



## A STUDY ON AWARENESS, PROSPECTS, AND CHALLENGES OF MICROFINANCE IN URBAN AREA OF KAMRUP [METROPOLITAN] DISTRICT OF ASSAM

**Ms. Vandana Minda Heda**

*Research Scholar, Dept. of Business Administration, Gauhati University, Guwahati, Assam, India*

**Prof. M.K. Chowdhury**

*Research Supervisor, Dept. of Business Administration, Gauhati University, Guwahati, Assam, India*

### ABSTRACT

*The concept of microfinance in India is not new. Traditionally, microfinance flourished in India as an unorganized sector with private money lenders being the vehicle of loan granters. But this mostly did not lead the people to development/ social upliftment, rather pushed them into the vicious cycle of poverty. The answer to this was microfinance which not only helped them to get small loans but also improved their standard of living.*

*The present research work examines the contribution of microfinance program in promotion of financial inclusion in urban area thereby examining the prospects, awareness and associated challenges.*

*Though microfinance programs are run in a well organized manner in the rural areas through MFIs, government programs, banks, etc the urban areas still need a lot of attention. The poor in the urban areas are more or less deprived though their necessities are huge at least not less if not more than the rural areas. The problems associated with urban areas are also different like they do not live in groups / in one area and also they do not know even the people living close to them unlike a rural area which helped them to create groups like a SHG / JLG. An ample amount of literature on microfinance studies the role of microfinance inadvertently in the context of rural poor to the extent that microfinance has become synonymous with rural poverty. The new area that needed to be addressed in this study was that whether individuals can be granted MF loans and working of it's risk profile. So this paper examines the role of microfinance in urban setting of Kamrup (Metro) district of Assam.*

*Inclusive growth refers to ensuring that all phases of development (designing, implementation, monitoring, evaluation) include the whole population of economy. The paper evaluates the contribution of microfinance program in promotion of financial inclusion in Urban area of Kamrup (Metro).*

*The role of microfinance in promoting financial inclusion has been studied by undertaking both quantitative and qualitative methods.*

*A sample population of 435 constituting both beneficiaries and non beneficiaries from Kamrup (Metro) district of Assam has been studied. A conglomerative index of Financial Inclusion has been used to arrive at the Financial Inclusion status of each respondent. The index has been compared across beneficiaries of microfinance and non beneficiaries so as to come to a conclusion that beneficiaries of microfinance have better financial inclusion status than non beneficiaries.*

*The extent of association with informal credit markets is considered as having a negative and impinging effect on the aim of financial inclusion which is taken into consideration. So, incidence of informal borrowing in the last three years have been studied and the comparison is done.*

*The influence of various socio economic factors like occupation, age, income etc on the status of financial inclusion of the respondent has also been studied.*

*To study the Category II, a research design based on case studies and qualitative research methods was adopted.*

*A clear association with higher levels of FI index and microfinance membership was inferred. Results indicate that a majority of MF beneficiaries are medium level financially inclusive.*

*Microfinance has been successful in addressing barriers to financial inclusion to the extent that a skewed geographic growth of Microfinance is observed in the study. There is a need to make under-served areas more attractive for MF providers, for the microfinance sector to play a role in providing financial inclusion. An analysis of the spread of microfinance services vis-à-vis that of banking services revealed the extent to which microfinance programs fill gaps in banking sector services and it was found that Microfinance has made considerable progress in increasing access to Financial services / Financial Inclusion in Kamrup (Metro) where penetration level is relatively low.*

**KEYWORDS:** *Financial Inclusion, FI Index, beneficiaries, provider level, SHG/JLG*

## INTRODUCTION

Finance is one of the most important things to fight poverty and provide opportunities. Financial inclusion is one of the most treasured strategies in India. Our monetary arrangement has dependably been driven by a basic plan of a practical and comprehensive development. The concept of financial inclusion was first introduced by the Governor of RBI Shri Y.V. Reddy in 2005. Financial Inclusion means process of ensuring access to appropriate financial services to all the sections of society such as low income groups and weaker section at an affordable rate.

