CHAPTER 5

SUMMARY AND CONCLUSIONS

Microfinance apart from the commercial aspect has been found to have an important dimension of resulting in social benefits through financial inclusion and empowerment especially for the poor and marginalized. While emphasis on microfinance especially by linking it to priority sector lending in India, might continue to keep microfinance practice to retain its core focus on un-served and under-served in both rural and urban areas. Commercial considerations are however certainly bearing an influence on overall product design and profitability.

Therefore client base of microfinance varies from amongst poor in urban and rural areas to enterprising individuals, representatives of SHGs and members of Thrift & Credit Cooperatives apart from individuals who by virtue of the average size of transactions fall under the purview of microfinance. Thus it is established that microfinance today has a diverse client base in India in general and the same appears to be reflected in the study area also. Therefore any impact of the various microfinance practices ranging from options related to small savings, micro credit and even options related to micro insurance would naturally impact the client base and to that extent this impact would influence sustainability of corresponding microfinance practices.

5.1. Background Summary

The origin of microfinance has been traced to several countries from Africa, Asia and Europe where different practices existed. A brief summary of different practices have also been included in the research. These practices included “Susus” in Ghana, “Chit Funds and Hundis” in India, “Arisan” in Indonesia, “Cheetu” in Sri Lanka have been covered in considerable details. One of the initial forays into what has currently emerged as institutionalized microfinance, i.e. Dean Jonathan Swift’s model of microfinance of early 1700s, the Dublin Musical Society and other initiatives whose principal purpose was making small loans with interest for shorter
periods have also been covered in this thesis. The larger and more formal savings and credit institutions that emerged in Europe among the rural and urban poor known as People’s Banks, Credit Unions, and savings and Credit Cooperatives have also been covered in brief.

‘Society for Grain and Bread Supply’ founded in 1846 by Friedrich W. Raiffeison which evolved into a credit society and which was administered according to principles that many financial cooperatives would later adopt have also been mentioned.

Amongst the prominent microfinance institutions with international acknowledgement about their size and scale the examples of BPR in Indonesia and Grameen Bank in Bangladesh have been included. The example of BPR in Indonesia which opened in 1895 and is one of the largest microfinance system in Indonesia presently covering four different types of financial institutions including village-owned credit organizations, village savings and loan institutions and designated secondary banks have also been covered briefly. While initially BPR institutions concentrated on promoting agriculture by providing loans to farmers and as demand for money rose in other sectors, non-agricultural businesses were later included. The Grameen Bank model initiated by Prof Mohd. Yunus which evolved initially from a voluntary action of the now legendary Professor and later gained momentum consequent to an action research project has been included. The Indian experience of microfinance includes the first all women cooperative bank in 1972, i.e. SEWA Bank has also been covered in brief.

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 which were better than the institutional / financial borrowers of most developing countries. Second, the poor were willing and able to pay interest rates that allowed microfinance institutions (MFIs) to cover their costs.

Initially the development sector had been dealing in microcredit. Soon the development sector especially the banking sector and the Government realized the
importance and scope of microfinance and 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.

Various microfinance models were studied and have been briefly described in this thesis. These include (a) Associations (b) Cooperatives (c) Grameen Model, (d) SHG Federation / Group Model (e) Corporate entities (f) ROSCAs and (g) State sponsored Microfinance.

It was felt that there is a need for microfinance institutions to expand to untapped markets and provide financial inclusion which is estimated as crucial for poor, mainly women in Arunachal Pradesh. There is also a concurrent need for sustaining microfinance initiatives in the State. It is estimated that sustainability of microfinance practices can contribute towards solving unemployment as well as unemployability, rural to urban migration, and continued dependence of the poor on Government doles.

5.2. Summary of Results and Discussions:

The summary of results and analysis has been presented section wise in brief here: -

The study area of this research has been classified into ‘Urban’ and ‘Rural’ respectively. Thus, all the four CD Blocks have been classified as ‘Urban’ and ‘Rural’ where Doimukh CD Block and Ziro – I CD Block were classified as ‘urban’ and Balijan and Ziro – II block were classified as ‘rural’. The reasons for the distinction have been explained in Chapter 3 in required details.

The summary of results and analysis are presented below in Chapter 3 below are enumerated below: -
5.2.1 Profile of respondent MFIs and individual (household) respondents and demand for microfinance practices

1. The SHGs and SHG Federations along with Thrift and Credit Cooperatives constitute total of 67.50% of respondent MFIs in both urban and rural areas combined. Their presence amongst MFI respondents in urban areas is 51.16% and their presence amongst MFI respondents amongst rural areas is 86.49%.

2. Despite the presence of a branch in an ‘urban’ area, the primary area of business of Government Sector Banks including nationalized, State Cooperatives and Regional Rural Banks continued to have a rural focus in reference to the client base being served by the respective respondent institutions.

   a. This can be attributed to a predominantly large rural population base in the study area.

   b. Post Offices provide access to insurance even in rural areas along with other services and LIC and SBI Life cater to insurance needs in both rural and urban areas even when they are located mainly in urban areas.

3. Formal financial institutions were found not being able to tap existing scope for microcredit, small savings with their present product profile.

4. Locally prevalent norms can be considered to be adopted for enforcing repayment and payment of premium as the case may be. This would require increased interaction and engagement with the local communities.

5. Scope of micro insurance was found to be existing (despite absence of adequate supply side arrangements) for crop and livestock insurance, particularly in rural areas.

6. Total of 50 numbers of respondent individual households have been covered from each block and totalling 200 individual household respondents. The details have been mentioned under Section 1.6.2 of this thesis.
a. The urban areas comprising of CD Blocks of Doimukh and Ziro-I have 4.51% of total households, whereas the rural areas comprising of CD Blocks of Balijan and Ziro-II have 2.91% of total households in Arunachal Pradesh.

b. A total of fifty eight (58%) of individual respondents were males, whereas 42% of individual respondents were females.

c. Female literacy was found marginally higher amongst respondents in urban areas as compared to rural areas of the study, while overall female literacy was found to be lower than male respondents in urban and rural areas combined.

d. The occupational profile was based upon primary occupation of individual respondents and divided into five major categories namely farm based, non farm based, both farm and non-farm based, services and others.

e. It was found that maximum numbers of respondents have farm based occupations. Whereas farm based incomes are predominantly higher in rural areas (Balijan and Ziro – II put together).

f. Occupational profile has a significant bearing on demand as well as impact perception in respect of microfinance practices, especially related to micro credit function of microfinance.

g. The income levels of the target client base are an important characteristic that influences the sustainability of microfinance practices.

h. Microfinance would normally require client base with average incomes that would either induce economic enterprise or with regular flow of incomes that would maintain the capital base through regular savings, timely repayment of microcredit and periodical payment of insurance premiums as the case may be.
i. The ability of a given microfinance practice to meet consumption and production needs amongst lower income groups is expected to lead to a higher / greater impact perception as compared to higher income groups largely because of magnitude of need at household level from which the demand for given microfinance products emanates.

j. It is found that a total of 76% (seventy six) of respondents are from the two income groups, ‘Upto Rs. 1.50 lakhs’ and ‘From Rs. 1.50 to Rs. 3.00 lakhs’. Least number of respondents were from the range ‘Above Rs. 4.50 lakhs’.

k. An important result has been observed that demand for depositing small savings is linked to the demand for microcredit and for profitable safe keeping of deposits, which in turn was high in urban areas (44%) and substantially high (88%) in rural areas.

