



Rural Agricultural Development through Micro Finance in North-East Region

Dr. Hedayatullah Choudhury

Assist Profe, Dept of Commerce, Nabinchandra College, Badarpur, Assam, India

&

Dr. Ananta Pegu

Assist Profe, Dept of Economics, Nabinchandra College, Badarpur, Assam, India

Abstract

Microfinance playing a very vital role towards the upliftment of marginalized section of the rural community in rural India. The impressive success achieved by micro finance in India indicates that it has both bright futures. Recognizing its role as a magic wand in alleviating rural poverty and, in turn, ushering in rural development, the Government of India has been assigning increasing significance to its development. To pay a direct war against poverty the government has introduced 'Self Help Group' (SHG) programmer as a pioneering and active anti-poverty programmer. Socio-economic development as well as macroeconomic and financial sector stability is important apparatus in ensuring an enabling environment for continued growth of overall economy as a whole and the micro finance industry in specific. National Bank for Agriculture and Rural Development (NABARD) is the main initiator of the SHG movement started from 1986-87 in India. Now the various departments of Central and State Governments, Nationalized Commercial Banks, Regional Rural Banks (RRB), Co-Operative Banks and Societies and Non-Government Organizations (NGO) have joined the SHG movement as promoters. Over time, micro finance has come to include a broader range of services e.g., credit, savings, insurance, etc. Considering the number of problems faced by SHGs to develop the system of micro financing in India, there is a tremendous scope for the development of micro financing. Realizing the necessity of micro finance for rural transformation, the proposed paper attempted to examine the micro finance as an instrument for rural development and poverty alleviation in North-east region.

Key Wards: Poverty alleviation, Rural Development, Self Help Groups, Northeastern Region, Microfinance

Introduction: Poverty is universal in the world with its varied genesis and dimensions. However, the third world countries including India are the main sufferers. Since Independence, the Government of India has taken several initiatives to tackle the scourge of poverty through area development approach and sectorial approach. But, even after more than fifty years of planning and employing various poverty alleviation programmers, official estimates show that a major percent of total population still lives below poverty line in India. Micro Finance programmer is the most promising strategic weapon for attacking poverty by way of providing developmental funds to so far neglected target groups. If poor people are given opportunities to undertake entrepreneurial activities supported by proper access to credit, it will certainly enable to them to come out of poverty trap. With about 80 million households below poverty line and 80% out of this is access from informal sector, so it's obvious to solve this problem and this gave birth to Micro Finance Institutions (MFI's). MFIs include non-

governmental organizations (NGOs), credit unions, non-bank financial intermediaries, and even a few commercial banks.

The typical micro finance clients are low-income persons that do not have access to formal financial institutions. Micro-finance clients are typically self-employed, often household-based entrepreneurs. In rural areas, they are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trades. In urban areas, micro-finance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc. However, even today, the rural credit markets are dominated by moneylenders and indigenous bankers. There are some reported instances of bonded labours in some parts of the country. Farmers are often required of much needed funds for the adoption of modern agricultural practices, tools, fertilizers, insecticides etc. It is the duty of Govt. of India to address the main problems of shortfall of finance. So the Union Budgets of last many years have stressed the need for increasing agriculture credit in future. Over the past few years, Micro-Finance, through the formation of Self Help Groups (SHGs), has proved to be an effective channel for disbursement of credit in rural areas. A notable number of SHGs have been linked to banks over the years. In spite of this impressive scenario, microfinance in India is still too small to create a massive impact in poverty alleviation, but if pursued with skill and opportunity development of the poor, it holds the promise to alter the socio-economic face of the India's poor. Realizing the necessity of micro finance for rural transformation, the proposed paper attempted to examine the micro finance as an instrument for poverty reduction in North-east India.

Objective of the Study: The main objective of the paper is to examine how the Microfinance working as an instrument of rural economic development and reducing poverty in Northeast India.