So, microfinance can be a crucial instrument of inclusive growth. Over the last two decades, microfinance has evolved into a thriving global industry and also one of the fastest growing industries in the world. Microfinance is not a panacea which removes poverty in one go, nor is it a new form of money lending to exploit the poor. Microfinance helps a poor borrower who can use a tiny loan to start a sustainable business, generate more income and over a period of time, come out of poverty. This kind of outreach work could not be done by traditional banks, and hence required a new set of dedicated institutions- the MFIs. Micro finance emerged as a noble substitute for informal Credit and an effective and powerful instrument for poverty reduction among people who are economically active but financially constrained and vulnerable in various countries.

PM Narendra Modi in his maiden Independence speech on 15<sup>th</sup> August, 2014, touched upon a major drive that the government is planning on financial inclusion, marking a landmark leap towards propelling the economy for an all inclusive growth. Economic theory endorses a direct relationship between investment and economic growth to saving rate. It is implied that financial exclusion of a vast majority represents a missed opportunity of an enormous potential for economic growth. So far financial inclusion was doing rounds among only the economists. It's for the first time that the government has taken a real and robust step towards achieving financial inclusion.

As a result, Government of India unveiled breakthrough financial inclusion initiative 'Pradhan Mantri Mudra Yojna (PMMY)'. Some other initiatives by government to fund the unfunded include Pradhan Mantri Jeevan Jyoti Beema Yojana (PMJJBY), Pradhan Mantri Jan Dhan Yojana (PMJDY), Atal Pension Yojana (APY) and Pradhan Mantri Surakhsha Beema Yojana (PMSBY) etc, to name a few, for the small businessman, weaker section, low income groups and micro enterprises. Hon'ble Prime Minister Shri Narendra Modi on 8<sup>th</sup> April, 2015 stressed further on financial inclusion with the introduction of MUDRA bank. It is also known as the Mudra loan scheme. This scheme is available from all bank branches across the country.

In India, the main problem that acts as a hurdle for the development of entrepreneurship is financing. Major problems faced by micro enterprises, small business and entrepreneurs include financial literacy, lack of information, lack of financial access, entry level policies, lack of infrastructure, high cost and technological barriers. In budget speech 2015-2016, according to Finance Minister Shri Arun Jaitely, there are about 5.77 crore small business units and micro units, majorly sole proprietorship which are involved in small manufacturing, trading or service businesses. 62% of them are held by the Scheduled Caste, Scheduled Tribe and Other Backward Class. For these weaker sections and low income groups, it is difficult to approach financial services and credits easily.

As microfinance programs in India typically caters to low income financially excluded households, it is fast emerging as a possible means to expand access and boost economy.

Provision of financial services to low income segments of the population is particularly challenging. Microfinance specifically addresses this very segment, making such programs very useful in promoting financial inclusion.

Hence, inclusive growth is an important means for correcting regional imbalances and inequitable distribution. By inclusive growth, we mean that growth process which benefits all sections and all regions of the economy, though not in uniform manner.

## RESEARCH METHODOLOGY

The primary objective of this research is to assess the implementation of microfinance in the urban areas with special focus on Kamrup (metro). The idea is that microfinance in this decade needs no introduction and is run as an organized programme in the rural areas. The reason is that in the rural areas people stay in groups and easier to make a SHG/JLG which is the main concept of microfinance and hence easier to implement. But the problem arises when the same has to be implemented in the urban area which is far less organized, with less people knowing each other in the neighborhood. Moreover people are not ready to support each other when it comes to joint liability in repayment. But this segment too needs microfinance equally if not more. So, to address this question is the biggest challenge that microfinance is facing today.

