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To promote studies on issues related to the microfinance sector in India and abroad in order to sensitise the policy makers, donors, researchers and others who are associated with the sector. The journal proposes to identify key problems and encourage debate in the microfinance sector on issues such as socio-economic empowerment, institutional arrangements and innovations in microfinance products with special focus on rural clients.

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The Impact of Microfinance on Poverty Eradication in Bangladesh - An Analytical Approach for Further Evidence

- M Masudur Rahman*, Proloy Barua** and Munshi Sulaiman***

Through the financial services of micro-credit, the poor people are engaging themselves in various income generating activities and around 30 million poor people are directly benefited from micro-credit programmes.

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Abstract

Bangladesh is known for its microfinance outreach. However, the density of microfinance is not evenly distributed. The poorer region, specially the northwestern part of Bangladesh has long been underserved by the microfinance institutions (MFI). BRAC's Northwest Microfinance Expansion (NWME) project was initiated in 2002 to increase outreach in that region. Though the impact of microfinance is well established among the practitioners, this study was initiated to investigate whether BRAC's microfinance expansion in that region had any effect on the well-being of the beneficiaries. We found some concrete evidences of impact on different domains especially in their asset holding. Apart from impact evaluation, the study also looked at the level of satisfaction among microfinance participants. The determinants of client dropout have been explored to see whether and how much effect does satisfaction has on exit decision. Poverty of the participants, variation in economic status within the groups, availability of alternative service providers, level of client loyalty along with the overall satisfaction of the clients with the services were found to have significant influence on dropout.

1. Introduction

Micro-credit programmes in Bangladesh is implemented by NGOs, Grameen Bank, state-owned commercial banks, private commercial banks, and specialised programmes of some ministries of Bangladesh government. Total outstanding loan of this sector is around TK 200 billion (including Grameen

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Bank TK 62 billion) and savings TK140 billion (December 2010) that have been rendering among 30 million (including 8 million clients from Grameen Bank) poor people which help them to be self-employed that accelerates overall economic development process of the country. Despite the fact that more than five thousand of institutions are operating micro-credit programmes, but only 10 large Micro-credit Institutions (MFIs) and Grameen Bank represent 87% of total savings of the sector (around TK 122 billion) and 81% of total outstanding loan of the sector (around TK 162 billion). Through the financial services of micro-credit, these poor people are engaging themselves in various income generating activities and around 30 million poor people are directly benefited from micro-credit programmes. Credit services of this sector can be categorised into six broad groups: i) general micro-credit for small-scale self employment based activities, ii) micro enterprise loans, iii) loans for ultra poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management. Loan amounts up to BDT 30,000 are generally considered as micro-credit; loans above this amount are considered as micro enterprise loans.

1.1 Non-Government Organisation (NGO-MFIs) in Bangladesh

NGOs are the dominant players in Bangladesh's microfinance market. There are more than five thousand NGOs in Bangladesh who provide microfinance services either under their core programme or under other social development programmes. This NGO-MFI sector has created direct job opportunities for over 1,00,000 people; 84% of these are male and 16% are female. At the end June 2009, the sector had outstanding loans of US $1741.17 million disbursed to 19.50 million borrowers, and had accumulated US $623.84 million as savings from around 25 million clients through more than 1,800 branches, over 90% of them women by 558 NGO-MFIs licensed by MRA (MRA 2010).

BRAC and ASA are two of the largest organisations in Bangladesh under this group. There are a few more those are rising sharply to be considered as "medium size" organisations; TMSS and BURO are two among them. Institutional concentration ratio is highly skewed in favour of large MFIs: just 3.68% of institutions are in control of 75% of the market; two very large organisations have control over 60% of both clients and total financial portfolios. Domination of the market by these big institutions has increased over the years, which might create an imperfect market condition.

1.2 Overview of the Northwest Project

About 40% of the population is living below the poverty line in Bangladesh while this figure is over 60% in the Northwest part of Bangladesh. Moreover, density of microfinance institutions (MFI) is lower in this region compared to national level (PKSF 2004). Economic backwardness and acute vulnerability make this region less attractive for MFI operations since the whole microfinance industry is geared towards 'financial best practices'. While MFIs are a bit risk averse to extend micro-credit service, donor agencies often shares the risk by releasing fund for the poor through some NGOs in Bangladesh that eventually serves the millennium development goals (MDG) of halving poverty by 2015. The northwest microfinance expansion (NWMF) project is such a project, which is implemented by BRAC with financial assistance from the Australian Agency for International Development (AusAID). The vision of this project is to uplift the livelihood of the poor through microfinance services. This project targets only women who essentially get financial and non-financial services from BRAC. These services would eventually revive the economic activities among the poor and make them self-employed. It should be mentioned here that this project not only finances the poor people through BRAC but finances to establish its infrastructure facilities that would continue beyond the life of the project. The NWMF project was started in June 2002 and will continue up to end of 2008.

1.3 Objective of the Study

The primary objective of this study is to empirically evaluate whether the programme has any effect on the well-being of the beneficiary households and investigate the extent of the change made by the project. A secondary objective of this study is to look at the level of satisfaction among the beneficiaries with the financial product of BRAC and how does this satisfaction matter in their strategy of availing this service.

2. Methodology

2.1 The Data

The baseline survey was carried out in mid-2003 to get the benchmark estimates on different livelihood indicators of the beneficiary households. Data were collected from eight branch offices (BOs) of BRAC in six districts where project activities were going on. Two-stage random sampling was followed to collect information of the beneficiary households. In the first stage, 12 voluntary organisations (VOs) were randomly taken from each BO. In the following stage, 11-12 beneficiary households were randomly selected from each VO. Thus, 1,100 households were surveyed in the baseline. A repeat survey was carried out on the same households in February 2007 after three and a half years of conducting the baseline survey to see whether the project has brought any change on well-being of the beneficiaries. Forty-four percent of the sampled households in baseline were found no longer with BRAC during follow up in 2007, but all of them were surveyed. If we omitted dropout households impact would be over estimated and vise-versa. Because, it is usually believed that dropout members are worse-off clients and vice-versa. Now we are free from any biasness including dropout members. In this round, 600 additional households were surveyed whose enrollment period was no more than one year.

2.1.1 Sample Attrition

In the follow up survey, 1,010 of 1,100 households from the baseline were interviewed that gives us an attrition rate of 8%, which is acceptable. Among the 90 attrited households, 44 were found but could not be interviewed while the rest were not available. Of 44 households that were found but could not be interviewed, 43% beneficiaries were absent at their households and the interviewer could not find them visiting three different days and 23% beneficiaries died. Of the 46 households that were not found, 76% households permanently migrated to other places at least 10 kilometers away from earlier place. Thus, a total of 90 beneficiaries were not interviewed that are omitted from the data to form a panel.

2.2 Methods of Data Analysis

Length of participation (determined by enrollment period) was used as a proxy for impact of programme participation. In this case, the basic premise is that the programme has targeted similar groups of people every year. An analysis of differences between the 'early entrant' and 'intermediate entrant' cohorts of 2003 (we elaborated formation of groups in the later section) in the years between 2003 and 2007 was beyond the scope of work since there was no control group and all participants were expected to be served equally under the project. Changes among the groups across outcome variables were followed that revealed the changes in client profile as the programme expanded. However, there are a lot of unobservable factors that could affect the outcome variables. Looking at the profile in itself was inadequate to address this issue. Panel data analysis (fixed effect models) was used in programme evaluation to counter this problem of unobservable factors what was also used for impact analysis. Any relationship between the quality of microfinance participation and the outcome variables of the households in the panel was looked into. Since the outcome variables (such as income or assets) were likely to affect their quality of microfinance participation and vise-versa, instrumental variables (IV) technique was used to establish any existence of microfinance participation quality affecting those outcome variables. Variables related to the programme organisers (PO) in charge of the respective VOs of the microfinance members were considered as possible instruments. Finally, propensity score matching (PSM) was done the measure programme impact. In the first stage, the 'new entrants' and the members from baseline who were followed up in 2007 were matched by their recent condition where the dependent variable is participation in 2003 or 2006. In this matching, the variables other than the outcome ones were used. Using the predicted probabilities of participating in two different years, the impact would be the average of the differences between the members participating in 2003 and their respective 'verysimilar' members joining the programme in 2006.

3. Findings

3.1 Impact on Livelihood

Data analysis starts with basic description of the sampled households to reveal the changes between 2003 and 2007. We found that regardless of groups the beneficiary households were significantly better-off in 2007 compared to their situation in 2003. Areas where the improvements are more prominent include housing quality, sanitation status, and stock of physical and financial assets. Regarding social awareness, a significant improvement was observed in child marriage and dowry. Primary school enrollment rate increased over time while it was reverse in secondary school enrollment rate. Self-perceived food security was stable over time regardless of household categories.

Table 1: Changes of livelihood outcomes over time

Variables	Early entrant		Intermediate entrant		New entrant	F Value
	2003	2007	2003	2007		
% of households using sanitary latrine	42	57	38	62	57	21.03
% of households using tube-well water for cooking	98	99	98	99	99	1.3
% of households having brick/tin wall for living room	21	33	22	34	35	11.49
Value of main living room in Tk (average)	10,778	20,262	8,777	14,240	16,008	7.95
Amount of total current savings in Tk (ave.)	3,465	4,946	1,601	3,024	3,170	11.28
Value of non-productive asset in Tk. (ave.)	7,674	9,194	4,468	7,627	8,316	3.41
Value of total asset in Tk (average)	1,25,441	1,40,747	94,262	1,11,197	1,27,825	1.94
% of households having food security all the year round (self-perceived)	63	63	60	58	64	1.05
% of household having own land	87	86	87	86	86	0.21
% of household having own at least homestead land	84	81	83	82	83	0.46
% of households having no more than 25 decimal of own land	59	64	61	72	68	6.25
% of household cultivating leased land	30	34	39	38	29	4.47
% of respondents aware of minimum marriage age for men	12	42	9	43	45	88.19
% of respondents aware of minimum marriage age for women	44	69	47	71	70	37.77
% of respondents aware of divorce law	7	32	5	40	37	81.58
% of respondents aware of voting age for Bangladeshi nationals	36	53	39	48	50	11.91

Just over 85% of the beneficiary households own either cultivable or homestead land while just over 80% of the beneficiary households own at least homestead land. A decline was observed in the amount of land holding between 2003 and 2007. However, no such pattern is observed if we look at the value of land owned.

3.2 Transition of Farm Sector into Non-Farm Sector

We found that the household activities diversified from farm into non-farm sector over the years. Non-farm sector seems to be more profitable than farm sector what could be the possible incentive for such shift (Table 2). Occupation pattern had changed over time. Employment creation in non-farm sector, e.g., non-agricultural day labour, small business, formal and informal services comparatively increased over time. On the other hand, overall employment opportunities comparatively decreased in farm sector over time. Farm sector still dominated over non-farm sector in terms of employment creation. Within farm sector, employment in agricultural day labour increased over time.

Table 2: Changing scenario in employment of household members over time

Variables	Early entrant		Intermediate entrant		New entrant	F Value
	2003	2007	2003	2007		
Farm sector (%)	56	53	57	49	48	9.38
Paddy production	21	20	21	20	21	0.40
Vegetable production	0.1	2	1	1	1	5.78
Cow rearing	5	7	7	6	4	3.79
Goat rearing	4	3	5	3	2	5.81
Poultry rearing	15	9	19	13	10	18.27
Agricultural labour	13	16	13	19	17	6.89
Fishing	1	2	1	2	1	6.09
Non-farm sector (%)	44	47	43	51	52	9.38
Non-agricultural labour	10	10	3	4	9	25.00
Business	17	15	16	13	15	1.94
Tailoring and handicrafts	1	1	1	2	2	0.84
Formal and informal service	5	6	4	9	8	9.60
Rickshaw/van pulling	7	6	6	5	8	2.72
Technical work	1	1	1	2	2	4.04
Others (VGD, pension, allowance)	0.3	1	0.3	1	0.5	0.79

3.3 School Enrollment of Children

The net enrollment rate refers to percentage of children of a certain age group currently enrolled in any type of educational institutions among all children of that age group (Nath SR and Khan MK 2004). We found that net enrollment of children aged from 6 to 17 decreased over the years. This figure does not give us any clear picture about primary and enrollment rate as well as dropout. So, we measured the primary and secondary school enrollment rates separately to address such problem. Primary school enrollment rate was quite impressive that increased over time.

Table 3: School enrollment over time						
Variables	Early entrant		Intermediate entrant		New entrant	F Value
	2003	2007	2003	2007		
Net enrollment rate (age 6-15) %	78	75	81	77	87	7.80
Primary enrolment rate (age 6-10) %	83	87	85	93	94	7.96
Secondary enrolment rate (age11- 15) %	73	65	77	61	77	7.73

On the other hand, secondary school enrollment decreased over time (Table 3). So, net enrollment rate decreased mainly due to decline of secondary enrollment rate when children drop out from school. Poor parents might not have been able to bear

Table 4: Women's participation and control over household assets						
Variables	Early entrant		Intermediate entrant		New entrant	F Value
	2003	2007	2003	2007	2007	
Decision making (%)						
Woman herself	26	35	32	28	28	1.94
Women and husband jointly	64	51	63	58	63	4.05
Women and other household member jointly	0	3	0	3	2	4.43
Husband himself	10	11	5	1	7	1.65
Control over household asset						
% of women having exclusive ownership and selling right of asset						
Productive asset						
Land	6	15	4	48	26	95.71
Cow	3	27	4	54	31	116.62
Goat	7	47	5	70	48	170
Poultry	33	92	54	86	76	155.77
Rickshaw/van	1	17	0	76	32	292.89
Big tree	2	27	1	34	11	76.22
Non-productive asset						
Tubewell	2	28	2	48	27	119.99
Cot	6	30	5	51	25	103.09
Chair	2	31	3	51	24	129.00
Table	3	32	3	54	25	135.33
Ornaments	11	53	11	59	44	120.71
Control over BRAC loan based on usage						
% of loan fully used by beneficiary	8	16	8	31	15	24.80
% of loan partially used by beneficiary	30	14	24	23	18	8.54
% of loan fully used by other household members	62	70	68	46	67	23.44

secondary educational expenses of their children.

3.4 Women Participation in Decision-Making and Asset Management Increased

Women's participation in decision-making at household level has been increased over time. More women were found taking decision themselves though over 50% of women are still taking decision jointly with their husbands. Asset control comprises of ownership and selling right of certain asset. Control over all productive and non-productive assets by women has increased over time. It is worth noting that control over productive asset is more than that of non-productive assets. Control of BRAC loan in terms of loan user has also gone up over time though nearly 50% of BRAC loan were beyond control of women borrowers. Over 60% of BRAC loan was used in productive purpose whoever used it. So, 'beyond control over loan' by the women does not signify the misuse of loan.

3.5 Patterns of Usage of Brac Loan

Beneficiary household used BRAC loan for productive and non-productive sectors. It is encouraging that over 60% of BRAC loan was used in productive sector irrespective whoever used. But usage of loan on productive sector declined over time while it has increased in non-productive sector (Table 5). Under productive sector, investment on leasing in cultivable land and crop cultivation increased over the years while investment decreased on small trading and purchasing of productive asset.

Table 5: Usage of BRAC loan over time

Usage of BRAC loan (% of cases)	Early entrant		Intermediate entrant		New entrant	F
	2003	2007	2003	2007	2007	Value
Productive sector	75	67	77	61	75	11.62
Small trading	57	30	62	35	28	50.83
Purchasing productive asset	26	23	26	13	26	5.28
Leasing in land (*Bondhok*)	1	6	0.4	6	4	10.79
Crop production	0.4	18	1	17	18	50.06
Non-productive sector	25	33	23	39	25	11.62
Consumption expenditure	9	4	4	5	5	3.55
Medical expenditure	2	2	1	4	3	2.57
Marriage and dowry payment	2	4	1	8	3	6.64
Housing expenditure	3	7	2	9	7	7.77
Repaying formal and informal loan	1	4	2	2	4	4.00
Other non-productive expenditure	0.2	0.5	0.2	1	0.2	1.42

3.6 Violence against Women

Seven different proxy indicators were used to understand domestic violence against women by their husbands. These are willingness of women to give money to their husbands, willingness of women to give valuables to their husbands, women could visit father's house, women could work outside for earning, husbands' threat for divorce, husbands' threat for second marriage, and physical torture. Finally, a violence index has been developed by summing up these seven proxy indicators where zero and seven denotes no violence and extreme domestic violence respectively. Overall, domestic violence decreased over time.

Table 6: Domestic violence against women

Variables	Early entrant		Intermediate entrant		New entrant	F Value
	2003	2007	2003	2007	2007	
% of women willingly give money to their husbands	95	94	94	97	98	3.43
% of women willingly give their valuables to their husbands	98	98	99	98	100	2.75
% of women reporting their husbands allow to visit father's house	93	92	95	95	98	4.22
% of women reporting their husbands allow working outside	85	90	87	91	97	13.30
% of women reporting their husbands do not threaten for divorce	94	98	92	97	97	5.4
% of women reporting their husbands do not threaten for second marriage	96	98	95	98	97	2.01
% of women reporting husbands do not torture physically	88	93	96	94	95	6.85
Violence Index (0=no domestic violence, 7=extreme domestic violence)	0.49	0.31	0.52	0.31	0.16	13.17

3.7 Vulnerabilities Faced by Households

Overall crises events faced by beneficiary household declined over the years. It

Table 7: Crisis event faced by beneficiary household over time

Crisis event (% of household)	Early entrant		Intermediate entrant		New entrant	F Value
	2003	2007	2003	2007	2007	
Dwelling severely damaged	35	12	30	13	6	62.42
Household member was seriously ill	43	26	48	29	21	31.11
Household member got married	9	10	9	8	4	4.49
Cow/goat death	11	10	10	10	3	7.18
Duck/hen death	5	29	4	32	29	69.78
Conflict/dispute/legal cases	2	3	3	3	2	1.35
Theft/dacoits	1	1	0	2	1	2.25
Facing at least one crisis	66	61	71	61	50	13.57
Spending money for coping crisis	41	45	36	43	34	5.00
Number of crisis faced by household	1.03	0.63	1.03	0.65	0.37	68.59

is a common tendency of the poor people to improve their house when they become economically better-off. Damage of dwelling from natural disaster has declined which reflects improvement of housing over time. Improved house represents status symbol in rural area to some extent. Not only housing improvement, morbidity among household members also decreased over time.

