CHAPTER 1

INTRODUCTION

Poverty is widely regarded as inability to meet basic needs for human survival and growth in a continued manner. People without access to required resources, skills and opportunity to enable them to survive, grow and prosper in a sustained manner are termed poor. Sriram and Parhi (2004) mention the most commonly used measure of poverty based on incomes or consumption levels. They use the World Bank benchmark for classification of poor where people are considered poor if their consumption or income level falls below a minimum needed to meet basic needs. This level is defined as "poverty line". This definition varies across time, and place. Each country uses a definition appropriate to its level of development, societal norms and values. Planning Commission in India estimates the proportion and number of poor separately for rural and urban India at the national and state levels based on the recommendations of a task force. As per Economic Survey 2002, this task force had defined the poverty line as the cost of an all India average consumption basket at which the calorie norms are met. The norms were 2400 calories per capita per day for rural areas and 2100 calories for urban areas.

The majority of the world’s population is poor, subsisting on Rs 50-Rs 80 per day. However the inner urge and struggle to come out of poverty exists amongst the poor. It is estimated that over 500 million of the world’s poor are economically active. They earn their livelihood by being self employed or by working in micro-enterprises (very small businesses which may employ up to 5 people). These micro-entrepreneurs are engaged in both farm and non-farm livelihoods. Yet these poor households often fail to secure the capital they need and miss opportunities for growth because they do not have access to financial resources-loans or a safe place to hold savings.
Microfinance programs target both economic and social poverty. To assess the success of their efforts microfinance institutions need to measure the impact on the borrowers. The primary objective of all MFIs interventions is poverty reduction. Poverty reduction is perceived from the economic point of view. On the other hand, MFIs interventions promote living condition of poor people by offering supportive service. These supportive services are important indicators of human development. Therefore the poor generally tend to gravitate towards informal sources such as family and friends. However when credit requirement exceeds assistance capacity of family and friends the poor have little option but to turn to money lenders, merchants who extend credit at abnormally high rates of interest to enable the poor to purchase merchandise and even landlords who often mortgage the human resource itself in lieu of credit extended (Khan & Rahman, 2007).

**Damirque-Kunt & Leora, (2012)** in their Working Paper measure how adults in 148 economies save, borrow, make payments, and manage risk based on indicators included in the first analysis of the Global Financial Inclusion (Global Findex) Database. data show that 50 percent of adults worldwide have an account at a formal financial institution, though account penetration varies widely across regions, income groups and individual characteristics. In addition, 22 percent of adults report having saved at a formal financial institution in the past 12 months, and 9 percent report having taken out a new loan from a bank, credit union or microfinance institution in the past year. Although half of adults around the world remain unbanked, at least 35 percent of them report barriers to account use that might be addressed by public policy. Among the most commonly reported barriers are high cost, physical distance, and lack of proper documentation, though there are significant differences across regions and individual characteristics.

Using the same Findex data, it was found that formal credit utilisation was highly correlated with Human Development Index, reliance on formal savings and semi-formal loans (Javoy & Rozas, 2013). Economic concerns have evolved from the stage of problems related to production and consumption to human welfare. Focus of economic planners now is on the overall development of its subjects in
holistic manner. Poverty is regarded as major constraints in the way of human development indicators.

Micro-finance has emerged as a growing industry to provide financial services to poor and needy people. Robinson (2001) defines microfinance as small scale financial services for both credit and deposit that are provided to people who farm or fish or herd, operate small or micro-enterprise where goods are produced, recycled, repaired or traded, provide services, work for wages or commissions, gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and local groups in developing countries both in rural and urban areas’.

Otero (1999) defines microfinance as the provision of financial services to low-income, poor, and very poor self-employed people. Ledgerwood (1999) defines microfinance as financial services that generally include savings and credit but can also include other financial services such as insurance and payment services.

The Consultative Group to Assist the Poor (CGAP) which is a consultative group of 34 leading organisations and housed at World Bank develops innovative solutions through practical research and active engagement with financial service providers, policy makers, and funders to enable approaches at scale. It focuses on developing and strengthening a wide range of institutions and means, both financial and non-financial that delivers financial services to the poor.