7. An attempt was made to assess present or existing level of support for microfinance practices from controlling organizations as well as self-initiative of concerned microfinance institutions in the case of SHGs and SHG Federations.

   a. From Table 4.6 it is evident that maximum support exists for small savings (59%) followed by microcredit (26.56%), least responses was for Refinance which was 0.78% and the sole affirmative response came from NABARD Itanagar.

   b. Maximum support from controlling institutions was found to be with Government Sector banks and ‘Others’ which included Post Offices. The support to microcredit and small savings was found to be nil for SHGs, SHG federations and Thrift and Credit Cooperatives.
Table 4.6 and Chart 4.8 reveals that while maximum support seem to exist for small savings (59%) and this is being attributed to high presence of formal financial institutions who offer safe keeping of deposits. Government Sector Banks have traditionally remained the first and foremost choice for safekeeping of deposits including small savings.

d. It is being postulated that formal financial institutions (Government Sector Banks and Post Offices) have a strong location bias in favour of urban areas as compared to rural areas. While this could be attributed to the fact that opening of these offices in the district headquarters are done in view of administrative requirements as well as socio-political considerations, it also contributes towards proving that demand for microfinance practices would be met mostly by formal financial institutions more in urban areas as compared to rural areas.

e. The extent of emphasis on different microfinance practices from respective controlling institutions and self initiative tends to reflect two important facets in reference to propagation of microfinance. On one hand, it would reflect extent of acknowledgement or understanding of demand for microfinance by concerned promoting institutions and on the other hand it would reflect policy approach towards individual practices.

8. Support from promoting institutions during the period corresponding to 2007-2012 which also corresponds to eleventh plan period was assessed.

a. It was deduced that support to the SHGs and Thrift and Credit Cooperatives was limited from the government sector during 2007-2012 period in the study area.

b. It was found that from Table 4.6 and Table 4.7 that maximum support exists from Government Sector Banks.
c. Correlation analysis was done between response pertaining to existing support mechanism and increase in support during the last 5 years resulting in coefficient value of 0.507. This indicates an insignificant relationship between existing support mechanism and increase in support during the last 5 years.

Thus, given the same distribution, the relationship between the datasets / arrays (existing support and increase in support) shall return a 50% relationship and in other words given 100 such distributions there is a probability that a relationship between existing support and increase in support shall occur only for 50 times and not more

d. An inference can be drawn that SHGs and Thrift and Credit Cooperatives which are essentially engaged in gap filling in reference to provision of microfinance services are not being provided due support for microcredit and small savings by Government banks and Government supported Self Help Promoting Institutions (SHPIs).

e. Another possibility emerges that if adequate support in the form of need based products are designed to support SHGs, Federations and Thrift and Credit Cooperatives, and back it by proper policy backed support in terms of discounted borrowing rates and higher rate of interest for deposits then profitability of SHGs and SHG Federations as well as Thrift and Credit Cooperatives’ ability to serve the client base might increase.

It is interesting to note that perhaps lack of adequate support might also be originating because banks are normally expected to guard their market share.

f. Important observation is that Government sector is supporting the banks that directly and/or indirectly fall under its administrative
purview, whereas similar support in terms of providing trained manpower, incentives and generating awareness for informal sector is conspicuously absent.

g. An inference can be drawn from Chart 4.12 and Chart 4.13 showing responses from respondent microfinance institutions that availability of trained manpower support was regarded highest and incentive for performances including monetary and non monetary incentives were regarded as lowest.

h. An important finding has been that trained manpower availability was not perceived as an constraint even in rural areas signifying that wherever institutional mechanisms exist trained manpower can be arranged. Secondly, despite availability of trained manpower in both rural and urban areas in conventional financial institutions, the overall mandate and flexible rigidity in formal financial institutions works against maximization of client interest. Overall 47% of response indicated presence of internal support for trained manpower, 35% for IEC/Awareness and 18% regarding incentives which is illustrated in Chart 4.13.

i. The relationship between urban centric microfinance institutions covered and total support mechanisms across three distinct parameters was done by re-tabulating and arranging for the purpose of calculation of co-efficient of correlation ($r_2$). This was attempted through Pearson’s correlation coefficient. Thus, it was established that there is a strong relationship between support parameters and urban centric microfinance institutions.

i. It was deduced from the statistical calculations that there is a 70% relationship between the location of the microfinance institution in an urban area and obtaining support for the three given support parameters as compared to an
approximate 14% probability of it receiving the same support if the institution is located in a rural area.

ii. The overall support levels for the given three support parameters is low, especially since even in urban areas the probability of support does not statistically rise above 70%, whereas the situation is critically poor in rural areas.

9. Overall nil awareness was observed in rural areas regarding provisions related to micro insurance. Awareness regarding life insurance was found to be substantially higher than all three insurance schemes that have been clubbed under the General Insurance Category.

10. It is also deduced that awareness is linked with market prospects since the concerned respondent microfinance institutions have held that life insurance schemes have a high market prospect.

   a. Response from concerned micro insurance providers suggest that they would be able to achieve targeted revenue generation / penetration in concerned target populations despite and inspite of nil advance awareness about their product. From which it can be deduced that strong networking skills exist in the form of agent – client relationships as well as fixed client groups, including traditionally loyal clients.

   b. The dependence on paper and electronic media for market growth was evident in reference to micro insurance sector. Lack of awareness about the insurance and more importantly the role and benefits of agents were clearly affecting future based growth of market. This drawback appeared to be more pronounced in rural areas as compared to urban areas. In rural areas there was a ready market as crop loss due to excess rain with resultant soil loss and pest infestation was not uncommon.
c. Thrift and Credit Cooperatives in urban areas and SHGs / SHG Federations in rural areas can play a key role in market expansion for micro insurance.

Market expansion of the micro insurance sector can be synonymous with sustenance of rural livelihoods especially when claim settlement is done in a transparent manner on one hand and societal / peer pressure ensures proper claim applications.

d. Analysis of the data points towards paucity of well trained and competent professional manpower in micro insurance sector.

e. Micro insurance aspect of micro finance in analysing demand the supply thrust is clearly visible for urban areas as against rural areas.

11. A study of demand of microfinance practices would normally tend to provide a better understanding of issues concerned with sustainability of microfinance practices.

a. In the general context of Arunachal Pradesh there is a need for a thorough background study of area specific issues and development of corresponding appropriate strategies for the purpose of customization of microfinance.

12. An attempt has been made to assess existing usage or association with microfinance products by the clients. Towards this end the existing options of depositing savings, average quantum of deposits, number of transactions on a monthly basis, reasons influencing choice of savings, credit history, reasons for taking credit, choice and demand assessment in reference to insurance have been covered.

a. It is evident from the Table 4.12 and the Chart 4.16 below (which shows percentage based representation for choice of depositing savings) that 43.06% of respondents from all four blocks combined
have opted for Government Sector Banks which clearly shows the oligopolistic market conditions in reference to financial inclusion in the study area.

b. The overall hold of the government sector becomes all more empathic if responses in respect of ‘Post Office” shows 17.14% as an option for depositing savings of the respondents in the study area. In this event, 60.20% of the respondent would be interacting with Government Sector including bank and post offices.

13. An important observation is that Thrift and Credit Cooperatives seem to have a significant presence and corresponding client base.

a. 38.23% of the total respondents held that they save in Thrift and Credit Cooperatives and / or SHG / SHG Federations (combined) are also having an account in Government Sector Banks in ‘Urban’ areas.

b. At the same time this should not discount the significant inroads that informal (and often un regulated) organizations cater to the underserved population especially in rural areas that continue to face neglect due to skewed considerations of extending financial outreach.

c. Thrift and Credit Cooperatives do not normally extend credit to non-members or to such individuals who do not have a savings history with them which might be an important reason that would have induced multiple accounts and a large client base with Thrift and Credit Cooperatives.

d. SHGs also accord priority to their own members for lending micro credit and all members are required by default to deposit their savings with the group, therefore this could also have influenced options of choosing the SHGs.
e. Table 4.5 which tabulates response based data related to income group distribution which revealed that 76% of the respondents have average incomes not exceeding Rs 3.00 Lakhs from which 32% of respondent households have not reported annual incomes above Rs 1.50 lakhs per annum. This in other words, would approximately amount to Rs 0.25 Lakhs (Rupees Twenty Five Thousand) per month for such households whose incomes are upto Rs 3.00 lakhs and 0.125 Lakhs (Rupees Twelve Thousand Five Hundred) for incomes upto Rs 1.50 Lakhs wherein 54% of the same set of respondents have an average deposit of an aggregate amount not exceeding Rs 5000/- per month.

f. It was inferred that a significant number of respondent households with a high probability of them coming from rural areas were not routing all their incomes through conventional financial institutions, i.e. banks.

i. This also suggests high consumption in the areas where as much as 60% of the total earning/income of even poor households are not routed through Government Sector Banks.

ii. The possibility of this relationship gets reinforced from the distribution of data in Table 4.5 & Table 4.11, that where only 5% of total respondents have reported aggregate annual incomes of above Rs 4.50 lakhs and a total of 8% individual (household) respondents have reported aggregate average of depositing within Rs 25001 to Rs 50,000.