3.8 Crises Coping Strategies

Beneficiary households followed different ways for crises management. Four broad strategies was adopted for this such as usage of household savings, selling of household

Table 8: Crises coping strategy by sectors

Crisis event and means of coping with crises (% of cases)	Early entrant		Intermediate entrant		New entrant	F Value
	2003	2007	2003	2007	2007	
Severe damage of dwelling						
Savings	28	11	31	7	11	6.07
Asset sale	8	7	6	4	3	0.58
Household income	27	43	15	22	65	10.98
Borrowing	32	37	40	65	22	5.75
Other sources	4	3	8	2	0	1.68
Serious illness of household member						
Savings	32	22	32	15	18	5.18
Asset sale	16	15	14	9	12	0.82
Household income	15	23	9	20	35	9.80
Borrowing	32	33	38	48	32	2.43
Other sources	5	6	7	8	3	0.83
Marriage of household member						
Savings	21	18	39	24	17	1.68
Asset sale	26	34	24	40	21	0.86
Household income	16	10	6	4	4	1.19
Borrowing	30	37	27	20	50	1.58
Other sources	7	2	3	12	8	1.22
Death of livestock						
Savings	47	38	31	40	14	0.74
Asset sale	9	6	15	10	14	0.19
Household income	16	31	15	40	43	1.23
Borrowing	28	19	38	10	29	0.71
Other sources	0	6	0	0	0	0.97

asset, spending household income, and formal and informal borrowing. Key crises faced by the beneficiary households are severe damage of dwelling, serious illness of household members, marriage of household members, and death of livestock. Spending of household income was found to be more common for coping with major crises of the household. Extreme crises like collapse of dwellings and serious illness of household members would need to be resolved through insurance policy.

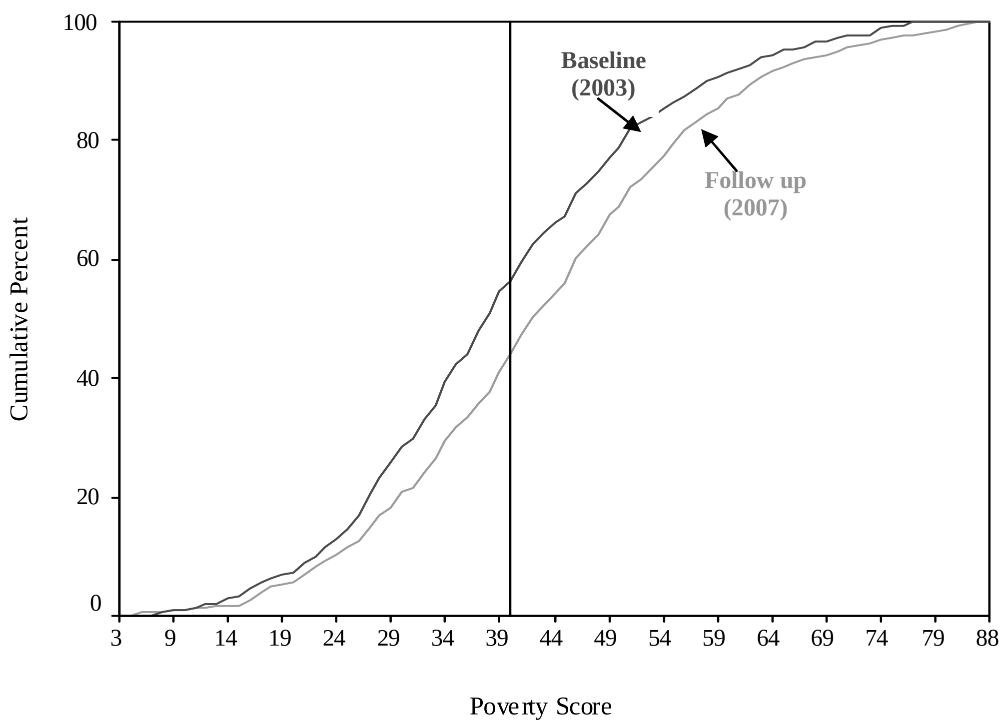
3.9 Observing Change by Poverty Scorecard

Poverty status of the beneficiary households over time may demonstrate the overall change of well-being. By using Mark Schreiner's simple poverty scorecard we identified

Table 9: Poverty status of the household over time

Cut off mark	Early entrant		Intermediate entrant		F-value
	2003	2007	2003	2007	
Poverty score < 35 (=poor)	38%	29%	42%	29%	8.37
Poverty score <40 (=poor)	52%	41%	59%	40%	14.52
Poverty score < 45 (=poor)	64%	53%	69%	55%	11.88

Figure 1: Distribution of Poverty Score Over Time



the poverty status of the beneficiaries over time. Overall poverty decreased over time regardless of cut-off mark and category (Fig. 1). In each cut-off mark, the rate of poverty reduction of intermediate group is more than that of early entrant (Table 9).

The rate of poverty reduction is found to be the highest at poverty score of less than 40 for both categories of households.

3.10 Evaluating Impact by Models with Fixed and Random Effect

Total value of asset has been used as a proxy of household well-being. A number of studies show that assets are better predictor of economic well-being than income or expenditure (e.g. Morduch 1995, Zimmerman and Carter 1999, Carter and Barret 2005) since the poorer households adopt asset smoothing and measure of asset is less prone to stochastic change in welfare. Since the value of asset is highly skewed, natural log of the total asset value was taken as the prime outcome variable in this study. Controlling for the relevant variables, whether programme participation has any impact on the asset accumulation of the participant households is the principal question here. To know the answer of this question fixed effect model was used where unobservable characteristics are assumed to be fixed over time. Random effect model was also been used to compare efficiency of the two models through Hausman test. We drew three equations for both models where value of household asset is a function of household beneficiary's enrollment length, demography, income and number of crises faced. Instead of duration of programme participation, we used 'time since joined the programme' as the proxy for programme impact to counter any bias in dropouts.

Asset value has consistently significant positive relationship with beneficiaries' enrollment period in BRAC in all equations. It implies being involved with BRAC households' well-being has been improved over time. Dropout households are less likely to improve their well-being. It is insignificant though but shows an indication of lessening household asset. In case of equation-1, random effect model seems to be more efficient than fixed effect model based on Hausman test. Inclusion of demography in equation-2 and 3 that consistently improves the over all R-squire value where fixed effect model is more efficient than random effect model since Hausman specification test value is smaller than 0.05 (Table 10).

In the equations 2 and 3, education of household member, beneficiaries' involvement with economic activities, and diversified income source available at household seem to be important in changing the well-being of households over time. Household with daily wage earner is less likely to accumulate household asset that eventually deteriorate the well-being over time. It is because daily wage earner represents the vulnerable households who usually live on hand to mouth to some extent.

By being involved in business the households do not necessarily improve their well-being over time, because poor households are risk averse and do not have risk bearing capacity. Risk mitigation (ax-ante) and risk coping (ex-post) mechanism may be taken to minimise business risk (Perdana 2005). Amount of productive asset, i.e., cultivable land, cow, and goat plays an important role in improving value of household asset over time. Diversified crises events significantly decreased the value of asset over time. The expenditure for coping crises increased though the number of crises decreased over time. Usage of BRAC loan increased for coping crisis over time. It implies that

Table 10: Does duration in the programme associate with asset accumulation?

Independent variable	Equation-1		Equation-2		Equation-3	
	Fixed Effect	Random Effect	Fixed Effect	Random Effect	Fixed Effect	Random Effect
Constant	10.268 (158.26)***	10.312 (153.04)***	9.009 (38.76)***	8.264 (55.88)***	9.245 (41.09)***	8.994 (65.52)***
Period since enrolled in BRAC VO (in month)	0.006 (4.05)***	0.005 (4.50)***	0.008 (4.55)***	0.004 (4.13)***	0.008 (4.88)***	0.004 (4.35)***
Member drop out (1= if yes, 0= otherwise)	-0.083 (0.94)	-0.076 (1.04)	-0.070 (0.82)	-0.026 (0.38)	-0.098 (1.19)	-0.040 (0.62)
Number of household member			0.064 (1.69)*	0.146 (6.45)***	0.034 (0.93)	0.084 (4.15)***
Education score of household member (based on class passed)			0.124 (4.08)***	0.273 (17.32)***	0.080 (2.78)***	0.173 (11.82)***
Beneficiary involved with IGA (1= if yes, 0= otherwise)			0.236 (2.98)***	0.185 (2.80)***	0.174 (2.31)**	0.066 (1.08)
Number of income source			0.140 (4.42)***	0.192 (7.32)***	0.099 (3.25)***	0.121 (4.87)***
Household with wage earner (1= if yes, 0 = otherwise)					-0.438 (5.19)***	-0.642 (10.15)***
Household doing any business (1 = if yes, 0 = otherwise)					0.115 (1.24)	0.023 (0.35)
Amount of cultivable land (decimal) belongs to household					0.002 (6.18)***	0.002 (10.95)***
Number of cow belongs to household					0.185 (6.25)***	0.231 (11.13)***
Number of goat belongs to household					0.074 (3.35)***	0.060 (3.43)***
Number of crisis faced by household					0.073 (2.13)**	-0.092 (3.16)***
n	1010	1010	1010	1010	1010	1010
R-squared (within)	0.02	0.02	0.07	0.06	0.18	0.17
R-squared (between)	0.00	0.00	0.27	0.34	0.47	0.52
R-squared (overall)	0.00	0.01	0.22	0.27	0.41	0.45
Hausman Test (P-value>Chi^2) =		0.06		0.00		0.00

Absolute value of t statistics in parentheses; dependent variable = Ln(asset value)
* significant at 10%; **significant at 5%; *** significant at 1%

households use interest-bearing loan for unproductive sectors to some extent especially for house repairing. It is interesting to note that households are less likely to expend BRAC savings for coping with crises over time. The households may tend to take bigger amount of loan by showing a certain amount of savings that represents their creditworthiness to some extent.

4.2 Satisfaction with Service and Preference of Providers

4.2.1 Level of satisfaction

When we are talking about client satisfaction, we need to look at both the general satisfaction with the service package (often called global satisfaction) and attribute specific satisfaction. One important point to note here is that the global satisfaction is not a simple addition of attribute specific satisfactions. Clients put weight on specific attribute depending on the specific settings and product specification of alternative (if available) service providers. Therefore, a matrix of weight versus satisfaction helps spot the attributes which are highly relevant but lack in satisfaction.

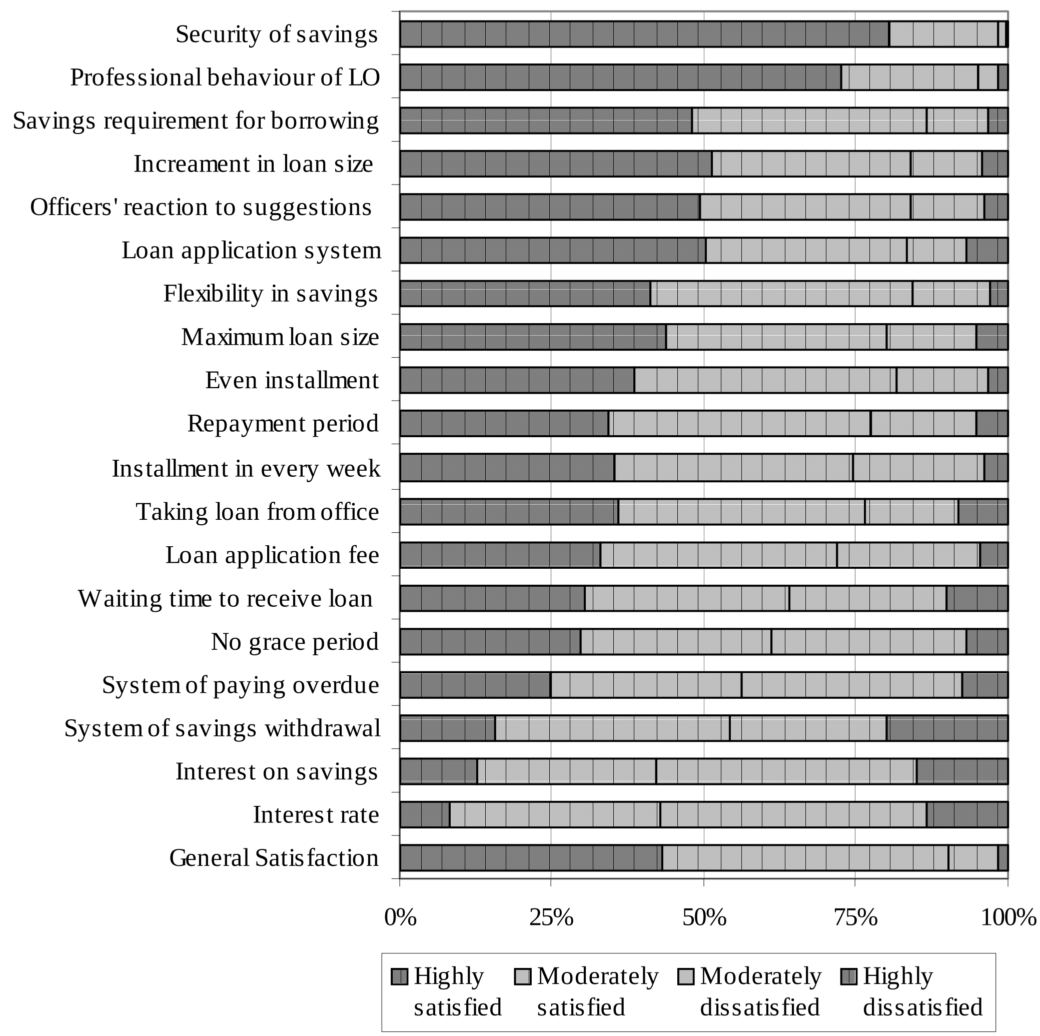
Table 11: Level of general satisfaction with the service pack

	Early entrant	Intermediate entrant	New entrant
Highly Satisfied	42	35	49
Moderately Satisfied	45	51	47
Moderately Dissatisfied	11	13	3
Highly Dissatisfied	2	1	2

To get an understanding of general satisfaction with the quality of BRAC's microfinance service, the respondents were asked, "Considering every aspect of BRAC MF, how satisfied are you with the services?" The answers were on a scale of four categories, from 'highly satisfied' to 'highly dissatisfied'. Similar questions were asked for different aspects of microfinance service. To make the exercise effective and easy for the respondents, a pictorial method was followed where they were given four pictures representing four states of satisfaction. As shown in Table 11, most of the clients are either highly satisfied or moderately satisfied with the service. However, the extent of satisfaction is higher among the 'new entrants' compared to the other two groups.

Even though the general satisfaction gives a comforting picture, we should look at specific aspects of the microfinance service to identify areas that may require attention to make the service more pro-client. Nineteen different dimensions of microfinance package were identified and all the respondents were asked to demonstrate their satisfaction with each of those. Figure 2 reports the component specific satisfactions starting with the attributes with which they are most satisfied. Security of their money and the professional behaviour the loan officers (LO) are the attributes where they are in most cases 'highly satisfied'. However, the areas where they are least satisfied (or most dissatisfied) are interest on loan and savings; and the system of savings withdrawal.

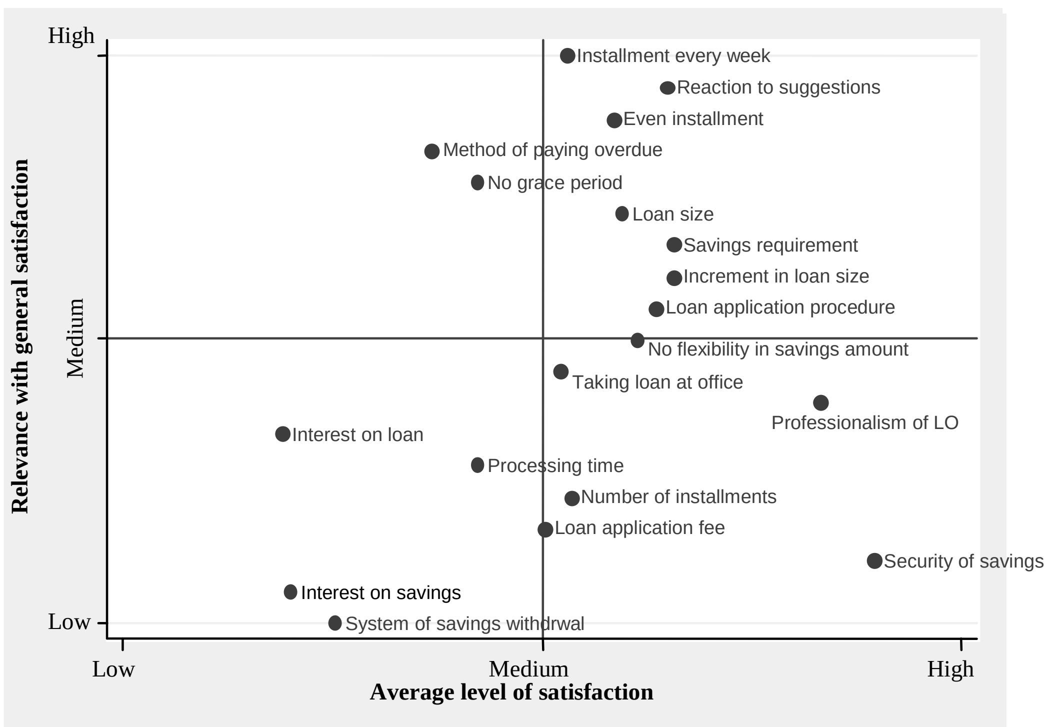
Figure 2: Satisfaction with different components



Reporting the interest rates as the areas of dissatisfaction is a common finding in studies on microfinance product design. Often this attribute is excluded to identify product preferences since all the clients will invariably prefer high interest on savings and low interest on borrowing (e.g., Dufhues et al 2004).