CGAP defines "microfinance," as once associated almost exclusively with small-value loans to the poor. It also mentions that microfinance is now increasingly used to refer to a broad array of products (including payments, savings, and insurance) tailored to meet the particular needs of low-income individuals. People living in poverty, like everyone else, need a diverse range of financial services to run their businesses, build assets, smooth consumption, and manage risks.

CGAP extends the understanding of microfinance by referring to empirical evidence which shows that access to the right financial service at the right time
helps households build assets, generate income, smooth consumption, and protect themselves from risks. At the policy level, decision-makers have recognized that an inclusive financial system that reaches all citizens also allows for more effective and efficient execution of other social policies, for example through conditional payment transfers in health and education. And at the macro level, deeper financial intermediation in an economy leads to more growth, and less inequality.

Subcommittee of Central Board of Directors of RBI define Microfinance Institutions as “A company (other than a company licensed under Section 25 of the Companies Act, 1956) which provides financial services pre-dominantly to low-income borrowers with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks and which further conforms to the regulations specified in that behalf” (RBI, 2011).

More broadly, microfinance refers to a movement that envisions a world in which low-income households have permanent access to a range of high quality financial services to finance their income-producing activities, build assets, stabilize consumption, and protect against risks. These services are not limited to credit, but include savings, insurance, and money transfers. The institutions that offer these services range from not-for-profit NGOs, and state-owned development and postal savings banks. An increasing number of MFIs are now organized as for-profit entities, often because it is a requirement to obtaining a license from banking authorities to offer savings services. For-profit MFIs may be organized as Non-Banking Financial Institutions (NBFIs) such as Chit Fund Groups, commercial banks that specialize in microfinance, or microfinance departments of regular banks. Microfinance covers aspects of microcredit, savings, insurance, money transfers, and other financial products targeted at poor and low-income people. It is interestingly equated with SHGs in a rural backdrop whereas Microfinance as a concept is not restricted to urban or rural scenarios and is equally adaptable and relevant to urban poor.
Until recently, microfinance focused primarily on providing micro-credit for the micro-enterprises and households. Now however there is recognition that poor people need a variety of financial services and not just credit. Current microfinance has therefore moved towards providing a range of financial services including credit saving and insurance to poor enterprises and households. The most important finding of the last three decades in the world of finance did not come from the world of rich or the relatively well off. It evolves from small scale financial services for both credit and deposits –where the poor can save, can borrow and repay loans, in both rural and urban areas.

Microfinance programmes are known for their potential to generate income and employment and alleviate poverty in rural as well as urban areas in developing countries. They are considered an important approach to poverty alleviation and enhancement of living standards. Moreover, microfinance has come to be regarded as a supplementary development paradigm, which widens the financial service delivery system by linking a large population with formal financial institutions through SHGs, Neighbourhood Groups (NHGs), NBFIs, and Thrift Societies. A number of impact analyses carried out in various parts of the world have clearly established that microfinance programmes contribute to the achievement of several aspects of the Millennium Development Goals (MDGs).

Generally social system and sub-systems of social culture are built on exploitation. The haves usually exploit the have-nots by putting them into the debt traps of money lending system. The poor and the needy people, needs money for their survival and as a result of it they become part of the vicious circle of the moneylenders and the other times to formal financial institutions. Microfinance is an intervention based on social intermediation in which poor people can mobilize their saving, link it with credit and finally become self employed. It results in building social capital.

**1.1 ORIGIN OF MICROFINANCE:**

The concept of microfinance is not new. Saving and credit groups that have operated for centuries include “Susus” of Ghana, “Chit funds and Hundis” in
India, “Arisan” in Indonesia, “Cheetu” in Srilanka, as well as numerous saving clubs and burial societies found all over the world.

