"A Study of Governance Practice in Selected Micro Finance Institutions of Karnataka"

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Abstract: Achieving balanced and inclusive economic growth is key challenge faced by policy maker in countries around the world. Gain of economic growth are easily accessible to fairly advantaged, who find it easier to participate in the growth process while, poor people have to wait much longer to reap the benefits. Engaging these sections of society to mainstream economically is essential to achieve equitable growth, which is critical for the long term sustainability of social development and economic prosperity through practicing of good governance. MFIs have evolved into a vibrant segment of financial sector exhibiting a variety of business models in recent years. Spate of policy actions to strengthen the regulation of Microfinance sector, including RBI guidelines on NBFC-MFIs and inclusion of loans to MFIs by bank under priority sector had done a world of good for the sector.

The success and outreach of MFIs, especially the large ones both in credit and financial penetration enabled them to obtain approval to operate as mainstream banks/ small finance banks which will facilitate lowering the cost of funds and also passing on the benefit to their clients. This study on despite the measures undertaken by governance and RBI, the purpose of controlling the wrong doings of MFI's is not reaching the desired state. Until and unless, proper mechanism are developed and implemented to monitor the activities of Microfinance Institutions there is a danger of adverse growth of MFI's at a rapid speed. So the relevance of this study is to ascertain the degree of governance prevailing and the degree of governance to be established in order to ensure that the interest of MFI stakeholders is protected by and large.

Keywords: Microfinance Institutions (MFIs), Reserve Bank of India (RBI), Inclusive economic growth, Governance, Non-Banking Financial Company (NBFC).

INTRODUCTION

Micro-Finance is rising as a prevailing instrument for poverty alleviation in the new economy. In India, Micro-Finance scene is dominated by Self Help Groups (SHGs) - Banks linkage Programmed, aimed at providing a cost effective device for providing financial services to the 'unreached poor'. In the Indian context terms like "small and marginal farmers", Micro finance can be described from early 20th century until 1969, when co-operatives largely dominate as an intuition in provision of micro finance services. Between 1950 and 1969 the emphasis was on the promoting of co-operatives. The nationalization of the major commercial banks in 1969 marks a watershed inasmuch as from this time onwards the focus shifted from the co-operatives as the sole provider of rural credit to the multi-agency approach. Regional Rural Bank were set up in 1976 as low cost institutions mandated to reach the poorest in the credit deficient areas of the country. The nationalization of banks in 1969 along with a strong political emphasis towards poverty eradication led to a new rural finance policy that was directed at reducing the lending imbalances in particular sectors. This new policy resulted in among other things to establishment of Regional Rural Bank(RRBs) and adoption of priority sector lending banks under direct specifications of Reserve Bank of India.by 1990s the problems with both states promoted institutions forms that is credit co-operative and RRBs in delivery of rural credit were quite evident. The credit co-operatives were crippled with poor governance, management and the poor financial health due to intrusive state patronage and politicization.

Inclusive growth always received special emphasis in the Indian policy making. Governments of India and the Reserve Bank of India have taken several steps to expand access to financial system to the poor. Some of the salient measures are nationalization of banks, prescription of priority sector lending's, development of credit institutions such as RRBs, differential interest rates scheme for the weaker sections.

Despite the policy efforts, gap remains in the availability of financial services in rural areas. The dependence of the rural poor on money lenders continues, especially for meeting emergent requirements. Such dependence is more pronounced in the case of marginal farmers, agricultural laborers, and petty traders and rural artisans belonging to socially and economically backward classes and tribes whose capacity to save is too small.

It is in this backdrop that microfinance emerged in India. The Self-Help Group (SHG)-Bank Linkage Program (SBLP) which was launched in 1992 on a pilot basis soon grew significantly. As per the latest estimates, SHGs enable 97 million poor households' access to sustainable financial services from the banking system and have an outstanding institutional credit exceeding Rs. 31,200 crore as at the end March 2011. SBLP is considered to be the fastest growing microfinance initiative in the world. The other model of microfinance, i.e. MFI model comprising of various entities, such as, Non-banking financial companies (NBFCs), Nongovernmental organizations (NGOs), Trusts, Cooperatives, etc. has also been growing significantly in the recent years.

