

MICROFINANCE IN NORTH EASTERN REGION OF INDIA.

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ABSTRACT

In a country like India, micro-finance can play a fundamental role in providing financial services to the poor and low income individuals. The importance of micro-finance in the developing economies like India cannot be undermined, where a large size of population is living under poverty and large number of people does not have an access to formal banking facilities. With states in North eastern region of India considered to be most straggle as compared to other states. The present paper aims at identifying the inter-state variations among the North-eastern states in case of savings, loan disbursements, and loan outstanding to SHGs and the benefits and challenges associated with microfinance.

Keywords:

Microfinance; its impact, benefits and challenges.

INTRODUCTION

Microfinance stands as one of the most promising and cost-effective tools in the fight against global poverty. — Jonathan Morduch

India is estimated to have one-third of the world's poor. Micro finance is considered as a weapon in the financial world to overcome the problem of poverty. Microfinance programmes give the working poor access to financial services such as savings and credit (Johnson and Rogaly, 1997). Microfinance is not a panacea that will lift all its users out of poverty on its own volition. In fact, numerous studies have shown that microfinance has a positive impact on the lives of the poorest members of society (Littlefield and Rosenberg, 2004).

Micro finance can also be defined as 'provision of credit and other financial services and products of **very small amounts** to the poor in rural, semi urban or urban areas, for enabling them to **raise their income levels** and **improve living standards**. It is an economic tool designed to **promote financial inclusion** which enables the poor and low-income households to come out of poverty.

According to status of micro finance given by NABARD, as on 31st March 2023, the programme now covers 16.19 crores households, and 134.03 lakhs SHGs groups having cumulative savings of Rs 58,892.67 crore registering growth of 13% and 25%

over the previous year. Of these, 112.92 lakh were all women SHGs with savings of Rs. 52,455.48 crore accounting for 84% and 89% of total SHGs and savings, respectively. Though 69.57 lakh SHG had credit outstanding of Rs. 188078.80 crore with banks as on 31 March 2023, the credit gap increased to 48.09% during FY 2023-24 as compared to 43.33% during FY 2022-23.

MFIs in India have been playing a major role in purveyance of small credit especially to weaker sections without any collaterals. They are contributing immensely to the cause of financial inclusion in the country. Microfinance sector is very diverse comprising of various players of different types and legal forms.

Components of Microfinance:

Micro credit: Micro credit is the extension of very small loans to borrowers who typically lack collateral, steady employment or income stream and verifiable credit history.

Micro Insurance: Micro-insurance covers low income/net-worth persons and transactions are of low value. Like normal insurance, it can cover wide range of risks including damage to crops and livestock.

Micro Saving: Micro saving is targeted at people with low incomes and low savings. They are like saving accounts but designed for small deposits. Typically, the limit of minimum deposit/balance is low and there are no service charges.

Microfinance Institutions: Institutions providing Microfinance services are called Microfinance Institutions (MFIs). The MFIs exist as separate institutions because of the unique features of Microfinance like high transaction costs, short duration of loans, high frequency of repayment/installments, absence of collateral and relatively higher rate of default.

Channels of Microfinance Institutions in North-eastern region:

In India as well as in the NER, microfinance is basically delivered to the rural poor in two different models-

➤ Self-Help Groups:

An SHG is a group of people in similar socioeconomic situations who come together to help each other. They are self-governed. Members come together (often for a limited time) to form a shared fund for their mutual business requirements. This type of cooperative financing does not necessitate the use of collateral. In addition, borrowing rates are often cheap. Several banks have formed partnerships with SHGs to **increase financial inclusion** in the country's rural areas e.g., the NABARD-SHG linkage program, allows numerous self-help groups to borrow money from banks if they can show that their borrowers have made regular payments.

➤ Micro Finance Institutions:

Microfinance Institutions (MFIs) those institutions which have microfinance as their main operation are known as Microfinance Institutions. Several organizations with varied size and legal forms offer microfinance service. These institutions lend through:

Joint Liability Groups:

JLGs is a credit-oriented group which is primarily formed to avail loan from banks or formal credit institutions. It is an informal group of 4-10 people that seek mutually assured loans. Agriculture-related loans are typical. Farmers, rural labourers, and renters are among the debtors in this category. JLGs members are equally responsible for loan repayment.

Regional Rural Bank Model:

The main purpose of this strategy is to boost the rural economy. They have been created to serve rural areas with basic banking and financial services.

Cooperatives:

Rural cooperatives were established at the time of India's Independence. Through the cooperatives, resources of the poor are pooled, and financial services are made available.

Objectives of the Paper:

a) To examine the inter-state variations among the North-eastern states in case of savings, loan disbursements, and loan outstanding to SHGs.