_Susus_ in Ghana were small wooden boxes where money was kept sealed only to be retrieved later. The households used to keep their money in wooden boxes which were collected by an individual and returned without any interest changing hands after approximately 30 days. This was the traditional way of saving. _Gyasi_ in the article published by *African Business Magazine* has cited that over a period of time the people who were engaged in collection of boxes started depositing these amounts in banks and retained the interest provided by the bank on such deposits. According to IFAD website (2012) almost all susu collectors in Ghana are male. They act as mobile mini-bankers and accept an agreed upon amount from a saver at regular intervals on their visits to the village. This money is meant to be securely deposited for a specific period of time. At the end of this period, the deposit, less a small commission for services, is returned to the depositor. At times, women have emergencies and need to withdraw the funds earlier. Susu collectors usually deposit the money with a bank. Sometimes they invest the funds in their own businesses or lend it to others. There are reports of fraud among susu collectors. The Ghana Cooperative Susu Collectors Association (GCSCA) has been formed to regulate the activities of the susu collectors, but it does not have chapters in all areas of the country.

_Hundis_ are an old system that was used in India before the advent of modern day banking. Hundis were found to be used as bills of exchange amongst the traders. The hundi developed in India with a strong body of rules, usage and customs. In the beginning the hundis were issued by brokers for the purpose of debt collection. These hundis were prevalent in diverse forms such as bills of exchange and promissory notes (Mohammed ed.s., 2003).

Reserve Bank of India describes hundis as an unconditional order in writing made by a person directing another to pay a certain sum of money to a person named in the order. Hundis, being a part of the informal system have no legal status and are not covered under the Negotiable Instruments Act, 1881. Though normally
regarded as bills of exchange, they were more often used as equivalents of cheques
issued by indigenous bankers. (RBI u.d.)

In Indonesia the Rotating Savings and Credit Associations (RoSCAs) are
traditionally known as ‘arisan’. Arisan translated into Bahasa Indonesia means a
social gathering. Arisan normally takes place at fixed intervals at each member’s
home in turn. The rotating arisan holder drawn by lots receives payment from each
other member. The member in whose house the arisan is held provides food for all
other members. In the course of the arisan the amount paid to other members will
equal the amount received when the arisan is held. The arisan was also an
effective medium of credit in poorer social circles, where members contributed to
fund an otherwise unaffordable business venture, wedding, or large purchase.
Arisan however also included social gatherings for rich housewives with the
pooling of money being incidental. As a source of finance it represents an
alternative to bank loans and other forms of credit. (Siebel and Parhusip, 1997).

Cheetu system in Sri Lanka was also an essentially a rotating credit
association in which a group of participants make regular contributions to a fund
which is given as a lumpsum to each member in turn. It is a system of group credit
where borrowing and loan repayment are made the responsibility first and foremost
of the organiser and next of the entire group to ensure conformity on the part of the
borrower. This system is widely believed to have originated in Travancore India
where it was the principal of borrowing and saving money (Fernando, 1986).

Despite formal credit and saving institutions for the poor having been
around for decades, poor customers were known to be neglected by commercial
banks and other financial institutions for the want of collateral securities and
documentation.

Dean Jonathan Swift who is widely regarded as father of micro credit set up
a revolving fund loan of £ 500 from his own funds to provide loans to tradesmen
who were facing difficulties in accessing credit as their business were not running
in profit. His model of micro credit assistance involved obtaining a guarantee from
two neighbours by those seeking credit. This way the Swift model was based on
tapping the social capital way back in early 1700s. Soon this model was widespread with Dublin Musical Society organizing concerts and using money collected for funding poor but industrious tradesmen. By 1768, it had made loans totalling £27108 to 5959 individuals. This system was soon replicated and about 300 funds all over Ireland came into being. Their principal purpose was making small loans with interest for shorter periods \((\text{Hollis, 1999})\).

In 1800s various types of larger and more formal savings and credit institutions began to emerge in Europe organized primarily among the rural and urban poor. These institutions were known as People’s Banks, Credit Unions, and savings and Credit Cooperatives. The principles of operation of present day cooperatives and self help groups largely derive their origin from the ‘Society for Grain and Bread Supply’ founded in 1846 by Friedrich W. Raiffeison. This association quickly evolved into a credit society where farmers could borrow money at a low rate to buy their cattle directly. Already back then, the credit society was administered according to principles that many financial cooperatives would later adopt: unlimited liability for members, volunteer directors, limited geographic area, and allocation of surpluses to an indivisible reserve \((\text{International Cooperative Alliance, 2005})\). The cooperative movement then rapidly spread to other European and North America.