14. Respondents with ‘Service’ as main occupation, wherein opening a bank account in a ‘GSB’ is often mandatory were found to be having high number of transactions with formal financial institutions.
On average 2-3 transactions per month was observed as the highest amongst ‘SHG/Fedn’ and ‘T&C Coop’ category.

15. It was revealed that despite certain clients being under conventional (government) sector, they tend to chose Thrift and Credit Cooperatives and SHG/SHG Federations for meeting their micro credit needs. This suggests a potential market remaining to be tapped by conventional financial institutions in the study area in particular and Arunachal Pradesh in general.

16. An attempt was made to ascertain the factors in reference to priority through which individual households (respondents) perceive value maximization and / or prefer a commercial financial institution. This was sought by obtaining responses regarding their choice of opening a savings bank account and/or increasing overall quantum and number of transactions with their choice of depositing savings. Alongwith this responses were also obtained to assess the priority assignment towards ‘assurance of credit on savings’, ‘provision of (free) insurance cover on savings’ and ‘accepting deposits nearer to homes in regular intervals (doorstep banking)’.

17. Personal choices at household level that would significantly influence client choice for service providers / microfinance institutions. The responses upon summation would be an important indicator reflecting consumer demand at community level for microfinance. But for the limitation of data collection and analysis limited due to its contextual applicability to the study area, this process may reveal State wide consumer demand in this regard.

a. This shall not only indicate consumer demand but shall also provide much needed valuable insights for designing customer friendly microfinance practices in contest of Arunachal Pradesh.

b. There exists a possibility of fully addressing issues of financial exclusion in this land locked State with highly dispersed population and orienting the economy for balanced growth with greater equity when customised microfinance products are designed while
factoring the role of SHGs, SHG Federations and Thrift and Credit Cooperatives also.

18. It is established that with the assurance of credit, increased interest on deposits and facilities at doorstep have been raked as three major important considerations.

   a. It is observed that contrary to popular view / bias that clients / households would prefer banks or financial institutions at their doorstep for nearer to their habitations.

   b. The respondents of this research have held that commercial considerations outweigh location / distance issues.

   c. An inverse inference is also drawn suggesting that existing ‘deposit’ options do not offer assurance of credit on each deposit account.

   d. Another inverse inference can be drawn that there is limited awareness about the need and importance of insurance options for life and for general (crop, livestock and livelihoods / business) in the study area.

19. Credit requirements emerge from various reasons, which are in turn dependent on different factors in different periods. Based on this it can be safely presumed that demand for credit also emerges from a variety of reasons. In order to better understand influence of these different reasons in determination of demand it is important to club / segregate different reasons into broad based reasons for which demand for credit emerges. This shall help to analyse the extent to which different microfinance institutions are perceived in reference to meeting the varied microfinance needs in general and demand for microcredit in particular. Further if the same data sets reflects client priority for micro credit corresponding to ‘highest likelihood’ of obtaining credit against different reasons, it would certainly
suggest corresponding demand for microfinance from different categories of MFIs.

a. A significant majority Eighty five percent (85%) of respondent individual (household) held that they were either likely or avail credit or had availed in the recent past or were currently under loan which was marginally higher in urban areas as compared to rural areas covered in this study.

b. This shows a high level of demand for micro credit in the study area, with a marginally higher demand in the rural areas. Chart 4.21 derived from Table 4.18 illustrate the distribution of responses classified between urban and rural which affirmed taking credit or most likely to take credit in immediate future.

c. The choice of microfinance institution expressed by the respondents indicate demand being met since the response in this regards is based on credit needs either being fulfilled in recent past or most likely (highest priority) of being fulfilled in immediate future.

d. Demand for microcredit is being met more by the Government Sector Banks which includes all financial institutions (except NABARD) in the Urban areas (25%) as compared to rural areas (12.65%).

e. It is suggested that Government Sector Banks and preferably NABARD should undertake a thorough study of the reasons behind high popularity of SHG / SHG Federations amongst target client base in both urban and rural areas for availing credit.

20. It was found that high level of awareness was associated with comparatively higher market share for life insurance, this trend was more pronounced in urban areas as compared to rural areas. In the rural areas both awareness and availing of life insurance was low.
a. An important consideration in reference to the objective and corresponding hypothesis being pursued in this research, it is important to mention that Life Insurance was being offered by formal financial institutions only (under direct or indirect Government control, i.e. LIC and SBI Life).

b. The awareness level as well availing of ‘General’ insurance was high in urban areas as compared to rural areas, where ‘General’ included options related with Agriculture/Crop Insurance, Livestock and Shopkeeper Insurance options.

c. It is evident from Chart 4.26 that a high expectation of relief support from State Government was an important reason for not availing different applicable insurance options. The expectation of Government support was similar in nature in both rural and urban areas. It is also found that subsequent to expectation from Government, consideration of financial burden was ranked.

d. Interestingly financial burden consideration was significantly high in urban areas (14.42% of total) as compared to rural areas (7.46% of total).

e. Logistical issues was ranked the lowest while it was ranked lower in rural areas (7.96% of total) as compared to urban areas (5.47% of total). Logistical issues included location of office, presence of staff, claim settlement offices being in Guwahati and other places.

21. Many respondents held that they had neither specific reason nor any specific idea for not availing the micro insurance and hence their response was clubbed under ‘Not Interested’.

a. Many respondents held that they were not availing micro insurance because of ‘complicated formalities’ (21.39%). However they were not able to explain the complications in the formalities and when the
research scholar attempted to reason regarding formalities solely with a view to gain deeper insights into possible reasons for not availing micro insurance despite awareness, the concerned respondents held that they were not sure about the complications but perceived that availing the specific insurance was bound to be complicated, thereby reflecting a negative bias towards micro insurance.

b. Analysis of the data in Table 4.23 reveals that injunction of ‘government support’ is seen to be motivating even those who were initially interested to avail micro insurance. It can be inferred that quantum of insurance cover can therefore be substantially increased with government support.

c. The results indicate that with Government support proposed for a minimum of 50% or more regarding payment of premiums, the interest levels had gone up substantially.

i. An average of 297% in the urban areas and 271% in the rural areas held that they were interested in micro insurance provided government support was for a minimum of 50% or more as against such respondents which held that they were interested in availing micro insurance with only with Government support. The calculations based on Table 4.23 have been tabulated in Table 4.24 and illustrated in Chart 4.27.

ii. This in essence means that those individual (household) respondents who were not likely to avail micro insurance were more than likely to avail micro insurance if government was paying more than 50 percent of the premium on their behalf.
d. The proposition of ‘Government Support’ the overwhelming number of respondents opting for micro insurance provided support existed for more than 50% of the premium liability suggests an important role of formal financial institutions especially under Government sector in promoting insurance cover in both urban and rural areas.

