Microfinance and Rural Development in the North East India

Arup Roy
Assistant Professor, Dept. of Business Administration, Tezpur University. Assam, India.

Abstract

Nearly half the planet, some three billion people, lives on less than US$2 a day and nearly one billion live on less than US$1 a day. There are various efforts made to eradicate poverty worldwide and microfinance is one such tool. The power of finance to transform the lives of the rural poor is well understood when we look at the success stories of Gramin of Bangladesh, BRI of Indonesia and Bandhan, SKS Microfinance of India. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to find out the role of microfinance in rural development in the NER in terms of savings mobilization, loans disbursed, loans outstanding, non performing assets (NPAs) and recovery performances. An attempt is also made to explain the microfinance delivery mechanism in the NER and its opportunity at the Base of the Pyramid (BoP). Lastly we focus on the major challenges that microfinance is facing in the NER of India.

Introduction

Nearly half the planet, some three billion people, lives on less than US$2 a day and nearly one billion live on less than US$1 a day. There are various efforts made to eradicate poverty worldwide and microfinance is one such tool. The power of finance to transform the lives of the poor is well understood when we look at the success stories of Gramin of Bangladesh, BRI of Indonesia and Bandhan, SKS Microfinance of India. There are hundreds of evidences worldwide which shows that successful microfinance institutions have managed to implement financial service delivery mechanisms that meet the needs of the poor, at a lower cost than most accessible. The importance of microfinance in the field of development was reinforced with the launch of the Microcredit Summit in 1997. The Summit aims to reach 175 million of the world's poorest families, especially the women of those families, with credit for the self-employed and other financial and business services, by the end of 2015 (Microcredit Summit, 2005). 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 refers to the means by which poor people convert small sums of money into large lump sums (Rutherford, 1999). Microfinance started as "a collection of banking practices built around small loans (typically without collateral) and accepting tiny savings deposits" (Armendariz de Agion and Morduch, 2005). Microfinance though started in a small way to help especially to the poor has now turned into a global industry. Enormous hopes continue to be held out for microfinance as an instrument of poverty reduction; the Microcredit Summit of February 1997, it will be recalled, pledged itself, perhaps over-optimistically [Rogaly, 1997; Mosley and Hulme, 1998] to reach 100 million families, or one-half of the world's poor, with this one instrument alone before 2005. Initially though the skeptics considered achieving this goal to be impossible, but the number of borrowers who are among the poorest has increased to 106.6 million by the end of 2007, achieving the Microcredit Summit Campaign's original goal and representing growth in the number of very poor borrowers of 30% per year. Including the families of borrowers, more than 500 million of the poorest people are now benefiting from access to credit and financial services.

According to N Srinivasan's State of the Sector Report on Microfinance, published by Sage, over 800 microfinance institutions (MFIs) now operate in India, reaching out to over 140 lakh clients, with an outstanding cumulative loan of Rs 5,900 crores in small loans. Over

54 million clients from the Self Help Group (SHG) - Bank linkage programme and MFIs, today access microfinance services. The Indian microfinance sector has seen phenomenal growth in the last few years. In 2007-08 alone, MFIs have had a growth rate of 40 percent.

Considering the world success on microfinance, the Government of India has also taken some initiatives like:-

- Setting up of the Rashtriya Mahila Kosh to re-finance microfinance activities of NGOs
- Encouraging National Bank for Agriculture and Rural Development (NABARD) to set targets for the self-help group (SHG) - Bank linkage programme
- Emergence of SIDBI Foundation for Micro-Credit as a financier of microfinance institutions (MFIs)
- Setting up of Regional Rural Banks all over India
- The pronouncements of the Reserve Bank of India (RBI) from time to time -such as

(i) including lending to SHGs as a part of priority sector targets

(ii) exempting non-profit companies doing microfinance from registering as as an NBFC

(iii) permitting the establishment of local area banks (now withdrawn)

- Routing some poverty oriented schemes such as the Swarnajayanti Gram Swarozgar Yojana (SGSY) through SHGs
- The close linkage built by DWCRA schemes
- The initiatives of various state governments in promoting schemes such as Swa-Shakti (Gujarat), Velugu (Andhra Pradesh)
- Setting up of NEDFi specifically for the development of NER of India.

The central government has established all these bodies like NABARD, RRBs, Co-operative Banks, NEDFi to reach the rural poor and help them by providing the risk capital at a subsidized rate. The micro credit experience of the last three decades worldwide has shown that the poor can be as creditworthy as the rich. The poor's lack of collateral can be overcome with joint liability within a group of borrowers. This concept of this joint liability has resulted in very high repayment rates. Micro finance institutions have consistently reported repayments upwards of 95% in a number of developing countries. The NPAs of the microfinancial institutions are much less than that of the formal banking system. Thus we see that microfinance is emerging as a developmental tool worldwide for the rural poverty alleviation and if managed legitimately, can bring a positive socio-economic change to the society.