In Indonesia, the Indonesia People’s Credit Banks or the Bank Perkreditian Rakyat (BPR) opened in 1895 and became the largest microfinance system in Indonesia. The term Perkreditian Rakyat is a generic term that is used for four different types of financial institutions. These institutions include BPR or designated secondary banks such as the Badang Kredit Desa, village-owned credit organizations and Lumbung Desa village savings and loan institutions that began to appear in the early 1900s. Their first goal was to promote agriculture by providing loans to farmers and as demand for money rose in other sectors, non-agricultural businesses were later included. These institutions later went through reform and today they include licensed financial institutions, mostly privately-owned, that meet the criteria specified in the 1992 Banking law. \(\text{Asia Resource}\)
Meanwhile experimental programs in Bangladesh, Brazil and few other countries starting in the 1970s extended tiny loans to groups of poor women to invest in micro-enterprise businesses. The most notable of this experiment that got widely replicated apart from being successful in Bangladesh was the experiment that initiated in University of Chittagong, Bangladesh by Prof. Mohammed Yunus. The findings and experience of the action research project designed to examine possibilities of designing an effective credit delivery system for rural poor led to the emergence of Grameen Bank in Bangladesh. This type of micro-enterprise credit based solidarity group lending in which every member of a group guarantees the repayment of all members. These “micro-enterprise lending” programs had an almost exclusive focus on credit for income generating activities targeting very poor (often women) borrowers. The initial success of Grameen Bank also stimulated the establishment of several other microfinance institutions like BRAC, ASA, Proshika to name a few.

In 1972 the Self Employed Women’s Association (SEWA) was registered as a trade union in Gujarat with the main objective of “strengthening its members bargaining power to improve income, employment and access to social security.” In 1973, to address their lack of access to the financial services, the members of SEWA decided to form a bank of their own. 4000 women contributed share capital to establish the Mahila SEWA Co-operative Bank. Since then it has been providing banking services to poor, illiterate, self employed women and has become a viable financial venture with client base of more than 35,000 active clients. Micro credit programs throughout the world improved upon the original methodologies and defined conventional wisdom about financing the poor. First they showed that the poor people especially women, had excellent repayment rates and rates are better than the formal financial sectors of most developing countries. Second, the poor were willing and able to pay interest rates that allowed microfinance institutions (MFIs) to cover their costs.

The 1990s saw growing enthusiasm for promoting microfinance as a strategy for poverty alleviation. The microfinance sector blossomed in many
countries, leading to multiple financial services firms serve the needs of micro entrepreneurs and poor households. These gains however tended to concentrate in urban and densely populated rural areas. It was not until the mid 1980s that the term “microcredit” began to be replaced by a new term that included not only credit, but also savings and other financial services. “Microfinance” emerged as the term of choice to refer to a range of financial services to the poor, that included not only credit but also savings and other services such as insurance and money transfers.

Today, practitioners and donors are increasingly focusing on expanded financial services to the poor in frontier markets and on the integration of microfinance in financial system of development. The recent introduction by some donors of the financial system approach in microfinance- which emphasizes favourable policy environment and institution-building has improved the overall effectiveness of the microfinance interventions. But numerous challenges remain, especially in rural and agricultural finance and frontier markets. Today, the microfinance industry and the greater development community share the view that permanent poverty reduction requires addressing the multiple dimensions of poverty. For the international community, this means reaching specific Millennium Development Goals (MGDs) in education, women’s empowerment, and health, among others. For microfinance, this means viewing microfinance as an essential element in any country’s financial system.