Micro finance services are provided by banks, credit unions and microfinance organizations, which are also known as microenterprise development organizations (MDSs). These are for profit or non-profit or Nongovernmental organizations (NGOs), private voluntary organizations legally chartered, where necessary to lend money to poor people. MDOs such as ACCION International were started in early 1960s; other such as the Grameen Bank began in the 1970s when its founder, Mohammad Yunus, an economics professor in Bangladesh, began lending small amounts of money to poor people, mostly.

These small loans were used to start or expand small enterprise, such as vegetable farming, weaving and livestock holding. As the spotlight is now on the MFIs, they are expected to be transparent in their policies, systems, procedures, and transactions, which call for good governance and accountable to the stakeholders. This article attempted to address the key issues of good governance, which has a direct impact on the all the stakeholders starting from the investors, promoters, managers of microfinance institutions as well as to the regulators and the public in general they serve.

The impact of microfinance institutions in terms of inclusive development, poverty reduction and economic empowerment is phenomenal and it also attracted the attention of UN. Validating its impact, UN declared the year 2005 as the year of microfinance and the man who pioneered microfinance; Mohammad Yunus of Grameen Bank, Bangladesh received the Nobel Prize.

Microfinance evolved as an instrument to reduce poverty and bring about sustainable development. As an alternative to traditional means of finance such as banking and insurance (which failed to meet the needs of poorer sections of society), Microfinance was pioneered by self-help groups, Non-governmental organizations and other Non-profit institutions. However, with a view to building a scalable model that engenders overall sustainable development, the microfinance sector has witnessed the emergence of for-profit institutions that are structured along the lines of the modern business corporation. These microfinance companies adopt market based mechanisms to raise capital that is employed in financing the poor and less-privileged.

This study looks into the governance issues and the protection of the stakeholders in the back ground of the proliferation of MFIs in the present society. This study is restricted to the selected micro finance institutions of Karnataka. This study probes on the issues related to the determinant, influencing factors and independent factors that ultimately decides why a particular institution is a successful one and others or not.

Theoretical framework of the study looks into the structural and dimensional changes in the field of micro finance and how best it can be enhanced through best governance and management so as to make the MFI's contributing more towards the rural development and poverty reduction.

GOVERNANCE

Governance is based on the basic tenets of transparency and accountability. Transparency in decision-making provides comfort to all stake holders and accountability which follows from transparency fixes responsibilities for actions taken or not taken. Together they safeguard the interests of the stakeholders in the organization. Governance system represents the value framework, the ethical framework, and the moral framework as also the legal framework under which business decisions are taken.

The governance is required to uphold the organization's goals and mission and see that they are implemented it is needed to guide the organization's major strategic directions. Governance helps to maintain the organization's health over time and to mitigate risks it thus helps to ensure accountability throughout the organization. Governance finally is required to ensure that the organization has the necessary human and financial resources to operate effectively.

Governance has assumed increasing importance for microfinance institutions (MFIs). As Micro finance institutions grow in their outreach, increase their assets, and in increasing numbers become regulated entities that can capture savings deposits, they require clear articulation of how their boards will ensure effective governance. More importantly, for a growing number of microfinance institutions, the source of capital has shifted or is shifting from being donor dependent to accessing financial markets in increasingly sophisticated ways. The recent entrance of investors who are providing capital for the most advanced microfinance institutions also raises important issues regarding the characteristics and quality of the governing bodies that lead these institutions.

MICRO FINANCE AND MICRO FINANCE INSTITUTIONS

"Microfinance" is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as "microfinance institutions" (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, preload savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

STATEMENT OF PROBLEM

There is a huge unmet demand for financial services in the microfinance sector. Despite some success stories, MFIs probably reach fewer than five percent of the potential clients. Serving this market will require access to funding far beyond what donors and governments can provide. Thus, many MFIs want to expand their outreach by raising funds from commercial sources, including deposits. Some commercial banks are also looking to extend their financial services into the microenterprise market.

Despite the measures undertaken by governance and RBI, the intention of controlling the wrong doings of MFI's is not reaching the desired state. Until and unless, proper mechanism are developed and implemented to monitor the activities of Micro Finance Institutions there is a danger of adverse growth of MFI's at a rapid speed. So the relevance of this study is to ascertain the degree of governance prevailing and the degree of governance to be established in order to ensure that the interest of MFI stakeholders is protected by and large.