5.2.2 Impact of Microfinance Practices

1. An attempt was made to study the percentage of women customer base of different microfinance institutions being studied under this research. This would indirectly reflect upon the impact as well as also indicate sustainability.

a. Table 4.24 indicates in percentages the client base in reference to different microfinance practices of the respondent microfinance institutions. It was evident from the given table that women amongst client base were highest for small savings (57.26%) followed by microcredit (53.26%) and amongst the lowest for micro insurance (27.82%).

i. This was attributed to a larger market share of SHGs, SHG Federations and Thrift and Credit Cooperatives for small savings and micro credit.

ii. It is evident from Table 4.24 and corresponding details illustrated in the Chart 4.28 that respondent MFIs in the SHG, SHG Federations and Thrift and Credit Cooperatives have engaged in lending to non members including a majority of males amongst them. Since a substantial portion of credit is given on priority basis to members who comprise of women (100% in the event of respondent SHGs in the four CD blocks) the responses indicate a positive women orientation in the client base.
iii. It also suggests a predominant role of male folk in commercial activities in the urban as well as rural areas. Interestingly the roles of females in commercial activities or as credit seekers are more in rural areas (in context of this study) as compared to urban areas.

2. A microcosm of urban Arunachal Pradesh has been attempted to be covered as Doimukh CD Block includes the capital complex of Arunachal Pradesh State, and the two blocks of Balijan and Ziro – II reflect predominantly rural trends.

3. The eight broad based indicators have been systematically classified into five major human development indicators viz. Health, Education, Entitlements, Income and Gender

   a. It was deduced that options for women to avail credit are more in rural areas in Arunachal Pradesh as compared to urban areas.

      i. This deduction appears valid in wake of both primary and secondary data, where rural areas have thin formal banking presence and more often than not banks are busy with Government transactions and secondly the SHGs are found to be more active especially in non member lending in rural areas.

      ii. Table 4.24 also suggests that amongst microfinance practices the role of women is most predominant in small savings and micro credit therefore, microfinance practices is normally expected to have maximum impact on women.

      iii. Specific emphasis on women can manifold increase the scope of microfinance on ensuring gender equity in context of the study area in particular and Arunachal Pradesh in general.
iv. There is a possibility of a consequential spin off effect in this context where incorporation of gender emphasis might also result in increase in scope of commercial activity in rural areas and promotion of rural economy in a sustainable manner. This is being suggested as it was observed that women folks were actively involved in all facets of livelihood activities.

b. Chart 4.29 and Chart 4.30 illustrate that respondent microfinance institutions have a positive perception about microfinance practices impacting given human development indicators.

c. It was evident from the response that respondents do not perceive microfinance to influence the ability of their clients to avail their own citizen centric entitlements.

d. It appears that as per the respondent microfinance institutions were not engaged in capacity building including skill development of their respective clients (including the formal financial institutions i.e. the Government Sector Banks) they were not able influence the clients ability to avail citizen centric entitlements.

4. The ability to influence the client base / enabling clients to avail citizen centric entitlements was bound to influence overall sustainability of microfinance programme as well. This is postulated on the assumption that all citizen centric entitlements were enabling features being provided by government to alleviate the socio-economic conditions of poor in rural and urban areas.

a. It was found that any improvement in socio economic conditions would naturally contribute towards better repayment, increase in average quantum of transactions. This is expected to have a spin off effect, which if supported by **professionally competent human**
resources can increase the relevance of micro finance practices in the larger picture of nation building.

b. The importance of microfinance institutions or programmes catering towards increasing social awareness has been known to demonstrate early signs of success as indicated above.

c. Studies suggest that microfinance models in Andhra Pradesh (APMAS, SERP), Bihar (JEEViKA), Meghalaya (DfID) have been able to significantly influence the ability of their clients (mostly in rural areas) to avail citizen centric entitlements and these programmes are known for their financial soundness and social capital generation.

d. Another significant inference which reinforces that microfinance is largely perceived to be a commercial activity rather than a social empowerment process was that the respondent MFIs had perceived that microfinance practices do not positively influence women centric interests as a core activity.

    The fact that absence of adequate handholding mechanisms including client based periodical orientation and client based human resource development could also be influencing this perception.

e. Table 4.26 and corresponding details illustrated in the Chart 4.31 that respondent microfinance institutions reveal that 46.25% of respondent MFIs in urban areas held that awareness existed regarding benefits of timely repayment whereas only 35% of the respondents MFIs in rural areas held that there existed awareness related to benefits about repayment.

f. Similar trend was observed regarding perception that adequate supply side arrangements existed for micro insurance.
g. The least response in percentage terms were expressed by respondent MFIs in both rural and urban areas regarding existence of equal opportunities for obtaining micro-credit for production or for consumption purposes.

h. The MFIs in rural areas (25%) held a marginally high response for option related to increase in credit limit and possibility of migration of customers due to better rate of interest (higher for deposit option and lower for availing credit) as compared to MFIs in urban areas (21.25%).

5. In view of above results it is concluded that (respondent) microfinance institutions need to factor in consideration of competitive rate of interests especially while not seriously comprising overall operational feasibility for deposits (higher) and micro credit (lower).

a. The rate of interest ideally needs to match corresponding offers from the unorganized sector, which as observed was fiercely competitive.

b. Since matching upto unorganized sector may neither feasible nor admissible as more often than not interest rate mechanism are not well grounded in unorganized sector, all efforts are still needed to develop local area specific products.

c. Interest rate fixation in view of locally active SHGs/SHG Federations and private money lenders as well feasibility (which is significantly influenced by periodicity) of different income generating activities is expected to significantly contribute towards value maximization and resultant customer retention. Similarly, the MFIs need to invest on financial literacy especially in rural areas as (respondent) MFIs themselves hold that awareness level regarding a critical function of repayment is significantly less in rural areas.
d. Option can also be considered to package various micro insurance products and invest in human resource development for promotion of micro-insurance along with strengthening supply side arrangements.

e. It was also found that individual (household) in both urban (12.4%) and rural areas (12.8%) accorded a significantly similar high perception of impact of microfinance practices on promoting education of children or dependents.

f. Further to above results it was found that when microfinance products cater to agriculture cycle, local area specific soil productivity, storage, transportation and marketing arrangements of farm produce in context of rural areas is bound to have a holistic impact on microfinance practices.

This would significantly expand prospective customer base in rural areas apart from enabling such customers/clients to create wealth in an improving deposit base and repayment levels. With an increase in overall net worth originating from income generating activities the orientation to insure relevant provisions is also expected to significantly rise. In context of urban areas, the client base of different microfinance practices may be strengthened with specific emphasis on promoting income, even by adequately raising quantum per transaction.

g. Anchoring by MFIs is also suggested for sustained social mobilization in urban areas (under this study) for leveraging microfinance for enabling client’s greater access towards health facilities and availing their corresponding citizen centric entitlements.
h. The analysis of responses reveal that in urban areas and rural areas combined similarly high perception of impact was perceived from ‘Economic’ (38%) and ‘Social’ (37%) factors of the total responses of individual (household) respondents who held positive impact perception for various questions/issues posed to them.

Similarly impact of microfinance practices was perceived to be least amongst the three broad based categories, yet overall it was significant as 25% of total individual (household) respondents holding an affirmative positive perception on impact of microfinance practices held that microfinance practices impact political factors also.

6. Results and analysis based response of individual (household) respondents, regarding their perception of impact of microfinance practices on economic, social and political factors it can be concluded that maximization of positive impact of microfinance in both urban and rural areas can be achieved by strengthening features that promote positive impact on economic and social factors.

The poor and underserved in urban and rural areas in Arunachal Pradesh in general and study area in particular shall be best suited to break the viciousness of mutually reinforcing economic and political issues relate to increased representation in elected bodies in Panchayats, municipalities and State legislature, networking at the community level for collective bargaining for better amenities, availing citizen centric entitlements and demanding proactive and responsive governance.