1.2 Microfinance Models

There are various microfinance models that are briefly described as in this section. These models include (a) Association (b) Cooperatives (c) Grameen Model (d) SHG Federation / Group Model (e) Corporate entities (f) ROSCAs and (g) State Sponsored Microfinance.

a) Association

One of the most widely prevalent form of extending microfinance services is through ‘associations’. These associations are generally formed in reference to different backgrounds ranging from economic, social, cultural and religious. These
associations extend credit, accept deposits in the form of shares, chits, fee and in certain instances even insurance premiums and tax. They often provide interest free loans to members of the same association or the community as the case may be. The associations are generally free in terms of deciding rates of interest or not having any interest for the deposits as the case may be and quantum and rates of interest for micro credit or even not having any interest over the credit extended. These are generally decided in the meetings of these associations and are not normally subjected to external influence except when their transactions are not contravening the extant laws of the land.

b) Cooperatives

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Some cooperatives include member-financing and savings activities in their mandate. Credit Cooperatives including Primary Agriculture Cooperative Societies and Large Area Multipurpose Societies are active in third world countries, especially in India in extending micro credit facilities to its members. These cooperatives also accept deposits from their members. In many instances these cooperatives often compliment and supplement the formal banking institutions in unbanked areas. The terms and conditions for extending micro credit or rates of interest for deposits are generally decided in reference to relevant provisions of the statutes and provisions of laws under which the cooperatives operate.

c) Grameen model

The Grameen model of microfinance has evolved from various microfinance products developed by the Grameen Bank founded by Prof. Mohammed Yunus in Bangladesh. The Grameen Model concentrates on direct handholding by bank officials of the clientele which essentially comprise of rural poor. The officials are required to mobilize the villagers into self help groups and / or joint liability groups. Extension of micro credit which is the most important component under the Grameen Model is done when the group is found to be engaged in internal lending
from its savings and more importantly confirming the rules of the bank. It also draws upon peer pressure for timely repayment. The Grameen Bank also extends micro insurance as well as provide opportunities for upscaling of existing livelihoods of its clients. Grameen Bank also accepts timely deposits from the clientele which may or may not be organized into groups. The terms and conditions for extending micro credit and repayment schedules are largely decided at the branch level with the opinion of the groups, which makes the Grameen Model distinctive.

d) SHG Federations / Group Model

The Group Model's basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals. The collective coming together of individual members is used for a number of purposes: educating and awareness building, collective bargaining power, peer pressure. The essential difference between any SHG Federation or Group Model and the above mentioned Grameen Model is the scale of operations and the mandate to accept deposits from individual account holders. In many instances the SHG Federations do not provide any manner of insurance to cover the loans / credit extended by them. The SHG Federations barring a few successful ones do not have provisions for capacity building of the constituent members. In several instances the SHG federations tend to be vested with influential members or are influenced by external factors including investment of capital backed by vested interests. Otherwise SHG Federations are very effective medium of providing a safe and owner controlled medium of depositing savings and availing credit including micro credit. The SHG federations often decide on the terms and conditions of extending credit in reference to terms and conditions of constituent SHGs. In many instances these terms and conditions are influenced by opinion and directions of the promoting organizations.

While most of the micro finance initiatives by the SHG Federations are directly or indirectly externally supported by the Government agencies, this is not always
the case and in many instances the federations come on their own to pool their capital and subscription and develop client specific products.

e) Corporate Entities

There are many corporate players engaged in extending micro finance practices. Some of the most prominent players in India include Basix, SKS Microfinance and at the international level include the famous Grameen Bank. However many other organizations including FMCG major such as Hindustan Unilever, TATA, ITC, Dr. Reddy Labs Foundation, ICICI Bank are also engaged in micro finance initiatives as part of their Corporate Social Responsibility efforts. The Shakti groups formed by Hindustan Unilever in Tamil Nadu are provided with seed capital to purchase consumer goods and in certain instances sell them at a small marginal profit. A portion of this profit is ploughed into the groups to meet consumption needs. This has been found to increase market share as well as provide with much needed source of income and associated empowerment to members of these groups. In other instances corporate entities such as Shriram Chits, Murugappa Finance, Margadarsi Chit Funds accept deposits on attractive rates of interest to build a sizeable deposit base and then extend credit in reference to their viability and repayment assessment to their clients. Global top 50 Microfinance Institutions are listed at Appendix 1 of this thesis.