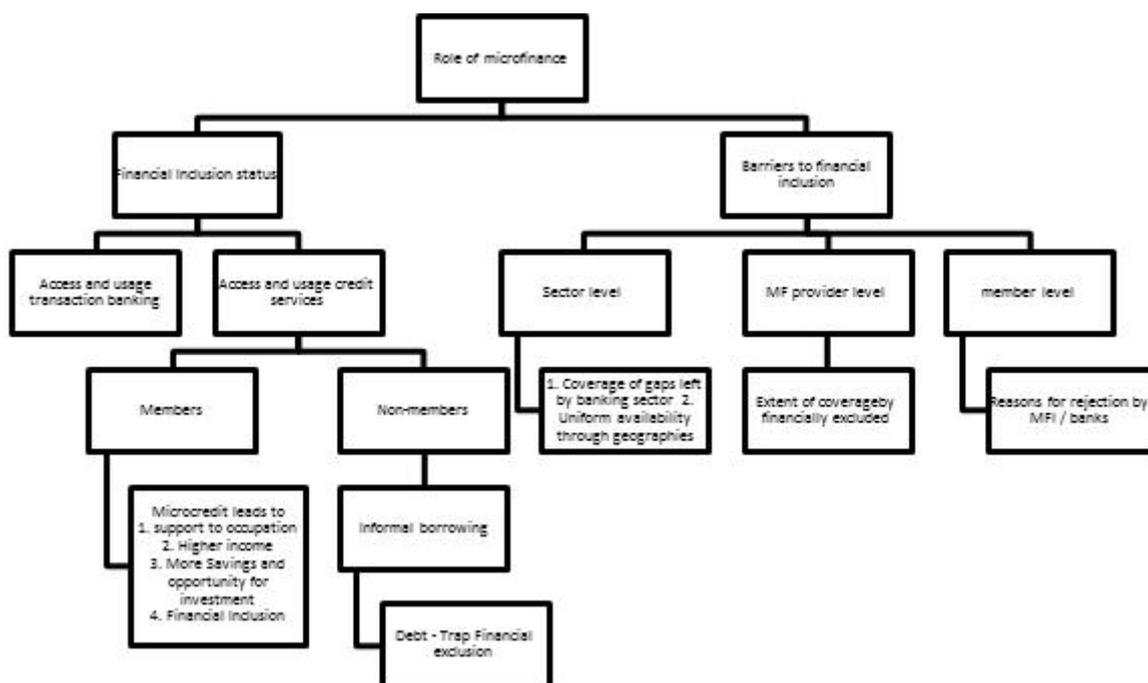
The role of microfinance in promoting financial inclusion has been analysed under two dimensions:

Dimension I : Comparative analysis of financial inclusion status of beneficiaries of microfinance vis – a – vis non beneficiaries (Quantitative Research)

Dimension II : Analysis of role of microfinance in lowering barriers to financial inclusion (Qualitative research using case study method)

The paper develops a framework for analyzing the role of microfinance in promoting financial inclusion and is shown in the figure below:

**Figure: Framework for analyzing Financial Inclusion**



This framework / flowchart is used in developing the research questions, analyzing the data and structuring the implications and conclusions. The extent of association with informal credit markets is considered as a negative and impinging on the aim of financial exclusion. (Thorat, 2007; )

Financial Inclusion has been monitored in this study in two ways:

- (a) Exclusion from payments system i.e. not having access to a formal financial service
- (b) Exclusion from formal credit markets, requiring the excluded to approach informal and exploitative markets.

Whether the MF providers are efficient enough in facilitating financial inclusion and keeping away from informal financing has been examined.

Referring to the two focus of this study are as follows:

- (A)The first focus of this thesis requires quantitative deductions. This is a comparative analysis between beneficiaries and non beneficiaries of microfinance with respect to their status of financial inclusion and borrowing pattern. A sample population of 435 have been studied (both beneficiaries and non – beneficiaries of MF) taken from Kamrup (Metro) district of Assam.
- (B)The second focus of the study addresses how microfinance has been successful in lowering barriers to Financial Inclusion and what is the awareness level amongst the urban poor. A research design based on case studies and qualitative research methods was adopted.

The lines of enquiry followed were at the sector level, at the microfinance provider level and at microfinance beneficiary level. For clear understanding, it can be elaborated as below:

- (i)At the provider level, banks and MFIs were considered which included interviews with 26 senior officials [21 banks and 5 MFI] and thirty field staff. Senior officials were mostly head of institutions. Microfinance provider level research examines the

extent to which commercial banks and MFIs cover financially excluded.