Data Source and Methodology

The paper is solely based on the secondary sources of data. The study uses available secondary sources data in the form of Published and unpublished sources from various government and non-government agencies.

Status of Microfinance in the North Eastern Region of India

North-Eastern Region (NER) of India comprises eight states of Assam, Arunachal Pradesh, Meghalaya, Mizoram, Nagaland, Manipur, Tripura, and Sikkim. Although the region is often considered to be one whole, owing to its geo-political peculiarities, but the distinct characteristics of individual states cannot undermine. The region is culturally rich and is inhabited by diverse ethnic groups comprising over 160 scheduled tribes and close to 400 sub-tribes speaking about 250 different languages and dialects (Microfinance Vision 2015).

North-Eastern Region is considered to be one of the most financially backward region in the country. There is lack of banking and finance infrastructure in the region, thereby lagging in almost all critical banking outreach indicators. As a result of poor performance by the Govt. Institution, lack of infrastructural facilities, poor banking services and so on. The programme was launched in 1997-98 in the North eastern region but still the programme is in its inception stage. The table provided below shows the relative performance of microfinance in North-east India. The impact of microfinance in NE region is also seen to be improving as compared to the initial stages but is still falling behind in comparison with other states of India. The number of SHGs linked to the banks have increased considerably especially during the last few years. In north-east, the state Assam is leading in the area of the number of SHGs linked to banks and amount of bank loan received. In the initial years, the SHG-Bank-Linkage Programme (SBLP) did not register much headway in Assam and other North-Eastern States.

The differences in the progress of SHGs scheme in the North-eastern states are mainly due to lack of proper communication, literacy, geographical positions and moreover the differences between the activities and availability of the banking agencies.

As compared to the other States of the region the performance of Microfinance in States of Assam and Tripura are more satisfactory. In table1 it shows that the number of SHGs having saving in the bank of the region is highest in Assam with 75.87 per cent of the total SHGs in the region followed by Tripura with 7.83 per cent of share. But the average saving per SHG was highest in the state of Sikkim with Rs. 51305.64 of savings per SHG. It shows that though the numbers of SHGs are low in the state of Sikkim but their performance is quite applaudable. Similarly, the average saving per SHG was also high in the state of Meghalaya with Rs. 26688.67 of savings per SHG. The loan disbursed to the SHGs in the region was also highest in Assam with 78.75 per cent followed by Tripura with 13.21 per cent with an average savings of Rs. 274409.2 and Rs159582.9 per SHGs respectively. But it was interesting to observe that average loan disbursed per SHG was found to be highest in Assam just followed by Sikkim

Table 1 Saving with and Loan Disbursed to SHGs in the North Eastern Region of India

State/ NER/ India	Savings of SHGs with Banks			Bank Loans Disbursed to SHGs		
	No. of SHGs	Savings Amount (Rs. in lakh)	Average Saving Amount per SHG (Rs.)	No. of SHGs	Loans Disbursed Amount (Rs. in lakh)	Average Loan Disbursed per SHG (Rs.)
Arunachal Pr.	10318	2549.29	24707.21	594	1034.68	174188.6
Assam	601955	86779.75	14416.32	97333	267090.70	274409.2
Manipur	28582	1589.05	5559.618	1931	3246.36	168118.1
Meghalaya	49462	13200.75	26688.67	4673	9582.87	205068.9
Mizoram	14340	2991.88	20863.88	1186	3032.14	255661
Nagaland	19641	3155.96	16068.22	1100	2528.53	229866.4
Sikkim	6884	3531.88	51305.64	452	1184.11	261971.2
Tripura	62138	13354.28	21491.33	16333	26064.68	159582.9
Total NER	793320	127152.84	16027.94	123602	313764.07	253850.3
All India	13403083	5889267.56	43939.65	4295521	14520023.33	338027.1

Source: Status of Microfinance in India 2022-23, NABARD

Further looking in table 2 which shows the bank loan outstanding and Non-Performing Assets, we found that both of them were higher in the state of Assam and Tripura. NPA as per cent of loan outstanding is concern with the Sikkim as it has only 0.70 per cent of loan outstanding as NPA and Assam has only 5.62 per cent of loan outstanding as NPA. The NPA as percentage of loan outstanding was found to be highest in Nagaland, Arunachal Pradesh and Manipur with 13.65 percent, 8.50 per

cent and 8.43 per cent respectively. Due to the huge NPA against the outstanding loan, banks in the region are reluctant to provide further loan to the SHGs causing decline to the prospect of Microfinance in those state. Hence, States like Assam and Tripura are admirable in their performance in the area of Micro Finance while the other States are lagging behind.