5.2.3 Sustainability of Microfinance Practices

1. The sustainability of microfinance practices is largely a function of ensuring profitability as well as social impact at the same time. There can be different degrees of emphasis on these two important parameters but
functionality of both the indicators can never be ruled out in Indian context. Any microfinance venture which is only profitable and does not accrue any benefits to the society is neither warranted nor sustainable. Similarly any microfinance venture that results in social benefits alone shall also not be in a position to sustain itself.

2. For microcredit to permanently reduce poverty it must have a long run impact. Micro credit is not a short run subsidy. Its aim is to lead to a sustainable increase in an household’s ability to create wealth. This appears to sum up the basic vision for planning and implementation of microfinance practices in Arunachal Pradesh where the end aim of all interventions need to contribute in a mutually compatible manner towards increasing the ability to create wealth at the household level. This shall not only ensure sustainability of microfinance practices even when they evolve in reference to contextual need it shall more importantly sustain the households factoring inflation and requirement of skill upgradation as well as acquisition of new skills. Thus sustainability of microfinance practices is dependent upon sustainability of the ability of its clients to create and retain wealth.

3. The respondent microfinance institutions were provided with 7 pre decided possible reasons for non or delayed repayment of micro credit. Maximum responses were tabulated for “ER / W +IM / LI” or for Extended repayment/waiver on account of inability to market the produce and/or less than perceived income from the micro enterprise. This reason and to that extent the inability to market produce and/or getting less than perceived income was more pronounced in rural areas in terms of percentages of response against total respondent in corresponding category. The least responses likewise were observed for insufficient loan assistance, which essentially reflects that respondent MFIs held insufficient loan assistance in first
instance as the least possible reason and that their clients were rarely citing this reason for delayed / non repayment of micro credit.

a. Clients of Thrift and Credit Cooperatives and SHGs including SHG members who used to take small loans including for establishment of micro enterprises were either not approaching the informal sector for grace period for repayment or waiver on account of the inability to market produce and / or there is a possibility of robust mechanisms at the SHG and/or Thrift and Credit Cooperatives level to properly scrutinise and appraise each application for micro credit in reference to its viability.

b. Another significant perception emerges from the Table 4.30 and Chart 4.35 and Chart 4.36 indicating that MFI respondents from the SHG and Thrift and Credit Cooperatives held a strong perception that overall repayment gets affected due to the quality of human resources at the bank level.

c. It was concluded from the above that MFIs irrespective of the sector (formal or informal) shall certainly benefit if mechanisms to facilitate marketing of produce are inbuilt in the product profile itself. It is pertinent to add that marketing in this context should not be considered with a narrow prism of facilitating direct sale of produce alone, instead support is required for value addition, pricing, storage and even expansion of market.

4. Obtaining income proof, insisting on collaterals takes precedence over linking credit quantum with vetting / cost benefit analysis for individual proposals. The repayment record which in itself a critical indicator for sustainability also ranks low in urban areas while the same ranks significantly high in rural areas. This is said to be largely due to significantly high number of MFI respondents from amongst SHGs and Thrift and Credit Cooperatives in rural areas as compared to urban areas.
From this it can be inferred that SHGs and Thrift and Credit Cooperatives accord a higher priority to past repayment record and do not weigh formalities such as proof of income and collateral over and above past repayment record.

5. Secondary data is important in any planning exercise. Its importance becomes even more pronounced in an environment where planning needs to be undertaken for pilot level interventions as is the case with microfinance in Arunachal Pradesh. An attempt was made to ascertain the perception / opinion of respondent MFIs regarding applicability of socio economic data including data on livelihoods affecting microfinance practices. The responses in this regards have been tabulated in Table 4.33.

   a. Approx 28% of the respondent MFIs did not consider availability of demographic and socio economic data as applicable for microfinance planning. The negative responses in this regards emerged from respondent SHGs and Thrift and Credit Cooperatives as their members were observed to be prejudiced regarding local knowledge and did not accord much importance to secondary data. They also quoted that understanding of secondary data in itself shall be difficult. Moreover their market was based on mutual acquaintance and peer pressure which did not require them to consider secondary data as ‘applicable’ for microfinance planning.

   b. Market expansion in context of Arunachal Pradesh was also limited by geographic and other considerations.

6. The ability to maintain such customer centric approach and even overall sustainability of microfinance institutions shall also depend upon the outreach of the microfinance organisations to cater to clients.

   a. The outreach need to be measured in terms of geographical coverage such that lopsided concentration of product offering is not provided to only densely populated and economically well off habitations
often at the cost of sparsely populated and coverage of economically unviable locations.

b. Expanding to additional locations and strengthening distribution / organisation network has been ranked most important by urban respondent MFIs, which also signifies that urban respondent MFIs are certainly targeting rural areas in context of Arunachal Pradesh, where urban areas are limited in instance and have been by and large covered.

c. It was evident that respondent MFIs have accorded highest priority in increasing their outreach. The emphasis of MFIs in the urban areas in this regards reflects high emphasis perception as 86.96% of respondents MFIs in urban areas including SHGs, Thrift and Credit Cooperatives and Government Sector Banks have held that increasing the outreach shall contribute in the most significant manner (as indicated by the highest average percentage corresponding to this choice) in ensuring sustainability of microfinance practices.

7. Value Addition as a factor of sustainability has been explained in reference to existing body of research along with results and analysis pertaining to individual (household) respondents. Value additions of microfinance products as well as value addition of core activities being undertaken by clients, both are expected to have some degree of influence on overall sustainability.

a. 73.91% of MFIs in urban areas and 60.87% of respondent MFIs in rural areas have held that value addition has considerable influence on sustainability of microfinance practices.

b. Development of ‘human resources’ has been ranked second last by respondent MFIs where a similar perception seems to exist amongst respondent MFIs in urban as well as rural areas.
c. Client protection or safeguarding customer rights and ensuring unfair practices are not adopted by the MFIs have been ranked lowest as is evident from both Charts 4.40 and 4.41 above. It is thus analysed that MFIs by themselves are not considering their practices to be exploitative and in fact best served to their respective clients.

8. It was concluded that majority of MFIs in Urban areas in reference to this study are certainly not oblivious to the fact about the existence of gap in reference of tapping the market that can be best filled by increasing the customer base and/or increasing the geographical outreach of their operations.

9. Weightage (in reference to percentage outcome) revealed that there was a high probability that proper product customisation might be able to produce desired results in terms of financial and non financial deliverables with the existing market base as well as encourage more customers from hitherto uncovered and nearby areas to be covered by concerned MFIs.

10. A general bias was observed amongst all categories of MFIs regarding positive ability of existing staff by the respective MFIs.

11. It is also suggested that MFIs especially in the informal sector in both urban and rural areas need to be properly sensitised regarding protection of client interests and factoring in ethical practices as well rules as enforceable by law regarding avoiding adoption of Ponzi schemes.

12. It was observed that MFIs held client outreach (especially in urban areas) as the most important feature regarding sustainability of microfinance.

   a. Many institutions which operate at a small scale in limited geographical area, tend to move to newer locations in either of the outcomes related to microfinance, i.e. when their products are widely accepted and resultant income flow is more than the total
expenditure, and even when their products are not accepted as expected and resultant income flows fail to recover costs.

b. Moving to new areas is widely believed to result either in maximisation of returns or to recoup lost capital through additional customers and to keep afloat the microfinance practice being undertaken. However as the earlier results in reference to the demand of microfinance and subsequently impact assessment has shown that it would make more sense to offer customised products and better service in the same area along with providing both financial and non financial incentives to the customers to increase returns above break-even levels.