REVIEW OF LITERATURE

a. Sri Ramesh S Arunachalam (2007), in his article "Governance of Micro Finance Institutions: Time to implement 'connected lending' provisions of RBI circular of 2007" expresses that, granting of loans to internal members of the NBFC MFI's should be taken care of and be monitored properly. The NBFC and their practice of lending to rural poor should be encouraged and it should be properly governed by well-established regulatory norms of the government. In this connection RBI circular on 'connected lending' should be implemented.

b. Focus Note No. 7 of CGAP (2007), in the article "Effective Governance for Micro Finance Institutions" further enhances, a closer examination of governance includes an outline of the roles of the board members, board composition and an explanation of important issues of trust and conflicts of interest. This section then explores governance issues in the particular case of micro finance. It also expresses concern on responsibilities of the board, board composition accountability, transformation and relationship between MFI and NGO.

c.Roy Mersland & R. Oystein Storm (2007), in their article "Performance & corporate governance in MFI's"clearly expresses that; non-profit organizations are quite common in traditional microfinance. But a non-profit firm needs return on its capital in order to lend again. Also due to competition the non-profit organization, too, needs return on its capital in order to survive in the market. For the purpose of effective performance of the institution internal governance must play a vital role

d. David Hulme, Thankom Arun (2011), in this article "What's Wrong and Right with MFI" states, recent events in south Asia have led to an expected reversal in the narrative of micro finance, long presented as a development success. Despite charges of poor treatment of clients, exaggeration of the impact on the poorest as well as the risks of credit bubbles, the sector can play a non – negligible role in reaching financial services to low- income households. The article, exhibits the lending mechanisms of MFI's and need of ceiling the interest rate on micro loans in order to bring the Micro Finance Industry to a right path. Study also mentions the initiative of the government to pass the Micro Finance (development & Regulations) Bill 2011.

R Vijaykumar(2009) in the article on Micro Finance, "Reinstating the SHG Perspective in Micro Finance" attempts to conflate the activities of self-help groups and their federations, the Grameen bank replicators and commercial micro finance institutions, leading to the belief that in empowering the poor the positive attributes of one are shared by the others.

e. Anu Muhammad (2009), in his work "The Grameen & Micro Credit: A Tale of Corporate Success" states, Grameen Bank's micro credit programmer has been organized internationally as a successful model. This model has become an integral part of development thinking and has earned global attention as a new form of banking. But it has more as an effective tool for alleviating poverty and empower erring women. The model created a good opportunity for expanding the market for finance, thereby ensuring GB's spectacular success.

f. Nilakanth Rath's (2008), in his article "Implications of the Loan Waiver for Rural Credit Institutions "expresses his concern on farmer's suicide and debt burden by various reasons influencing on the life of the poor in this article. Poor farmer's death due to the unbearable burden of debt is the matter of concern. It highlights how loan waiver will lighten the burden of the farmers though, in the long run it adversely affect the rural credit institutions that extend loans to farmers. Since the bulk of the loans will be from outside institutions, there is a strong possibility of the demand for writing off loans in times to come.

OBJECIVES OF THE STUDY

1. To asses and analyses the governance issues of selected Microfinance Institutions in Karnataka
2. To determine the factors that influences governance practice in Microfinance institutions
3. To ascertain the importance of regulatory boards in establishing governance in Microfinance Institutions

RESEARCH METHODOLOGY

Geographical Area covered

The study was undertaken in the selected five Micro finance Institutions identified for the study in Karnataka. The Micro Finance Institutions located in the districts of Bangalore and Tumkur are chosen for the research work on the basis of availability of number of institutions for the study.

Sources of Data Collection

This study has been completed on the basis of a large source of information collected as it is new of its kind. The data required for the research was collected from primary and secondary sources. Various Books, magazines, newspapers, articles, journals, publications, government reports, RBI Reports on governance and Microfinance Institutions have been be used as sources of secondary data.

Preparation of questionnaire to evaluate the governance aspects in the functioning and sustenance of MFI's was used as source of primary data. Through the structured questionnaire, the relevant information has been sought from the respondents.

Sampling Methods

The population for the current study is the selected Microfinance Institutions which offer Microfinance facilities to the poor. Representatives of MFI's, Members of SHG's and Employees of the Institutions are taken as respondents for the current study.

Statistical Tools and Techniques used for the study

To analyze the governance practiced in Micro Finance Institutions, tools like **Arithmetic Mean, Standard Deviation, Percentage, t tests** are used. Statistical analysis has been done using SPSS. In order to draw suitable conclusions with meaningful analysis, interpretation of data is made using tables and graphs.

