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RESEARCH ARTICLE

MICROFINANCE SECTOR TOWARDS RURAL DEVELOPMENT IN NORTH EAST INDIA

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ABSTRACT

Microfinance refers to the provision of various financial services like savings, credit, money transfers, insurance etc. in small doses for the poor to enable them to raise their income levels and improve living. Microfinance and microcredit playing an important role in developing the rural areas by providing loans to people at lower interest. It has been recognized world over as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor particularly women. The present research paper describes the role of Microfinance sector in uplifting the conditions of people who are living in rural areas. The study as well, focuses on the major challenges that microfinance is facing in the NER of India. A number of agencies- Government as well as Non-Government Organizations-(NGOs) are, today involved in micro-finance development initiatives. The microfinance-SHGs have a great bearing on women empowerment.

INTRODUCTION

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. From a global perspective micro finance has entered a sustainable phase after the global financial crisis. It has also expanded over the years. India also has woken up to recognize the role of Microfinance. It is an economic development tool whose objective is to assist the Poor to work their way out of poverty. It covers a range of services which include, in addition to the provision of credit, may other services such as savings, insurance, money transfers, counseling etc. The United Nations Year of Microcredit in 2005, the award of Nobel Peace Prize to Mohammed Yunus, and the performance of Grameen Bank till 2009 gave considerable public recognition to microfinance as a development tool and attracted world attention.

Microfinance stands as one of the most promising and cost effective tools which fight against global poverty. The microfinance programme through SHG (Self Help Group)-Bank linkage has been launched by the government of India as a strategy of poverty elimination and rural economic development. The pioneering efforts at this has been made by National Bank for Agriculture and Rural Development (NABARD) which is vested with the task of framing appropriate policy for rural credit, provision of technical assistance banked liquidity support to banks, supervision of rural credit institutions and other economic development initiatives. Microfinance has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries and is regarded as an important tool for poverty alleviation The microfinance revolution, particularly the success stories of institutions like Grameen Bank in Bangladesh, Banco Sol in Bolivia, and Bank Rakyat in Indonesia, attracted several economists to study microfinance in the latter half of the 1990s.But in present days the economists are expressing concerns about the market oriented nature of the micro finance institutions in India. Microfinance sector has emerged as major strategy to combat the twin issues of poverty and unemployment that continue to pose a major threat to the polity and economy of both the developed and developing countries. The emerging microfinance revolution with appropriate designed financial products and services enable the poor to expand and diversify their economic activities, increase their incomes and improve their social wellbeing (Bennett and Cuevas, 1996; Ledgerwood, 1999). A number of agencies- Government as well as Non-government Organizations- are, today involved in micro-finance development initiatives

The role of microfinance in financial inclusion is recognized globally. In India also, Microfinance Institutions (MFIs) have

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considerably bridged the gap in financial inclusion. One of the financially excluded region of India is the North Eastern part comprising of the eight states of Assam, Arunachal Pradesh, Meghalaya, Mizoram, Nagaland, Manipur, Tripura and Sikkim. The region is made up of diverse ethnic groups, cultures and languages. In terms of banking, the region is the most financially excluded part in the country

REVIEW OF LITERATURE

Past studies of many researchers found that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997). A recent study by Emma Svensson examines microfinance movement for economic growth by exploring the linkages of microfinance, the financial system and economic growth. He found some evidence of the microfinance clients engaging in growth enhancing economic activities. There has been change in income and productivity in micro-enterprises and the economic sectors relevant to microfinance clients. He also found that the character of the informal sector seems to be inhibiting for micro-enterprise growth Dean Karlan, Yale University, IPA, Financial Access Initiative, MIT Jameel Poverty Action Lab July 2009 Abhijit Banerjee5 in his report he emphasizes on micro credit operations in Hyderabad, India's fifth-largest city. Spandana choose 104 areas of the city to expand into eventually, rejecting some districts as having too many construction workers more than 6,000 households between August 2007 and April 2008, and he concluded that the government and institutions needs take initiatives to strengthen the operations in rural and urban areas to improve the income status of lower income people.
Very few studies are conducted on microfinance at the NER level in India. Most of the studies focus on Self-Help Groups (Agarwal, Shalini 2007; Gopisetti, Rambabu 2007; Gaonkar, Maya Sairoba 2008; Sarkar, Soumitra 2008; Nagarajan, P.S 2009).

The North-East India remains a classic case of financial exclusion. Considering the poor state of the economy and its indicators in the region is actually appropriate to the growth of micro finance. Informal financial market in the North Eastern Region is widespread and diversely organized reflecting the creativity of local communities to meet their specific needs.