13. The ability to repay micro credit by the clients is an important factor that is presumed to affect sustainability of microfinance practices.

a. It was observed that average loan component was low in the study area and as the average loan quantum increased, the number of individual (household) respondents seeking the loan decreased. From this it is inferred, while discounting the actual demand for loan manifested through corresponding applications for such loans, that overall credit eligibility of the individual (household) respondents is low, it can also be inferred that average loan sanction is low.

b. Since formal financial institutions are normally more resource rich in terms of extending credit, it can also be deduced that there are ample restrictions in extending high quantum of credit per transaction, whereas SHGs and Thrift and Credit cooperatives who are normally resource poor in terms of extending credit are not in a position to extend high quantum of credit per transaction.

Information pertaining to the MFIs which have fulfilled the demand for credit / given the loan has been tabulated in
another table at Table 4.37 constructed factoring in response from Table 4.19 and Table 4.35

c. No significant relationship existed between average income group and average loan component overall and this was particularly evident from the correlation between these two variables for urban areas as tabulated above. The strongest relationship was observed between income and loan in corresponding income group in rural areas (83.50%).

*Average numbers of borrowers were more in rural areas and micro credit needs were largely being met with existing arrangements. Since presence of formal financial institutions has been observed to be limited in number it can also be concluded that SHGs and Thrift and Credit Cooperatives play a major role in meeting demand for microcredit in the study area.*

d. Maximum loan disbursement was in small amounts per loan transaction. 63.53% of the total loan disbursement was in the group not exceeding Rs. 1.50 lakhs and the highest share in percentage terms was disbursed for ‘Personal’ Loan which included amongst other things health, purchase of domestic goods, or any household specific reasons not attributed elsewhere. Both ‘urban’ and ‘rural’ areas had an equal percentage of loan disbursement in percentage terms (9.41%).

e. An inverse relationship between loan quantum and loan disbursement (in percentage terms), emerged from the analysis which means that lower the loan quantum, higher the number of loan disbursements. Therefore 63.53% of the loan disbursements across all reasons in urban and rural areas combined was found for loan quantum not exceeding Rs.1.50 lakhs, similarly 21.18% of loan disbursements was found for loan quantum between Rs. 1.51 lakhs to Rs. 3.00 lakhs and 11.76%
of the loan disbursals was found for loan quantum between Rs.3.01 to Rs.4.50 lakhs and lastly only 3.53% of loan disbursals were made for loan quantum more than Rs.4.50 lakhs.

f. Formal financial institutions continued to dominate in urban areas in meeting demand for credit. Whereas majority of credit disbursals (52.94%) was also found in urban areas, thus rural areas catering to credit disbursals not exceeding 47.06% in the study areas. However SHGs, SHG Federations and Thrift and Credit Cooperatives continued to dominate the market in rural areas as well as possessing significant presence in urban areas. These MFIs held an aggregate of 56.47% of loan disbursals in urban and credit areas combined, where 34.12% of loan disbursals were made by them in quantum not exceeding Rs.1.50 lakhs per transaction. The total loan disbursal across the remaining class intervals ranging from Rs.1.51 lakhs to more than Rs. 4.50 lakhs was only 22.35% of total loan disbursals being attributed to SHGs, SHG Federations and Thrift and Credit Cooperatives.

14. It was evident from the Table 4.38 that formal financial institutions are able to meet the demand for micro credit across all reasons for credit significantly in urban areas as compared to their meeting corresponding demand in rural areas.

a. There is a strong relationship between demand for credit in urban areas (as manifested through response of individual (household) respondents from Table 4.19 in this thesis and responses of same respondents regarding actual loan disbursal from concerned MFIs tabulated for different reasons in Table 4.37). The relationship between demand for micro credit as explained above in urban areas is 99.15% while the same relationship is found to be only 15.79% as is shown from adjusted r² which is regarded as a more reliable
statistic. This suggests that formal financial institutions are significantly more inclined to meet the demand for micro credit in urban areas.

b. It is also concluded that formal financial institutions are most active in urban areas and despite and inspite of their strength and network, SHGs, SHG Federations and Thrift and Credit Cooperatives continue to dominate the micro credit market in the study areas with 56.47% of credit disbursals being attributed to them (22.35% in urban areas and 34.12% in rural areas).

15. Absence of competent staff and improper assessment at bank level was assessed by the MFIs as issues in reference to manpower placement while individual (household) respondents held that lack of required follow-up support including follow-up on repayment was a factor that affected repayment schedules.

16. Inability to market the produce has emerged as an important factor in responses from individual (household) respondents (48%) and microfinance institutions (21.76%) alike, as the most important factor. Inability to market emerged as an important consideration in rural areas as compared to urban areas in reference to responses from individual (household) respondents. 72.92% of respondents who had approached SHGs and Thrift and Credit Cooperatives for micro credit held that they had repayment problems owing to inability to market or obtaining less income than perceived.

17. The individual (household) respondents held insufficient amount of sanction as an important reason for non repayment (11%) whereas MFIs (5.70%) did not consider this as much important.

18. The quantum of loan applied for and the quantum sanctioned have a bearing on overall repayment.
In the event that a client seeking micro credit of Rs. 50,000/- for upgrading her / his poultry unit is sanctioned only Rs.15,000/- then the probability of her/him to actually upgrade the unit shall be very low and consequentially it would be highly unlikely that the applicant (client) shall be able to repay even Rs.15,000/- with interest as expected financial returns shall not occur with under financing.

19. It is concluded that MFIs were either not aware or were not approached by their clients who cited ‘peer non repayment’ as an excuse for non repayment of their dues.

20. Inability to market being accorded the highest factor by both MFIs and individual (household) respondents alike, it is suggested that proper non credit support including skill development in marketing function such as grading, branding and packaging, pricing, and placing their products and exposure to clients undertaking similar micro enterprise venture with good marketing support may be able to contribute towards improvement in repayment rates.

21. Client protection or safeguard of small deposits as well as assurance that micro credit is not being extended on exploitative terms was ranked highest by individual (household) respondents.

   This was ranked lowest by the respondent MFIs as safeguarding customer rights were considered being done and unfair practices not being adopted by the MFIs, the MFIs ranked these lowest as is evident from both Charts 4.40 and Chart 4.41.

22. The individual (household) respondents have held least preference regarding possible human resource support for record keeping and enabling SHG members, clients and others to market their produce as a factor contributing towards sustaining microfinance practices. The response from
individual (household) respondents reflect a similar trend regarding role of MFIs in reference to value addition.

23. Allocation of priorities to different factors by individual (household) respondent microfinance institutions reveal that while clients are most sensitive towards protecting their interests and demanding best possible offers in reference to availing micro credit, they are not sensitised enough to the potential of development of their capacities and those of the members of MFIs including SHGs, Government Sector Banks to support them in marketing, record keeping functions.

It can be concluded that based on transaction level experience, wherein clients have not got such support from the MFIs they do not fully perceive MFIs to partner the clients at the household / community level in supporting their farm / non-farm based livelihoods nor do they perceive that MFIs are cut out for this role.

24. In reference to the suggestions from individual (household) respondents regarding value addition it is suggested that MFIs along with subject experts in economics, financial management as well as practitioners may converge their resources to customise microfinance products and introduce these modified products on a pilot basis in the study area to gauge customer response.

25. In wake of the fact that local economy in urban as well as rural areas has significant influence of Government related job works, the demand that microfinance be customised to augment the capacities of local entrepreneurs to best utilize this opportunity need to be considered by the local government authorities, especially in view of developing local economy.
5.4 Important Suggestions:

1. Undertaking a proper demand and supply analysis by formal financial institutions is suggested for tapping the market.

   It has emerged that despite the strength including network and capital base of formal financial institutions informal financial institutions continue to command a significant market share which can be tapped provided a proper demand and supply analysis is done to design products in reference to local area specific needs. The scope of tapping markets exists on a marginally higher magnitude in rural areas as compared to urban areas.

2. Social Mobilisation strategies cantered on leveraging social norms can be considered to explore possibilities of being merged to inculcate better financial discipline.

   While social norms in Arunachal Pradesh generally do not cater to financial or economic matters, specific efforts involving village elders, community chiefs can be considered to stress the community level advantages e.g. strengthening of local economy, accruing from promoting microfinance practices on sound financial management principles.