Methodology: The study is based on secondary data collected from sources like NABARD, Statistical Hand Book of Assam, Govt. publications, official website of Northeast and Internet surfing, various books and articles etc.

Concept of Micro Finance: The term micro finance has been understood and defined differently by different people. More often micro finance is defined in a limited sense of 'micro credit for micro enterprises.' Micro Credit Summit held in 1997 has defined micro credit as "programmers that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons". However, there is a difference between micro credit and micro finance. While micro credit refers to credit only, micro finance includes credit, savings, insurance, remittances, and other financial services. Micro finance, in both theory and practice, includes a wide range of financial services such as savings products, insurance, pledge, and remittances. The micro finance is an old concept but a relatively new term. From historical point of view, the evolution of the concept of micro finance could be traced back to 1300 BC when the different forms of micro finance and collective lending have existed for hundreds of years. These include the "sass" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia and "tontines" in West Africa, writes David Patrikarakos.

The origin of the modern concept of micro finance could be traced back to the beginning of the cooperative movement in Europe, where the movement was started way back in 1844 in the field of cooperative-based credit system. However, micro finance emerged as a new concept and development intervention and tool in the 1970s mainly due to the establishment of 'Grameen Bank', in 1976, by Prof. Muhammad Yunus in Bangladesh. In fact, the origin of the concept of micro finance in today's context is considered especially from 1976 onwards.

The Challenges in Indian Micro Finance: The impressive success achieved by micro finance in India indicates that it has both bright futures. Recognizing its role as a magic wand in alleviating rural poverty and, in turn, ushering in rural development, the Government of India has been assigning increasing significance to its development. Of late, the Government of India has been encouraging micro finance as an alternative to IRDP type of poverty alleviation programmers, that some even call it 'magic wand for rural development', because of the sustainability of micro finance activities. Accordingly, the Reserve Bank of India (RBI) has also made a special mention of micro finance in its credit policy announced way back in April 1999 and the RBI has established a micro-credit cell as well. Similarly, the National Bank for Agriculture and Rural Development (NABARD) has set up a 'Micro-Credit Innovations Department', while Housing and Urban Development Corporation (HUDCO) has also formulated the similar plan for micro-credit within its structure. So much so, with

an objective to regulate, monitor, and develop micro finance on right footing, the Government of India is proposing to pass 'Micro Finance Bill' in the country.

However, along with scope for micro finance development ahead, there are challenges as well before micro finance in India. These include:

- Micro finance has not yet occupied the centre stage in the Indian financial sector. People still go to moneylenders. This may be due to the need for more credit than the MFIs can provide or the greater flexibility shown by moneylenders.
- Micro finance as pointed out by some researchers, sometimes leads people to borrow too much; to the extent that over indebtedness can lead to suicides in extreme cases.
- Micro finance or call it, 'rural finance', has suffered from some of the state interventions in the past like that of write-offs of credits. This heavily impinges on the sustainability of micro finance intervention.

Growth of Financing to Self Help Groups (SHGs): Over a period of last few years the financing to SHGs has increased due to the efforts of the different financing agencies and initiatives taken by the Government to alleviate the poverty from the grass root level in India. There has been a lot of pressure from the international agencies as almost 20 per cent of the poorest people are living in India. Even after attaining more than 67 years of independence, the numbers of programmes and schemes have been initiated by the Government of India, but could not succeed in solving the problem of poverty. The micro financing schemes through SHGs has increased to alleviate the poverty. The programme has been growing rapidly and the number of SHGs financed increased from 1.98 lakhs in 2001-02 to 6.20 lakhs in 2005-06, 6.87 lakh in 2006-07, 8.948 lakh in 2008-2009 and 12.97 lakh in 2013-2014. Again the Cumulative number of SHGs financed was 4.61 lakhs in 2001-02, which has increased to 48.09 lakhs in 2008-09. It may be observed that micro finance schemes succeeded a lot despite various hurdles experienced by the agencies and beneficiaries. (Sources: www.inblogs.com).