Objective Of The Study

- To examine the role of Micro finance sector in North East India.
- To know the conceptual aspect of microfinance and Self Help Groups(SHGs)
- To analyze the role of SHGs towards rural empowerment in the rural Economy of Assam of North East India.
- To study the impact of micro finance institution on women empowerment
- To assess constraints and challenges of micro finance sector in rural development
- Finally, conclusion, suggestion and recommendation.

MATERIALS AND METHODS

DATA SOURCE AND METHODOLOGY

The present study is both descriptive and empirical. This is based on group discussion among the beneficiaries with the help of well structured questionnaires and supplemented by secondary data whenever necessary. The relevant secondary data have been collected from books, journals, research paper, newspaper, NABARD'S Annual Reports, Other Government Survey Reports and related websites. The present survey has been confined to rural areas. Considering the availability of data, State level, District level and Block level information has been used for stratification purpose. A multi-stage sampling procedure was adopted for the investigation.

Microfinance In North East India (A Glance)

The Self Help Group and Bank Linkage Programme in India (SHG-BLP) is one of the key factors in the success of Micro Finance Programme and have emerged as the largest Micro Finance programme in the world. The North Eastern States which has started the programme during the late nineties shows a relatively high growth rate. In the initial years the programme had slow start and till the end of March 1999, the cumulative number of SHGs credit linked in the entire region was only 93 in number, which was less than half a per cent of the cumulative number of SHG credit linked in the country under the programme. During March 1999 to March 2013, the cumulative number of SHGs in NER increased from 93 to 877, i.e. a little more than four times while at the India level it was increased by seven times. It is seen that the performance of banks in providing credit to the SHGs has been good in the State of Assam and Tripura, while it is poor in other States of the region. It is quite interesting that Mizoram has experienced a very poor movement of SHGs (only 251 number of credit linked SHGs), however, the highest amount per group was lent in this state. SHG movement in Assam has gained momentum during the last two years. So far, 49237 SHGs has been credit linked to the extent of Rs.297.19 crore as on March 31, 2012. The RRBs has been playing a lead role in the SHG movement. During 2004- 05, the joint liability Group (JLG) concept was introduced to all the 5 RRBs in the State and 98 JLGs had been financed to the tune of Rs. 53.22 lakh by three RRBs viz. Subansiri Gaonlia Bank, Pragjyotish Gaonlia Bank and Langpi Dehangi Rural Bank which are presently known as Assam Gramin Vikash Bank. (*Source: Office of the State Coordinator, Self Help Groups, Meghalaya, Shillong).* The poor performance in the progress of micro finance is mainly due to the sparse population in this region, lacked of experienced NGOs for formation and nurturing of SHGs and lack of homogeneity in Groups in the respective States. The local institutions like Marup in Manipur, Village Development Boards (VDBs) in Nagaland, Village Darbar in Meghalaya, Kebang in Arunachal Pradesh and Young Mizo Association in Mizoram could be activated to further the SHG movement in the respective State. Compared to the rest of India the microfinance movement started late in the North Eastern States. MFIs have a network of10,074 branches with over 46,000 loan officers across 30 states and union territories in India. Among the North eastern Region Assam stands at 6% of the share in the Gross Loan portfolio (GLP).Manipur with 47.0% ,Assam\ with 9.1% and Sikkim with 5.0% from the North Eastern States are among the states with the highest growth rates along with other states like Himachal Pradesh with 39.5% Jammu and Kashmir with 16.2% and Delhi with 13.1% in the Q1 financial year 2014-2015 The top states in terms of loan disbursement are West Bengal, Tamil Nadu, Karnataka, Maharashtra and Uttar Pradesh for the Q1 of financial year 2014-2015 .These states accounted approximately 60% of disbursements (loan amount disbursed) by MFIs.

DISCUSSION AND RESULTS

The Players In Microfinance Sector

The players in the Microfinance sector can be classified as falling into three main groups.

1. The SHG – Bank linkage Model accounting for about 58% of the outstanding loan portfolio.
2. Non – Banking Finance Companies accounting for about 34% of the outstanding loan portfolio.
3. Others including trust, Societies, etc. accounting for the balance 8% of the outstanding loan portfolio.