Literature Review

The relationship between the financial system and economic growth has been scrutinized by a large number of studies in India and abroad. Financial development is considered as a cause of economic growth (Schumpeter 1911; Hicks 1969). Hicks (1969) argued that without financial innovation the industrial revolution would not have taken place. The level of financial development predicts future economic growth and future productivity advances (King and Levine, 1993). King and Levine (1993) show that if financial deepening had increased from the mean of the slowest growing countries to the mean of the fastest growing countries, a country would have increased its growth rate by close to 1 percent per year. This accounts for a difference between the slowest growing countries and the fastest growing countries of around 5 percent. Improving the financial deepening variable would decrease the difference between the countries growth rates by 20 percent.

Greenwood and Jovanovic (1990) discussed how financial intermediaries may induce people to change their savings from unproductive liquid assets to productive illiquid ones and in this way promote capital accumulation. Financial intermediaries make it possible for small savers to pool funds and allocate them to the highest return investment, and then to provide capital for investing in costly new technology (King and Levine 1993; Greenwood and Smith, 1997). Innovative and appropriate financial intermediation may play a vital role in less developed countries to stimulate pro-poor growth and develop the financial sector as a whole. Thus, we see that a well developed, innovative and appropriate financial intermediation may facilitate growth that is specifically concerned with poverty reduction. According to Levine (1997) reported that a well developed financial system reduces information and transaction costs and influence saving rates, investment decisions, technological innovation and long-run growth rates. In this context, microfinance has emerged as a financial innovation tool to serve the millions of poor households that are out of reach of the formal banking and financial institutions. Microfinance is the result of financial service innovations which includes microcredit, microsavings, money transfer vehicles and microinsurance. It is a special kind of financial service designed to cater the needs of poor people who are unemployed, entrepreneurs or farmes who are not bankable.

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. Some studies argue that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997). "Microcredit is a critical anti-poverty tool and a wise investment in human capital. Now that the nations of the world have committed themselves to reduce by half by the year 2015 the number of people living on less than $1 a day, we must look even more seriously at the pivotal role that sustainable microfinance can play and is playing in reaching this Millennium Development Goal." (United Nations Secretary General Kofi Annan at Global Microcredit Summit 2006). The United Nations named the year 2005, the International Year of Microcredit and the founder of the Grameen Bank won the Nobel Prize for Peace for his efforts at empowering rural women through credit access in Bangladesh. The international community seems to have finally caught the microfinance fever. In recent years, Microfinance has branched out to incorporate private sector partnerships and integration with international capital markets. These trends mean that the worldwide estimated 500 million small scale entrepreneurs may soon have greater opportunities to become economic engines for lifting their communities out of poverty.(Nmachi Jidenma, 2007)

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 well-being (Bennett and Cuevas, 1996; Ledgerwood, 1999). 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.

In India also many studies are conducted by various autonomous agencies like NABARD, NEDFi, SIDBI, DRDA, RGVN etc. including RBI from time to time. These organizations practice microfinance. Most of the studies are on the impact assessment of the beneficiaries of microfinance. 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). Some studies are also conducted on poverty reduction and empowerment (Prakash, Jayasheela 2009). Some researchers have also worked on group based credit programmes (Sarangi, Niranjan 2008). There were many studies where the researcher has evaluated the performance of Regional Rural Banks (Abdul, Hadi (2005). Some studies were found to focus on the relationship between microfinance and micro-enterprises (Kanaskar, Mukesh Prabhakar 2008; Natarajan, Jeyaseelan 2007). In this paper we first explain the microfinance delivery mechanism and its opportunity at the Base of the Pyramid (BoP). Next we try to find out the progress of microfinance in the North East India in terms of savings mobilization, loans disbursed, loans outstanding and non performing assets (NPAs). Lastly we focus on the major challenges that microfinance is facing in the NER of India.

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 organisations 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 keeps 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.

Microfinance and BoP Opportunity

Global poverty is seen as both an unacceptable outcome of the current economic system and a threat to commerce and security in the wealthier nations (London, 2007). Generally, poverty is defined as the state of being poor or deficient in money or means of subsistence (Barker 1995). The most commonly used definition of global poverty is the absolute poverty line set by the World Bank in terms of Purchasing Power Parity (PPP). The PPPs measure the relative purchasing power of currencies across countries. Poverty is set at an income of $2 a day or less, and extreme poverty is set at $1 a day or less. This line was first created in 1990 when the World Bank published its World Development Report and found that most developing countries set their poverty lines at $1 a day. The $2 mark was created for developing nations with slightly better income levels than their $1 a day counterparts. This threshold is higher in middle and emerging high income countries, such as Malaysia, Singapore, and Kazakhstan. Globally, the BoP market is liberally estimated at $4-5 billion with thresholds much higher ($4-$5 daily income) than applied in the Asian context. The Nobel Prize winner Muhammad Yunus was capable of comprehending the experience of life at the BoP. He could also think of a creative solution and find out the market opportunities that exist at BoP in terms of credit to the poor women in Jobra in Bangladesh. This enabled him to appreciate that poverty was not defined in terms of daily income but instead by the experience of being excluded from the formal banking system. Microlending was not born from grand economic theory, but from listening attentively to poor people (Yunus, 2003). Bazerman and Chugh (2007) rightly commented that what we fail to see can hurt us. In other words, what we fail to see hurts our ability to do business there.