Micro Financing Agencies and Credit Flows: As we broaden the notion of the types of services micro finance encompasses, the potential market of micro finance clients also expanded. It depends on local conditions and political climate, activeness of cooperatives, SHGs and NGOs and support mechanism. For instance, micro credit might have a far more limited market scope than say a more diversified range of financial services, which includes various types of savings products, payment and remittance services, and various insurance products. Central government of India has established a strong and extensive link between NABARD (National Bank for Agriculture and Rural Development), State Cooperative Bank, District Cooperative Banks, Primary Agriculture & Marketing Societies at national, state, district and village level. There are number of agencies in India to disburse the financial assistance. Their financial disbursement for the last few years shows that the contribution of the commercial banks has always been as high as 60 per cent in 2003-04 which has increased to 69.6 per cent in 2008-09 and 78.2 percent in 2013-2014. The micro credit given by cooperative banks has been increasing in terms of amount but percent wise decreasing. It gave credit of 31 per cent in 2003-04 and came down to 18.5 per cent in 2007-08 and 11.3 percent in 2013-2014 (Source: *Kurukshetra- A Journal on Rural Development*). The micro credits given by RRBs and other agencies have not shown any significant change during this tenure.

In spite of having huge success and having many success stories; the spread of microfinance is not uniform in India. Most of microfinance activity is limited to the Southern region of India. Out of total SHG linked to bank, more than half is covered by the southern states. Even the growth of bank linked SHG in north eastern India is very slow. In 2000- 01 only 0.2 percent of the bank linked SHGs are from NE which increased slightly to 2.8 percent in 2005- 06 and 4.3 percent in 2013-2014. Compare to this, there is a substantial growth in northern, eastern, central and western India. Though southern region proportion is reduced to 54.3 percent from 71.2 percent, it still occupies the top position. (Source: Report of Working Group on Gender Issues, Panchayat Raj Institutions, Public Private Partnership, Innovative Finance and Micro Finance in Agriculture for the Eleventh Five Year Plan (2007 – 2014).

Micro Finance in North East India: The North Eastern Region differs widely in terms of political and socio-economic environment. Almost 98 per cent of the land area in the region runs along international borders with Bhutan, Bangladesh Myanmar and China. Almost 70 per cent of the region is hilly. Population, except in the valleys and in Assam, is sparsely distributed. The region has been

witness of historical confront and confusion. The territorial possession is disputed; the recognition of peoples' need is abysmal. With more than 220 ethnic groups with equal number of dialects makes it extremely diverse region. Likewise, bio-diversity in the region too is very huge. It is matter of academic debate about the merit of clubbing the region as a socio-political entity, particularly in light of such diversity.

The rail network is poor and also concentrated in Assam. Compared to the national average of 73 km of road per 100 square km, the average road length in the region is low, at 53 km, with Arunachal Pradesh having the least length of roads - 12.20 km per 100 sq km. Access to markets with the rest of India is difficult due to the poor infrastructure. Almost 75 per cent of the workforce in this region is engaged in the primary sector and agriculture is the mainstay of the economy. Most other economic activity is small scale sector and heavily dependent on traditional skills of weaving and handicrafts.

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. Under the programme a cumulative amount of Rs. 113.98 billion has been disbursed by banks to as many as 22,38,565 SHGs till March, 2006. The southern states especially Andhra Pradesh shows the largest no of SHGs and also the amount of bank credit disbursed.

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.

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. For instance, Manipur has a wide network of marups started by the Meitei community. Marup, literally means friendship, is a small group of friends and family who

collect money from the group and either lends it on interest, or buy in bulk gadgets and materials required for any enterprise and distribute them to members of the group. The members then pay back the credit amount in installments. By definition, therefore, marups are formed of people belonging to the same or similar income group and profession. It is very popular that almost 90% of the population of Manipur is involved in marups. There are small marups of only five members and there are moderately large groups of fifty members too. Since these operate mainly on trust, they are not very large. The contribution of members to marups and the interest rates charged also reflect the wide range of needs and the member's capacity to save and repay. Contributions range from Rs 10 to Rs 30,000 a month and the interest rates charged vary from 5-20 % annually. In Manipur, such traditional systems still hold sway.