f) ROSCAs

Rotating Savings and Credit Associations (ROSCAs) are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle. For example, a group of 12 persons may contribute Rs. 100 (US$33) per month for 12 months. The Rs. 1,200 collected each month is given to one member. Thus, a member will 'lend' money to other members through his regular monthly contributions. After having received the lump sum amount when it is his turn (i.e. 'borrow' from the group), he then pays back the amount in regular/further monthly contributions. Deciding who receives the lump sum is done by consensus, by lottery, by bidding or other agreed methods.
g) State sponsored Microfinance

Government provides different programmes and schemes to infuse capital and to extend financial inclusion in both urban and rural areas targeting excluded groups especially both rural and urban poor. These groups include, enterprising individuals from amongst marginalized communities, women, migrant labour amongst others. There are different methods that these programmes adopt to extend microfinance to respective targeted groups which include involvement of intermediaries or NGOs / VOs for creating awareness, opening of bank accounts, formation of producer groups including Farmer Clubs and SHGs. In certain instances these agencies often become conduits for converging assistance from State sponsored programmes as well as donor grants from national and international donor agencies in reference to a common end purpose. This model also involves providing assistance for promotion of small and medium industries. Government aims at strengthening the economy by assisting the poor to contribute to overall Gross Domestic Product and this is best done through various microfinance products such as short term and medium term credit, micro insurance, small and savings schemes.

One of the major thrust areas by the Government is the State sponsorship to SHGs. There are different models for promotion and sustenance of SHGs in India which include SHGs that are formed directly by the nationalized banks and financed by them. In certain instances SHGs are formed by different agencies including intermediaries and banks role is limited to providing them revolving fund assistance and if found viable then cash credit assistance is also extended. In certain instances the banks including National Bank for Agriculture and Rural Development (NABARD) fund the intermediaries for formation as well as extension of micro credit to SHGs. In India the major insurance conglomerate Life Insurance Corporation of India (LIC) also provides group life insurance schemes and collaborates with Government programmes for including the vulnerable and poor under insurance cover.
Microfinance provides access to credit related services for serving all manner of credit needs, including consumption needs. It is estimated that this access is crucial for the poor, mainly women in Arunachal Pradesh. Thus there is a need for microfinance initiatives to sustain and grow in the state. It is also estimated that the microfinance initiatives can be scaled up to provide long term solution to the employment problem and to address the critical issue of migration to urban areas, slow to non development of village economy and increasing dependence of the rural poor on state funds and doles. But most importantly it is of critical importance in Arunachal Pradesh because the state has only a skeletal banking framework inhibiting outreach of even basic banking facilities. The legal framework governing different categories of microfinance service providers are indicated in Table 1.1 below:

Table 1.1: Categories and corresponding legal framework (India) for microfinance institutions.

<table>
<thead>
<tr>
<th>Categories of Providers</th>
<th>Legal Framework governing their activities</th>
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<tbody>
<tr>
<td>(b) Regional Rural Banks</td>
<td>(i) RRB Act 1976, (ii) RBI Act 1934, (iii) BR Act 1949</td>
</tr>
<tr>
<td>(c) Co-operative Banks</td>
<td>(i) Co-operative Societies Act, (ii) BR Act 1949 (AACS), (iii) RBI Act 1934 (for sch. banks)</td>
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<tr>
<td>(d) Co-operative Societies</td>
<td>(i) State legislation like MACS</td>
</tr>
<tr>
<td>(e) Registered NBFCs</td>
<td>(i) RBI Act 1934, (ii) Companies Act 1956</td>
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<tr>
<td>(f) Unregistered NBFCs</td>
<td>(i) NBFCs carrying on the business of a FI prior to the coming into force of RBI Amendment Act 1997 whose application for CoR has not yet been rejected by the Bank (ii) Sec. 25 of Companies Act</td>
</tr>
<tr>
<td>(g) Other providers like Societies, Trusts, etc.</td>
<td>(i) Societies Registration Act, 1860, (ii) Indian Trusts Act, (iii) Chapter IIIC of RBI Act, 1934 (iv) State Moneylenders Act</td>
</tr>
</tbody>
</table>