- (ii)At the beneficiary level, low income families [mostly women and some men] were interviewed. Beneficiary level research seeks to know the reasons faced by low income people for rejection by CB / MFIs. It also examines the awareness level.
- (iii) Sector level research is a secondary research and examines the coverage of gaps left by commercial banking sector and geographical barriers to spread microfinance.

The study aims to probe into the following specific **research questions:**

- (i)What is the status of Financial Inclusion of the poor living in Kamrup (Metro) which is an urban area?
- (ii)What socio-economic factors determine the level of Financial Inclusion / exclusion?
- (iii)How far Microfinance has succeeded in addressing the barriers to Financial Inclusion?
- (iv)What are the risks and challenges associated with microfinance in Urban Assam?
- (v)Whether the MF providers have managed to create sufficient awareness / confidence amongst the urban poor?

**Sampling design and data collection**

The study requires samples for studying two dimensions: [Refer fig: Research framework]

- I.For studying the Financial Inclusion status
- II.For studying the barriers to Financial Inclusion

Sampling for Dimension I:

Multistage sampling was done to select the samples. Sampling has been done in three stages as discussed below:

**Stage 1:[Selection of sub-districts]**

- 1. The first stage of sampling consists of selection of highly populated regions of the district for conducting the study. A region with high population will also have a high population of poor. This is

more true in case of urban poor who tend to flock near densely populated areas to have more employment opportunities. So, to ensure that a true representative, sample has been taken, regions with highest population has been selected in decreasing order.

The Kamrup (Metro) district [the district under study] has a population of about 12.5 lakh and is Assam's ninth most populous district. Total geographical area of Kamrup Metropolitan district is 955 km<sup>2</sup> and it is the smallest district by area in the state. There are 6 sub districts in the district, among them Dispur is the most populous sub district with population of about 5.3 lakh and North Guwahati is the least populous sub district with population of about 28000. [Census 2011]

The district has been divided into six geographic regions [sub districts] each of which constitute characteristic population density. These sub-districts are: Dispur, Guwahati, Sonapur, Azara, Chandrapur and North Guwahati.

Out of these six sub districts, top three namely Dispur, Guwahati and Sonapur were selected for this study. As per 2011 census, these regions are also the ones with large slum dwellings.

### **Stage 2:[Slum area selection in the three sub-district]**

Each of these three selected regions have a dense and overcrowded slums of poor people. So, from each of the three sub-districts, areas (indicated by the size and age of the market place in that area i.e. larger and the older the market, the larger the population of poor in that area) were selected. So, the areas with high level of commercial activities were selected. It was found that most of the population of urban poor consists of people who have migrated from other districts, states ( North Bengal mostly like Koochbehar, Alipurwar, etc and Bihar), country (Bangladesh and a handful from Nepal) in search of livelihood and are engaged in petty jobs with minimal wages and therefore they tend to throng near old commercial centres as their skills match with the requirement of conventional businesses.

The area around the following commercial centres were selected from each of the three selected regions. These areas are also known for their Bastis or slum settlements. Even though an effort was made to select equal number of samples from each area, that was not possible. So more samples from populated region and vice-versa was done.

### **Stage 3: [Selection of beneficiaries and non-beneficiaries from Bastis]**

The study requires data from both beneficiaries and the non beneficiaries. In the pilot study, it was observed that the probability of finding a microfinance beneficiary at random in a colony of urban poor / slum was low. So the beneficiaries of microfinance were fetched through an organized effort in collaboration with the microfinance institutions / banks. Microfinance Institutions / banks with their customers (conventionally referred to as members / beneficiaries) in these areas were approached. The Head of the Institutions were approached and after convincing them that it is a research meant for academic purpose and a written declaration protecting misuse of any information, appointments with field officers were fixed who were the ultimate touch points with the customers. The field officers / agents helped to reach the members in each of the locality during their weekly group meetings. Non beneficiaries of MF were selected from the

same locality and from the neighbourhood of the beneficiary. This ensured that they belonged to the same socio economic class for a level comparison between beneficiaries and non beneficiaries.