SCOPE AND LIMITATION OF THE STUDY

1. The empirical study was undertaken in the selected Micro finance Institutions identified for the study in Karnataka
2. This study is concentrated on those institutions situated in Karnataka.
3. The main focus of the study was to draw the inferences on the governance issues prevailing in the MFI's and other administrative issues concerning the effective management of the micro finance institutions.

DATA ANLYSIS AND INTERPRETATION

As part of data collection, responses were taken from the directors and chairmen's of selected Microfinance institutions. The questions were asked and responses collected are presented in the form of following tables and graphs.

Table No.1 Services offered by Microfinance Institutions (MFIs)

Savings	Percentage
Yes	100%
No	0%
Total	100%

Table No.1 shows that all the five MFIs selected for the study provide savings facility to their clients. The above chart shows that 100% saving facility is given by all the institutions. From this it can be concluded that all the five MFIs are providing saving facilities for the clients.

Table No.2 Services offered by Microfinance Institutions (MFIs)

Loans	Percentage
Yes	100%
No	0%
Total	**100%**

Table No.2 shows that, all the five selected MFIs provide loan facility to the clients. The above chart shows that, as major part of their services all the selected institutions i.e. 100% offer the credit facility to the members of their institutions. From the above analysis it can be concluded that, primarily the MFIs are meant for extending credit facilities to the rural poor

Table No.3 Services offered by Microfinance Institutions (MFIs)

Remittances	Percentage of Respondents
Yes	80%
No	20%
Total	**100%**

The above analysis that the remittance facility provided by these institutions as part of their functioning. This is also one of the major functions undertaken by many of the institutions. Out of five institutions, four institutions provide the remittance opportunity.

Table No.4 Services offered by Microfinance Institutions (MFIs)

SHG promotion	Percentage of Respondents
Yes	90%
No	10%
Total	**100%**

The above table shows that 90% of the institutions have taken the responsibility of promoting the SHGs working around as it is the need of the day in the Microfinance Sector. Only one micro finance institution is not promoting by SHG.

Table No.5 Services offered by Percentage of Respondents

Insurance	Percentage of Respondents
Yes	80%
No	20%
Total	**100%**

The above chart expresses that out of five MFIs four institutions offer the insurance services to their clients.in order to strengthen the life of the rural poor providing insurance facility is one of the important aspects of the MFIs.

Table No.6 Services offered by Microfinance Institutions (MFIs)

Training	Percentage of Respondents
Yes	80%
No	20%
Total	**100%**

The above table shows that 80% of institutions provide training to the clients for self-employment and 20% of the institutions fail to training to the members of the SHG

Table No.7 Late payment problems

Late payment	Percentage of Respondents
Yes	80%
No	20%
Total	**100%**

This table shows that late payment problems faced by the MFIs. The interesting fact derived after the study is that 20% of the institutions do not have the problem of late payment and working their way successfully. 80% of the institutions certainly suffer from the problems of late payment.

Table No.8 Late payment problems

Cost Benefits	Percentage of Respondents
Yes	90%
No	10%
Total	**100%**

The above table shows whether any cost benefit is given to stake holders of the institution and study reveals that 90% of the MFIs provide cost benefit to their clients irrespective of the nature of benefits. Only one MFI fails to extend the cost benefit to the stake holders. It can be concluded that, stakeholders get the cost benefit in the services they receive from the MFIs

Table No.9 Cost of Loan favoring stakeholders

Particulars	Beneficiaries	Suppliers	Third parties	Total
Percentage of Respondents	90%	10%	0%	**100%**

The above table researcher comes to know that, 90% of the MFIs cost of loan is favorable to beneficiaries to a large extent. One institution, along with benefiting beneficiaries, it benefits cost of loan to suppliers also. But no MFI offers cost of loan benefit to any third parties

Table No.10 Rate of Interest on Financial Products

Particulars	1-5%	6-10%	11-15%	16-20%	Total
Percentage of Respondents	20%	60%	20%	0%	**100%**

The table shows that rate of interest charged by the MFI's on their products. It is very that MFIs are charging moderate interest which is not so high which is acceptable in the current financial market.no MFI charge interest more than 15% and this is good indicator that expresses the social concern of these Institutions. So 6-10%internet charged by these MFI's are identified as deal in the Micro Finance sector.