Source: Kothari, 2009

In fact, Government of Arunachal Pradesh had developed a Microfinance Vision 2011, in 2008 under which it sought to promote access to microcredit related services and financial inclusion to approximately 50000 households by promoting 5000 new SHGs by 31st March 2012. This Vision was implemented under the aegis of NABARD. The objectives of the State Microfinance Vision was
to form women SHGs for regular savings and inter loaning, to promote mutual help, increase their access to financial services, inculcate savings habit and repayment culture, gradual shift from subsidy driven programmes to market driven programmes, and proper use of credit and timely repayment thereof. Under the vision an attempt was made to provide interest subsidy which upon being implemented shall facilitate in reducing the cost of credit for microenterprises.

1.3 **Significance of Study**

Microfinance has become an important tool towards ensuring financial inclusion. The micro finance practices have evolved over a period of time. The evolution process has been based on learning from experiences of the practices. These practices evolved to promote trade, support poor and vulnerable in meeting basic requirements of food, develop social capital, supplement requirements of members of the same community in meeting consumption as well as production needs. Assessing and appreciating the potential of these practices, the process of evolution of formal banking system incorporated many of these practices into itself. Over a period of time, dedicated institutions came into being mandated by the respective Governments to run various microfinance practices.

The field of microfinance was also enriched due to various experiments including the action research in Jobra, Chittagong that paved the way for formation of Grameen Bank in Bangladesh. Over a period of time Grameen clones were established in various parts of the world.

In India the experiment at Mysore Rehabilitation and Development Agency (MYRADA), Andhra Pradesh Mahila Abhivridhhi Society (APMAS) and Society for Elimination of Rural Poverty (SERP) also developed their corresponding models which today include Mahila Banks, Samakhyas or Federations which provide customised microfinance products.

Any initiative or practice involving people in large numbers need to ensure maximisation of benefit to all concerned stakeholders to the maximum extent for the maximum time, in order to be sustainable. The same theory holds good for microfinance practices. In this context, it is also important to understand the
support mechanism of Government of India which demands greater accountability and community ownership of all development interventions. On the other hand, it is also pertinent to study the fate of programmes that depended on external support in the form of government grants, after withdrawal of such government grants.

In this context, while it is not disputed that microfinance practices are generally based on community welfare principles, there is a need that the microfinance practices remain sustainable on their own in the long run. This has been demonstrated through several examples, notable amongst them being Sanghamitra (MYRADA) and Grameen SHGs. The essence is that microfinance practices should remain competitive with welfare motive and ensure easier, hassle free and timely outreach to the poor in a manner where ownership vests with the poor themselves.

Hence it is felt necessary to study and evaluate the performance of various MFIs including NBFCs, and SHGs to understand the impact of microfinance on the individual members and people of Arunachal Pradesh. In this context the quality of the institutions that promote microfinance and various practices of microfinance need to be studied to attempt to develop a sustainability matrix of microfinance practices.

This study attempts to assess most prevalent practices amongst various microfinance practices and corresponding support mechanisms in the study area. The study also aims to assess the internal support mechanisms corresponding to various practices in the study area.

Impact Assessment is a process of identifying anticipated or actual impacts of a development intervention on various factors. The intervention is also studied during the process of its implementation and subsequently analysed after completion of the intervention.

In instances where intervention is conceived to have impacted individuals, there impact assessment is also done by collecting responses from such (targeted) individuals based on recollection in reference to their individual (actual or perceived) experiences.
This study also assesses impact based on the perception of microfinance institutions on the impact various practices has on their business. The opinion of service providers regarding different uses of their services and ways and means of increasing their service base in a sustained manner has also been studied. These aspect help reveal the assessment of impact of the services from the perspective of service providers of microfinance. Assessment of impact of various services on human development indicators, asset base, household income, demand for credit, relationship with formal and informal institutions from the perspective of clientele has also been covered in the study. The impact of various microfinance practices on economic, social and political factors has also been studied. The perspective of clientele at individual level have been included to assess the overall impact including perception of impact that above mentioned factors have in reference to different microfinance practices. The study also aims to assess different indicators in reference to which sustainability of different microfinance practices have been assessed. The benchmark for sustainability of any microfinance practice has been assessed based on determinants covered under various similar studies, some of which are aptly covered in the review of literature and also indicated in relevant sections in the findings and discussions in this thesis.