Defining Indian Poverty: According to the National Council of Applied Economic Research (NCAER) estimates on earnings and spendings during 2009-2010, the high income households in India outnumbered those in the low category for the first time in Indian history. According to the estimates, India has 46.7 million high income households as compared to 41 million in the low income category. Households earning less than Rs 40,000 per annum (at 2001-02 prices) are considered as low income, whereas those with earnings over Rs 1.80 lakh fall in the high income category. Those earning between Rs 45,000-Rs 1.80 lakh per annum are considered middle income households, whose number surged to 140.7 million out of the total of 228.4 Indian million families at the end of 2009-10. Thus we find there are huge business opportunities at the bottom of the pyramid and the corporate houses must come forward to tap this unlimited business space.

Table 1 : Poverty Estimates for Asia and Pacific (ADB's Developing Member Countries)

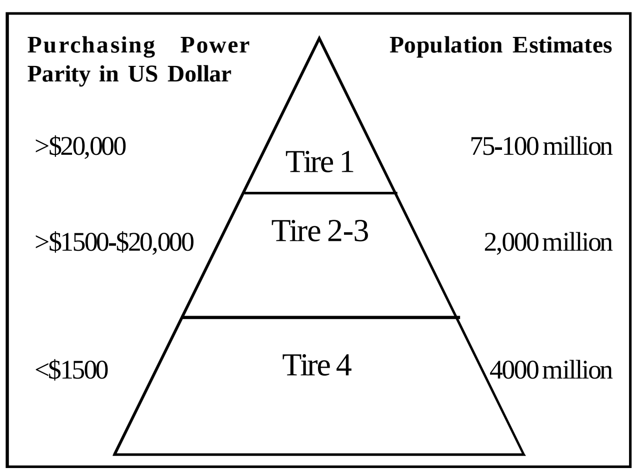
		Actual	Without Crisis		With Crisis	
		2005	2009	2010	2009	2010
Very Poor ($1.25)	Million People	903.4	666.2	586.5	719.4	666.2
	Percent of Population	27.10%	19.20%	16.7%	20.7%	18.9%
Moderate Poor ($1.25-$2.00)	Million People	899.2	860.9	844.9	879.0	872.8
	Percent of Population	26.90%	24.70%	24.0%	25.3%	24.9%
Vulnarable Poor (Below $2 Poverty Line)	Million People	1802.6	1527.1	1431.4	1598.4	1539
	Percent of Population	54.00%	43.90%	40.7%	46.0%	43.8%

Source: ADB (Dec 2009)

Defining a Base of the Pyramid (BoP) Business: The term BoP is developed by Hart and Prahalad at the Center for Sustainable Enterprise and now popularized by Prahalad's book entitled "The Fortune at the Bottom of the Pyramid". The BOP proposition argues that large companies can make a fortune by selling to poor people and simultaneously help eradicate poverty. It refers to the poorest people in the world in any community strata. These poor people had to pay more for the same food and products compared to the rich class. They tend to borrow at a higher rate of interest than the rich people and are usually underserved by financial markets and other basic livelihood services. This segment of the poor people still represents a huge market if affordable products and services can be offered to them as per their needs and requirements. We should be as practical and flexible as possible and seek to adapt to an ever changing world. BoP business entails not only selling to the poor but also provide the opportunity to the community to be involved in the company's strategic decision-making process. If that were the case, then cigarette companies would be the biggest legal BoP business in the world. Selling to the poor is a good first step to developing a BoP business, since it requires management to think about the target customer. It is thus a strategic decision about which customers are of interest to the firm. The uniqueness of this BoP business model is that it involves engaging the BoP community who are low income people in the company's strategic decision-making process. For example, a firm can sell shampoo sachets to the BoP but at the same time, educate the communities about the hygiene with community chiefs and NGOs.

Thus we see that the BoP businesses need to understand both the consumer and their community what Prahalad and Brugmann referred as 'co-creation'. Moreover, in this era of liberalisation, globalisation and privatisation, business is all about thinking globally and acting locally to sustain in this competitive world. The firms should think of working together as a BoP community with the customers, local NGOs and other private and government bodies.