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.

Major troubles of Micro Financing in Self Help Group:

- Majority of the members are unable to save even small amount out of their income due to uncertain income source.
- Members are suffering due to lack of occupational training and Skill. Political intervention is also the most serious issue against the success of microfinance
- Members of self-help group are unable to observe the books of accounts and understand the transactions of the group. They also lack numerical skill to comprehend the accounts.
- In India the Rules and Regulation of Micro Finance Institutions are not regulated properly. In the absent of the rules and regulation there would be high case of credit risk and defaults. In the shed of the proper rules and regulation the Micro finance can function properly and efficiently.
- In spite of lack of advertisement, attractive packages, inadequate storages and transportation facilities demands for the products are too low.

Proposed suggestions for more effective Micro finance for Rural Development:

- There should be, in line with SIDBI, a national-level financial organization with its units at state level to exclusively meet the fund necessities of micro enterprises in the country.
- Good governance benefits. Hence, a clear-cut customized "Code of Conduct" should be framed for MFIs, SHGs, NGOs, and Banks.
- Awareness programmes and also occupational training should be undertaken to broadcast the information relating to micro finance.

- Legislation on Micro-finance Institutions (Development and Regulation) Bill 2007 should be enacted without further delay.
- Last but not least, micro finance should be people-centric with due weightage being given to the empowerment of women and the poor.

Conclusion: 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.

References:

Basu, Priya and Pradeep Srivastava (2013), Exploring Possibilities: Microfinance and Rural Credit Access for the Poor in India, *Economic and Political Weekly*, Vol. 40.

Basu and Krishan Jindal (eds). New Delhi: Tata McGraw-Hill Publishing Company. p.208-218

Feroze, Sheikh and Biswajit Bhattacharya (2010): Microfinance through Self-Help Groups: Concepts, Evolution and Status in India, *Pratiyogita Darpan*, June.

Gupta M.S. (2008), "Micro Finance through Self Help Group- An Emerging Horizon for Rural Development" *The Indian Journal of Commerce*, Vol. 61, July –September, pp-36-39.

Hossain, M., 1988. Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh. International Food Policy Research Institute Research Report No. 65.

Jaffee, D. M., and T. Russell, 1976. "Imperfect Information, Uncertainty, and Credit Rationing." *Quarterly Journal of Economics* 90:651-66.

Jindal, Krishan. 2000. Successful efforts in microfinance: a case study of South Malabar Grameen Bank. In *Microfinance: emerging challenges*. Kishanjit

Kishanjit Basu and Krishan Jindal (eds). New Delhi: Tata McGraw-Hill Publishing Company. p. 233-252.

Kishanjit Basu and Krishan Jindal (eds). New Delhi: Tata McGraw-Hill Publishing Company Ltd. pp. 15-46.

Malhotra, R. and D. S. Chauhan 2000. Banking with the poor: innovations by Oriental Bank of Commerce. In *Microfinance: emerging challenges*.

Muhammad Yunus. 2007: The Innate Entrepreneurs, *Business World*, 19 November, p.56

Nayak, S. 2006. Empowerment of Poor through SHG and Micro Finance, *Cooperative Perspective*, Vol.41, April-March.

Nishant Bali (2013), "Micro Finance- Its Limitations and Opportunities", A Project Report,

Pati A.P. (2008), "Subsidised Micro Financing and Financial Sustainability of SHGs", *The Indian Journal of Commerce*, Vol. 61, April-June.

Raghwan R.S.(2012), "Micro-Finance – Uplifting Rural Economy", *The Chartered Accountant*, New Delhi, February.