Table 2 Bank Loans Outstanding and Non-Performing Assets against SHGs in the North Eastern Region of India

State/ NER/ India	Bank Loans Outstanding and Non-Performing Assets against SHGs				
	No. of SHGs	Loans O/S Amount (Rs. in lakh)	Average Loan O/S Amount per SHG (Rs.)	Amount of Gross NPAs against SHGs (Rs. in lakh)	NPA as % to Loan O/S
Arunachal Pr.	1008	1391.00	13799.6	118.29	8.50
Assam	214242	317205.45	14805.94	17812.61	5.62
Manipur	4809	4904.04	101976.3	413.46	8.43
Meghalaya	11920	11400.31	95640.18	225.26	1.9
Mizoram	3196	5701.22	178386.1	394.03	6.91
Nagaland	3781	5598.04	148057.1	764.28	13.65
Sikkim	1142	2321.51	203284.6	16.23	0.70
Tripura	28495	41898.57	147038.3	2742.32	6.55
Total NER	268593	390420.14	145357.5	22486.48	5.76
All India	6957051	18807879.77	270342.7	524933.81	2.79

Source: Status of Microfinance in India 2022-23, NABARD

Benefits of Microfinance:

Microfinance provides credit to the poor people with low income and assets who face difficulty in accessing finance from formal banking institutions. They help in providing funds to small entrepreneurs to assist them in setting-up/expanding/scale-up their operations. This enables them to improve their income. No collateral is required for Microfinance loans. This helps those sections of population with little or no assets to access credit from Banks/formal institutions.

Microfinance facilities have also prove to be essential in providing financial independence to women and thus empowering them. As noted by NABARD Report, SHG-Bank Linkage Programme has benefited 134 lakh SHGs. Access to finance will help increase women led MSMEs.

Microfinance can provide access to finance in rural areas as well. Thus helping in rehabilitation of the conflict-affected people.

It boosts economic activities in the rural area and thus aids in rural development creating livelihood opportunities as well.

MFIs can provide much-needed funds to an individual for the establishment of a new business that requires small investment and offers long-term profit. Thus, they promote entrepreneurship and self-sufficiency among the lower-income population.

Challenges associated with Microfinance:

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 organize the microfinance sector.

Recommendation:

➤ **Regulation:** The Microfinance

sector has expanded a lot in the last 2 decades. Hence there is a need for a comprehensive regulatory framework for the sector, instead of piecemeal and reactive regulatory initiatives.

➤ **Interest Rate Transparency:** MFIs

employ different patterns of charging interest rates, and a few are also levying additional charges. MFIs should transparently inform the borrowers regarding the interest rate charged on the loans.

➤ **Encourage Microfinance Penetration:**

Encouraging MFIs for opening new branches in areas of low Microfinance penetration by providing financial assistance will increase the outreach of Microfinance. This will increase **rural penetration** of Microfinance.

➤ **Expand Product Range:** MFIs

should provide a complete range of products including credit, savings, remittance, financial advice and non-financial services like training and support. This will enable the people from underserved access all financial services.

➤ **Use of Technology:** MFIs should

use new technologies, IT tools, and applications to reduce operational costs.

Suggestions:

➤ Efforts should be made to

motivate the banks to take active interest in the project and to reduce the time taken for processing the applications and disbursing loans.

➤ Awareness programmes should be

prepared as per states of the target groups in local languages.

➤ Proper training, workshops, get

togethers etc., should be organized by the government and financing agencies with the help of resource persons.

➤ There is a need for marketing and technology support to Swarojgarees.

➤ Monitoring and evaluation activities need to be given more importance for improved performance.

➤ The banks should focus on all the area of sector more particularly rural. This helps all the people to access for the financial services.

➤ MFIs should provide complete various services including credit, saving, remittance, financial advice and non-financial services like training and support.

Conclusion:

For the last two decades, Indian economy has been growing at a faster rate but not all have benefited by this excellent growth. The Microfinance sector has played an important role in ensuring inclusive and balanced development. Yet the benefits of Microfinance have been limited to some regions. The emerging microfinance unfortunately started very late in the Northeastern 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 credit needs of the poor are very small. What they need most are guidance and support.

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. SHGs and MFIs should develop saving habits and bring people closer to the banking system by helping to get loans easily and frequently. The central government and RBI should take necessary measurements to increase the performance of MFI's in other parts of India especially Northern and Central India. The concern state governments can also take necessary measures to create awareness among people to use the services of Microfinance institutions to strengthen their Economical status and improving their livelihood.

Microfinance in NE states of India is unexplored to a great extent and their remains huge opportunity at the rural region. Mainly due to lack of literacy among the people, lack of awareness, communication gap, geographical constraints, and lack of banking agencies in the region. This can be improved through proper implementation of

microfinance through SHGs providing self-reliance to the poor people in Northeast region.

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