Figure 1 The Unrealized Opportunity at the Bottom



Source: Prahalad and Hart (2002)

BoP relies on the philosophy that since business is a part of the community, a community should also be part of a business. This BoP community should be included in the supply chain management of the firm to add customer value and differential advantage of the product. BoP community members can create a value chain by offering their local knowledge and contacts to the focal firm. The BoP community members may be business partners, employees, retailers or distributors of the focal firm. This would certainly stimulate the inclusive community growth with a lower operating cost and higher customer value and above all increasing opportunities to pull oneself out of poverty. In this context microfinance can play a vital role and help the community members to empower themselves. The NER is no exception and also satisfies the BoP proposition. Thus microfinance may be used as an overall community development tool and trap the unlimited opportunity at the BoP of the NER.

MFIs and SHGs for the Development of NER

MFIs and SHGs are instrumental for the development of the microfinance sector. Both the MFIs and SHG numbers and business turnover are increasing at a faster pace. Self Help Groups, or SHGs consist of a group of 15-20 people who come together with the objective of creating a financial cushion in times of individual or collective exigencies. The concept of SHG was introduced in India by NABARD in 1992, inspired by its success in Bangladesh. Today it is the largest rural development programme, going on with the active cooperation of NABARD, DRDAs and NEDFi. SHGs also promote independent thinking and inculcate a sense of responsibility since the money and effort involved belong to the members themselves. The primary aim of setting up SHGs was to address the problem of rural unemployment, remove disillusionment among youth and bring them back to mainstream from the path of militancy, he said. Moreover, gradually the young and educated unemployed rural population are equipping themselves to take up income generating activities by organising themselves into SHGs. A survey conducted by Nanda Talukdar Foundation found out that Upper Assam has benefited more from the state government initiative even though the actual intent was to benefit Lower Assam. Further reading of the article brings to front the need for increased planning and study of demographics to ensure that resources are targeted properly and benefit more people with lesser wastage.

NABARD emphasizes growth of strong and efficient SHGs internal loans to its members for productive purposes, irrespective of APL (above poverty line) or BPL (below poverty line) families. DRDA, under its Swarnajayanti Gram Swarojgar Yojana (SGSY) emphasizes on the growth of SHGs among BPL families for fulfilling the objective of poverty alleviation. NEDFi, under its micro-finance scheme, lends a minimum of Rs. 20000 and a maximum of Rs. 4 lakhs to an SHG with good record for on-lending to the needy for taking up productive activities. Prime lending rate and administrative charges are decided by NEDFi.

The SHG movement in southern states of India has been successful to a great degree in uplifting the socio-economic conditions of the down-trodden, which can also be achieved in Assam provided adequate encouragement is provided. The Andhra Pradesh Government had taken up the theme of women's empowerment (through SHGs) as one of the strategies to tackle poverty. All villages in the state have atleast one SHG and 75% of the villages have 15-20 groups in each. Nearly 60% of the women took up activities like vegetable and flower cultivation, food crops, pulses and oil seeds cultivation on leased land. Small business activities, handicrafts and handloom products making etc are also taken up by 25% of the poor women force. The SHG movement in Andhra Pradesh has helped significantly in reducing rural poverty to 11% by 1999-2000. Of late, the movement has started to show similar signs in Karnataka and Tamil Nadu.

SHG-Bank Linkage Programme, since its pilot in 1992, has emerged as the leading micro-Finance (mF) programme in the country. It is recognized as an effective tool for extending access to formal financial services to the unbanked rural poor. Encouraged by the success, the programme has been adopted by State Governments as a major poverty alleviation strategy. It has also led to the emergence of Micro-Finance

Institutions (MFI) as a bridge between the banking sector and the rural poor.

During the year 2008-2009, 10,81,474 SHG were credit linked with banks and bank loan of Rs.11,131.74 crore (including repeat loans) disbursed taking the number of SHG credit linked to Rs.47,07,415 SHG. As on 31 March 2008, 50.09 lakh SHG maintained savings bank accounts and had savings worth Rs.3,785.39 crore. The programme has covered more than 7 crore poor households, making it the largest mF programme in the world. The overall progress of the mF programme is given in Table 2. Actual Number of MFI provided with bank loans would be lower as several MFIs have availed loans from more than one bank.

Table 2 : Progress of the SHGs & MFIs (As on 31 March)

Particulars	Self-help Groups 2007		Self-help Groups 2008		Microfinance 2007		Institutions 2008	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Loans Disbursed	11,05,749	6,570.39	12,27,770	8,849.26	334	1,151.56	518	1,970.15
Loans Outstanding	28,94,505	12,366.49	36,25,941	16,999.90	550	1,584.48	1,109	2,748.84
Savings Accounts with Banks	41,60,584	3,512.71	50,09,794	3,785.39	…	…	…	…

Source: State of the Sector Report 2008-09.