**However, later during the course of study, even during random visits, several beneficiaries of MF were located.**

### **Sampling for focus area B:**

The second focus of the study which probes into the success of microfinance in addressing the barriers to Financial Inclusion calls for a 'case study' approach.

Why case study method is selected?

The research questions necessitate in depth coverage of aspects relating to the evaluation of the role of MF providers in promoting financial inclusion, an aspect that is not readily observable. As this necessarily involves complexity, qualitative research suits the research objectives of the thesis.

Creswell (2007) advocates use of qualitative methods "when we need a complex detailed understanding of the issue". According to Creswell (2007), the use of multiple source of data is an important characteristic of qualitative research. In particular for case studies, he mentions that data collection is typically extensive drawing on multiple sources of information. So, data collection was done at three levels.

First, for the indepth interviews with senior executives, data analysis involved transcription of interviews, thematic analysis and presentation in the form of a discussion. As the interviews were few in number, data reduction was not required. A matrix display showing areas of agreement and disagreement in views of senior executives helped in conclusion drawing.

Second, for the field officer interviews, the detailed comments of each field officer were transcribed on individual copies of the question format. As these were 30 in number, numeric codes were assigned to expected responses for each question at the time of framing the questionnaire. When new categories of responses emerged, additional numeric codes were assigned by the researcher. Each questionnaire with the associated codes for each question, was then entered into a Microsoft excel sheet. Using the pivot table function the frequency of each code was counted for each question and the responses were organized into tables. The pivot tables were then summarized and are presented.

Third, for the in-depth interviews with low income families [ women largely], data analysis involved transcription of the interviews and thematic analysis. Pattern of behavior were identified across cases which enabled identification of distinct "categories" of members in each model resulting in data displays in the form of boxes(which highlight particular individual cases) and tables (which provide comparisons across cases).

## **INDICATIONS AND FURTHER INVESTIGATION**

**General Indications [applicable to both urban and rural areas]: Field study conducted with various banks / MFIs:**

To understand the prospect of Microfinance in Urban Assam (to be precise Kamrup Metro), visits have been made to some commercial banks (HDFC, Axis, IDBI, Kotak, Standard Chartered, ICICI, SBI, AGVB, Bandhan, NESFB etc) NABARD, NEDFi, MFIs (RGVN, Bosco Reach Out, Procesta, Nightingale,etc) who are operating in this segment.

The highlights in terms of their operation [these are not backed by any quantitative analysis, these soft issues were indicated during the course of discussions] are as follows:

- a. The first most important agenda to boost the economy and social upliftment is to push the throttle of microfinance across all cylinders. In a country like India with huge population, this cannot be done through a handful of MFIs or a few microfinance focused banks like Bandhan/ NESFB/ AGVB, etc. It has to be done through every bank and every branch which seems to be a major concern area.
- b. The banks which have entered the microfinance segment has taken a “credit-plus” approach, where the focus has not only been on providing credit but also to integrate it with other activities like savings, insurance, etc.
- c. Most MFIs/ banks want to provide loan to women only. However, some are into financing to men also. This indicates that women are probably seen as more responsible counterparts in the families and also that credit extended to them would be used for productive purposes. The recent survey in the urban area indicates that MFI loans are also provided to men.
- d. Even today most mainstream commercial banks are rigid on having a bank branch at the loan location (at least at 5 Kms radius). This is a major hindrance to the growth of microfinance in a state like Assam through banks. There are very remote areas where the banks offering microfinance do not have a branch, but these are the areas where such credits are most required for the growth of the economy.[This problem area was discussed by the authorities of Bosco Reach Out which is an MFI in reference to some remote area like Karbi Anglong, etc]. Almost all banks have a branch in Kamrup metro, so this is not a problem area.
- e. The above also clearly indicates that many commercial banks / some MFIs are not very passionate and positive about providing micro credits. Had this not been the case, they would have utilised every opportunity / options of other bank branch network and other alternate arrangements to penetrate deeper into the micro markets of Assam. It is important to note here that some MFIs like Bosco Reach out has confirmed that on several occasions they have visited a bank in remote area which is linked to their area of operation was found closed even on weekdays without any reason [ it was not a holiday]. On checking with bank officials, it was confirmed that the closure was due to lack of staff.  
In such cases, the problem is that when people visit the bank crossing 50kms and find that the bank is closed on a working day, it demotivates them to use the bank services and go to private money lender. This is a problem typically associated with rural area. However, since this was very important, special mention of the same has been made in the research work.
- f. In today’s age of technology, this is one area in which MFIs are totally lacking. The use of ATM,