Table No.11 Debt collection Mechanisms

Debt Collection Mechanisms	% of Respondents
Yes	90%
No	10%
Total	**100%**

The above table shows whether any debt collection mechanism is followed by the institutions. The major problem faced by many MFIs is in debt collection. The failure of the institutions in debt collection will certainly affect their service delivery in future.

Table No.12 Automation of Accounting Systems

Particular	Fully	Partially	Manually	Total
% of Respondents	70%	20%	10%	100%

The above table shows that In order to bring transparency in their operations it is advisable to go for automation of accounting system. To ascertain the automation followed for accounting options like manually, fully, or partially was given.

Table No.13 Audit Practices followed

External Audit	% of Respondents
Yes	40%
No	60%
Total	**100%**

In the above chart, it is identified that 60% of MFI's go for taking external auditors service to audit their books of accounts. And the rest 40% of MFI's prefer other type of audits instead of preferring external audit service.

Table No.14 Audit practices followed

Internal Audit	% of Respondents
Yes	40%
No	60%
Total	**100%**

The above table exhibits the internal audit service employed by the selected MFIs of the study. 4 MFI's out of ten use the internal audit service along with employing external audit service resulting in cumulative percentage of 80%.20% of MFI's are not in favor of using internal audit services

Table No.15 Audit practices followed

Full time Audit	% of Respondents
Yes	80%
No	20%
Total	**100%**

In present study, 80% of the institutions exercise full time audit as part of their aiding. 20% of the institutions do not practice full time audit and they just rely upon the external audit services at large.

Table No.16 parties involved in Decision Making

Parties involved	% of Respondents		Total
	Yes	No	
BOD's	100%	0%	100%
Agents	0%	100%	100%
clients	40%	60%	100%

Here all five MFI's allow the BOD's and Agents to participate in the decision making process of the concern. 60% of the MFI's allow clients to take part in decision making process along with BOD's and Agents.

Table No.17 Practice of Transparency

Transparency	% of Respondents
Yes	100%
No	00%
Total	**100%**

In the study it was also found that as part of Transparency MFIs are initiating some best practices. The best practices are, disclose of annual reports, participation of stakeholders in regular meeting, encouraging for self-employment, asset creation and community development, information through wed sites, guidelines, group empowerment programmer, training through CRE, rural upliftment, marketing training, directions for proper utilization of loans.

Table No.18 Practice of Transparency

Parties	% of Respondents		**Total**
	Yes	No	
Disclosure of loan pricing	30%	70%	**100%**
Terms and conditions of Repayment	100%	0%	**100%**
Communication to Beneficiaries	40%	60%	**100%**

In the above table it is clear that, all the five MFIs make it mandatory to practice the disclosure of terms and conditions for repayment of loan resulting in 100%. When it comes to interacting with beneficiaries, 40% of the institutions are communicating to the beneficiaries and 60% of the MFIs are not communicating with the beneficiaries on their products and repayment of loan or recovery as part of the governance practice.

Table No.19 Access to Information

Access to Information	% of Respondents		Total
	Yes	No	
Employees	80%	20%	**100%**
Agents	50%	50%	**100%**

The above table also shows when it comes to employees, 50% of them have access and rest of the 50% have no access to information required by them. Information access is one of the important criteria of transparency. As transparency is one of the dominant factors in governance, the institution which provides the required information is termed as the institution with good governance.

Table No.20 Representation of Clients Interest

Clients Interest	% of Respondents
Yes	90%
No	10%
Total	**100%**

From the above table, it is clear that, out of five MFIs, four MFIs have the mechanisms of representing the clients' interest to a larger extent. This is indicate the clients are given the opportunity of sharing their views with the management about the problems faced by them and means of improving the quality of services

Table No.21 Disclosure Mechanisms used

Disclosure Mechanisms	% of Respondents		Total
	Yes	No	
Brochures	90%	10%	**100%**
Orientation sessions	80%	20%	**100%**
Meetings	90%	10%	**100%**
Annual Reports	100%	0%	**100%**

The above table shows that total institution taken for study, 90% are using brochures as one disclosure mechanism, 80% of them use orientation sessions, 90% of them use meetings, and all the ten institutions use annual reports resulting in 100% as part of disclosure mechanism. This data reveals that, the institutions are rightly ahead in terms of disclosure and governance practices contributing to the welfare of the poor.