If we look only at the level of satisfaction as a policy guideline, we would conclude with a suggestion of reducing interest rate on loan and increasing it for savings; and this would seriously undermine the objective of sustainable service delivery. Moreover, even such policy is taken up to increase client satisfaction; the objective may not be achieved if the clients put relatively less weight on the attribute. For this purpose, clients are often asked to rank the attributes in terms of importance. However, such exercise also ends up with interest being the most important aspect of the product (e.g., Pawlak and Szubert 2004).

Figure 3: Relevance and satisfaction of different attributes



Here we take a different approach to get the relative importance of the product attributes. Each of the attributes has been ranked by their correlation with general satisfaction. Attributes with higher correlation have been considered to have higher relevance and vice versa. Figure 3 divides the attributes into four quadrants by relevance and satisfaction. Even though the interest rates and procedure of savings withdrawal have lower level of satisfaction, these are least consistent with their global satisfaction. Process of paying overdue and having no grace period needs further revision to improve client satisfaction. Other attributes of high relevance also show the demand for flexibility in the service.

4.2.2 How does satisfaction matter in clients' preference[1]

Depending on the level of their satisfaction with the service they are receiving and alternatives available, the clients can make four strategic choices: a) stick to the existing provider only, b) take up multiple membership, c) switch to a different provider and d) exit from the system. Among the clients from the baseline, 43% belong to the first group, 9% have taken up multiple membership, 24% have switched to a different provider and the rest 24% have dropped out from the microfinance system. This gives an annual turnover rate of about 19% and about one-third of them have non-performing loan with BRAC. Nonetheless, this extent of dropout has direct cost implication and we should look at the determinants of these exits[2].

Table 12 looks at whether satisfaction matter in clients' decision to dropout along with other relevant variables. In the logit model, the dependent variable is whether the client has dropped out (1= yes, 0 = otherwise). In the first equation, the satisfaction variable is a simple addition of the clients' satisfaction in the 19 attributes. While this has no explanatory power in clients' decision to dropout, the global satisfaction variable is consistently significant. This proves the point that overall satisfaction is not just a simple addition of satisfaction in different components.

A priori, the number of other microfinance organization working in the village, as reported by the respondents, should have a positive association with their chances of dropout. However, we found a reverse picture which might be reflecting that the MFIs select their area of operations based on the extent of unmet need of finance and the clients in areas of greater MFI density might take up multiple memberships to meet their larger loan requirements. Moreover, the variable of 'knowledge of other MFIs' may partly explain the issue. This variable is an index of respondents knowledge of other MFIs, which is composed of whether they are informed about five different attributes viz. how long the respective MFIs take to give a loan once enrolled as a member, loan size offered by them, number of installments, whether allow savings and amount to be saved every week. This knowledge variable has positive association with their chances of dropout. Therefore, having more MFIs in the village in itself does not increase dropout unless the clients are well-informed about their service package.

Whether the respondent would suggest other members about particular provider is often used as a proxy for loyalty. If the products are relatively standardised, such loyalty can be promoted by mere relationship building and can produce results by reducing exit rate. This loyalty is different from satisfaction, though usually correlated, on the ground that loyal clients stick to the existing product even when dissatisfied with the hope of improvement and may raise voice to make it happen. Often client exit is considered as a natural phenomenon with the understanding that clients will exit after a few cycles. However, we did not find any such association when the date of their joining BRAC was considered.

Table 12: Determinants of client dropout

	Eq 1	Eq 2	Eq 3	Eq 4	Eq 5
Satisfaction with BRAC MF (additive)	-0.009 (1.30)	-	-	-	-
General satisfaction with BRAC MF		-0.952 (9.18)***	-0.695 (5.87)***	-0.714 (5.74)***	-0.738 (5.80)***
Number of non-BRAC MFIs	-0.361 (4.98)***	-0.244 (3.23)***	-0.298 (3.67)***	-0.341 (4.03)***	-0.381 (4.33)***
Knowledge of other MFIs	0.020 (4.16)***	0.014 (2.88)***	0.008 (1.58)	0.007 (1.33)	0.008 (1.38)
Loyalty (would suggest others to join BRAC)	-	-	-2.390 (11.03)***	-2.040 (8.56)***	-1.897 (7.75)***
Time since joined BRAC	-	-	-	-0.000 (0.68)	-0.000 (0.53)
Whether participating MFI other than Brac	-	-	-	0.915 (4.78)***	0.880 (4.56)***
Respondent married	-	-	-	-0.270 (1.10)	-0.270 (1.06)
Years of schooling of the VO member	-	-	-	-0.025 (0.92)	-0.024 (0.84)
Moderate Poor (1=yes, 0 = otherwise)	-	-	-	-0.496 (2.35)**	-0.415 (1.91)*
Non-poor (1=yes, 0 = otherwise)	-	-	-	-0.838 (4.03)***	-0.758 (3.44)***
Other HH member ever participated in NGO	-	-	-	-0.252 (1.05)	-0.365 (1.46)
Marriage of HH member happened last year	-	-	-	-0.546 (2.05)**	-0.618 (2.24)**
Number of income sources	-	-	-	-0.085 (1.22)	-0.101 (1.42)
Variation in poverty among the VO members	-	-	-	-	0.019 (2.19)**
Proportion of VO members reported attend meeting every week	-	-	-	-	-2.505 (5.37)***
Constant	0.967 (2.30)**	-1.414 (5.63)***	1.193 (3.38)***	2.772 (1.90)*	4.154 (2.53)**
Pseudo R^2 Observations	.02 1012	.09 1013	.21 1013	.24 1000	.27 996

Robust Z statistics in parentheses.
* Significant at 10%; ** significant at 5%; *** significant at 1%

To reveal the true nature of effect of time, we should use duration analysis, which is beyond the scope of this study. However, conceptually such lack of relationship between chances of dropout and enrollment period might be explained by the two possible facts counteracting against each other viz. the longer a client stays with the programme, the higher her loyalty level would be and longer duration means greater exposure to other causes of dropouts.

To explore the effect of poverty level on chances of dropout, the clients were categorized into three groups i.e. extreme poor, moderate poor and non-poor based on their respective values by poverty scorecard. This shows that poorer clients are at greater risk of dropping out. Moreover, greater proportion of the dropout clients from extreme poor households exit from the system as a whole (55% of dropout from extreme poor versus 48% for the rest dropouts).

Particularly interesting VO level variables that have significant association with chances of dropout are the homogeneity in the group and general respect to the system. If the VO have high level of variation in poverty (measured by Coefficient of Variation in poverty scores), the clients have slightly greater chance of dropout compared to a VO with lower variation. On the other hand, if the VO members respect the system by attending the meetings regularly, it might reduce dropout probabilities.

While the regression analysis provides some light on the pattern of client dropout, one straightforward way of identifying the reasons of dropout is to ask the dropout clients. Table 13 reports the reasons cited by the dropout clients. Over 42% of them reported that they were facing difficulty in repaying their outstanding loans as the reason of dropout. About 18% reported that they did not require credit anymore. Only one of the three attributes where the clients have least amount of satisfaction came out in the list of major reasons of leaving BRAC. Four percent of the dropout clients reported difficulty in savings withdrawal as a reason of dropout. However, if we explore further on the reason of difficulty in repayment, the extent of necessity for flexibility in savings withdrawal may increase. Nonetheless, only 6 out of 492 dropout clients pointed out high interest on loan as a reason of their decision to stop being a member of BRAC and none reported low interest on savings.

Table 13: Major reasons of leaving BRAC

Reasons	Frequency (%)
Difficulty in repaying	42
Does not require credit anymore	18
Bad behavior of the loan officers	10
Was offered too small size of loan	4
Difficulty in savings withdrawal	4
Was not offered a repeat loan	3
Got a better service provider	3
Other	16

5. Conclusion

There is now plenty of evidence of the impact of microfinance on the lives of the poor borrowers. This study also found such evidence of impact. Different techniques were used to investigate the level of impact where the value of asset holding of the participants was taken up as the major outcome variable. Since the study is based on a panel data set and includes all the households including the dropout clients, it is less prone to the bias of comparing the incoming clients to the older ones.

Looking into the pattern of dropout, we found that poverty status of the clients and their group, availability of alternative services, their loyalty to BRAC along with their satisfaction with the service have significant association with the possibility of dropout. Flexibility in loan repayment was observed as a major area to work on to improve client retention. However, finding appropriate flexibility that does not impede the financial health and 'good practices' of microfinance is a major challenge.

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Notes

1 Analysis of this section uses only the 1010 households in the panel.

2 For simplicity and keep focus on client exit from BRAC, we have not separated out the cases of delinquency and both group C and D have been merged as dropout.

Progressive Lending as a Dynamic Incentive Mechanism in Microfinance Groups: An Empirical Analysis

- Naveen K Shetty* and Veerashekharappa**

Abstract

Microfinance through joint liability or group lending has received a lot of attention recently, both from policy makers as well as academicians. It is playing an important role in delivering financial services to the 'socially and economically excluded' poor, in general, and women, in particular. The group-lending works with various dynamic incentives. One such kind is principle of progressive lending and it plays a vital role in sustaining the groups for the persistent delivery of microfinance services to its members. In progressive lending, a typical borrower receives at first very small amounts, which increase with good repayment conduct or it is linking new, larger loans to past repayment. This paper explores possible theoretical and empirical relationship between progressive lending and its determinants in joint liability lending approach. The primary survey was conducted in 10 villages covering 106 SHGs and 318 members in Karnataka, India. The results indicate that the age, size, savings, repayment of the group have significant influences on the progressive lending.

Microfinance through joint liability or group lending is playing an important role in delivering financial services to the 'socially and economically excluded' poor, in general, and women, in particular.

Introduction

Imperfect information causes many problems in the credit markets, namely, adverse selection, moral hazard and lack of enforcement. It is generally known that moral hazard, coupled with the lack of collateral by the poor is the key reason why

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credit markets fail. The problem of moral hazard may arise when individuals engage in risk sharing under conditions such that their privately taken actions or behaviours affect the probability distribution of the outcome. These situations generally appear in a principal-agent relationship when actions taken by an agent are not pareto-optimal (Holmstrom, 1979).

The emergence of innovative joint liability lending models in the field of microfinance is celebrated as a contractual innovation that has achieved the perceptible miracle of enabling previously unbankable or marginalised borrowers to lift themselves up by their own bootstraps by creating 'social collateral' to replace the missing physical collateral that excluded them from access to more traditional forms of financial services, like credit, savings, etc. (Conning 2000). Thus, the emergence of innovative joint liability microfinance models in the field of financial intermediation has created new hopes for the poor, who are otherwise unbankable from the perspectives of formal financial institutions.

One of the successful ways through which the financial services are being provided to poor people in India is through microfinance groups (SHGs or Grameen models). These groups are essentially informal organisation of people from the rural poor. The groups are organised, owned, operated and controlled by the members, based on solidarity, reciprocity, common interest and resource pooling. People who are homogeneous with respect to social background, heritage, caste or traditional occupation come together for a common cause to raise and manage their collective savings for the benefit of all the group members. Microfinance group is a social design in which people participate by making themselves socially and economically accountable to each other. These group based credit systems address the problems of screening, incentives and enforcement by incorporating joint liability principle and peer monitoring. A group-based lending contract effectively makes a borrower's neighbors co-obligator to loans, in the process mitigating problems created by informational asymmetries such as adverse selection, moral hazard and enforcement (Morduch, 1999). Thus, in group-lending contracts the functions of screening, monitoring and enforcement repayments are, to a large extent, transferred from the financial institution to the group members. Varian (1990), Stiglitz (1990), and Besley and Coate (1995) have acknowledged several credit market failures that group based lending have been able to overcome through the microfinance programmes. The group based lending mitigates the problem of adverse selection that in turn, reduces the problem of credit rationing and brings the safe borrowers back to the credit market. The theoretical and empirical studies show that people try to investigate each other's behavioural integrity and creditworthiness with the help of existing social networks (through development of social capital) before they try to prevent irresponsible and credit risky borrowers from joining the group.

The group-based lending methodologies will mitigate the problem of moral hazard. Soon after the member received the loan they have to monitor each other to make sure that every member has invested the loan in a safe project that will guarantee repayment by the peer. Members make use of their social ties to acquire the necessary information and create social sanctions and bring pressure on non-repaying members. The peer pressure is a mechanism in the group lending and that can be used in the process of mitigating moral hazard and enforcing prompt repayment (Stiglitz and Weiss, 1981). In order to secure future access, members are obliged to monitor each other. The social collateral (systems) or ties constitutes a powerful device to reinforce repayment among group members. The ability of the groups to harness social sanctions and making use of sanctions, including members to repay their shares can be important mechanisms to sustain groups and improve the repayment performance of the microfinance lending. Distributing loans through groups of borrowers is assumed to result in lower transaction costs for both the lender and the individual borrowers. The lender's costs are minimised, as she/he is dealing with the group as a whole, rather than the individual within the group. Similarly, the group is responsible for distributing loans and collecting repayments. This will lead to reduction in the transaction costs to the individual borrowers. Thus, it is much clear that microfinance groups are having greater potentiality to mitigate market imperfection problems.

Further, one important mechanism for securing high repayment rates in microfinance programs involves exploiting 'dynamic incentives' by increasing loan sizes over time conditional on repayment histories (Basely and Coate, 1995). Where, such programs typically begin by lending just small amounts and then increasing loan size upon satisfactory repayment. It is a key incentive for repayment in group lending where there is a promise of a new, additional loan if the previous loan is successfully repaid. This approach is called as "progressive lending" or "step lending" (Hulme and Mosley, 1996; Morduch, 1999). It is a unique feature of joint liability lending and that has advantages over traditional lending methodologies. However, there is no clear empirical evidence on how the dynamic incentives like progressive lending works through joint liability approaches in microfinance programs and similarly what are the factors that determine the dynamic incentives in group lending models?

In this context, the objective of this paper are:

(i) to explore the nature and features of progressive lending as a dynamic incentive in Indian microfinance market;
(ii) to find the association between progressive borrowing and credit utilisation of microfinance group members; and
(iii) to examine the various factors that determine the progressive lending.

This paper consists of five sections. Section one introduces the research problem and study objectives. In section two, a brief review of literature on progressive lending in microfinance group-lending is presented. The third section deals with the survey design and data source used in this study. The empirical results of the study are presented in the fourth section. The final section provides conclusion.

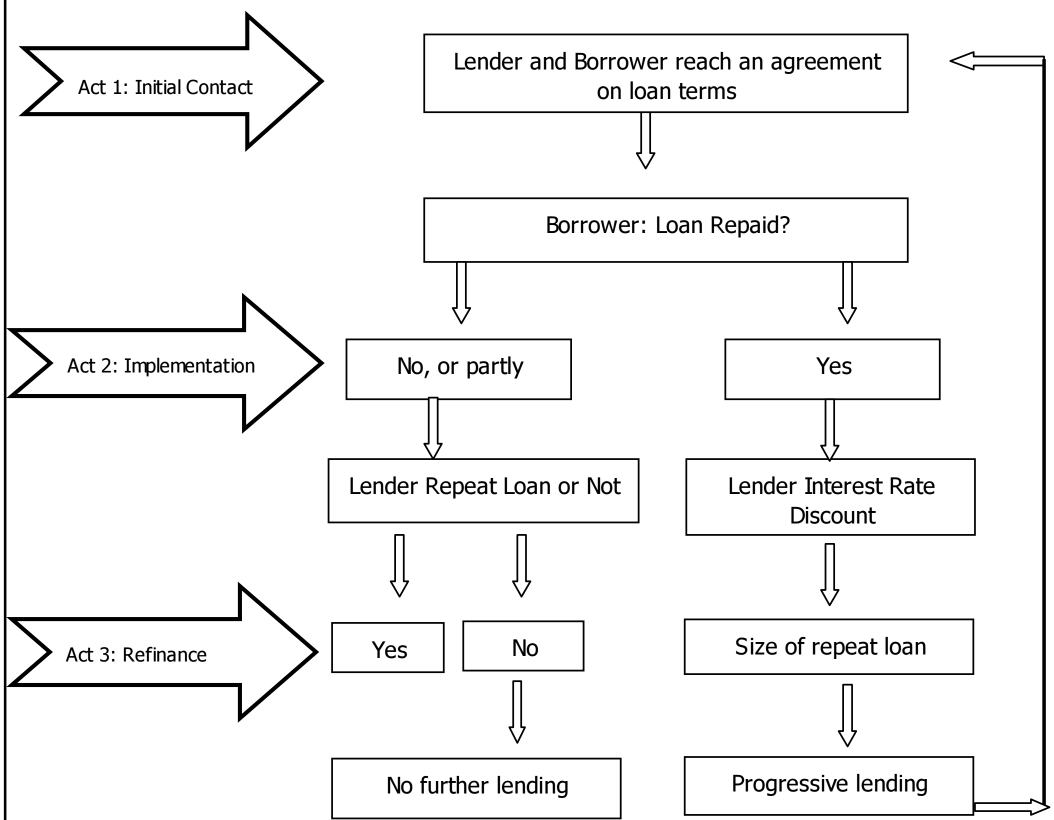
II Progressive Lending In Microfinance Groups: A Theoretical Review

In the world of microfinance, microcredit plays a unique role in fighting against poverty reduction. It seems to have a greater and more direct impact on the conditions of beneficiaries, given that it allows, by using a small amount of money, to foster economic activities for revenue generation. The approaches used to get the guaranteed repayment probably represent the most innovating and original facet of microcredit compared with conventional credit risk mitigation policies. Hence, the offer of microcredit has had to develop by using alternative or unconventional forms of guarantees; to develop and transform into collateral all those intangible assets that the poorest people have: and the sense of belonging to the same community and the reciprocal solidarity. Coherent with such an idea, the main risk mitigating methodologies used are joint liability or group lending and dynamic incentives.