SHG movement has unfortunately started very late in the North Eastern States. Among the NER, it was first implemented in Assam. Since 2000, a sizeable number of SHGs have started to crop up in almost every district of Assam. Of the total 66125 SHGs in the state in mid-2003, Sonitpur and Kamrup districts had 15000 and 7000 respectively. But only 4000 SHGs have accessed institutional credit till March 2003. Banks are still apprehensive of loan recovery. NGOs with professional skills are not coming up in this state. At present, the 66125 SHGs roughly cover 1 million people in the state. The need is to cover at least 14 million poor and nearly poor population. The credit needs of the poor are very small. What they need most are guidance and support. Group savings can meet only the members' recurring demand for small loans for consumption and other contingent needs.

The funds available to the SHGs are very negligible. Most of the SHGs find it difficult to maintain their accounts properly. Formal training in this respect will be of immense help. Products of SHGs lack market exposure. Some people form SHGs in order to satisfy vested interests, distributing the revolving fund of Rs 10000 among themselves. Even though, SHG is still a new concept in rural North Eastern States. Widespread poverty and unemployment can be treated through these SHGs. SHG programme has lightened the burden of life for the average member of a SHG in many ways. There have been perceptible and wholesome changes in the living standards of the SHG members in terms of ownership of assets, increase in savings and borrowing capacity, income generating activities and in income levels. SHGs develops saving habits and bring people closer to the banking system by helping in getting loans easily and frequently. Looking at the successful model of SHGs in India, it is worldwide accepted that SHG movement can add a new dimension to the fight against poverty and underdevelopment in rural North Eastern States. (Satatus of Microfinance Report 2009).

Progress of Microfinance in NER

NABARD has been instrumental in facilitating various activities under microfinance sector in the NER. NABARD sanctioned Rs.39.15 lakh for implementing the project 'micro-Finance Vision 2011' to Government of Arunachal Pradesh and Rs.33.66 lakh to Essomi Foundation Trust for setting-up Resource Centre at

Itanagar. The 'State Support Project on SHG' in Tripura aims to promote livelihood activities, credit link 11,500 existing SHG and form and credit link 35,000 new SHG. The 'State Support Project on SHGs' designed by the Government of Tripura and supported by NABARD was launched in December 2008. The project aims to credit link 11,500 existing SHG, forming and credit linking 35,000 new SHG and promoting livelihood activities among its 3 lakh members upto 31 March 2012. NABARD is to provide technical and capacity building support, besides helping in designing systems and procedures for smooth implementation of the project. Besides NABARD, there are some other agencies like SIDBI, NEDFi, RRBs, Co-operative Banks and public and private commercial banks are also playing an important role for the development of microfinance sector in the NER. Below we highlight the overall progress under microfinance in the NER during the last three years.

Table 3 : Savings Mobilisation through Microfinance 31st March 2009

(Amount in Rs. Crores)

States	No. of SHGs	Total Savings Amount
Assam	1810.0	63.0
Meghalaya	96.3	3.3
Nagaland	60.6	1.6
Tripura	228.1	28.6
Arunachal Pradesh	51.5	0.9
Mizoram	42.3	1.8
Manipur	94.7	1.9
Sikkim	17.5	1.0
NER	2400.9	102.1
Northern Region	3110.0	227.0
Eastern Region	12336.4	1596.9
Central Region	7129.2	386.8
Western Region	7962.6	664.3
Southern Region	28272.4	2568.5
All India	61211.5	5545.6

Source: Compiled from NABARD Annual Report

Table 3 highlights the state-wise progress of microfinance in NER in terms of number of SHGs and the savings mobilisation. Then the regional data is also given to understand the relative growth of NER with respect to other regions of India. Among the NER, the state of Assam is having 75% SHGs with 62% savings mobilized which is the highest followed by Tripura with 9% SHGs and 27% savings mobilisation. The other NER states are lagging far behind. If we compare the NER with respect to the other regions of India, we find that NER comprises only 4% SHGs and 1.8 % savings mobilisation. On the other hand the southern region having the highest number of SHGs and savings mobilisation with 46.2 % and 46.3% respectively. Thus we find that at the regional level, the performance of microfinance is best in the southern states and worst in the NER. Another important observation is that the most nearby region of NER, i.e., the eastern region is having 20% SHGs and 29% savings mobilisation with respect to NER figures of 4% and 1.8% respectively. Thus we find that the microfinance environment in the NER is not very active. So their lies tremendous scope and opportunity for the growth of microfinance in the NER.