Table No.22 Consultation with Clients

Clients Interest	% of Respondents
Yes	100%
No	00%
Total	**100%**

The above table present that, all the five MFIs resulting in 100% do consult the clients before they take any policy decision which is responsive to the needs of the client. The institutions should clearly know what is required for the society and they should try to make their every move responsive and beneficial to the welfare of the society

Table No.23 Grievance Redressed

Grievance Redressed	% of Respondents
Yes	100%
No	00%
Total	100%

The above table shows, these institutions have their own method of grievance redressed mechanisms resulting 100% problem solving approach. This shows, to what extent present day MFIs are responsible towards the society though they have allegations from the various corners of the society about not practicing governance in their operations.

Table No.24 Techniques of Grievance Redressed Mechanisms

Disclosure Mechanisms	% of Respondents		Total
	Yes	No	
Feed back	50%	50%	**100%**
Written complaint	70%	30%	**100%**
Suggestions	60%	40%	**100%**
Resolution Monitoring system	40%	60%	**100%**

The above table shows, in 50% of the institutions feedback is used as one redressed mechanism, in 70% of the institutions written complaint is taken as the redressed mechanism, in 60% of the institutions suggestion box is taken and in 40% of the institutions, resolution monitoring system is preferred as a tool for grievance redressed mechanism

Table No.25 Need for Regulatory Bodies

Regulatory Bodies	% of Respondents
Yes	60%
No	40%
Total	**100%**

The above table shows that 60% of the MFIs expressing their willingness for formulating of the regulatory bodies and rest 40% are not in favor of formulation of regulatory bodies. While concluding it can be rightly said, for the current day micro finance industry, there is a definite need of regulatory body to govern and control the operations of MFIs to ensure the interests of the stakeholders are protected.

FINDINGS

On the basis of primary data, secondary data and the communications with the policy makers have resulted in the revelation of following findings.

- The important financial resources of the Micro Finance Institutions are from donor resources and borrowings from banks.
- The MFIs provide required information on the services to the people in need.
- The MFIs face varieties of problems in reaching the target group for the delivery of services.
- The percentages of interest charged by the institutions are reasonable and rural friendly.

- MFIs do follow effective auditing and automation to ensure better accountability in their operations.
- MFIs are transparent enough to be responsible towards the stakeholders of the MFIs.
- MFIs practice the disclosing of the terms and conditions of repayment and communicating to the beneficiaries on their operations.
- MFIs practice the mechanisms of protecting the interest of the clients.
- All the MFIs are transparent in their operations.

SUGGESTIONS

- On the basis of the research undertaken, the data collected through secondary and primary data
- Following suggestions are recommended.
- MFIs are more expected to render services towards the rural poor who are affected by local money lenders.
- As MFIs are suffering from the conceptual clarity of the Micro Finance service they have to render, they should be clear with what they have to do actually to uplift the rural poor from poverty
- Most of the MFIs suffer from late payment problems and they should come up with new mechanisms to overcome this problem in contrary to the existing techniques.
- MFIs should encourage the rural poor to take up self-employment from the financial service they receive.
- MFIs need to be more clients friendly when people approach them for finance.
- MFIs have to be softer in debt collection mechanisms because, the existing methods are not so encouraging and it's demoralizing the applicants.
- Effective Governance in MFIs should be widely practiced in view of efficient performance and increased transparency.
- Though governance is practiced, it is not successfully implemented in all the institutions. So, MFIs should be properly educated by making them to know the benefits of transparency and governance in the financial market.
- As MFIs are criticized for trying to mislead the poor people by charging higher rate of interest, they must be controlled by establishing proper regulatory mechanisms.
- As MFIs fail in effective implementation of governance there is a need of establishing regulatory body to monitor and govern the MFIs in the long run.

CONCLUSION

Mainly, as microfinance institutions (MFIs) grow in their outreach, the size of their assets, as reflected in their portfolio, also grows to considerable size. Ensuring effective management of this growth requires added input and involvement by a board. Additionally, increasing numbers of MFIs are becoming regulated and assuming the responsibilities and challenges of a regulated entity. Capturing deposits from savers and investors is perhaps their most important challenge and requires the greatest oversight. Finally, MFIs are operating in increasingly competitive markets, and maintaining or increasing market share has become an important component of their considered objective. Therefore, a clear expression of the function of microfinance boards is essential for their effective governance. After analyzing the basic issues in Micro Finance Institutions and types services offered and existing governance prevailing in these institutions, the researcher proposes to establish the environment which will strengthen the micro finance sector and the conditions that must exist to achieve effective governance.

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