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# **The Role of Micro Finance for Rural Development in the North Eastern Region**

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### **Abstract**

*In the last one or two decades, microfinance has received increasing attention of policymakers, researchers and financial service providers across the globe. The simple reason for this is the existence of millions of people in the world whose living standards are poor and are unable to participate and reap benefits in the growing story of their respective countries. This has led to the conclusion that the functioning of big financial enterprises is limited in its outreach and is concentrated merely to cities and towns. Microfinance has been considered a powerful instrument for achieving 'financial inclusion' and alleviation of poverty, enabling the rural poor to increase their income opportunities and reduce economic vulnerability. Microfinance facilitates financial service delivery mechanisms that meet the needs of poor, at a lower cost than most accessible. Enormous hopes continue to be held out for microfinance as an instrument of poverty reduction. In India the growth of microfinance in the recent past has been tremendous both in number and quantum of resources mobilized. But the fact remain that the North Eastern Region (NER) of the country is still progressing slowly as compared to the rest of the country. The movement of microfinance in catering financial services started late in the NER and still remain confined to Self Help Groups (SHGs). In fact, the limited diversification of microfinance is the case throughout the country and more prominent in NER*

**Keywords:** *Microfinance, policymakers, researchers and financial service, banking institutions.*

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**Introduction:** The failure of the banking institutions in delivering credit to the rural poor, has resulted in the in the emergence of a new, innovating and viable institutions structure. This structure is known as a micro finance, success to reach the address all type of financial needs of the poor, who hit her to be not able to access credit from banking institutions due to possession of collateral and high cost of transaction. The model of micro finance is supposed to overcome these problems while at the same time improving recovery loans, a problem that has plagued the rural banking institution and affected their profitability. (Micro finance programme in North East India- Posted by editor on Wednesday, March 9, 2011 2.54 pm//1 comment)

The emerging Micro finance 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 (Bonnet and cuvees, 1996 ledger wood, 1999) Micro finance is the provision of financial services to low income clients or solidarity banking groups including consumers and self-employed, who traditionally lack access to banking and related services.

In board sense it is a movement who objects is a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance and fund transfers, those who promote micro finance generally believe that such access will help poor people come out of poverty. On the other hand, the revolution of microfinance particularly the success stories of institutions like a Nobel laurate institution propounded by Md. Unus Ali Gramin Bank in Bangladesh, Banco sol in Bolivia, and Bank Rayat in Indonesia (BRI) attracted several economists to study micro finance in the latter half of 1990s. In India SEWA (Self Employed Woman's Association) Bank is the oldest micro finance organization, which was founded in 1974 in Ahmadabad, Gujarat. It was a trade union that first started organizing self-employed woman.

Micro finance is a participative model that can address the needs of the poor especially woman members. It envisages the empowerment of the members by promoting their savings habits and extending bank loans to them Robinson (2001) defines microfinance as "small scale financial services primarily credit and savings provided to people who farm, fish or herd" and adds that it "refer to all types of financial services provided to low income household and enterprises. Micro finance is recognized and accepted as one of the new development paradigms empowerment for alleviating poverty through social and economic empowering of the poor with special emphasis on empowering woman. In India, Micro finance is generally under stood but not clearly defined.

**Methodology:** This paper is prepared on the basis of secondary sources of data like book, papers, articles and website etc.

**Objectives:** The main objectives of the study are:

- a. To study the evaluation of micro finance and its meaning.
- b. To high-light the development of micro finance in the NER.
- c. To study the micro finance Approach (model) which are applicable in India as well as North Eastern Region(NER)
- d. To high light the various institutions like NABARD, SIDBI, NEDFi etc. which are impact in the SHG-BLP.
- e. To focus the needs of micro finance programme to the rural, urban and semi urban poor people.
- f. To study the drawback of micro finance programme application in the region.

**Micro-finance Delivery Mechanism in the NER:** Micro finance is basically delivered in three models. In the first instance different public and private sector banks take initiatives to form the SHG between 10 to 20 members in particularly poor women. When once the SHG is formed each member has to deposit small amount as per their groups decisions daily, weekly or monthly basis. After some month the corpus can be used for going lending among the group members. The group members have to meet bank official on regular periodic intervals and introduced their proceeding, internal books and accounts in time. The bank provides credit on the basis of accumulated savings, member meetings and internal lending's. The SHG bank linkage programmed involves the SHG finance directly by public and private sector commercial banks. One of the remarkable characteristics of the SHG bank linkage programmed has been very on time recovery. As on June 2005, the on time recovery under SHG bank linkage programme was 90% in commercial banks, 87% in regional rural banks 86% in the co-operative banks.