Table 4 : Loan Disbursed by Banks during 2008-09

(Amount in Rs. Crores)

States	No. of SHGs	Total Bank Loan
Assam	264.5	157.0
Manipur	9.0	4.9
Meghalaya	10.0	5.1
Sikkim	9.8	12.5
Tripura	47.7	54.3
Nagaland	0.9	2.0
Arunachal Pradesh	3.9	2.3
Mizoram	9.2	8.4
NER	355.1	246.4
Northern Region	426.9	302.4
Eastern Region	2367.9	1237.7
Central Region	1010.6	781.4
Western Region	1251.7	583.9
Southern Region	10683.7	9101.7
All India	16095.9	12253.5

Source: Compiled from NABARD Annual Report

Similarly, Table 4 highlights the state-wise progress of microfinance in NER in terms of number of SHGs and amount of loan disbursed by Commercial Banks, RRBs, and Cooperative Banks. Then the regional data is also given to understand the relative growth of NER with respect to other regions of India. Among the NER, the state of Assam is having 74% SHGs with 64% disbursed bank loans which is the highest followed by Tripura with 13% SHGs and 22% disbursed bank loans. The other NER states are lagging far behind. When we compare the NER with respect to the other regions of India, we find that NER comprises only 2.2% SHGs and 2% disbursed bank loans. On the other hand the southern region having the highest number of SHGs and disbursed amount of bank loans with 66% and 74% respectively. Thus again we find that at the regional level, the performance of microfinance is best in the southern states and worst in the NER in terms of bank loan disbursed. Another important observation is that the most nearby region of NER, i.e., the eastern region is having 15% SHGs and 10% disbursed bank loans with respect to NER figures of 2.2% and 2% respectively. Thus we find that the microfinance environment in the NER is not very active in terms of bank loans disbursed.

Table 5 : Bank Loans Outstanding against SHGs as on 31st March 2009

(Amount in Rs. Crores)

States	Total	
	No. of SHGs	Bank Loan
Assam	888.8	328.6
Manipur	34.1	7.1
Meghalaya	31.2	11.4
Sikkim	39.8	39.4
Tripura	104.0	37.1
Nagaland	8.8	8.9
Arunachal Pradesh	48.7	23.0
Mizoram	22.8	13.9
NER	1178.1	469.3
Northern Region	1665.1	678.9
Eastern Region	9334.9	3023.0
Central Region	3321.2	2045.3
Western Region	3935.0	1551.1
Southern Region	22809.1	14912.1
All India	42243.4	22679.8

Source: Compiled from NABARD Annual Report

Table 5 shows the state-wise progress of microfinance in NER in terms of number of SHGs and amount of loan outstanding by Commercial Banks, RRBs, and Cooperative Banks. The regional data is also given to understand the relative growth of NER with respect to other regions of India in terms of bank loans outstanding. Among the NER, the state of Assam is having 75% SHGs with 70% outstanding bank loans which is the highest followed by Sikkim with 3.4% SHGs and 8.3% bank loans outstanding as on 31st March 2009. The other NER states are lagging far behind. If we compare the NER with respect to the other regions of India, we find that NER comprises only 2.8% SHGs and 2% bank loans outstanding. On the other hand the southern region having the highest number of SHGs and disbursed amount of bank loans with 54% and 66% respectively. Thus again we find that at the regional level, the performance of microfinance is best in the southern states and worst in the NER in terms of bank loan outstanding. Again, the nearby eastern region is having 22% SHGs and 13.3% outstanding bank loans with respect to NER figures of 2.8% and 2% respectively. Thus we find that the microfinance environment in the NER is not very active in terms of bank loans outstanding. (Table on next page)

Table 6 shows the state-wise progress of microfinance in NER in terms of Non Performing Assets (NPA) of SHGs out of the total loans outstanding in Commercial Banks, RRBs, and Cooperative Banks. The regional data is also given to understand the relative growth of NER with respect to other regions of India in terms of NPAs. Among the NER, the state of Assam is having the highest amount of gross NPAs (31.1 crores) as its business volume is much higher compared to the other norther eastern states. But in terms of percentage of NPAs to outstanding bank loans of SHGs, the situation is worse in Meghalaya among the north eastern states as well as the other regions of India. Manipur and Nagaland are also facing the problem of high NPAs of 11.7% and 11.3% respectively. Among the NER, Tripura is doing exceptionally well in its loan recovery with the minimum percentage of 1.7% NPAs to the outstanding bank loan of SHGs, which is even below the all India average of 2.9%. If we compare the NER

Table 6 : Non Performing Assets for Bank Loans to SHGs & Recovery Performance

(Amount in Rs. Crores)

States/Region	Amount of Outstanding Loans to SHGs	Amount of Gross NPAs	% age NPAs of Outstanding Bank Loans to SHG
Assam	317.6	31.1	9.8
Manipur	24.7	2.9	11.7
Meghalaya	6.9	1.3	18.1
Sikkim	0.02	0	0
Tripura	66.6	1.1	1.7
Nagaland	9.1	1	11.3
Arunachal Pradesh	7.3	0.4	5.3
Mizoram	11.2	0	0
NER	443.5	37.8	8.5
Northern Region	644.3	42.6	6.6
Eastern Region	2754.7	92.9	3.4
Central Region	1878.5	167.7	8.9
Western Region	1459.6	81.4	5.6
Southern Region	14380.5	203.5	1.4
All India	21561	625.9	2.9