At present, impact assessment in reference to Arunachal Pradesh mostly covers Government programmes which involve extension of micro credit as a sub component. Even in these studies coverage of Arunachal Pradesh is largely as a component of North Eastern Region of India, and there are very few studies with exclusive coverage on specific regions of Arunachal Pradesh in particular suggesting sustainable patterns for microfinance to emerge. There is a need to determine sustainability and promotion of livelihood options in both rural and urban areas.
1.4 Objectives of the Study:
1) To assess demand for microfinance practices in urban and rural areas.

2) To assess impact of microfinance practices on important human development indicators.

3) To assess impact of microfinance practices amongst individual household respondents on economic, social and political factors.

4) To determine factors for sustainability of microfinance practices.

1.5 Hypotheses:
The research attempts to analyse the primary and secondary data to examine the following hypotheses
1) $H_0 = $ There is no significant difference in demand for micro credit from formal financial institutions in urban areas between the sample and normal distribution of population within the study area.

2) $H_0 = $ There is no significant difference in impact perception of micro finance practices amongst households in urban and rural areas on human development indicators.

3) $H_0 = $ The impact perception of microfinance practices amongst individual (household) respondents on ‘Economic’, ‘Social’ and ‘Political’ Factors are not in a linear relationship in both urban and rural areas.

4) $H_0 = $ There is no significant relationship between perception on importance of factors affecting sustainability of microfinance practices amongst respondents at individual (household) and microfinance institutions level in urban and rural areas.
1.6 Chapterisation

This thesis is divided into five separate chapters. The detail of the chapters along with a brief overview of contents contained therein is mentioned below:

1) **Chapter 1 → Introduction.** This chapter traces the origin of microfinance practices including prominent microfinance practices from different regions of the world. This chapter also includes a brief overview of different microfinance models, significance of the study, objectives of the research and corresponding hypotheses.

2) **Chapter 2 → Review of Literature.** This chapter includes review of existing literature in the form of published articles as contained in national and international journals, reports including state of sector reports, circulars, updates from the websites of prominent microfinance providers, government regulating and facilitating agencies such as RBI, NABARD and others. Books, case studies and Annual Reports published covering different aspects of microfinance including impact assessment studies in this regards have also been covered.

3) **Chapter 3 → Methodology.** This chapter includes details regarding the methodology adopted for conduction of this research including details pertaining to reasons and basis for selection of study area, study sample, data collection methods and analysis for perception of impact and analysing factors affecting sustainability of microfinance practices by using appropriate statistical tests.

4) **Chapter 4 → Results and Discussions.** This chapter contains the results obtained from primary data collected from the representative of different categories of microfinance institutions as well as from individual household respondents. The results are arranged in a sequential and systematic order in reference to occurrence of questions in the two schedules of this study. The analysis involves drawing an inference, cross tabulation, undertaking statistical analysis (regression, correlation, ‘t’, ‘Z’ tests) using MS Excel software.
regarding proving / disproving of hypotheses. All the results are accompanied by a brief description of the findings and corresponding analysis in this thesis.

5) **Chapter 4 ➔ Summary and Conclusion.** This is the concluding chapter of this thesis. This chapter contains a summary and conclusion of the results in brief including the suggestions from the finding of the thesis. It also include scope for further research.

   Apart from the above, the research document also contains: -
   1. List of Tables.
   2. List of Charts.
   3. List of Diagrams.
   5. Appendices
      a) Appendix I
      b) Appendix II
      c) Appendix III (Questionnaire-I)
      d) Appendix IV (Questionnaire-II)