The "discovery" of group-lending opened up promise of micro-financial services for the 'financially and socially excluded' poor, in general and women in particular. It is by far the most celebrated microfinance innovation in the world. Today, it is just one element that makes microfinance different from the traditional banking. Within group-lending many mechanisms are practiced by the institutions to overcome information problems and improve efficiency. One among these mechanisms is "progressive lending". It refers to the practice of promising larger and larger loans for groups and individuals in good standing (Morduch, 1999; Armendariz and Morduch, 2005). According to Hulme and Mosley (1996:60) "progressive lending is a practice of increasing the credit limit of borrowers by a proportion dependent on their previous repayment record."

Further, Hulme and Mosley (1996) use a game theoretic approach to explain the progressive lending (see figure 1). They visualise the relationship between utility maximising lender and borrower with a game in three stages which may or may not repeat themselves - initial agreement, implementation and decision on whether and on what terms to grant repeat finance. They referred these three stages as Acts 1, 2 and 3, respectively. In the first stage, Act 1, lender makes a loan of standard size of X at a standard interest rate r. In stage two, Act 2, the borrower receives a return s on the project which the loan is being used to finance and repays a proportion of this loan; in the event that repayment is not made in full, the lender either punishes this behaviour by refusing to provide repeat finance, or not. In the last stage, in Act 3, borrower does not repay the loan, but lender still provides a loan. This is because the lender's strategy of 'lending into the recipient's arrears' to pay back the arrears on the previous loan. Thus, progressive lending schemes expand the opportunity cost of non-repayment and thereby discourage strategic default even further. On the other hand, it is obvious from the figure that the successive repayment of loan will enhance the size of loan through new loan contracts between the lender and borrowers and it further increases the loan cycles. The empirical testing of factors that influence on the progressive lending is presented in the subsequent sections.

Figure 1: Incentive to repay and progressive lending: the game theoretic approach



Source: Hulme and Mosley (1996:61)

III Survey Design and Data

The data was derived from a survey of 106 women SHGs and 318 women members in ten villages in the state of Karnataka, India between 2006 and 2007. Five of the villages were supported by the Sri Kshethra Dharmasthala Rural Development Project (R.) (SKDRDP), Dharmasthala, Dakshina Kannada and the other five were supported by the Sanghamithra Rural financial Services (SRFS), Mysore. The rationale behind the selection of SRFS is that it is the only not-for Profit Company MFI registered under the Indian Companies Act, 1956 and has been working in the state for more than ten years with wide experience in microfinance services in Karnataka. The SRFS also extends micro-financial services in neighbouring states like Tamil Nadu and Andhra Pradesh. However, the motivation behind the selection of SKDRDP, was that it is the largest (in terms of reaching the number of poor people and loan outstanding) NGO-MFI working in the field of microfinance in Karnataka.

To study the progressive lending in groups, a multi-stage random sampling technique was used in the selection of study units (SHGs and its members). Accordingly, at the first stage, the operational area of the SRFS, Mysore district and Dakshina Kannada district, from SKDRDP were selected. Selection of the study area was done keeping in view that it should satisfy the two criteria, viz., (i) cover (formed/linked to the MFI) the maximum number of SHGs and rural poor households and (ii) the district should be the first operational area so that we have matured groups and members for the study. The second stage of sampling is the selection of taluks. There are two taluks, viz., T. Narasipura and Belthangady from the SRFS and SKDRDP operational areas were selected by using the same criteria that was used for the selection of districts. The third stage of sampling covered the selection of villages. From each taluk, the village list was prepared with number of SHGs formed/linked to the MFI. Consequently, the top five villages having the largest number of SHGs and members were selected from each taluk. Five villages from Belthangady taluk - Bandaru, Kokkada, Neriya, Machina and Padangady and from T. Narasipura taluk - Hykanoor, Helavarahundi, Talakadu, T.Bettahalli and Vatal - were selected for the study. The fourth stage of sampling involved the selection of SHGs. In each selected village, currently linked SHGs with MFI list was prepared. Accordingly, from each village 25% of SHGs were selected randomly. In all, 106 SHGs (53 SHGs from each taluk) were randomly selected from ten villages. From each randomly selected SHG's, 25% of the member households were

Table 1: The Sample SHGs across MFIs, Taluks and Villages

Sl. No	Name of the MFI / Taluk	Name of the village	Total No. of SHGs linked	Sample SHGs selected for	Sample members selected for
1	SRFS /T. Narasipura	Hykanoor	45	11(20.8)	36 (22.64)
2	-do-	Talakadu	46	11 (20.8)	33 (20.75)
3	-do-	Vatal	47	11 (20.8)	27 (16.98)
4	-do-	Helavarahundi	40	10 (18.9)	30 (18.87)
5	-do-	T Bettahalli	41	10 (18.9)	33 (20.75)
	Total		219	53 (100)	159 (100)
6	SKDRDP/Belthangady	Bandaru	49	12 (22.6)	30 (18.87)
7	-do-	Kokkada	45	11(20.8)	33 (20.75)
8	-do-	Machina	35	9 (17.0)	30 (18.87)
9	-do-	Neriya	42	10 (18.9)	33 (20.75)
10	-do-	Padangady	47	11 (20.8)	33 (20.75)
	Total		218	53 (100)	159 (100)
	Grand Total		437	106	318

Note: Figures in parentheses denote percentage to the total number of sample SHGs in particular taluk
Source: Primary Survey

selected randomly. In total, 318 households, 159 households from each Belthangady and T. Narasipura taluk were selected for the study. The sample of SHGs and members across MFIs/taluks and villages is presented in the Table 1.

Two interview schedules were prepared to collect the data from SHGs and its members. The data on basic details of the group, like, age of the SHG and its size, number of loan cycles, rate of interest, etc., were collected from the SHGs. Further, from the members, data related to occupation, level of education, marital status, caste categories, number of loan cycles, loan utilisation pattern etc, were collected. The study used a linear regression model to find out the determinants of progressive lending of groups to its members.

V Empirical Results

(a) Pattern of progressive lending: SHGs to its members

The practice of repeat loans with higher doses of credit is followed by SHGs in

Table 2: Progressive lending (Rs.) in SHGs of Karnataka

Taluk		Loan Cycle 1	Loan Cycle 2	Loan Cycle 3	Loan Cycle 4	Loan Cycle 5	Loan Cycle 6
T.Narasipura	N	53	53	47	34	27	13
	Mean	18325	41407	76696	90294	89425	191638
	Minimum	3000	8000	10000	24000	9400	30000
	Maximum	80000	125000	220000	170000	225000	312800
	Std. Deviation	15958	27035	48056	42339	65805	66687
	Mean of PCC	1479	2980	5130	6449	6865	12256
Belthangady	N	53	53	53	50	45	24
	Mean	16796	49835	59380	78145	85445	85267
	Minimum	2000	710	0	13000	15	26000
	Maximum	82000	158500	216050	359010	300000	200000
	Std. Deviation	13313	37598	40788	57789	64412	44354
	Mean of PCC	2125	5011	6094	7786	9165	12399
Total	N	106	106	100	84	72	37
	Mean	17560	45621	67519	83062	86938	122640
	Minimum	2000	710	0	13000	15	26000
	Maximum	82000	158500	220000	359010	300000	312800
	Std. Deviation	14645	32863	44970	52156	64503	73413
	Mean of PCC	1802	3995	5641	7245	8302	12327

Note: (i) PCC denotes the Per capita credit accessed by the member (ii) Yr denotes the year or one year represents one loan cycle.
Source: Primary Survey

their group-lending thereby enticing prompt repayment. Table 2 shows that groups not only provide a continuing series of loans but also loans quickly increased in size. Some groups have more than seven loans (one year per one cycle or one loan) with an increasing average of loan amount. The table shows average loan sizes for the groups in T. Narasipura and Belthangady taluk. For the entire sample, loan size growing from Rs. 17,560 for first time loans to Rs. 1, 22,640 for sixth time loans. While, the average per capita credit (PCC) accessed by the members in the total sample rose from Rs. 1802 in the first loan to Rs. 12327 in the six loan cycle. It is under the progressive lending that the group tests the borrowers with small loans at the start in order to screen out the worst prospects before expanding the loan scale (Ghosh and Ray, 1997). It is apparent from the table that across the sample taluks, the average loan amount is higher in T. Narasipura taluk than Belthangady taluk. However, the average PCC, up to fifth loan cycle is higher in the groups of Belthangady taluk than in T. Narasipura. But, from the six loan cycle onwards the PCC in both the study taluks is almost equal. Further, the average number of members accessed credit for the entire sample, growing from 10.13 for first loan to 12.14 for sixth loan. While, across the taluks, over the loan cycle, the groups in T. Narasipura taluk have served more number of members than the groups in Belthangady taluk (average number of members is 12.04 to 15.54 in T. Narasipura and 8.23 to 10.29 from the first loan cycle to sixth, respectively). The major reason for such difference across the taluks is the size of the groups in T. Narasipura taluks are quiet large than that of Belthangady taluk.

To examine whether or not there is any significant difference in the mean of average loan lent by groups over various loan cycles, the paired sample T test[1] for mean has been conducted. The result is given below in Table 3.

Table 3: Test for the difference in mean across the loan cycles

Loan Cycles (Pair)	T. Narasipura		Belthangady		Total	
	Mean (Rs.)	t-statistics	Mean (Rs.)	t-statistics	Mean (Rs.)	t-statistics
loan1-loan2	1500.19	7.07*	2886.54	6.51*	2193.37	8.64*
loan1-loan3	3690.56	9.70*	3968.87	7.84*	3838.07	11.95*
loan1-loan4	5287.17	9.24*	5649.92	7.88*	5503.09	11.39*
loan1-loan5	5626.01	6.09*	7290.46	8.99*	6666.29	10.80*
loan1-loan6	11158.18	8.74*	6354.29	8.08*	8042.14	10.44*

Note: *significant at 1% level.
Source: Primary Survey

The paired-sample t test tests the hypothesis that there is no difference in the mean of loan cycles across taluks and in the entire sample. The results indicate that the t-statistics are significant and the mean of loan cycles differ across the loan cycles. In fact, the observed mean difference is higher in T. Narasipura taluk than in Belthangady taluk.

(b) Pattern of progressive borrowing in SHG members

The ultimate purpose of group lending methodology in microfinance is to provide timely and continuous credit to the members. The continuity of accessing credit is dependent on the borrowers prompt repayment of old credit. Therefore, the progressive borrowing by the microfinance members from SHGs shows the effectiveness of dynamic incentives practiced in group lending. From table 4, it is apparent that in both the study taluks the average borrowing of the member has increased over the first loan to sixth loan cycle. Table clearly shows that SHGs are testing member's creditworthiness with small loan amount and over the period members are able to access larger amount of credit. Further, repayment of previous loan is benefited through an incentive of greater loan credit in the current period. Thus, prompt repayment of credit directs progressive lending as a dynamic incentive for the members in microfinance lending.

Table 4: Progressive borrowing of the members

Taluk		Loan Cycle 1	Loan Cycle 2	Loan Cycle 3	Loan Cycle 4	Loan Cycle 5	Loan Cycle6
Belthangady	N	159	159	156	146	115	63
	Mean	1634.40	5627.36	9529.04	12897.26	14039.13	15031.75
	Minimum	100	500	245	500	2000	5000
	Maximum	7000	50000	50000	75000	50000	50000
	Std. Deviation	1247.77	5643.88	7765.57	10914.70	8289.75	9187.95
T.Narasipura	N	159	159	144	102	70	34
	Mean	1590.09	4730.82	8173.61	9549.02	10271.43	10852.94
	Minimum	500	500	1000	1000	3000	2000
	Maximum	6000	15000	25000	20000	20000	20000
	Std. Deviation	1228.18	3227.43	4210.51	4308.93	4491.28	5009.88
Total	N	318	318	300	248	185	97
	Mean	1612.25	5179.09	8878.433	11520.16	12613.51	13567.01
	Minimum	100	500	245	500	2000	2000
	Maximum	7000	50000	50000	75000	50000	50000
	Std. Deviation	1236.26	4611.92	6340.36	8958.38	7314.23	8195.41

Source: Primary Survey

(c) Pattern of loan utilisation across various loan cycles

The increased loan cycle not only depicts the pattern of progressive lending/ borrowing it will also represent where the credit has been utilised and its likely return to the investor. Generally, a borrower needs credit for many purposes, starting from small amount of money for the consumption requirements to a large amount for the productive needs. Theoretically, the initial steps in progressive borrowing will have

Table 5: Pattern of loan utilisation across loan cycles

Particulars of	Loan Cycle 1			Loan Cycle 2			Loan Cycle3			Loan Cycle 4			Loan Cycle 5			Loan Cycle 6		
Loan Utilisation	Bel	T.N	Total	Bel	T.N	Total	Bel	T.N	Total	Bel	T.N	Total	Bel	T.N	Total	Bel	T.N	Total
IGA	14 (8.81)	49 (30.82)	63 (19.81)	64 (40.25)	88 (55.35)	152 (47.8)	69 (44.23)	94 (65.28)	163 (54.33)	61 (41.78)	63 (61.76)	124 (50.00)	29 (25.22)	33 (47.14)	62 (33.51)	24 (38.10)	16 (47.06)	40 (41.24)
Health and Education	28 (17.61)	34 (21.38)	62 (19.5)	14 (8.81)	16 (10.06)	30 (9.43)	7 (4.49)	5 (3.47)	12 (4.00)	10 (6.85)	1 (0.98)	11 (4.44)	2 (2.86)	2 (1.08)	0	2 (3.17)	2 (5.88)	4 (4.12)
Repayment of old loan/s	4 (2.52)	29 (18.24)	33 (10.38)	4 (2.52)	9 (5.66)	13 (4.09)	0	2 (1.39)	2 (0.67)	0	0	0	1 (0.87)	0	1 (0.54)	0	0	0
Social & Religious Ceremonies	4 (2.52)	1 (0.63)	5 (1.57)	0	1 (0.63)	1 (0.31)	0	2 (1.39)	2 (0.67)	0	0	0	0	1 (1.43)	1 (0.54)	0	0	0
Housing	5 (3.14)	9 (5.66)	14 (4.40)	28 (17.61)	29 (18.24)	57 (17.92)	54 (34.62)	30 (20.83)	84 (28.00)	52 (35.62)	34 (33.33)	86 (34.68)	61 (53.04)	26 (37.14)	87 (47.03)	25 (39.68)	15 (44.12)	40 (41.24)
Jewellery	1 (0.63)	0	1 (0.31)	14 (8.81)	3 (1.89)	17 (5.35)	9 (5.77)	6 (4.17)	15 (5.00)	11 (7.53)	3 (2.94)	14 (5.65)	16 (13.91)	3 (4.29)	19 (10.27)	10 (15.87)	1 (2.94)	11 (11.34)
Consumption	103 (64.78)	37 (23.27)	140 (44.03)	35 (22.01)	13 (8.18)	48 (15.09)	17 (10.89)	5 (3.47)	22 (7.33)	12 (8.21)	1 (0.98)	13 (5.24)	8 (6.96)	5 (7.14)	13 (7.03)	2 (3.17)	0 0	2 (2.06)
Total	159 (100)	159 (100)	318 (100)	159 (100)	159 (100)	318 (100)	156 (100)	144 (100)	300 (100)	146 (100)	102 (100)	248 (100)	115 (100)	70 (100)	185 (100)	63 (100)	34 (100)	97 (100)

Note: (i) Bel = Belthangady taluk and T.N = T. Narasipura taluk (ii) the figures in parenthesis represents percentage to the total number of observation in particular categories of loan utilisation..

Source: Primary Survey

small amount and generally used for consumption or emergency purposes. It is also evident from the table that the initial loan cycles are largely used for consumption purposes and later cycles are utilised on various income generating activities, like, micro-enterprises, dairy, petty business, etc.

The empirical results from table 5 clearly illustrates that as the loan cycles increases with larger amounts, the utilisation spreads across income generating activities and housing purposes. It is found that poor people give more priority for the development of housing and buying the housing requirements. Further, even some amount of investment is also found through investing on jewellery like gold and silver as a risk bearing or risk mitigating factor for future.

(d) Determinants of progressive lending

Theories based on sequential stage of group development are based on the identification of definite phases in the life cycle of the group. According to Tuckman (1965) each group will pass distinct stages of development like, forming, storming, norming and performing. Thus, the age or the level of maturity of the group will play a dominating role in determining the progressive lending of the groups.

To test the relative importance of the factors that determine the progressive lending in groups, a log linear regression model was estimated by using the Ordinary Least Square method. We found that the semi-log functional form was better than the non-log form to estimate the determinants of progressive lending in groups. In order to justify the semi-log specification, we tested the distribution of residuals for normality. The validity of the T-test and F-test also depended upon a normal distribution. In the Normal Probability (P-P) Plot, we found that the residuals were more close to the normal probability curve in the case of semi-logarithmic specification than the non-logarithmic specification. Therefore, the results support the assumption of an appropriate regress and are natural logarithm of average loan amount (total amount of loan divided by number of loan cycles considered as progressive lending) in the groups. In this

Table 6: Description of Independent Variables

Variable	Description	Expected Sign
mfi	1 = SKDRDP; 0 otherwise	+
finsus	Financial sustainability of the group	+
inssus	Institutional sustainability of the group	+
age2	1= SHG having age of 3 to 6 years, 0 otherwise	+
age3	1= SHG having age of more than 6 years, 0 otherwise	+
size2	1= group size between 10 to 15 members, 0 otherwise	+
size3	1= group size more than 15 members, 0 otherwise	+
lnpcc	Log per capita credit accessed (Rs.)	+
lnpcs	Log per capita savings (Rs.)	+

model, average loan amount in the group is the dependent variable and age, size of the group, per capita savings (PCS), per capita credit (PCC) accessed, MFI that is credit linked with groups, institutional and financial sustainability[2] of the group are the explanatory variables. Description of independent variables and its expected signs is given in Table 6.

