless payment systems in India, including in rural areas. However, microfinance entities must also focus on raising their customers' digital literacy, who may not be highly informed or aware and, therefore, are susceptible to frauds.

The increasing level of NPAs of MFIs has become a significant concern. Banks must focus on repayment capacity during the appraisal stage to address this issue. Microcredit has gained worldwide momentum and is regarded as a crucial priority on the global agenda. A major drawback, however, is the lack of a proper system for auditing and maintenance of the informal structure of SHGs. With some effort, it is possible to make significant progress in taking MFIs to the next level of significance and sustainability.

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