3. There is a need for designing microfinance products that cater specific broad based demand. Thus, due amount of pre launch study and analysis and test launch of products that cater broad based demand are suggested.

   a. Customisation of microfinance products need to consider the occupational profile also in order to augment local economy and develop upon existing skills and knowledge sets prevalent in study area.

   b. In the event a given microfinance practice is able to meet consumption and production needs amongst lower income groups, it is expected to
lead to a higher / greater impact perception as compared to in higher income groups, thus it is suggested that design of microfinance products need to factor in income groups of prospective clients also.

c. In the general context of Arunachal Pradesh there is a need for a thorough background study of area specific issues and development of corresponding appropriate strategies for the purpose of customization of microfinance. This is expected to directly benefit the economy in Arunachal Pradesh that is predominantly agrarian based with limited coverage of conventional financial institutions.

d. Personal choices at household level have been found to significantly influence client choice for preferring their secure providers / microfinance institutions, therefore incorporation of sample data pertaining to household level choices / preferences need to be incorporated in the process of designing customised microfinance products. Academic institutions in and around the study area can play a key role in this regards.

e. It is suggested that entire process of design and development of microfinance products need to be agriculture cycle, local area specific soil productivity, storage, transportation and marketing arrangements of farm produce in context of rural areas.

f. The fact that urban respondent MFIs have held that product customisation as an important feature strengthens the assumption that acknowledgement exists amongst formal financial institutions especially in urban areas regarding the need to customise the microfinance product based on client specific needs. However presences of SHGs and Thrift and Credit Cooperatives in urban areas have also influenced this response. Since SHGs and Thrift and Credit Cooperatives are not
bound by enforceable norms and procedures having legal implications, they are much better placed to offer customised products to their clients.

g. 73.91% of MFIs in urban areas and 60.87% of respondent MFIs in rural areas have held that value addition has considerable influence on sustainability of microfinance practices. Despite sensitisation regarding providing more flexible products, participating in the overall livelihood chain, most of the MFIs are not in a position to alter their present products as they were observed to be limited because of manpower, capital as well as administrative constraints.

4. **Awareness Generation and product literacy is required along with augmenting supply side arrangements for promotion of micro insurance in the study areas.**

   There is a need for increasing awareness about the need and benefits of insurance especially crop and livestock insurance in Arunachal Pradesh in general and study area in particular.

5. **Support to SHGs and Thrift and Credit Cooperatives needs to be revisited through a policy backed approach for ensuring proper need based financial inclusion attuned to regional considerations in Arunachal Pradesh.**

   a. Any support to SHGs and Thrift and Credit Cooperatives need to be provided subsequent and consequent to upgradation of the capacities of SHGs and Thrift and Credit Cooperatives to enable them to include hitherto excluded households as well as to provide non financial support in the form of technical advice including advice for both farm based and non-farm livelihoods, marketing support and other support depending upon local area specific conditions.
b. The above is being suggested as SHGs and Thrift and Credit Cooperatives are most suited to cater to the needs in rural as well as urban areas alike at reduced costs and with greater empathy with local population, especially when they are in turn supported by formal financial institutions in the process.

6. Academic institutions need to actively consider taking up microfinance as part and parcel of academic discipline.

   a. The role of premier educational institutions in the study area are being suggested to be revisited and feasibility of introducing microfinance as an academic discipline need to be considered. This will contribute to the body of academic research, contribute towards feasible solutions for market expansion as well as provide competent and professionally trained human resource that can either start up micro finance ventures or be employed in different premier and local institutions.

   b. In wake of deduction that microfinance institutions tend to consider their perception about possible market potential for generating awareness about different facets related with microfinance practices, it is suggested that academic institutions and voluntary level practitioners can converge their respective strengths to present a case to concerned microfinance institutions in the study area in particular and Arunachal Pradesh in general regarding possible market scope of micro insurance.

7. A proper feasibility study is suggested for being undertaken to assess the reasons behind widespread popularity of SHGs and Thrift and Credit Cooperatives that operate at a substantially higher cost per transaction in the same market where client responses have indicated financial concerns outweighing other issues being studied.

   a. This study also needs to probe the interest rate mechanism, funds flow as in the average outflow and average receipt of instalments along with
surplus in the form of interest, fee and other charges to determine the financial model on which different SHGs / Federations operate in different regions of Arunachal Pradesh. The role of academic institutions engaged in nurturing future managerial talent such as NERIST, Rajiv Gandhi University also assume importance.

b. It is also suggested that microfinance should be considered an academic discipline for developing the body of academic knowledge in microfinance. It is expected that this would significantly contribute towards suggesting more cost effective management of microfinance practices. This shall also help in increasing social inclusion through microfinance. The concerned academic institutions are expected to be benefited also as there is an existing demand for professionals in the field of microfinance and social empowerment especially for North East India.

8. Promotion of micro insurance in the study area in particular and Arunachal Pradesh in general needs to consider the role of Department of Relief and Rehabilitation Government of Arunachal Pradesh, especially for devising marketing strategies for micro insurance.

   a. Not discounting the role as a ‘welfare’ government of the State Government, there is a need to involve Department of Relief and Rehabilitation Government of Arunachal Pradesh and concerned micro insurance providers for increasing ‘proper’ awareness about different insurance options.

   b. Extension of micro insurance can be also be considered to be done by District Relief and Rehabilitation Officers (DRRO) who are under the administrative and functional control of the State Government. This may not only significantly reduce the burden of State Government to provide sizeable relief, it will also increase the need to adopt adequate
precautionary measures in reference to agriculture, livestock, fire safety, and other potential hazards.

c. Since these types of interfaces require academic inputs as well as high level of convergence coordination institutions such as State Institute of Rural Development, State Urban Development Authority as well as NERIST can consider to come forward for greater inclusion of targeted / vulnerable population in both ‘Urban’ and ‘rural areas.

9. Multifaceted role of microfinance needs to be strengthened.

a. It is suggested that study visits to best practice locations such as SERP, JEEViKA, SEWA as well as visit branch offices and clients of private microfinance institutions such as SKS, Basix, FiNO by prominent players such as State Bank of India, Arunachal Pradesh State Apex Cooperative Bank and Arunachal Pradesh Rural Bank shall orient these institutions towards multifaceted role of microfinance and its applicability in human development.

b. It is also suggested that academic institutions such as NERIST and RGU may tie up with concerned government and banking agencies to institutionalize mechanism for data management for interest rate fixation.

10. Due efforts for Human Resource Development needs to be undertaken in a systematic manner.

a. Capacity building and sensitization is suggested for branch level functionaries in banks to be able to properly scrutinize including undertaking an unbiased cost benefit analysis for all proposals for micro credit with an end aim of commencing or promoting a micro enterprise.

b. Capacity Building and sensitization efforts are also needed for senior level functionaries to adopt a customer centric approach in real sense.
c. It is suggested that increased interaction on structured lines between MFIs and their clients with a view to assess areas of human resource development need to be undertaken in an earnest manner by MFIs themselves. This is expected to significantly boost client level confidence as well as provide much needed market related information in terms of client expectations from their respective personnel.

d. It is suggested that if formal financial institutions play a major role in development of human resource potential and if these institutions contribute towards strengthening of linkages, then the ability of clients to create wealth shall increase in both rural and urban areas.