Microfinance Delivery Mechanisms In The Ner

In India as well as in the NER, microfinance is basically delivered to the rural poor in three different models. Firstly, different public and private sector banks take initiative to form the SHGs with less than 20 members. Once the group is formed, each member of the SHG has to deposit small amount daily, weekly or monthly as per the group's decision. After some months, the corpus can be used for on lending among the group members. The SHG members have to meet bank staffs on regular periodic intervals and show their proceedings, internal books and accounts. The bank provides credit on the basis of accumulated savings, number of meetings and their internal lending. This SHG – Bank linkage model (Model 1) involves the SHGs financed directly by the banks viz., Public and Private Sector Commercial Banks, Regional Rural Banks (RRBs) and Co-operative Banks. One of the distinctive features of the SHG - Bank Linkage Programme has been very high on-time recovery. As on June 2005, the on-time recovery under SHG- Bank Linkage Programme was 90% in commercial banks, 87% in RRBs and 86% in cooperative banks. In the second SHG - Bank linkage model (Model 2), MFIs, SPHIs, federation of SHGs or Government organizations like NABARD, SIDBI, NEDFI etc. take initiative to form the SHGs. These SHGs are trained by the NGOs, SPHIs, MFIs or federation of SHGs and bank linkage is also done. The banks keep the savings of the group as collateral and the credit of the group corpus is linked to the amount of savings. After six months of regular savings, these SHGs become eligible to apply loan from the bank. Based on their savings corpus, number of meetings and internal lending, bank gives credit to the good SHGs. Once loan is sanctioned to the SHG, the concerned NGOs, SPHIs, MFIs or federation of SHGs take the entire responsibility to monitor the loan amount and their periodic installment payments. In the initial phase of the SHG movement, as the groups were formed by the NGOs or MFIs, the start-up costs were low for banks. However, over the years, banks have also evolved as SHPIs. In the process, the start-up costs of group formation, etc. have devolved on the banks, impacting their pricing policies. It is an accepted fact that banks will base their lending rate decisions on three important criteria - their cost of funds, transaction costs and the required spreads. While the sources of funds will determine the cost of funds, the transaction costs will depend mostly on the efficiency with which the transfer of funds is enabled. Banks need to recognize the cost elements involved in the decision making process while approving credit linkage and in maintaining the accounts of the group, throughout the repayment period. Considering the small value of loans purveyed to groups, the rate of interest charged will also be in the lower slabs, thereby earning on thinly spread margins. The other major component of costs, viz., risk costs, is intrinsically low in SHG lending and, therefore, could play a limited role in pricing of credit products for SHGs. In the third SHG - Bank linkage model (Model 3), the NGOs or MFIs helps in forming the SHGs, provide all necessary capacity building training and act as a financial intermediary. Bank supplies wholesale credit or subsidized credit to these NGOs and MFIs at rates which are cheaper compared to the rates at which the bank lends directly to the SHGs. The NGOs or MFIs lends to the SHGs at the same rates as the banks charges under Model 1 and Model 2. The SHGs get the funds at the same rate irrespective of the model of operation. In some cases, we find that the interest rates charged by NGOs or MFIs are higher than the bank rate charged under Model 1 and Model 2. The NGOs and the MFIs are allowed to earn a small profit in order to cover their operating costs and maintain financial sustainability. SHGs are having close relationship with the banks. Each of the SHGs open savings account in the name of the informal entity called "SHG". Bank loans are available to the SHGs as multiples of pooled thrift after 6 to 12 months through a rating process developed by NABARD or based on their own assessment. Rating of SHGs is done to appraise group dynamics, financial intermediation, governance and management. The SHG group dynamics is assessed in terms of meetings, attendance and fines. The financial intermediation is assessed in terms of regularity in savings, loans, repayment. The governance mechanism of the SHG is measured in terms of the groups' transparent decisions. The management capability of the SHG is judged in terms of quality of periodic proceedings, accounts and record of decisions taken. Thus, good SHGs become eligible for getting the loan. The weak SHGs will have to wait until their performance is good. The SHGs decide on how to use the loan, and set their own terms and conditions agreed upon by all members. SHGs receive collateral free loan from banks at commercial rates of interest, presently varies from 8% to 13% p.a. on reducing balance.