Secondly MFIs, SPHIS, federation of SHG or government organization such as (NABARD) National Agricultural Bank for Rural Development.(SIDBI), Small Industrial Development Bank of India, (NEDFi) North Eastern Financial Development Institution, etc. take initiative to the form of SHGs, N.G.O., SPHIs, MFIs or federation of SHGs have provided training to the SHG. They are also implemented bank linkage programme.

Thirdly under the SHG bank linkage programme the NGOs or MFIs helps in forming the SHGs, provide all necessary capacity building training and act as a financial intermediary. Banks surprise wholesale credit or subsidized credit to these N.G.O.s and MFIs at cheaper rates compared to the rates which the banks lends directly to the SHGs.

**Micro finance programme in North East India:** India has emerged as the largest micro finance programme in the world. SHG- BLP is the important micro finance programme in the country. Under the bank linkage programme a commulative amount of rupees 113.98 billion has been disbursed by bank to as many as 2238565 SHGs as of March 2006. Andhra Pradesh have had a disproportionately large share of the total number of SHGs that have received credit disbursed since the emergence of SHG-BLP in the country. However, the biasness, of the said programme towards the southern states has lessened in recent years.

In the year of 2001-02 special focuses was given to the North Eastern Region in formation of SHGs under SHG-BLP due to reduce the regional imbalance. To implement the SHG-BLP in the North Eastern Region as well as Orissa in order to reduced regional imbalance the other parts of the country with large number of small non-government organization partners and micro finance agencies for enhancing the coverage of the programme.

NABARD has been instrumental in facilitating various activities under micro finance in the North East Region. In the initial years, the SHG-BLP did not much head way in the North Eastern states. In this NER the programme started slowly. The cumulative number of SHGs credit linkage was only 93 in number in this whole area of this region which was less than half a percent in the country under this programme till the end of March, 1999.

NABARD has sanctioned 39.15 lakh to the government of Arunachal Pradesh for implementing the project, “Micro finance vision 2011”. On the other hand the rural development bank has assisted 33.66 Lakh to the “Essomi Foundation Trust” for setting up resource centre at Itanagar. In the year of 2001 Assam and Meghalaya had taken for majority share in the credit links SHGS programme which was at about 58 and 34 percent respectively with in the North Eastern Region. During this period it has been seen that the states of Manipur, Sikkim and Tripura low share in the total cumulative number of SHG credit linked such as 7 percent, 1 percent and 1 percent respectively. But there did not have any SHGs credit linked programme by 2001 in the states of Arunachal Pradesh, Nagaland and Mizoram. In the states of Assam and Meghalaya are more than 90 percent SHGs credit linked in the NER until 2001.

In the states of Tripura implemented “state support project on SHG” that aims to promote livelihood activities, credit link 11,500 existing SHG and another 35,000 new credit link SHG. The “State support project on SHG” formed by the state government of Tripura in the year 2008 and it supported by the NABARD. The aims of the said project to implement 11,500 credit linked for existing SHG, forming and credit linking 35,000 news SHG which want to promoting livelihood activities among its 3 lakh members up to March 31, 2012. The technical and capacity building support provided with the help of NABARD, besides designing the system and procedures for smooth execution of the project. SIDBI, NEDFi, RRB, co-operative bank and other private and public banks are also playing pivotal role for implementing micro finance in the NER besides NABARD. Following table are the high light of the entire achievement in the NER during the last three years.

**Table: Saving Mobilization through microfinance 31 March 2009.**

<b>States</b>	<b>No. of SHGs</b>	<b>Total Saving Amount</b>
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.