In analysing the determinants of progressive lending SHGs, the age of the group is considered as an explanatory variable. The SHGs that exist for a long period with continued savings makes the group to increase its cycle or size of loans. It is expected that as compared with the age1, age2 and age3 groups are likely to positively influence on progressive lending of the SHGs. The PCC accessed by the member is considered as an explanatory variable in the model. It explains the reliability of SHGs in delivering credit services to the members in a more convincing manner. Thus, benefits to the members will keep the SHG alive and sustainable. It is expected that the per capita credit accessed by the member will positively influence the progressive lending of the SHGs. Generally, the microfinance groups depend on MFIs for financial requirements. Thus, MFI plays important role in the availability of the credit. Group size is considered as an explanatory variable. Most of the theoretical literature on group lending suggests that the group, which is too large or too small in size, may fail to achieve in increased size of loan. If the group is too big then the strength of peer pressure and monitoring will be very weak due to information asymmetries and if it is extremely small in size then there may be failure of 'economies of scale' in its operation. Thus, in this model as compared to the group1 (less than 10 members), group2 (10 to 15 members) and group3 (more than 15 members and less than 20) are likely to positively influence progressive lending of the SHGs. The variables on financial and institutional sustainability are the index values that are computed through considering various financial factors and institutional factors, like leadership, meetings and decision-making, mechanisms of record keeping, conflicts-resolving capacity of the groups, networks and awareness, thrift and saving, borrowing and lending, credit rotation, and repayment of loans.

The estimated equation is as follows:

$$\text{In } pro \text{ In } d = \beta_1 + \beta_2 mfi + \beta_3 insus + \beta_4 finsus + \beta_5 age2 + \beta_6 age3 + \beta_7 size2 + \beta_8 size3 + \beta 9 \text{ In } pcc + \beta_{10} \text{ In } pcs + u$$

The result indicates that there is positive association between the age of the SHGs and progressive lending. SHGs falling in age group2 observed higher loan sizes by 0.1704 units compared to SHGs falling in age group1. Similarly age3 attained higher loan sizes by 0.3085 units as compared to SHGs falling in the age group1. The coefficients of age2 and age3 are positive and statistically significant at 95% level, respectively. The coefficients of log of per capita savings and log per capita credit accessed by the group member are positive and significant at 99% level. The size of the SHGs is positively associated with the loan size. While comparing the smallest group (size1), the progressive

Table 7: Determinants of Progressive Lending: OLS Estimates

Dependent variable = Log-Progressive lending (logprolnd)

Variables	Co-efficient	Robust std. error	t-Statistics
mfi	0.0795	0.0721	1.10
inssus	0.5059*	0.1817	2.78
finsus	0.8419*	0.25055	3.36
age2	0.1704**	0.9213	1.85
age3	0.3085**	0.1541	2.00
size2	0.2071*	0.0658	3.14
size3	0.5739*	0.1055	3.44
lnpcc	0.4216*	0.1481	2.85
lnpcs	0.6741*	0.0840	3.02
constant	7.3036*	1.000	2.30
R^2	0.61		
F (9, 96)	23.5*		
N	106		

Note: *, **, *** Significant at 1, 5 and 10% level, respectively

lending of size2 is comparatively higher at 0.2071 units and further, for the size3 still higher by 0.5739 units. Size2 and size3 are statistically significant at 99% level, respectively. In the model institutional sustainability and financial sustainability of the groups have more influence on the progressive lending of the SHGs and it is significant at 99% level. As the groups attain higher levels of sustainability, it will influence the number of loan cycles and amount of loan. The R-square value is 0.61, which means 61% of the variations in progressive lending of the SHGs were explained by the included variables in the model.

VI Policy Recommendations and Conclusion

In the recent past, in Karnataka, new institutions namely, SHGs, have been recognised and accepted as financial intermediaries. The empirical result in this study reveals that the groups increased their loan sizes by many fold and it shows that they are following the dynamic incentives like progressive lending. Groups in Belthangady taluk are lending more than the groups in T. Narasipura taluk with regard to average PCC. While, the average increase in the credit over the years is greater in T. Narasipura taluk than Belthangady taluk. It indicates that the practice of principle of progressive lending has contributed to improving the loan size across the groups and taluks.

The supply of financial services through the SHGs to the poor is found to be efficient and sustainable. It has contributed in filling the gap between the relatively low cost but inaccessible formal banking sector, and the accessible, but high cost informal sector. However, this study has investigated the influence of sustainability and other factors in determining the progressive lending in the groups in Karnataka, India. The results showed that age of the group, savings and credit access, institutional and financial sustainability of the SHGs are the major determinants of progressive lending of the microfinance groups. The empirical findings of this paper establish that the groups with high institutional and financial sustainability will increase the progressive lending and further it will increase the sustainability of the groups.

In sum, the progressive lending is an effective mechanism to deepen the outreach of microfinance services. In the light of findings of this study, it would be profitable to further investigate the functioning of progressive lending across microfinance lending models (group and individual) and its relative impact on utilisation and repayment of loan cycles.

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Notes

1 The paired-sample t-test is used to compare the means of two variables within a single group.

2 The financial and institutional sustainability of the groups were measured through the computation of two independent indices (Shetty, 2009). These index values varies from 0 to 100, where values moving towards 100 shows that there is high financial or institutional sustainability of the groups.

Impact of Swarna Jayanti Gram Swarojgar Yojona (SGSY) on Health, Education and Women Empowerment

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Swarna Jayanti Gram Swarojgar Yojona (SGSY), a government sponsored micro-credit programme of India, has been designed to ameliorate poverty among the rural poor, particularly women, through human capital development and strengthening female agency.

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Abstract

Swarna Jayanti Gram Swarojgar Yojona (SGSY), a government sponsored micro-credit programme of India, has been designed to ameliorate income poverty among the rural poor, particularly women, through human capital development and strengthening female agency. In this backdrop the basic objectives of the paper are to see: (a) whether the programme has any impact on health of the programme participants across Socio Religious Communities (SRCs); (b) whether the programme has any significant role in improving education across SRCs; and (c) whether SGSY programme has been able to enhance female agency irrespective of caste and community affiliation. The district of Murshidabad, West Bengal, has been chosen for the field study. All the selected SHGs were two years old. The initial sampling was done in 2006 to know about the pre-SHG participation socio economic condition. The resurvey was conducted in 2008. The study shows that from 2004 to 2008, the programme has significant impact on female agency across all SRCs except Muslims, but the role of the programme in forming human capital is insignificant irrespective of SRCs. If household specific unobserved heterogeneity is removed, then significant impact of the programme on female agency becomes insignificant across all SRCs except UCs.

Key Words: Micro-credit, SGSY Scheme of the Government of India, Panel Data, Unobserved heterogeneity, Fixed effects.
JEL Classification: C23, I38, J16

Introduction

Among several policy tools for reducing poverty, there is a growing consensus that, in the long run, human capital formation will be one of the most powerful instruments (Schultz, 1961; Bils and Klenow, 2000; Krueger and Lindahl, 2000). The performance of financial markets and human capital formation are related in several ways. Access to financial services allows rural households to take full advantage of their productive opportunities, facilitates consumption smoothing, and offers tools for the management of risk thereby reducing the vulnerability associated with poverty. Higher and more stable income flows positively influence the demand for education in the rural areas of low-income countries (Maldonado et al, 2002). Information, incentive, and contract enforcement problems severely constrain, however, the access of poor rural households to formal financial markets. Through the adoption of new lending technologies, nevertheless, microfinance organisations (MFOs) have been offering mostly credit and sometimes deposit facilities for savings to segments of the population otherwise without access to formal financial services (Navajas and Gonzalez-Vega, 2002).

The relationship between poverty and health has been characterised as synergistic and bi-directional (Das Gupta and Chen, 1996; Wagstaff, 2001). On the one hand, poverty limits capacities to produce health. On the other hand, ill health impoverishes, diminishing the potential of increasing economic well-being of individuals and households (Over et al., 1992; Krishnan, 1999). There have been recent suggestions that participation in micro-credit may be beneficial to the health of the poor, particularly for women (Feurestein, 1997; Fisher, Holland & James, 2001; Patel, 2000). Micro-credit could impact on health through various pathways. The expansion of opportunities created by participation includes increasing assets and enhancing female autonomy, which are key determinants of women's health (Amin, et al., 1998; Jacobson, 1993; MacCormack, 1988; Moss, 2002). The expansion of opportunities created by participation includes increasing assets and enhancing female autonomy, which are key determinants of women's health (Amin, et al., 1998; Jacobson, 1993; MacCormack, 1988; Moss, 2002). The promotion of SHGs and other forms of micro-credit may be an important route to health development through positive influences on underlying causes of ill-health. Human capital theory proposes that individual income earning will increase through self-investment in health, education, and training. Grossman's notion of health capital demonstrated that health is unique in that it is both a consumption good, and an investment good. The former suggests that heath is desirable for making people feel better, while the latter implies increasing income earning potential, by increasing the number of healthy working days (Mohindra, 2008).

The relationship between education and income is complex. If a high marginal value is placed on the health and education of family members, increases in income will be devoted to improvements in these areas. Thus, income is expected to influence the schooling decisions positively for poor households. At the same time, healthier and better-educated household members will be able to produce more, and this improved productivity will be rewarded in the labor market with higher incomes (Duryea and Pages, 2002). Human capital formation faces, however, severe obstacles. Because human capital cannot be seized and transferred to a lender in the event of default, it cannot be used as collateral; consequently, the poor must fund their educational choices out of their retained earnings, wealth, or abstention from current productive work. Because they are poor, the marginal cost of doing so may be prohibitively high (Ray, 1998).

This shortcoming of credit markets accentuates the joint causation between income and human capital. Combined with increasing returns to investment in education, imperfect credit markets may generate a poverty trap (Bardhan and Udry, 1999). That is, relatively wealthy individuals will be able to invest in human capital, and this will enable them to earn enough income to remain wealthy. In contrast, the poor will be unable to invest in human capital, and thus they will earn lower incomes and remain poor. By increasing the flow of household earnings, microfinance may allow greater investments in human capital. Furthermore, through the fungibles of borrowed funds, loan funds may finance current educational expenses. Indeed, the innovations in lending technologies associated with SGSY usually allow households without traditional collateral to pledge their reputation and, therefore, their future ability to generate income flows from their human capital, as a guarantee on their loans. In this way, microfinance enhances the deployable wealth of the household. Loans from microfinance organisations increase the pool of current resources available, among other uses, for education, and may increase future income flows, thereby providing additional resources to fund education.

Over time the stated development goals of women's empowerment have evolved and broadened, from a concentration on the relative well-being of women vis-a-vis men to the incorporation of notions of women's agency in the attainment of greater well-being for all, and particularly for women (Mahmud, 2003). It is important to distinguish this shift in emphasis as one from passive acceptance of well-being enhancing assistance to one of active participation in the attainment of those well-being objectives. In fact, women's agency is being increasingly posed as the pathway of social change that 'can alter the lives of both women and men' (Sen, 2002). In this context, it is pertinent to explain the term 'empowerment'. The World Bank views empowerment as 'the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions [government] that affect their lives (Narayan, 2002). In UNDP, it is about participation in decision-making processes as the 1995 Human Development Report puts it: 'empowerment is the expansion of people's capabilities that involves an enlargement of choices and thus an increase in freedom' (UNDP 1995).In all these cases, empowerment enshrines the role of the state as the backbone for an empowered citizen.

2. SGSY, Health, Education and Female Agency

The Swarnajayanti Gram Swarozgar Yojana (SGSY), a credit-based scheme sponsored by the Government of India for poverty alleviation, is perhaps the largest of its kind in the world. The scheme was designed to promote out of poverty through investment in human capital. Under this scheme for group Swarojgaris, Self-Help Groups are formed. SHGs are small informal associations created for enabling members to reap economic benefit out of mutual help, solidarity, and joint responsibility. The benefits include mobilisation of savings and credit facilities and pursuit of group enterprise activities. The group-based approach not only enables the poor to accumulate capital by way of small savings but also helps them to get access to formal credit facilities (Anand, 2003). These groups by way of joint liability enable the poor to overcome the problem of collateral security and thus free them from the clutches of moneylenders. The joint liability not only improves group members' accessibility to credit, but also creates mechanisms like peer monitoring leading to better loan recoveries (Stiglitz,1993), besides some of the basic characteristics of SHGs like small size of membership and homogeneity of composition, bring about cohesiveness and effective participation of members in the functioning of the group . In general, SHGs created on the above lines of functioning have been able to reach the poor effectively, especially women and help them obtaining easy access to facilities like savings and credit, and empower them (NABARD, 1995).

Improved health can be achieved through access to food, access to health care, healthy behaviours, a healthy environment, social inclusion, social support, social influence, awareness and sense of coherence. As a part of this policy, SHG members of SGSY scheme have been integrated with the formal health system. Auxiliary Nurse and Midwife (ANM) workers in each health sub-centre organise a team taking ASA workers and SHG members in each village where SGSY programme is going on. This team creates awareness among villagers about the benefit of living in a healthy atmosphere, the need of using mosquito net during night, benefit of using sanitary latrine etc. From matured SHGs, health activists will be identified to become Community Health Development Workers (CHDWs). They are the first contact persons for the delivery of simple health services, for which, communities do not have to depend on the medical doctors. This will also give them opportunity to impart health awareness and education. The goal is for health to become part of daily routine, rather than something to attend to during an episode of illness. There will be sub-health centre to become the epicenter, to provide emergency care round the clock. The outreach activities are organised around this epicenter with the help of the ANM, ASA workers and CHDWs.

Training swarojgaris for entrepreneurial capacity is an integral part of SGSY programme. The SGSY programme jointly provides credit and education. This feature was absent in erstwhile IRDP programme. Through one or two days basic orientation programme the SGSY programmme tried to impart training for enhancing functional as well as entrepreneurial skill. Through this programme SHG members become familiar with the objectives, responsibilities, and elements of book keeping, knowledge of marketing, acquaintance with costing and pricing and also financing with bank. In our study area, we can observe that there is significant change in the educational status of the SHG (Self Help Group) participants. Before participation in the programme, 52% of the participants don't know how to read or write, but after programme participation, 34.6% of them have become literate. Through informal schooling like 'Ravindra Mukta Vidyalaya', some SGSY participants enhanced their years of schooling. After joining the programme 9.5% SHG members passed the 'Madhyamik (class 10 plus)' examination, whereas eleven SGSY members got employment in nearby Sisu Siksha Kendra (SSK).

Participation in SGSY programme is hypothesised to increase empowerment in at least three ways: by placing more financial resources in women's hands, by increasing women's bargaining power within the household because of increased financial contributions, and by building solidarity, self-esteem and self-efficacy through group activities with other women. These forms of empowerment, in turn, reduce barriers to accessing family planning services, including financial constraints, restrictions on mobility outside the household, lack of information about contraception, and opposition from husbands (S. Amin & Pebley, 1994; Hashemi et al., 1996; Schuler & Hashemi, 1994; Schuler et al., 1997; Steele et al., 2001). One additional mechanism by which microfinance programmes enhance empowerment is social learning and social influence. Social influence is a diffusion model in which interpersonal interactions in social contexts change individuals' preferences; social learning is a closely-related concept in which interpersonal or impersonal interactions provide information that changes an individual's decision-making process (Montgomery & Casterline, 1996).

A majority of microfinance programmes target women with the explicit goal of empowering them. There are varying underlying motivations for pursuing women's empowerment. Some argue that women are among the poorest and the most vulnerable of the underprivileged and thus helping them should be a priority. Others believe that investing in women's capabilities empowers them to make choices, which is a valuable goal in itself, but it also contributes to greater economic growth and development. It has been well documented that an increase in women's resources results in increased well-being of the family, especially children (Mayoux, 1997; Kabeer, 2001; Mosley and Hulme, 1998). Hashemi et al. (1996) investigates whether women's access to credit has any impact on their lives, irrespective of who has the managerial control. Their results suggest that women's access to credit contributes significantly to the magnitude of the economic contributions reported by women, to the likelihood of an increase in asset holdings in their own names, to an increase in their exercise of purchasing power, and in their political and legal awareness. They also found that access to credit is also associated with higher levels of mobility, political participation and involvement in 'major decision-making' for particular credit organisations. Holvoet

(2005) finds that in direct bank-borrower minimal credit, women do not gain much in terms of decision-making patterns. However, when loans are channeled through women's groups and are combined with more investment in social intermediation, substantial shifts in decision-making patterns is observed. Mayoux (1997) argues that the impact of microfinance programmes on women is not always positive. Increases in income for women can come at the cost of heavier workloads and repayment pressures. Men in the family to set up enterprises use their loans, or sometimes women end up becoming unpaid family workers with little benefit. Furthermore, it can lead to withdrawal of male support and decrease in male contribution to household expenditure. Rahman(1999), using a anthropological approach with in-depth interviews, participant observations, case studies and a household survey in a village, finds that between 40% to 70% of the loans disbursed to the women are used by the spouse and tensions within the household increase (domestic violence). Nevertheless, majority of the findings conclude that by helping women meet their practical needs and increase their efficacy in their traditional roles, microfinance can help women to gain respect and achieve more in their traditional roles, which in turn can lead to increased esteem and self-confidence.

BIDS and the World Bank (Pitt and Khandker 1998) in a joint research carried out the most comprehensive and rigorous micro-finance impacts studies that have established causality among several outcome indicators. This body of research provides a strong indication that the programs help the poor in consumption smoothing as well as in building assets. The findings also lend support to the claim that micro-finance programs promote investment in human capital (such as schooling) and contribute to increasing awareness to reproductive health (such as the use of contraceptives) among poor families. This major study also sheds lights on the role of gender-based targeting and its impact on household or individual welfare. Findings suggest that women do acquire assets of their own and exercise power in household decision-making (Khandker, 2003). Morduch (1998), using the same BIDS-World Bank survey data but a different technique (difference-in-difference method), finds that program effects are either non-existent or very small. He argues that the Pitt and Khandker (1998) estimates of program impacts are over-estimated and, thus, the flagship programs such as the Grameen Bank do not really help the poor. There is hardly any study analysing the impact of SGSY on education, health and female agency across Socio Religious Communities (SRCs) of the programme participants. Therefore, it is interesting to see whether the SGSY programme has any impact across SRCs. This paper shows that though the programme has significant impact on female agency, but insignificant impacts on education and health. If household specific unobserved factors are removed, then that significant impact on female agency is also removed. This result remains unaltered even if we adjust for time invariant household unobserved characteristics. The paper has been organised as follows: Section-3 deals with methodology and data; section-4 contains results and discussions.