Source: Compiled from NABARD Annual Report

with respect to the other regions of India in terms of loan recovery performance, we find that NER comprises the second highest percentage of NPAs (8.5%) after the central region. On the other hand, the southern region having the lowest percentage of NPAs (1.4%) with respect to the outstanding bank loan of SHGs. Thus again we find that at the regional level, the performance of microfinance is best in the southern states and worst in the NER in terms of NPAs to loan outstanding. Again, the nearby eastern region is having only 3.4% NPAs against the NER average NPA of 8.5%. Thus we find that the microfinance environment in the NER is not very active in terms of recovery performance of the bank loans to SHGs. Among the NER states, there remains huge disparity in the microfinance activities and in all India scenario, the microfinance sector is not performing well and is still underdeveloped.

Challenges of Microfinance Sector in the NER

The microfinance program has proved to be successful in southern states of India but failed to achieve its goal to benefit poorer states (Pankaj Kumar & Ramesh Golait, 2009). SHG movement has unfortunately started very late in the North Eastern States. Among the NER, it was first implemented in Assam. Since 2000, a sizeable number of SHGs have started to crop up in almost every district of Assam. The microfinance movement in southern states of India has been successful to a great degree in uplifting the socio-economic conditions of the down-trodden, which can also be achieved in NER provided government motivation and support is provided in the right direction to NGOs and MFIs. The microfinance sector in the NER is facing lot of problems and constraints, some of them are pointed out below:-

(a) Lack of professional expertise to run the MFI operation successfully and profitably,

(b) Lack of usage of technological advanced IT tools and efficient management information system for the MFI operation and maintenance.

(c) Lack of funding sources for MFIs at a lower rate of interest,

(d) The need for MFIs to borrow money from commercial banks at a higher rate of interest,

(e) The high administrative costs to manage the microfinance programs due to the low density of some populations in the NER.

(f) Lack of appropriate training programme for the microfinance officials, loan officers and capacity building programme of the MFI as a whole,

(g) Lack of a simple regulatory environment and the difficulty to mobilize resources,

(h) Lack of traditional bank interest and involvement in microfinance,

(i) Lack of awareness level of microfinance among the poor,

(j) Lack of local and effective capacity building infrastructures,

(k) Lack of SHG and JLG federations,

(l) Lack of a distribution channels for better delivery of microfinance services,

(m) Periodic renewal system of NGOs by the state government after every three years requires lot of unnecessary money and time and is a complete de-motivating phenomenon for the growth of microfinance,

(n) Lack of savings driven microfinance environment which provides the cheapest source of finance,

(o) Lack of a coordinated government effort to organise the microfinance sector.

Conclusion

For the last two decades, Indian economy has been growing at a faster rate but not all have benefited by this excellent growth. Liberalisation, privatisation and globalization have given a tremendous opportunity to develop but this development has been restricted to a certain group of people. This has resulted in an increasing gap between the haves and have-nots of the society. In this context, microfinance can help reduce this disparity and lead to a more equitable growth of the country. Savings-driven microfinance environment is feasible in rural as well as urban areas. If properly regulated and supervised, they have great potential in poverty alleviation and development, both in rural and urban areas. Most of the world's poor lack access to basic financial services that would help them manage their assets and generate income. With the inefficient functioning of the Development Banks in the rural areas to the extent that is required, some forms of local financial services also disappeared. In this context, microfinance has emerged to fulfill the demand of rural credit.

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 well-being SHG movement has unfortunately started very late in the North Eastern States. Among the NER, it was first implemented in Assam. Since 2000, a sizeable number of SHGs have started to crop up in almost every district of Assam. At present, the 66125 SHGs roughly cover 1 million people in the state. The need is to cover at least 14 million poor and nearly poor population. The credit needs of the poor are very small. What they need most are guidance and support. Group savings can meet only the members' recurring demand for small loans for consumption and other contingent needs.

The BOP proposition argues that institution can make a fortune by selling to poor people and simultaneously help eradicate poverty. It refers to the poorest people in the world in any community strata. These poor people had to pay more for the same food and products compared to the rich class. They tend to borrow at a higher rate of interest than the rich people and are usually underserved by financial markets and other basic livelihood services. This segment of the poor people still represents a huge market if affordable products and services can be offered to them as per their needs and requirements. There remains great business opportunity at the BoP. The BoP community members may be stakeholders, business partners, employees, or client of the MFIs. This would certainly stimulate the inclusive community growth with a lower operating cost and higher customer value and above all increasing opportunities to pull oneself out of poverty. In this context microfinance can play a vital role and help the community members to empower themselves. The NER is no exception and also satisfies the BoP proposition. Thus microfinance may be used as an overall community development tool and trap the unlimited opportunity at the BoP of the NER.