mobile banking, etc are totally unexplored areas. If not in the rural areas, at least this can be started off in the urban areas and then trickle down to the rural areas. This can definitely bring a big revolution in micro finance.

- g. Microcredit, unlike other financing options is not only providing financial support, but also involves handholding by way of proper training and moral support. In a state like Assam, where culturally people are very honest and simple, until and unless MFIs and banks design their product backed by these softer issues, it cannot be successful.
- h. As per Newton’s first law of motion (Popularly known as “Law of Inertia”), to change the state of a body, extra force needs to be exerted to overcome inertia. Similarly in Assam, to break the inertia of traditional methods of lending and to start microfinance in top gear, so that a basic turnaround in economy is affected, people need to be motivated, educated and supported to understand the value of microfinance.
- i. One area which needs to be highlighted is the need for “Exchange Programs”. Though bank like SBI is trying to doing this once in a while, but this should be made a practice, either promoted by institutions or should be aided by the state governments. In such programs, good practices are exchanged and replicated and lessons are learnt from the mistakes of others.

For most commercial banks in Assam, this is a highly unexplored and neglected segment.

All the eight areas highlighted above clearly indicates a huge warehouse of opportunity available in the microfinance segment waiting to be tapped

### **FURTHER INVESTIGATIONS**

As in almost any analysis, more data and further analysis would increase the quality of the result. Pilot survey of 10 banks and 3 MFI and 112 individuals have been done in the first phase. Banks and MFIs operating in Kamrup metro are to be covered in the study. Some case study will be under taken to draw concrete conclusions.

### **CONCLUSION**

#### **Results of limited field study: To check level of awareness**

The conclusion drawn from field study are as follows:

1. In case of respondents living in a group in the slum areas, seems to have heard about microfinance in some point in time or other. But for individuals, who are isolated did not know about it.
2. The slums itself form a close knit group. And they try to form a group [mostly of 10 people] with joint liability. They were aware that funding can be done through joint liability group only.
3. In this joint liability group, the participants are only women.
4. Could not come across a group with male members participation. In fact the respondents were informed that this type of loan is for women only and men could not participate in it.
5. Have not come across a single funding to individuals.
6. Out of 112 respondents, 87(78%) have visited the bank in some point in time or other. However 25 (22%) respondents never visited the bank.

7. Out of 112 respondents, 53% availed a loan.
8. All respondents were hesitant to visit the bank. Primary reason which they cited was lack of time during banking hours, hesitation as they are not educated and also discouraging behaviour of the bank officials.
9. None of the respondents preferred private money lenders vs. Banks for their financial needs. They all understand that rate of interest charged by private money lenders is exorbitant.
10. 39 out of 112 respondents (35%) heard about the Prime Minister Jan Dhan Yojna, but did not know how to avail it.
11. None of the respondents want to avail this facility by visiting the bank. When questioned whether they would be willing to avail the same, if bank officials visited their work premises and provided them, the answer was a “ YES”
12. On asking some of the respondents to visit the nearby banks and ask them to enquire about the PM JDY, it was found that illiteracy , social status and lack of confidence were major obstacles. Also the behavior of bank officials was not welcoming to this section of people
13. The banks which deals with microfinance like Bandhan, Ujjivan, NESFB, etc are proactively and aggressively entering into the unexplored segment. Everything for the beneficiaries are being provided at their doorstep and they do not have to visit the bank. The respondents are very satisfied with them and consider them as their friend. The field officers seem to be very proactive, well –trained, encouraging and arrange to get their loans sanctioned with 7-9 days. The ones who availed the loan had to visit the nearby branch only at the time of disbursement where the field officer was available to help them.
14. The idea is that, there should be enough motivation from the commercial bank’s side to encourage people to visit banks. There could be a separate cell for the same. And sufficient advertising should be done through the media or other means to make people aware about the same.