3. Methodology and Data

3.1. Operational Definition of 'Health', 'Education' and 'Female Agency'

Each adult women of the surveyed household were asked following questions: (a) Whether they can demand for their own health care; (b) they can use contraceptives; (c) they think taking Tetanus Vaccine, Iron Tablets and regular medical checkup is urgent as pre-natal care; (d) feel no mental trauma from husband or any other family members. In this 0-6, scale for each affirmative answer the respondent gets one mark. Among scores of all the adult women of a particular household, maximum as percentage of 6 is taken as proxy of household 'Health Index'.

Index of education is based on following variables: (I) Years of schooling (II) Experience of any professional training like tailoring, embroidery, making candle, preparing jam or jelly, etc. (III) Knowledge about book keeping. (IV) Any job market experience, i.e., they are self employed or employed anywhere else (V) Knowledge of marketing, and (VI) experience of interaction with bank. All adult women members of the household were asked these above mentioned questions. For each yes the respondent gets one marks and otherwise zero in 0-6 scale. Maximum of these values as a percentage of 6 is taken into account.

Here we define female agency in terms of economic spaces and private political spaces. Economic spaces represent opportunities for livelihoods, employment, property, etc. The private political space consists of hierarchies and placements within families and households, which are determined by age, relationship and gender. Therefore, the index of 'Female Agency' has been constructed on following questions to respondents: (a) Ability to spend own income according to own will. (b) Ability to make large purchases. (c) Ability to make small purchases. (d) Ability to decide what item to be cooked. (e) Can go nearby bank, movie, market or hospital alone. (f) Going and staying with parents and siblings. (g) Decision about children's health or education and (h) birth numbers. For each 'yes', the score is one in 0-8 scale. These questions were asked to all adult women of a respondent household. Scores of all the women of the household were transformed in percentage of 8. Highest among these percentages is taken as value of the 'Index of Female Agency'.

Impact Analysis with Panel Data:

In this paper, we tried to estimate conditional demands for a set of household bahaviours, conditioned on the household's borrowing from SGSY run SHGs. However, there are several services from SHGs, but here programme participation has been represented by 'borrowing'. Consider the reduced form equations (1) to (4) for the borrowing for UCs, OBCs, SCs and Muslims programme participants respectively:

$$C_{ut} = X_{it}\ \beta_{bu} + \eta\ ^{b}{}_{iu} + \text{î}\ ^{b}{}_{iut} \quad \ldots\ldots (1)$$

$$C_{iot} = X_{it}\ \beta_{bo} + \eta\ ^{b}{}_{io} + \text{î}\ ^{b}{}_{iot} \quad \ldots\ldots (2)$$

$$C_{ist} = X_{it}\ \beta_{bs} + \eta\ ^{b}{}_{is} + \text{î}\ ^{b}{}_{ist} \quad \ldots\ldots (3)$$

$$C_{imt} = X_{it}\ \beta_{bm} + \eta\ ^{b}{}_{im} + \text{î}\ ^{b}{}_{imt} \quad \ldots\ldots (4)$$

Where X is a vector of household characteristics like household's asset[1], and index of social connectedness[2], ç is an unmeasured determinant of borrowing that is time invariant and fixed within a household. î is non- systematic error term. The conditional demand for outcomes Y_{it} such as 'Female Agency', 'Education' and 'Health' in each period conditional on the level of borrowing by UCs, OBCs, SCs, and Muslims for each period is as follows:

$$Y_{it} = X_{it}\ \text{â}_{y} + C_{iut}\ \text{ä}_{u} + C_{iot}\ \text{ä}_{o} + C_{ist}\ \text{ä}_{s} + C_{imt}\ \text{ä}_{m} + \text{ç}\ ^{y}{}_{i} + \text{î}\ ^{y}{}_{it} \quad \ldots\ldots (5)$$

Where ä_{u}, ä_{o}, ä_{s}, ä_{m} are the effects of UC-credit, OBC-credit, SC-credit and Muslim-Credit. The impact of borrowing can be obtained by estimating equation (5). Borrowing irrespective community affiliation has to be estimated jointly with eq (5). The problem of estimation arises from the possible correlation of ç_{i}^{b} and ç_{i}^{y} and $\text{î}\ ^{b}{}_{it}$ and $\text{î}\ ^{y}{}_{it}$. If the estimation methodology doesn't take into account this endogenity, the biased estimates of parameters will be obtained. The endogeneity in the SGSY-borrowing arises due to unmeasured household attributes affecting both borrowing and conditional outcomes. These attributes include endowments of innate health, ability and fecundity (Pitt, 1998). Eq (5) doesn't have any variable, which is included in eq (5), but not in equation (1) to (4). It implies the equation (5) is not distinguishable from eq (1) to eq (4). Standard methodology to resolve this household endogeneity is to use instrumental variables.

Pitt and Khandker (1998) adopted a two-stage instrumental variable (IV) method to resolve the endogeneity of a household's participation. In the IV method, they used exogenous gender- and landholding-based exclusion restrictions to create dis-continuous household's program choice variable. That variable was interacted with household's observable characteristics to create instruments. With panel data where households have more than one observation (t>1), such two-stage identification restrictions are not required. This is simply done by differencing out the unobserved household attributes, which are the sources of correlation between the credit demand and household outcome equations (Khandker, 2003). Therefore, our new estimated equation is:

$$\text{Ä}Y_{i} = \text{Ä}X_{i}\ \text{â}_{y} + \text{Ä}C_{iu}\ \text{ä}_{u} + \text{Ä}C_{io}\ \text{ä}_{o} + \text{Ä}C_{is}\ \text{ä}_{s} + \text{Ä}C_{im}\ \text{ä}_{m} + \text{Äî}\ ^{y}{}_{i} \ldots\ldots (6)$$

Consistent estimates of parameters can be obtained by using household level fixed effect methods. This is based on strong assumption that error terms of borrowing equations are un correlated with the error term of outcome equation. Setting aside two period pulled data method eq (6) can be estimated two competing methods: (a) Fixed Effect (FE) and (b) First Difference (FD). One involves differencing the data, and the other involves time-demeaning. For two period data, Fixed Effect and First Difference estimates are identical. The equivalence of FE and FD depends on the estimation of same model in both cases. In FD, it is natural to include an intercept; this intercept is actually the intercept for second period in the original model written for the two periods. Therefore, FE estimation must include a dummy variable for the second period in order to be identical to the FD estimates. FD estimation is straight forward to implement in any econometric and statistical package, and it is easy to estimate heteroskedasticity-robust statistics after FD estimation (Wooldridge, 2009). We have applied here FD estimation technique. Applying OLS to equation (6) can give us consistent estimator if ÄX_i and ÄC_i are uncorrelated with Äî$_i$; and ÄX_i and ÄC_i have some variations across individuals and all other assumptions of Classical Linear Regression (CLRM) hold.

We further want to see if we just pull the data and apply OLS what happens to estimates of the parameters. Consistent estimator of parameters can be obtained if unobserved household specific time invariant factor (ç) is uncorrelated with explanatory variables. The resulting bias from the pooled regression is known as heterogeneity bias. It solely comes from omitting a time constant variable.

Data and their salient features

The District of Murshidabad, West Bengal, has been chosen for the field study. As per Census 2001, total Muslim population of the District is 3,73,5380. 48.6% of the Muslim population is literate and 42.8% of the Muslim women can read or write. In the 0-6 age group the Muslim sex ratio is 976. As per the estimate of Indicas Analytics[3], India Today, 2004, the score of the district in the index of social progress is 0.46.

Table1: Over View of Sample Size across Sub-Divisions

District: Murshidabad Sub Divisions Covered	No of Villages with SGSY Programme Covered	No of Villages without SGSY Programme Covered	No ofSHG Under SGSY Covered in Programme Villages		No ofSHG Members Under SGSY Groups Covered inProgramme Villages		Non-SHG Members Covered in Programme Villages		Non-SHG Members Covered in Non-Programme Villages	
			2004	2008	2004	2008	2004	2008	2004	2008
1. Kandi	5	2	30	30	150	140	70	65	30	30
2. Berhampore	5	2	30	30	150	137	70	67	30	30
Total	10	4	60	60	300	277	140	132	60	60

In the District of Murshidabad, there are 5 Subdivisions, 26 Blocks, 256 Gram Panchayats and 2290 Mouzas[4]. In order to grasp the ecological variation in the study we have chosen purposively Kandi Sub Division, part of 'Rarh Bengal'[5], and Berhampore Sub Division, part of 'Ganges Delta'. The households are sampled in villages that are with and without the SGSY program. In program villages, both the programme participant and non-participants are sampled. The sampling was done from the detailed list of SHGs provided by the District Rural Development Cell (DRDC). Overview of sampling across Sub Divisions is given in Table 1.

At the stage of sampling of SHGs under SGSY scheme, however, an intervening stratification by categories of socio religious communities was introduced. SHGs were classified among four strata by caste and community affiliation: Schedule Caste Hindus (SCs), Other Backward Castes (OBCs), Muslims and Upper castes (UCs). Here Muslim means Muslim General Caste. Table 2 depicts overview of sampling across SRCs.

Table 2: Over View of Sample Size across Socio Religious Communities

District: Murshidabad Socio Religious Communities	No. of SHG Members Under SGSY Groups Covered in Programme Villages		Non-SHG Members Covered in Programme Villages		Non-SHG Members Covered inNon-Programme Villages	
	2004	2008	2004	2008	2004	2008
UC	120	109	50	50	30	30
OBC	60	58	30	27	10	10
SC	60	55	30	28	10	10
Muslim	60	55	30	27	10	10
Total	300	277	140	132	60	60

Thirty Groups, each having two year's age, were chosen from each Sub-Division. Each group consists of 10 to 15 members. Five members from each group were chosen randomly and their households were surveyed. Therefore, total three hundred SHG member-household were surveyed. Seventy households having same socio-economic back ground as SHG member-households from the programme villages of each region were surveyed. Similarly, thirty households from the non-programme villages of each Sub-Division were interviewed. Initially it was done in 2006. The survey started from January and ended in July to minimise recall period about their pre- SHG participation socio-economic situation. As all the SHGs are two years old, therefore, pre-SHG year implies 2004. In 2006 the sample contains hundred twenty Muslim SHG members and sixty SHG members each from other three SRCs. All these households were resurveyed in 2008. During this period, twenty three SHG members have left the group, whereas 8 individuals who were non-SHG members became SHG members in programme villages in 2008. Therefore, in 2008 we have 277 individuals who are SHG members and 132 individuals who are non-SHG members in programme villages and sixty non-SHG members from non-programme villages. Therefore, in 2008 among 277 SHG members 109 are Muslims, 58 are UCs, 55 are OBCs and 55 are SCs. Among 132 non-SHG members of programme villages 50 are Muslims, 27 are UCs, 28 are OBCs and 27 are SCs. Among 60 non-SHG members of non-programme villages 30 are Muslims and other three SRCs each have 10 members. Programme villages in Kandi Sub-Division are Salar, Raigram, Agardanga, Alugram and Masla, whereas Villages in Berhampore Sub-Division are Bazarsau, Kamnagar, Saktipur, Mirzapur and Simuldanga. Non-programme villages in Kandi Sub-Division and Berhampore Sub-Divisions are Berbari, Bhabanipur, and Ibrahimpur and Sonar Gram respectively.

The paper's assessment on impact of borrowing relies on panel data so the sample is restricted to households who form the panel that is those have been interviewed in both periods. A detailed summary statistics of all the explanatory and explained variables are given in tables 1 and 2 for the year 2004 and 2008 respectively. The monetary values of variables like asset and borrowing have been adjusted by the consumer price index of agricultural labourers with 2004-05 as the base line.

Table 3: Summary statistics of explanatory variables and explained variables in 2004 and 2008

Variables	Asset		Index of female agency		Index of Education		Index of Health		Index of social connectedness		Borrowing	
SRCs	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008	2004	2008
UCs	47756 (12036)	54690 (14796)	58.34 (13.10)	59.48 (12.57)	17.21 (1.49)	23.83 (5.29)	23.13 (2.42)	30.93 (5.19)	42.5 (19.88)	52.2 (23.64)	0	5403.94 (8016.20)
OBCs	48760 (14702	54228 (12338)	56.77 (11.95)	62.29 (12.28)	17.2 (1.53)	22.94 (4.21)	23.19 (2.77)	30.05 (4.21)	46.44 (20.72)	48.17 (20.90)	0	5049.4 (7254.00)
SCs	50222 (13928)	53754 (15460)	56.02 (11.87)	60.09 (12.82)	17.22 (1.23)	22.57 (3.88)	23.32 (2.28)	29.71 (4.00)	43.32 (22.91)	43.35 (19.98)	0	5457.98 (8976.46)
Muslims	50976 (11528)	53034 (13402)	54.27 (13.21)	57.16 (11.83)	17.01 (1.16)	22.76 (3.93)	22.89 (2.53)	30.13 (3.37)	42.64 (16.81)	49.55 (21.70)	0	4425.22 (6159.06)
Control	49498 (16014)	52954 (12138)	53.82 (13.61)	56.5 (13.96)	17.38 (1.38)	22.73 (3.22)	23.4 (2.34)	30.1 (3.78)	46.88 (20.65)	47.16 (24.78)	0	0

Note: Terms in first brackets are Standard Deviations

From table 3 we can see that values of all the variables increased from 2004 to 2008 both for the treatment and control group. Values of Index of Female Agency, Index of Education and Index of Health have increased in 2008 compared to 2004. The pertinent question is how much of this increased value for borrowing from SGSY?

4. Result and Discussions

Ignoring household specific unobserved heterogeneity we estimate equation (5) using pooled regression. The results are described in table 4. Table shows that for UCs, OBCs and SCs female agency has increased significantly due to participation in the SGSY programme, whereas the agency has increased, though insignificantly, for Muslim women. Due to participation in SHG irrespective of caste and community affiliation women have greater say both within and outside the household. Participation in this state-run-microfinance programme has increased the education of all the programme participants across all the Socio Religious Communities (SRCs). However, this increment is not statistically significant compared to control group. SHG members are involved with ANM and ASA workers for generating health awareness. From the statistical analysis, it is revealed that participation in SGSY run SHGs has increased the 'Index of Health' across SRCs, but insignificantly.

Table 4: Impact of Borrowing across SRCs Obtained from Pulled Regressions

Dependent Variable SRCs	Index of female agency	Index of Education	Index of Health
UCs	5.913E-04***	6.039E-05	1.690E-05
OBCs	8.902E-04**	4.78E-05	7.750E-05
SCs	6.224E-04*	1.390E-05	5.147E-06
Muslims	2.51E-04	6.28E-05	1.28E-04

,,*** implies significance at 1, 5 and 10% level of significance.

To iron out the household specific unobserved heterogeneity we estimate equation (6) using First Difference method. If there is any unobserved heterogeneity, then results from the pooled regression will differ from the results of First Difference Method. However, as evident from table 5, the significant positive impact of the SGSY programme on women empowerment is weed out for all SRCs except UCs. It implies that instead of the programme, the household specific time constant factors that ultimately determine the female empowerment.

Table 5: Impact of Borrowing across SRCs Obtained from First Difference Regressions

Dependent Variable SRCs	Index of female agency	Index of Education	Index of Health
UCs	1.53E-04**	1.656E-02	4.735E-05
OBCs	4.180E-05	1.93E-05	1.63E-04
SCs	9.97E-05	1.532E-04	1.250E-03
Muslims	1.14E-04	2.656E-04	2.327E-05

,,*** implies significance at 1, 5 and 10% level of significance

Details of pooled regressions and First Difference regression are given in appendix.

5. Conclusion

The paper examines the impact of women's participation in SGSY programme using data from a survey conducted in West Bengal in 2006 and 2008. The results are not consistent with the view that women's participation in SGY helps to increase human capital in a significant way. Section 4, described the results of the estimation. Pooled regression shows that borrowing from SGSY has significant impact on female agency for all SRCs except for Muslims, but insignificant impact on health and education. This result differs from First Difference (FD) estimation. In FD estimation, the impact of SGSY programme on women empowerment is significant for UCs only. It implies that if a time invariant unobserved characteristic like entrepreneurships is removed, then participation in SGSY alone can't change the status of the women. Women, who are comparatively more empowered, participate in the SGSY programme. Impact of SGSY participation varies across SRCs due to difference in socio religious status i.e. difference in traditional restrictions on mobility and social interactions. The underlying reasons behind under performance of the scheme lie in the implementation of the recommendations of SGSY guideline. The SGSY guideline identifies key activities in each block and makes provision of the complete range of development support which includes market survey, credit, technology, training leading to skill up gradation and establishment of forward and backward linkages (SGSY guidelines, MORD June 2003). Activity wise analysis in the survey area indicates that in case of dairy and poultry 81% of the swarojgaris get skill development training. In other activities no skill development training was imparted. Interview with swarojgaris reveal that only 21% of the swarojgaris have book keeping skill. It reflects inability of the programme to deliver the desired benefits to programme participants. It calls for major overhauling of existing policies so that programme participants can get desired benefits of participation.

FD method is based on strong assumption that error terms of borrowing equation and outcome equation are uncorrelated, but if they are correlated for factors other than endogeneity of borrowing then introducing two stage instrumental variable technique with household level fixed effect will be a solution. Though we have tried to ameliorate the problem of unobserved heterogeneity and self selectivity, but unable to remove the problem of counter factual. Therefore, one can find counterfactuals to get estimates that are precise in nature.