11. **A comprehensive database on socio economic indicators also including a detailed process benefit analysis for farm based and non-farm livelihoods along with demographic information is suggested to be developed.**

   a. In reference to this database, convergence of efforts involving official functionaries from Department of Rural Development, Industries, Textiles and Handicrafts, Khadi and Village Commission, Medium and Small Enterprises, concerned financial institutions, agencies mandated to coordinate livelihoods promotion under Urban and Rural Livelihoods Mission alike along with representatives of Thrift and Credit Cooperatives, leading SHG promoters and leading academic institutions such as NERIST, Rajiv Gandhi University be undertaken for piloting a growth model for microfinance.

   b. The pilot would ideally have deliverables could include projected increase in incomes, promotion of skills, targeted increase in portfolio size, insurance cover all backed by customised microfinance products which are provided in centrality of the local communities in the concerned area. The findings of this research in itself may prove valuable for initiating this exercise.
5.4 Scope for Further Research:

1) The field of study on microfinance in reference to Arunachal Pradesh shall benefit if further research is conducted in locations covering the Kameng Valley, Lohit valley, and Tirap and Changlang districts where alternative models of microfinance exist especially under ‘Associations’ and ‘NGO’ sector.

2) Microfinance in present times being increasingly market oriented, further research using specific market analysis for obtaining consumption patterns, scope of market expansion in reference to existing skill and knowledge set of local inhabitants in study area and credit consumption and repayment capacity regarding small and medium sector in the study area shall greatly contribute to the body of knowledge regarding microfinance in Arunachal Pradesh.

3) Specific studies on product profiling by approaching prominent microfinance providers such as SKS Microfinance, Spandana, Share Microfin, Asmitha, Basix, Maragadarsi, Shriram Chits for detailed product profiling and correlating this information with livelihoods analysis in selected areas of Arunachal Pradesh to determine extent of developmental impact potential of microfinance in Arunachal Pradesh.

4) A demand based / sponsored study at an institutional level by microfinance providers shall be able to better enlighten issues that upon being addressed shall be able to increase market share and profitability of microfinance practices.

5) A study on the need for developing demand based microfinance products especially for women in the study area in general or any locations in Arunachal Pradesh can be explored in further research.
5.5 Conclusion

This study brings forth possible ways and means based on empirical research for extension of micro credit to poorer communities. This assumes importance given the fact established by other studies that extent of credit outreach achieved by a given MFI is expected to be dependent on the supply – credit rationing exercised by MFIs as well as on the effective demand for micro loans, which in turn is a function of demand for credit and its availability from other sources. The study proves at several places that understanding of area specific issues related with demand and supply of credit in Arunachal Pradesh shall be able to boost local economy and contribute towards gender equity amongst other direct and indirect benefits besides ensuring that demand for secure and profitable deposit options, timely and adequate credit and need based insurance are met in both urban and rural areas. This research also indicates that SHGs and Thrift and Credit Cooperatives are found to be catering to a niche market that is not normally served by conventional banks. The findings reveal that SHGs, SHG Federations and Thrift and Credit Cooperatives have an important role in this context. One of the reasons behind this is their wide-ranging influence and a distinct manner in which they function in Arunachal Pradesh.

The demand for microfinance practices has been assessed based on responses pertaining to options of depositing savings, average quantum of deposits, number of transactions on a monthly basis, reasons influencing choice of savings, credit history, reasons for taking credit, choice and demand assessment in reference to insurance. It was found that microfinance practices are an effective medium towards end aim of financial inclusion in urban and rural areas. The overall importance of this prospect can be gauged from the fact that this option is normally expected to take into consideration role of SHGs and Thrift and Credit Cooperatives. There exists a possibility of fully addressing issues of financial exclusion in this land locked State with highly dispersed population and orienting the economy for balanced growth with greater equity.
It was also found that active involvement of women has been a significant reason for the growth of this sector. Women groups undertake thrift and pool their savings to constitute one of the largest capital bases for extending credit on self regulatory norms amongst themselves. In many instances these groups have also been found to be engaged in non member lending.

Microfinance was largely perceived to be an income supporting mechanism in both rural and urban areas. In urban areas its applicability extended to a wider perspective involving aspects of gender equity and entitlements and to this extent contributing towards overall self worth of its clients and can have a holistic impact promoting self worth, self confidence as well as contributing towards an equitable society. Microfinance practices therefore can be leveraged as a medium to mobilise women in rural and urban areas to seek citizen centric entitlements, demand transparency and greater community level participation in development interventions in both urban and rural areas by concerned agencies and educational, training institutions and other stakeholders alike.

In wake of limited awareness on ‘peer non repayment’ as a reason for non repayment of microcredit it was concluded that understanding of such cognitive issues would require adequate placement of competent manpower which for being intensively engaged in providing handholding as well as counselling support to the clients by the MFI’s. Presence of competent manpower at MFI level (including banks and SHGs alike) shall also contribute in arresting flight of capital from SHGs, and in providing post credit disbursal support to clients.

The microfinance practices have a wide ranging impact and have a symbiotic relationship with human development indicators. In this context it was concluded that microfinance institutions were not engaged in capacity building of their clients in enabling them to avail their own citizen centric entitlements which was evident from limited significant perception of impact of microfinance practices in this regards by them. Enabling clients to avail citizen centric entitlement was expected to contribute towards overall sustainability of the microfinance practices
as entitlements would naturally contribute towards improvement in socio-economic conditions at the household / community level.

The research has concluded that microfinance can be a catalyst in financial empowerment as the primary outcome at the community level, subsequently when a minimum acceptable quality of life is achieved at the community level; continued growth of microfinance would provide a sound economic base on which community can be mobilised on social issues, without any significant effect on livelihoods. A socially empowered community can and would in all normal circumstances assert itself and demand citizen centric entitlements, greater participation in local and regional level decision making, prioritisation and related process having a direct bearing on local politics / governance. It was found that ensuring need based microfinance products can increase the collective bargaining for better amenities, availing citizen centric entitlements and demanding proactive and responsive governance in context of Arunachal Pradesh. This can be done by strengthening economic and social factors best suited to break the viciousness of being interlinked inability to pursue livelihoods and mobilise for asserting due entitlements at the community level in the State. State level institutions such as concerned nodal departments, SIRD, academic institutions have a critical role in enriching human resources and developing high quality body of research, in this regards. The MFIs irrespective of the sector (formal or informal) shall certainly benefit if mechanisms to facilitate marketing of produce where marketing involves direct sales and required support for value addition, pricing, storage and even expansion of market are inbuilt in the microfinance product profile itself. Since it such support for marketing was found absent, the role as well as need for networking between microfinance institutions and academic institutions in providing such support has also been highlighted in this research. This shall also have a direct bearing on the repayment rates.

The majority of MFIs in urban areas were not oblivious to the need for increasing customer base and/or increasing the geographical outreach of their operations. ‘Product Customisation’ has the potential to provide desired results in
terms of financial and non financial deliverables which can more than recover costs
(factoring in deliverables related to socially relevant outcomes such as gender
equity and empowerment of poor) in the above context.

A pull (demand driven) strategy can thus be considered for being adopted to
increase value maximisation (thereby influencing/ promoting customer loyalty) as
well as motivate others from uncovered areas to become clients. Lack of adequate
post disbursal follow-up including follow-up on repayment, non credit support
including skill development and exposure to best practices were affecting
repayment, it was concluded that concerted efforts including adequate human
resource development needs to be done for ensuring returns in context of a clear cut
vision for promotion of microfinance in any given area.

Thus, overall the research concludes that in order to maximise the positive
impact of microfinance practices and ensure sustainability of these practices both
financially and socially can be achieved with development of a clear cut vision
involving proper and timely pre disbursal planning which involves proper
manpower planning and product customisation involving non financial support and
post disbursal follow-up. This is expected to facilitate good returns and contribute
towards sustainability of micro credit function in overall microfinance practice. It is
also concluded that support for marketing is expected to result in multiplier effect
when all concerned stakeholders contribute in the overall effort. Providing such
support is expected to significantly influence repayment rates as well as
augmenting the propensity to save and insure at the community level. It was
concluded that the ability of wealth creation and equitable distribution (being the
basic indicator for sustainability in context of microfinance) at client level is
expected to be directly proportional to the credit and non credit support being
extended by the MFI's.