The above table reflected the state wise progress of micro finance in NER in terms of number of SHG and savings mobilization. Then the area wise data is also provided in the table to understand relative growth of NER with respect to other parts of India. The Assam is leaving 75% SHG alongwith 62% savings mobilized which the highest is showed by the sate of Tripura with 9% SHGs and 27% savings mobilization among the North Eastern states lagging far behind. If we compare NER with respect to other parts of India, then we have seen that NER comprises only 4% SHGs and 1.8% savings mobilization. On the contrary, the southern states having highest number of SHGs and savings mobilization with 46.2% and 46.3% respectively. The above table have highlighted that the performance of micro finance is worst in the NER than the southern states. Another important point have been seen from this table that the most nearly region of NER i.e. the eastern region is having 20% SHGs and 29% savings mobilization with respect to figures of 4% and 1.8% respectively. From the above analysis it can be said that the microfinance environment is not sufficient than other parts of the country although there is tremendous scope and opportunity in the NER for the upliftment of micro finance scheme.

**Problems of microfinance scheme in the North Eastern Region:** According to the “Task Force on Supportive and Regulatory Frame work for Micro Finance” The Task Force on supportive and Regulatory Frame work for micro finance defines microfinance as “provision of thrift credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas enabling them to raise their income levels and improve living standards.

Although the above definition have shows the increase income levels as well as improve living standards for the poor in rural, semi urban or urban areas, but this programme have not successfully implemented all over the state in the country. The micro finance programme has successfully implemented in the southern states on the contrary failed to achieve its goal to benefit poorer states such as North Eastern Region. Micro finance movement started lately in the NER due to some unavoidable circumstances. The implementation of MF programme has been facing a lot of problems and constraints in the NER. Some of them are focused in the following manner—

1. Micro finance is a new concept in the economic field in the NER for economic upliftment of the society. So there is not sufficient professional expert to introduce this programme to the poor of rural, semi urban and urban to smoothly run the micro finance institutions operation successfully and profitably.
2. Due to lack of efficient management as well as management information system and suitable implementation of high technological information tool of micro finance programme has not properly operated and maintenance in the North Eastern Region
3. Socio Economic problem such as insurgency ethnic conflict etc. are the great hindrance for sound implementation of micro finance programme.
4. Due to lack suitable training programme and capacity building programme for the micro finance official loan officers etc. has not sufficiently execution of micro-finance programme.

5. Lack of proper micro finance institutions and appropriate funding system at lower rate have created problem to run the micro-finance in this Region.
6. Lack of proper micro finance distribution channel and better delivery mechanism.
7. Lack of Simple regulatory environment and proper mobilization of available Resources.
8. Uneducated rural as well as semi urban and urban people have hindrances the swift... Driven of micro finance programme in this region.

**Conclusion:** Micro finance is an effective tool for economic up gradation and poverty alleviation scheme. The Asian development bank (finance for poor. Micro Finance Development Strategy :2000) has recognized microfinance as a powerful tool to promote economic growth reduce poverty, support human development and improve the status of woman.

In Indian near above 70% live in rural area. Most of them are small and marginal farmers. Due to lack of proper education and sound social infrastructure as well as distress socio economic circumstances Indian society have not showed so much up gradation which has been expected. On the other hand like other parts of the country, Northern Eastern region having huge development potential, the economy of the region remained under developed as it is characterized by poverty, under utilized man power and untapped natural resources. The North Eastern Region is basically depending on the agriculture sectors. For the last two decades Indian economy has been growing at a faster rate due to impact of liberalization, privatization and globalization. The new economic reform policy have great influenced of its economy as well as North Eastern Region of course there have shown major regional imbalance between North eastern Region and other parts of the country. So, remove this situation micro finance have played an important role in the region like other parts of this country. The MFI like NABARD, RRB, co-operative societies, Nedfi etc. have been emergence the micro finance programme with the help N.G.O., SHG and state government efforts. The state of Assam have started SHG to crop up in almost every district in Assam a sizeable number of micro finance since 2000. Near about 66125 SHG roughly cover 1 million people in the state of Assam presently. Other states are also not sufficiently SHG formed in this region. Ultimately, it may be said that micro finance have not taken wide role in the NER during last two decades. Of course its prospects and importance have impact a positive aspects for the economic upgradation and micro finance expect one would be main tool to remove poverty and underdevelopment in this North Eastern Region.

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All India	61211.5	5545.6

Source: Compiled from NABARD annual Report.

**Table2:** Loan Disbursed by Banks during 2008-09

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.

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