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Notes

1 Asset includes money value of items like land, furniture, poultry, cows and goats, irrigation pump, radio, cassette player, TV, rickshaw.

2 Household social connectedness is computed as involvement of the household members in different organisations like Village Education Committee (VEC), Water users associations, Puja Committee, Local Clubs and political parties. Here index is based on five questions. One point is obtained for each 'yes' and zero otherwise. Each question has equal weight. Total score of each household member will be divided by 5, and maximum of these values will be taken as proxy of 'household social connectedness'.

3 Economic Research Firm

4 Lowest land revenue collection unit.

5 Lies between the Western Plateau and high lands (Bordering Chhotanagpur Plateau and Ganges Delta)

Appendix

Table 1A: Impact of Borrowing and Other Variables on Female Agency Obtained from Pulled Regression

Explanatory variables	Coefficients	t Values
Constant	58.289*	26.794
Borrowing by UCs	5.913E-04***	1.655
Borrowing by OBCs	8.902E-04**	2.198
Borrowing by SCs	6.224E-04*	2.646
Borrowing by Muslims	2.51E-04	-.572
Index of Social Connectedness	2.28E-02	1.178
Asset	3.33E-05	.544
D08	1.953	1.916

,,*** implies significance at 1, 5 and 10% level of significance
R=.684, R^2=.466, adjusted R^2=..462

Table 2A: Impact of Borrowing and Other Variables on Education Obtained from Pulled Regression

Explanatory variables	Coefficients	t Values
Constant	17.1*	36.26
Borrowing by UCs	6.039E-05	.7
Borrowing by OBCs	4.78E-05	.489
Borrowing by SCs	1.390E-05	.245
Borrowing by Muslims	6.28E-05	.593
Index of Social Connectedness	7.249E-03	1.548
Asset	1.01E-05	.682
D08	5.728*	23.281

,,*** implies significance at 1, 5 and 10% level of significance
R=.139, R^2=.019, adjusted R^2=.019

Table 3A: Impact of Borrowing and Other Variables on Health Obtained from Pulled Regression

Explanatory variables	Coefficients	t Values
Constant	23.48*	44.98
Borrowing by UCs	1.690E-05	.177
Borrowing by OBCs	7.750E-05	.715
Borrowing by SCs	5.147E-06	.082
Borrowing by Muslims	1.28E-04	-1.095
Index of Social Connectedness	2.741E-04	.053
Asset	1.10E-05	.673
D08	6.903*	25.339

,,*** implies significance at 1, 5 and 10% level of significance
R=.180, R^2=.032, adjusted R^2=.024

Table 4A: Impact of Borrowing and Other Variables on Female Agency Obtained from First Difference Regression

Explanatory variables	Coefficients	t Values
Constant	5.923*	24.85
Borrowing by UCs	1.53E-04**	2.270
Borrowing by OBCs	4.180E-05	.408
Borrowing by SCs	9.97E-05	.861
Borrowing by Muslims	1.14E-04	.907
Index of Social Connectedness	7.94E-03	1.442
Asset	2.853E-06	.165

,,*** implies significance at 1, 5 and 10% level of significance
R=.184, R^2=.034, adjusted R^2=.024

Table 5A: Impact of Borrowing and Other Variables on Education Obtained from First Difference Regression

Explanatory variables	Coefficients	t Values
Constant	3.069*	2.637
Borrowing by UCs	1.656E-02	.651
Borrowing by OBCs	1.93E-05	.039
Borrowing by SCs	1.532E-04	.271
Borrowing by Muslims	2.656E-04	-.808
Index of Social Connectedness	2.51E-04	.41
Asset	9.53E-06	.113

,,*** implies significance at 1, 5 and 10% level of significance
R=.054, R^2=.003

Table 6A: Impact of Borrowing and Other Variables on Health Obtained from First Difference Regression

Explanatory variables	Coefficients	t Values
Constant	7.11*	27.35
Borrowing by UCs	4.735E-05	.424
Borrowing by OBCs	1.63E-04	1.287
Borrowing by SCs	1.250E-03	.208
Borrowing by Muslims	2.327E-05	-.17
Index of Social Connectedness	1.106E-05	.586
Asset	1.65E-04**	2.241

,,*** implies significance at 1, 5 and 10% level of significance
R=.128, R^2=.016, Adjusted R^2=.004

Delivering Microfinance Services by MFIs: A Study in the State of Assam

- Arup Roy*

Microfinance is a financial service of small quantity provided by financial institutions to customers to meet their normal financial needs: life cycle, economic opportunity and emergency with the only qualification that (i) transaction value is small and (ii) customers are 'poor' .

Abstract

There are different types of microfinance institutions (MFIs) functioning in Assam and the operating mechanism of these MFIs differs from organisation to organisation. The players in the Microfinance sector can be classified under three main groups, viz., (a) the SHG-Bank linkage Model accounting for about 58% of the outstanding loan portfolio, (b) Non-Banking Finance Companies accounting for about 34% of the outstanding loan portfolio, and (c) others including trusts, societies, etc., accounting for the balance 8% of the outstanding loan portfolio. 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 understand the microfinance services of the MFIs operating in Assam in terms of twelve parameters. The results of the study indicate that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. The study concludes that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop/home improvement are having lower preferences. The study shows that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. Finally, the study concludes that MFIs in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam Committee recommendations.

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Key Words: Microfinance, Financial Institutions, Micro-credit
JEL Classification: G-21, G-29

Introduction and Motivation

Microfinance today has become one of the most debated and documented but still remains a much confused buzzwords in banking and developmental policymaking fields. Actually, in some form or the other, the concept of "microfinance" always existed in almost every society. But, as a more formal process, the history can be traced back to portions of the Marshall Plan at the end of second world war in the middle of the 20th century and the writings of abolitionist/legal theorist Lysander Spooner who wrote about the benefits of numerous small loans to the poor as a way to alleviate poverty (Khandelwal, 2007).

Microfinance has proven to financial institutions and banks that the services they provide to their "traditional" clients can also be offered to poor and low-income entrepreneurs and clients, in a sustainable and viable manner. Some global examples of microfinance initiatives are - FINCA and ACCION International of Latin America, Bank Rakyat of Indonesia (BRI), and Grameen Bank of Bangladesh, now acting in more than 50 countries. Christen et al. (2004) reports an astonishing 500 million persons served, mostly with savings accounts, while the Microfinance Summit in the 2006-meeting in Halifax celebrated the milestone of 100 million borrowers reached. Nevertheless, microfinance still reaches only a fraction of the world's poor (Robinson, 2001; Christen et al., 2004). Hence, there is a supply challenge in the industry (Helms, 2006; CGAP, 2004, 2006).

Microfinance is a financial service of small quantity provided by financial institutions (FI) to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction, etc., that is, any type of financial service, provided to customers to meet their normal financial needs: life cycle, economic opportunity and emergency [Dasgupta and Rao 2003] with the only qualification that (i) transaction value is small and (ii) customers are 'poor'.

Microfinance institutions (MFIs) are special financial institutions having a social nature along with for profit motive. Delivering microfinance services is not easy. The challenges are real and the risks are many. Banks such as Equity Bank of Kenya, CRDB of Tanzania and NABARD in India have proved that microfinance can be profitable if local conditions are well understood and microfinance is applied to suit local traditions, cultures and weather cycles. There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients.

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practiced by some microfinance institutions in India. In the wake of rising troubles faced by the microfinance sector, some state governments like Orissa and Andhra Pradesh adopted some steps to regulate the activities of all MFIs. There is a huge demand for microfinance in India and over the last decade there is an exponential growth of MFIs. With this exponential growth, microfinance has become one of the fastest growing industries worldwide. But, the lack of proper government interest and regulation resulted in heavy concentration of loans in one state, Andhra Pradesh; over borrowing by the poor; extortionate interest rates; and questionable recovery practices. The Reserve Bank of India (RBI), on Tuesday (3rd May, 2011) accepted the recommendations made by the Malegam Committee with some modifications and it has re-affirmed priority sector status for loans given to microfinance companies. This will have huge impact on the development of microfinance sector in India. Many big successful practitioners of the microfinance industry in India welcome this move of RBI which the microfinance industry required after waiting for more than two decades. Vijay Mahajan (Head of MFIN), Sunil Agarwal (Managing Director of SE Investments), Vikram Akula (CEO of SKS Microfinance) and many other MFI officials feel that this would bring highly positive outcomes for the development of the entire Microfinance Sector in India.

In India, mainstream banks have begun to look seriously at the microfinance market. In the past five years, Citigroup Foundation has made US $17 million in grants to 178 microfinance partners in 50 countries. Similarly, Deutsche Bank Foundation has recently launched the US $1.5 million microfinance Financial Development Fund. On a national scale, NABARD, as of 2003, had provided almost $200 million worth of capital to village microfinance groups through its SHG-bank linkage programme. ICICI Bank has been a pioneer in implementing new microfinance outreach channels, in partnering with MFIs and in providing low-cost sources of commercial funds. In the last year, ICICI has completed two portfolio securitisation deals with microfinance institutions, with a total value of almost US $10 million.

Parikh (2006) found three common and persistent technical challenges for institutions in reaching their outreach and sustainability goals regardless of size, location, lending methodology, philosophy, etc., of the MFIs - viz.,

(a) Collection of information from remote rural clients
(b) Management and information systems at the institutional level,
(c) Conducting financial transactions in remote rural areas.

According to Mohammad Yunus, founder of the Grameen Bank and one of the pioneers of microfinance, "the first principle of Grameen banking is that the clients should not go to the bank, it is the bank which should go to the people." Dr. Yunus perceived that to alleviate other potential imbalances, financial services should be provided to poor people on their terms, in a manner that was respectful of their needs, activities and livelihoods. At the Grameen Bank, this means that "12,000 staff serve 3.2 million clients in 45,000 villages spread out all over Bangladesh, every week".

There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients. This paper has sought to highlight some of the issues of microfinance service delivery by the MFIs of Assam.

2. Research Methodology

The primary objective of this study is to understand the microfinance service delivery practices by the MFIs of Assam. The microfinance service delivery mechanism is explained in terms of the following dimensions:-

(i) Assistance in loan application.
(ii) Time required for opening a deposit account.
(iii) Time required for loan disbursement.
(iv) Sanctioning authority of the loan.
(v) Size of loan amount.
(vi) Repayment period.
(vii) Guarantor's attendance.
(viii) Purpose of the loan.
(ix) Mode of loan delivery.
(x) Processing fees charged by MFIs.
(xi) Collection of processing fees.
(xii) Interest rate charged by MFIs.

To achieve the above objective, a sample survey was conducted during June - October, 2010 in various districts of Assam. Database of the Centre for Microfinance Livelihood (CML), 2010 was considered to select the samples. Final samples were selected based on the MFIs' outreach, i.e., number of clients reached by the MFIs, NGOs & NGO-MFIs in Assam. Only those MFIs which have been offering microfinance services to their beneficiaries at least for the last three years were selected. The total sample size considered for the study is 40. Finally, with six rejections, 34 samples were considered for the study.

After selecting the research tool, sample survey was conducted in the different districts of Assam. Firstly, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) was considered. The CML data base was published in February 2010 focusing the sector overview of NGOs, NGO-MFIs and MFIs of Assam.

Table 1: MFIs in Assam

Institutions	Numbers
NGO-MFIs	84
MFIs	7
NGOs	121
Total	212

Source: CML, Sector Overview, 2010.

From this data base, we have selected only those MFIs that are continuing micro-credit operations at least for the last three years. After this first level screening, the number of available MFIs came down from 212 to 79 as shown in table 2.

Table 2: MFIs in Assam doing Microcredit

Institutions	Numbers
MFI	6
NGO	8
NGO-MFI	65
Total	79

Source: Compiled by Author from CML

Thus, we have finally selected 34 MFIs (43% of the sample population) based on the MFI's outreach, i.e., number of clients served by the MFIs. This study was conducted in 2010 considering the financial year 2009-2010, as the reference period.

3. Microfinance Services of MFIs

To understand the operating dynamics of the MFIs, here an attempt is made to illustrate the microfinance delivery mechanism adopted by the different MFIs of Assam. The microfinance delivery system is explained in terms of twelve variables, viz., (i) assistance in loan application, (ii) average time required for opening a demand deposit, (iii) average time of loan disbursement, (iv) Sanctioning Authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

3.1. Assistance in Loan Application

The results of the survey indicate that majority (82.4%) of the sample MFIs need to help their clients in filling up the loan application form.

Table 3: Assistance in Loan Application

	Frequency	Percent	Cumulative Percent
No	6	17.6	17.6
Yes	28	82.4	100.0
Total	34	100.0	

Therefore, it may be concluded that the MFIs of Assam are providing required assistance to their clients as most of them live in remote areas and are not aware of the of financial transactions.

3.2. Time Required for Opening a Deposit Account

Table 4: Average Time Required for Opening a RD Account

	Days	Frequency	Percent	Cumulative Percent
	1	8	23.5	88.9
	2	1	2.9	100.0
MFIs With RD		9	26.5	
MFIs without RD25		73.5		
Total No. of MFIs34		100.0		

The results of the survey indicate that the average time required by the MFIs to open a recurring deposit account is 1.11 days with standard deviation of 0.33 days. Moreover, out of 34 MFIs, only 9 MFIs offer recurring deposit account to their clients which represent 26.5% of the total sample MFIs.

The sample survey reveals that the average time required by the MFIs to open a fixed deposit account is 1.5 days with standard deviation of 0.71 days. Moreover, out of 34 MFIs, only 2 MFIs offer fixed deposit account to their client which represents only 5.9% of the total sample MFIs.

Table 5: Average Time Required for Opening a FD Account

	Days	Frequency	Percent	Valid Percent	Cumulative Percent
	1	1	2.9	50.0	50.0
	2	1	2.9	50.0	100.0
MFIs With FD		2	5.9	100.0	
MFIs without FD		32	94.1		
Total		34	100.0		

Further, it has been found that the average time required by the MFIs to open a savings deposit account is 4 days with standard deviation of 7.10 days. Moreover, out of 34 MFIs, only 7 MFIs offer savings deposit account to their clients which represent 20.6% of the total sample MFIs.

Table 6: Average Time Required Opening a Savings Deposit Account

	Days	Frequency	Percent	Valid Percent	Cumulative Percent
	1	5	14.7	71.4	71.4
	3	1	2.9	14.3	85.7
	20	1	2.9	14.3	100.0
MFIs With Savings a/c		7	20.6	100.0	
MFIs Without Savings a/c		27	79.4		
Total		34	100.0		

Thus, it is seen that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. As per the government regulation, MFIs are not allowed to accept deposit in any form from the public. So, it has been found that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. While discussing the issue with MFI officials during the primary survey, they opined that there is a huge demand and clients are demanding that the MFIs should not discontinue this service.

3.3. Time Required for Loan Disbursement

The time taken to disburse a loan basically depends on availability of the fund of the MFI and also the official formalities. The results of the survey indicate that the average time required by the MFIs to disburse a loan is 27.47 days with standard deviation of 42.50 days.

On further investigation, the data reveals that 47.1% of the sample MFIs provide emergency loan to their clients for medical, education or business purposes. The average time to disburse an emergency loan is 2.81 days with standard deviation of 2.48 days.

Table 7: Average Time of a Loan Disbursement

Days	Frequency	Percent	Valid Percent	Cumulative Percent
2	2	5.9	5.9	5.9
3	3	8.8	8.8	14.7
7	7	20.6	20.6	35.3
8	1	2.9	2.9	38.2
10	2	5.9	5.9	44.1
12	1	2.9	2.9	47.1
15	8	23.5	23.5	70.6
20	2	5.9	5.9	76.5
30	3	8.8	8.8	85.3
42	1	2.9	2.9	88.2
90	1	2.9	2.9	91.2
120	1	2.9	2.9	94.1
150	1	2.9	2.9	97.1
180	1	2.9	2.9	100.0
Total	34	100.0	100.0	

Table 8: Average Time of an Emergency Loan Disbursement

	Days	Frequency	Percent	Valid Percent	Cumulative Percent
	1	9	26.5	56.2	56.2
	2	1	2.9	6.2	62.5
	3	1	2.9	6.2	68.8
	5	2	5.9	12.5	81.2
	7	3	8.8	18.8	100.0
MFIs Providing Emergency Loan		16	47.1	100.0	
MFIs Not Providing Emergency Loan		18	52.9		
Total		34	100.0		

Therefore, it may be concluded that the MFIs of Assam are flexible in understanding the genuine requirements of their clients and disburse emergency loan within 2-3 days without much of official formalities.

3.4. Sanctioning Authority of the Loan

It has been observed that for 79.4% of the sample MFIs, the loan sanctioning authority is a committee. The committee names vary from MFI to MFI. The different names of these committees are - Area Co-ordinators Committee, Credit Committee, Executive Committee, Governing Body, Loan Sanctioning/Disbursement Committee, Loan Processing Unit, or Microfinance Unit.

On the other hand, for 20.6% of the sample MFIs, the loan sanctioning authority is a single person viz., Area Manager, Branch manager, Junior Operation Manager, Chief Manager, or Secretary.

Table 9: Sanctioning Authority of the Loan

	Frequency	Percent
A Single Person	7	20.6
A Committee	27	79.4
Total	34	100.0

3.5. Size of Loan Amount

Size of the loan of any financial institution represents the depth of the loan outreach. It is important to restrict the size of individual loans as larger loans can lead to over-borrowing, diversion of funds and size of repayment installments which are beyond the repayment capacity of the borrower. Currently in India, most MFIs give individual loans which are between Rs 10,000 and Rs 15,000. However, some large NBFCs also give higher loans, even in excess of Rs 50,000 for special purposes like micro-enterprises, housing and education (Malegam Committee Report, 2011). The descriptive statistics of the three categories of loan, i.e., SHG, JLG and Individual loan given by the MFIs of Assam is given below.