However, in the next phase we will be visiting the specific slum areas of Guwahati which are adopted by various banks / MFIs and where the people have knowledge about MF, to get more insight on the area under study.

### **Prospects of Microfinance in urban Assam [kamrup Metro]:**

The visit to various banks and MFIs and interviews with small vendors (eligible for microfinance) reflect a huge prospect for microfinance in Assam.

- (i) There is a huge segment which is naive and open to microfinance segment which is yet to be explored.
- (ii) In urban Assam, there is still a huge gap between the people who are eligible for MF and between those who are being offered. This gap needs to be closed and MF must reach the actual contenders. As urban Assam was never the focus of banks / MFI and even government scheme like PMSGY and NRLM, this is a totally unexplored segment. With the introduction of NULM and Mudra bank, the focus has also shifted towards the “urban

individuals” who want to avail microfinance. Banks like AGVB and many MFIs have also started seeing value in it and started investing in the same.

- (iii) There is still a hesitation in the minds of the people in this part of the country, where people are simple at heart and unaggressive in their minds to visit the bank. Sometimes, it is due to lack of time during banking hours, but mostly due to discouraging behaviour of bank officers. If this barrier is removed, this opens up huge opportunity.
- (iv) Knowledge needs to be imparted to people about Prime Minister Jan Dhan Yojna and also about the recently launched Mudra Bank, NULM, Weavers Credit card [AGVB], Sulabh card [ AGVB] which can open flood gates of avenues in the microfinance segment. Some of these still seems to be unexplored.
- (v) Most important point that was noted was that people did not understand the term ‘microfinance’ For them “Bandhan”/ ‘Ujjivan’ was synonymous with microfinance. Most of the people were aware about Bandhan and Bandhan officials have done a commendable job in reaching out in the slum areas.

### **Major Challenges in implementing Microfinance in Kamrup Metro : [Through discussions / in-depth interview with Senior officials mostly Head of the Institution of MFIs and Banks]**

- (1) One major challenge for the microfinance sector, especially in Assam today is the introduction and implementation of innovations such as new technology. These technologies make, many not so easy activities of microfinance simple, thereby reducing the costs (which is very high due to tiny nature of loans). But like the other side of the coin, these technologies are often outside existing regulatory framework, simply because they are so new.  
So, to implement them for the success of MF on the one hand and keeping them within the regulatory framework on the other is one major challenge.
- (2) Another major challenge is ensuring a dedicated ‘microfinance cell’ in *every bank*. This implies that it is not enough to have a microfinance cell in every bank for name sake. It is very important that it operates in spirit so that it not only benefits the poor, but grows as a profitable segment for the bank. This cell should explore the benefits of microfinancing for the bank, educate people on the value of these schemes and provide required support for the same.
- (3) There are major differences between urban and rural supply of financial services, with urban supply still representing a major challenge. The rural population though hard to reach as it is in remote areas or spread thinly in a certain area, but is more organised than the urban area. Moreover microfinance products are mostly focused on the design requirements of rural area with urban population still facing a major challenge. Though expansion into rural areas is especially important because of generally higher incidence of poverty in rural areas, but neglecting the poor of the urban unorganised sector is not an option either.

- (4) As per the law of chemistry, a catalyst is required for chemical reaction. Similarly, for microfinance to progress in a new environment – the naive urban unorganised sector, it is important that a favourable environment is required to act as a catalyst. The enabling environment must be supportive to microfinance. To extend this discussion further, it would mean, the right political and regulatory environment for MF institutions / banks to flourish.
- (5) In terms of women, who want to avail microfinance, the problem even today faced by them is to get the consent of their spouse to move out of the house and to participate in social activities. And also sometimes not having complete documents like Pan Card, Adhar card or Voter's ID card act as a major challenge.
- (6) Illiteracy or lack of education cause lack of self esteem / confidence in decision making and also in maintaining accounts.

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