The Challenges Of Micro-Finance For Rural Development

The model adopted in India for disbursing micro finance to the lower income groups through Self Help Groups (SHGs) will have to be suitably modified if the eight states of the north-east are to be included in financial services. A study carried out by the Indian Institute of Bank Management (IIBM), Guwahati, Assam, and commissioned by Sa-Dhan, shows that the SHG movement has not caught on in some north-eastern states for reasons that are peculiar to the region. The Government of India has set up a special zone for the north-eastern region (NER). Each of the eight states of NER differs widely in terms of political and socio-economic environment. Almost 98 per cent of the land area in the NER runs along international borders with Bhutan, Bangladesh Myanmar and China. The state of the SHG movement varies from state to state, and within states from one district to another. The SHG movement is yet to take off in any major way in Arunachal Pradesh. In Manipur, too, it is not significant despite, or perhaps because, many traditional systems of organizing savings and lending still hold sway. The study outlines some of the traditional systems of savings and lending prevalent in the states in the region In Arunachal Pradesh, the lack of a banking network and the thin spread of population make the SHG model irrelevant. The few SHGs that exist are located in or around the capital, Itanagar, and the SHG model may not work here at all. We need to look at alternatives for this state, particularly low cost traditional institutions which utilize social capital and need not expand and scale up to be sustainable. Forming SHGs to fit the prescription of India"s apex development bank, NABARD (National Bank for Agricultural and Rural Development) is an uphill task and may involve heavy operational costs that will render them unviable. For instance, according to NABARD, any SHG must have at least 20 members, which seems difficult to manage in the remoter and difficult to access areas of the region where it may be tough to find more than five people to join an SHG. Suitable modifications have sometimes led to dramatic changes. In Mizoram, the number of SHGs linked to banks was low. This dramatic turnaround was due to the local chief of NABARD who taking into account the problems of the region, changed the focus of SHGs. In SHGs, the emphasis is on savings and credit is given later, after the banks have made their own assessment of risks involved. In Mizoram, the NABARD chief made it possible for SHGs to open accounts only when assured of a loan. That encouraged the formation of SHGs and their linkages with banks. Meghalaya was also the first state in which banks directly started SHGs. The state has 4,800 SHGs linked to banks. This has been possible because of the dedicated efforts of the state government that not only allocated resources for development, but also set up a department on SHGs headed by a committed bureaucrat. What is required is a multi-pronged strategy to overcome the many challenges the region poses. Banks, policymakers and NGOs - the major actors in the field of microfinance - must come together to think through suitable modifications in policy. Banks may have to change their system of assessing risks. There is need for capacity building and expansion of infrastructure. In some cases, the SHG model may have to be replaced by other models.

CONCLUDING REMARKS AND RECOMMENDATION

The functioning of Microfinance institutions in India is playing an important role in rural areas since last two decades. The growth of the MFI's in South India is very high as compared to other parts of India. The central government and RBI should take necessary measurements to increase the performance of MFI's in other parts of India especially Northerrn and Central India. The concern state governments also take necessary measurements to create awareness among people to use the services of Microfinance institutions to strengthen their Economical status and improving their livelihood. Microfinance playing a very important role towards the helping rural people and removing poverty to the poor people. But Northeast India the concept of microfinance still low level of their performance due to lack of literacy among the people, lack of awareness, communication gap, geographical constraints and lack of banking agencies in the region. The proper implementation of microfinance through SHGs may provide self-reliance to the poor people in North east region.

The foregoing analysis clearly reflects the SHG movement creates a new economic revolution in the lives of poor women by way of increasing the income. The microfinance-SHGs have a great bearing on women empowerment. It has become a ladder for the poor, particularly the women to bring them up not only economically but also socially, mentally, politically, educationally and attitudinally.

Despite of all round support from the Government, NABARD, RRBs, NGOs and members themselves, the conditions of SHGs in the state is far from satisfaction. The major reason is the integration of two incompatible programs, viz. SHG - banking, which is a commercial activity and SGSY, which is a grants/ subsidy based program. In the SGSY to get grants/subsidy, the groups have to shell out one-third to one-half of grant/ subsidy. Apart from these, the groups have to make a number of visits to the banks and promoting offices. The transaction costs too are substantial. To get their own share in the easy money, the members usually pocket the loan component and disband the group. Because of this reason, the recovery of SGSY loans is not only low but also declining further in recent years. Because of this reasons the banks are not positively inclined.

Microfinance sector in the NER is unexplored to a greater extent and their remains huge opportunity at the rural NER. There is an urgent need to take a coordinated government effort for the development of microfinance sector at DONER and overcome the challenges discussed in this paper. Looking at the successful model of SHGs in India particularly in the south, it is worldwide accepted that SHG movement can add a new dimension to the fight against poverty and underdevelopment in rural North Eastern States. To maximize the contribution of microfinance to women's empowerment it requires equality in access to all microfinance services with the help of non-discriminatory regulatory framework. To make the microfinance a grand success the poor women take initiative from their own and their male counterpart will fully extend their co-operation to empower the women and the NGOs should come forward to make aware and motivate the rural poor to be empowered through microfinance programme. . The proposal to set up a Micro Unit Development Refinance (MUDRA) bank to refinance microcredit will make credit affordable while helping the micro finance industry retain sound financials.

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