We have tried to measure the progress of microfinance sector in terms of four criteria viz., (i) savings mobilisation, (ii) loans disbursed, (iii) loans outstanding, and (iv) non performing assets. The results of the study reveal that the NER comprises only 4% SHGs and 1.8 % savings mobilisation of India. The bank loan disbursement and total loans outstanding is also very low in the NER which is just 2% of all over India. Unfortunately, the bank loan recovery performance is also worse in the NER. When we compare the NER with respect to the other regions of India in terms of loan recovery performance, we find that NER comprises the second highest percentage of NPAs (8.5%) after the central region. On the other hand, the southern region having the lowest percentage of NPAs (1.4%) with respect to the outstanding bank loan of SHGs. Thus again we find that at the regional level, the performance of microfinance is best in the southern states and worst in the NER in terms of NPAs to loan outstanding. Again, the nearby eastern region is having only 3.4% NPAs against the NER average NPA of 8.5%. Thus we find that the microfinance environment in the NER is not very active in terms of recovery performance of the bank loans to SHGs. Among the NER states, there remains huge disparity in the microfinance activities and in all India scenario, the microfinance sector is not performing well and is still underdeveloped.

The funds available to the SHGs are very negligible. Most of the SHGs find it difficult to maintain their accounts properly. Formal training in this respect will be of immense help. Products of SHGs lack market exposure. Some people form SHGs in order to satisfy vested interests, distributing the revolving fund of Rs 10000 among themselves. Even though, SHG is still a new concept in rural North Eastern States. Widespread poverty and unemployment can be treated through these SHGs. SHG programme has lightened the burden of life for the average member of a SHG in many ways. There have been perceptible and wholesome changes in the living standards of the SHG members in terms of ownership of assets, increase in savings and borrowing capacity, income generating activities and in income levels. SHGs and MFIs develop saving habits and bring people closer to the banking system by helping in getting loans easily and frequently. 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.

References

Ahmed, S. and Hakim, M.A. (Eds) (2004), Attacking Poverty with Microcredit, Palli Karma-Sahayak Foundation (PKSF)/The University Press Ltd (UPL), Dhaka.

Anis Chowdhury (2009). Microfinance as a Poverty Reduction Tool - A Critical Assessment. Economic and Social Affairs. DESA Working Paper No. 89

Bateman, Milford and Ha-Joon Chang (2009), "The Microfinance Illusion", http://www.econ.cam.ac.uk/faculty/chang/pubs/Microfinance.pdf, accessed on June 30, 2010.

Bansal Hema (2003), SHG - Bank Linkage Program in India: An Overview, Journal of Microfinance, Vol. 5 No's 1.

C. Rangarajan (2005), Chairman Economic Advisory Council to the Prime Minister, High Level Policy

Conference on Microfinance on Microfinance in India-May3,2005.

Deodhar Rekha (2004), A Critical Study of Self Help Groups in Sangli District, Shivaji University Kolhapur, June 2004.

E. Kropp & B.S. Suran (2002), Linking Banks and Self Help Groups in India-An Assessment, NABARD.

H.D. Seibel & S. Khadka (2002), SHG Banking... in India. Savings and Development 26/2, pp.132-149.

H. D. Seibel & H. R. Dave (2002), Commercial Aspects of SHG Banking in India, NABARD.

Kadam Prakash (1999), Self Help Groups, Bank of India, Lead District Office Kolhapur.

Kamata Prasad (2003), NGO's and Socio-Economic Development Opportunities, 2003, edition-I.

Khandker, Shahidur R. (2005). "Microfinance and Poverty: Evidence Using Panel Data from Bangladesh". World Bank EconomicReview, 19 (2): 263-286.

M. Harper (2002), Promotion of Self Help Groups under the SHG Bank Linkage Programme in India-An Assessment, NABARD.

Manab Sen (2003), Self Help Groups & Microfinance, NGO & Socio Economic Development Opportunities, 2003, p.77.

Manimekalai, K. (2004), Economic Empowerment of Women Through Self-Help Groups, Third Concept, February, Volume: 1, Issue No.01.

NABARD, Annual Reports, 2006-2009.

NABARD Report on Process of SHG's -Bank linkage in India-2003-2004.

P.Satish (2005), Economic & Political Weekly, April 23, 2005,p-1732.

Palli Karma-Sahayak Foundation (PKSF) (2003), Report of the International Seminar on Attacking Poverty with Microcredit, Dhaka.

Pankaj Kumar and Ramesh Golait (2009), Bank Penetration and SHG-Bank Linkage Programme: A Critique, RBI.

Puhazhendi & K.C. Badatya (2002), Self Help Group Bank Linkage Programme for Rural Poor in India-An Assessment, NABARD.

Raghuram Rajan (2006), Finance & Development March-2006.p-56.