The data reveals that the average minimum size of individual member SHG loan amount is Rs 2403 and maximum is Rs 16,225. Generally, SHGs (Self Help Groups) comprise of 10 to 20 members in the same locality. So one SHG of 15 members may get a minimum loan of Rs 36,045 and maximum up to Rs 2,43,375. The majority (25.8%) of the sample MFIs specified the average minimum individual loan at Rs 1000 and

Table 10: Descriptive Statistics on Loan Size of SHG, JLG and Individual Loan

	SHG Loan		JLG Loan		Individual Loan	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
MFIs Providing Loans (Nos.)	31	31	25	25	21	21
MFIs Not Providing Loans (Nos.)	3	3	9	9	13	13
Mean (Rs)	2403	16225	3180	24480	2838	53333
Std. Error of Mean (Rs)	279	2102	334	3595	420	9767
Median (Rs)	2000	10000	3000	20000	3000	40000
Mode (Rs)	1000	10000	5000	10000	5000	50000
Std. Deviation (Rs)	1556	11703	1670	17979	1924	447589
Skewness (Rs)	.398	1.553	-.247	1.015	.032	1.997
Kurtosis (Rs)	-1.206	2.742	-1.637	.014	-1.833	4.783
Range (Rs)	4500	47000	4000	65000	4900	190000
Minimum (Rs)	500	3000	1000	5000	100	10000
Maximum (Rs)	5000	50000	5000	70000	5000	200000

Table 11: Minimum Size of Individual SHG Loan				
	Loan Size (Rs)	Frequency	Percent	Valid Percent
	500	4	11.8	12.9
	1000	8	23.5	25.8
	1500	1	2.9	3.2
	2000	3	8.8	9.7
	2500	1	2.9	3.2
	3000	6	17.6	19.4
	4000	3	8.8	9.7
	4500	1	2.9	3.2
	5000	4	11.8	12.9
MFIs Providing		31	91.2	100.0
MFIs Not Providing		3	8.8	
Total		34	100.0	

Table 12: Maximum Size of Individual SHG Loan				
	Loan Size (Rs)	Frequency	Percent	Valid Percent
	3000	1	2.9	3.2
	5000	5	14.7	16.1
	6000	1	2.9	3.2
	10000	9	26.5	29.0
	15000	2	5.9	6.5
	20000	6	17.6	19.4
	24000	1	2.9	3.2
	25000	3	8.8	9.7
	30000	1	2.9	3.2
	50000	2	5.9	6.5
MFIs Providing		31	91.2	100.0
MFIs Not Providing		3	8.8	
Total		34	100.0	

29% of the MFIs specified the average maximum individual loan at Rs 10,000.

A JLG (Joint Liability Group) is smaller in size and generally consists of 2 to 5 members of the same locality. The average minimum size of individual member JLG loan amount was found to be Rs 3180 and maximum is Rs 24,480. So one JLG having 5 members may get an average minimum loan amount of Rs 15,900 and maximum of Rs 1,22,400. The majority (32%) of the sample MFIs specified the average minimum individual JLG loan at Rs 5000 and the average maximum individual JLG loan at Rs 10,000.

Table 13: Minimum Size of Individual JLG Loan				
	Loan Size (Rs)	Frequency	Percent	Valid Percent
	1000	7	20.6	28.0
	1500	1	2.9	4.0
	2500	1	2.9	4.0
	3000	4	11.8	16.0
	4000	3	8.8	12.0
	4500	1	2.9	4.0
	5000	8	23.5	32.0
MFIs Providing		25	73.5	100.0
MFIs Not Providing		9	26.5	
Total		34	100.0	

Table 14: Maximum Size of Individual JLG Loan				
	Loan Size (Rs)	Frequency	Percent	Valid Percent
	5000	1	2.9	4.0
	8000	1	2.9	4.0
	10000	8	23.5	32.0
	15000	2	5.9	8.0
	20000	3	8.8	12.0
	24000	1	2.9	4.0
	25000	1	2.9	4.0
	30000	1	2.9	4.0
	40000	2	5.9	8.0
	50000	4	11.8	16.0
	70000	1	2.9	4.0
MFIs Providing		25	73.5	100.0
MFIs Not Providing		9	26.5	
Total		34	100.0	

Similarly, the average minimum size of individual loan amount is Rs 2,838 and maximum is Rs 53,333. The majority (38.1%) of the sample MFIs specified the average minimum individual loan at Rs 5000 and 23.8% of the MFIs specified the average maximum individual loan at Rs 50,000.

Table 16: Maximum Size of Individual Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	10000	1	2.9	4.8
	15000	1	2.9	4.8
	20000	2	5.9	9.5
	25000	3	8.8	14.3
	30000	3	8.8	14.3
	40000	1	2.9	4.8
	50000	5	14.7	23.8
	100000	4	11.8	19.0
	200000	1	2.9	4.8
MFIs Providing		21	61.8	100.0
MFIs Not Providing		13	38.2	
Total		34	100.0	

Table 15: Minimum Size of Individual Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	100	1	2.9	4.8
	500	1	2.9	4.8
	1000	7	20.6	33.3
	3000	4	11.8	19.0
	5000	8	23.5	38.1
MFIs Providing		21	61.8	100.0
MFIs Not Providing		13	38.2	
Total		34	100.0	

Thus, it is seen that the average size of the individual SHG loan ranges from Rs 2,403 to Rs 16,225; average size of the individual JLG loan ranges from Rs3180 to Rs 24,480; and the average size of the individual loan ranges from Rs 2838 to Rs 53,333. The recent Malegam Committee (2011) recommends that the size of an individual loan should be restricted to Rs 25,000. Further, to prevent over-borrowing, the aggregate value of all outstanding loans of an individual borrower should also be restricted to Rs 25,000. The data reveals that for 28 MFIs, the individual SHG loan is less than Rs 25,000. Similarly for 17 MFIs, the individual JLG loan is less than Rs 25,000. On the other hand, only for 7 MFIs, the individual loan is less than Rs 25,000. Therefore, it may be concluded that the majority of the average SHG and JLG loan size of the MFIs of Assam conforms to the Malegam Committee recommendation, but, the majority of the individual loan size is higher than the benchmark set by this committee.

3.6. Repayment Period

MFIs normally give loans which are repayable within 12 months irrespective of the amount of the loan (Malegam Committee, 2011). However, the larger the loan, the larger the amount of the repayment installment, and a large installment may strain the repayment capacity of the borrower and result in multiple borrowing. At the same time, if the repayment installment is too small, it would leave surplus cash with the borrower which could be diverted to other uses and not be available for repayment when repayment is due. The loan repayment period prescribed by the MFIs for their clients varies from MFI to MFI. The descriptive statistics of the loan repayment period offered by the MFIs of Assam is given below.

Table 17: Loan Repayment Period Specified by the MFIs

	Minimum Time in Months	Maximum Time in Months
Total No. of MFIs	34	34
Mean	9.71	18.65
Std. Error of Mean	0.82	1.75
Median	12.00	12.00
Mode	12.00	12.00
Standard Deviation	4.78	10.22
Skewness	-0.74	1.37
Kurtosis	-0.24	0.87
Range	17.00	38.00
Minimum	1.00	10.00
Maximum	18.00	48.00

Analysing the data, it has been observed that the minimum average loan repayment period offered by the MFIs of Assam is nearly 10 months and maximum average repayment period is approximately 19 months. Further, it is seen that the minimum loan repayment period specified by the MFIs of Assam is 1 month and maximum is up to 48 months.

The data reveals that the majority (44.1%) of the sample MFIs' minimum loan repayment period specified for their clients is 12 months. 38.2% of the sample MFIs revealed that the maximum loan repayment specified by them is 12 months. Some MFIs offer weekly repayment option to their clients also.

Table 18: Minimum Loan Repayment Time

Months	Frequency	Percent	Valid Percent
1	5	14.7	14.7
3	2	5.9	5.9
6	2	5.9	5.9
10	3	8.8	8.8
11.5	4	11.8	11.8
12	15	44.1	44.1
15	1	2.9	2.9
18	2	5.9	5.9
Total	34	100.0	100.0

Table 19: Maximum Loan Repayment Time

Months	Frequency	Percent	Valid Percent
10	2	5.9	5.9
11.5	4	11.8	11.8
12	13	38.2	38.2
15	1	2.9	2.9
16	1	2.9	2.9
18	2	5.9	5.9
20	1	2.9	2.9
24	3	8.8	8.8
25	1	2.9	2.9
36	5	14.7	14.7
48	1	2.9	2.9
Total	34	100.0	100.0

On further investigation, it was found that 11.4% of the MFIs fixed their loan repayment period at 50 weeks for the clients. Only 2.9% of the sample MFIs fixed the loan repayment period as per the clients' convenience. Surprisingly, in some MFIs it was found that if any borrower was willing to prepay the entire loan amount, the client was penalised and charged the entire loan period's interest. This violates the

Malegam Committee recommendation [para 5.9 (b) iii]. The Committee suggested that for loans not exceeding Rs 15,000, the tenure of the loan should not be less than 12 months and for other loans the tenure should not be less than 24 months. The borrower should however have the right of prepayment in all cases without attracting penalty.

Thus, it may be concluded that majority of the MFIs in Assam recover their loans in 12 months and the loan repayment period varies from 1 month to 48 months. Another important finding of this study is that penalty is charged by some MFIs of Assam for loan prepayments.

3.7. Guarantor's Attendance

The data reveals that majority (58.8%) of the sample MFIs do not require the guarantor's presence at the office of the MFI prior to disbursement of the loan. On the other hand, in 41.2% of the sample MFIs, the guarantor needs to be present at the time of the loan disbursement.

Table 20: Guarantor's Presence Required

	Frequency	Percent	Valid Percent	Cumulative Percent
No	20	58.8	58.8	58.8
Yes	14	41.2	41.2	100.0
Total	34	100.0	100.0	

3.8. Purpose of the Loan

It is often argued that loans should not be restricted to income generating activities alone, but should also be given for other purposes such as repayment of high-cost loans of moneylenders, education, medical expenses, consumption smoothing, acquisition of household assets, housing, emergencies, etc. A recent study by the Centre for Microfinance, Hyderabad indicates that Microfinance is useful in smoothening consumption and relieving seasonal liquidity crises that visit poor families and that it obviates the need for high-cost borrowing from informal sources. A balance has to be struck between the benefits of restricting loans only for income-generating purposes and recognition of the needs of low-income groups for loans for other purposes.

Malegam Committee has recommended that not more than 25% of the loans granted by MFIs should be for non-income generating purposes [para 5.6 (e)]. The results of the survey indicate that majority (94.1%) of the MFIs in Assam are giving loan to their clients for agricultural purposes. The other important purposes of the loan are opening a shop (85.3%), poultry (82.4%), handloom (76.5%), diary (73.5%), piggery (70.6%), fishery (70.6%), handicraft (58.8%), shop renovation (58.8%), education (52.9%), health (50%), petty trading (47.1%), transportation services (29.4%), nursery/ plantation (17.6%), weaving (14.5%), artisans (8.8%) and others (46.4%). Here other purposes include - consumption, marriage, milk vendors, stationary/grocery, tea stall, freeing from moneylenders, tailoring, masala preparation, sugarcane cultivation, maternity, sericulture, terracotta, duckery, mastered cultivation, and pottery Items.

Table 21: Different Purposes of the Loan

	Frequency	Percent
Agriculture	32	94.1
Open a Shop	29	85.3
Poultry	28	82.4
Handloom	26	76.5
Diary	25	73.5
Piggery	24	70.6
Fishery	24	70.6
Handicraft	20	58.8
Shop Renovation	20	58.8
Education	18	52.9
Health	17	50.0
Petty Trading	16	47.1
Transportation Service	10	29.4
Nursery/Plantation	6	17.6
Weaving	5	14.5
Guttery	4	11.6
Artisans	3	8.8
Consumption Loan	1	2.9
Marriage	1	2.9
Milk Vendors	1	2.9
Stationary/Grocery	1	2.9
Tea stall	1	2.9
Freeing from Moneylenders	1	2.9
Tailors	1	2.9
Masala Preparation	1	2.9
Sugarcane	1	2.9
Maternity	1	2.9
Sericulture	1	2.9
Terracotta	1	2.9
Duckery	1	2.9
Mastered cultivation	1	2.9
Pottery Items	1	2.9

According to the study on "Access to Finance in Andhra Pradesh, 2010, CMF/IFMR, Chennai", the usage of loans given by JLGs and SHGs is as under:

Table 22: Usage of SHG & JLG Loans in India

Sl. No.	Particular	JLG%	SHG%
i)	Income Generating	25.6	25.4
ii)	Repayment of old debt	25.4	20.4
iii)	Health	10.9	18.6
iv)	Shop/Home Improvement	22.1	13
v)	Education	4.4	5.7
vi)	Others	11.6	7.9

Source: CMF/IFMR, 2010

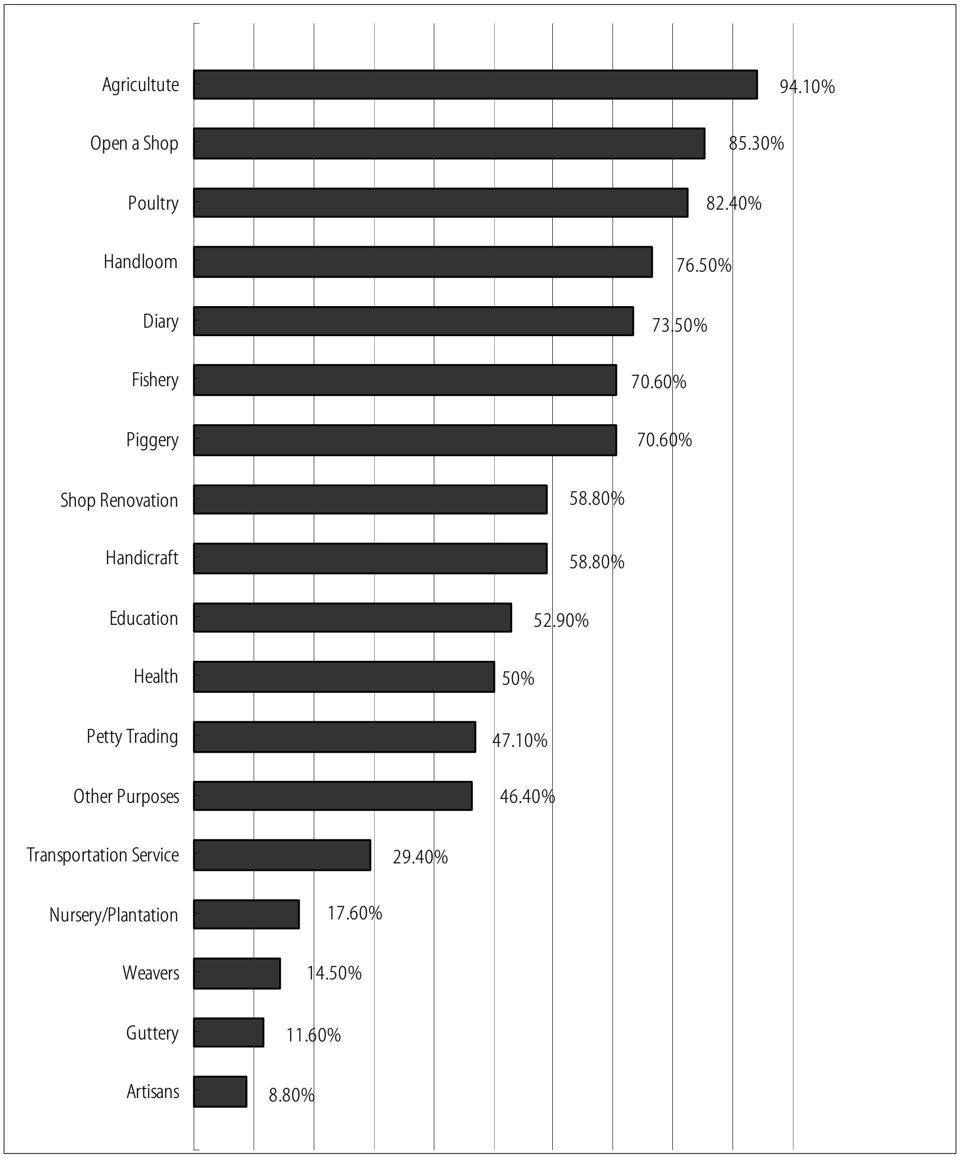
Summarising the survey results under the above six categories, it is seen that majority (82%) of the MFIs of Assam are disbursing loan for income generating purposes. The other purposes of the loan are shown in the following table.

Table 23: Usage of Loans of the Sample MFIs in Assam

Sl. No.	Particulars	Frequency SHG/ JLG/Individual	Percent
i)	Income Generating	265	82.0
ii)	Repayment of old debt	1	0.3
iii)	Health	17	5.3
iv)	Shop/Home Improvement	20	6.2
v)	Education	18	5.6
vi)	Others	2	0.6

Therefore, it may be concluded that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop / home improvement are having lower preferences.

Figure 1: Different Purposes of the Loan



3.9. Mode of Loan Delivery

The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. Only 8.8% of the MFIs deliver the loan amount at the clients' place through the field co-ordinators or field officers. Moreover, 29.4% of the sample MFIs provides both the options of delivering the sanctioned loan amount at the client's place or at the MFI office.

Table 24: Mode of Loan Delivery				
	Frequency	Percent	Valid Percent	Cumulative Percent
At Client's Place	3	8.8	8.8	8.8
At MFI Office	21	61.8	61.8	70.6
Both Options are available	10	29.4	29.4	100.0
Total	34	100.0	100.0	

On further investigation, it is seen that the mode of payment of the majority (50%) of the MFIs is through cheque. Only 29.4% of the samples MFIs disburse the loan by cash and 20.6% of the sample MFIs provide the loan either through cash or through cheque as per the convenience of the client. Further, it was found that for smaller loan amounts of less than Rs 3,000, the disbursement is done through cash and for higher loan amount, it is paid through cheques. The data also reveals that cash is disbursed to the JLGs and mode of payment to the SHGs is through cheque. Some MFIs issue bearer cheque and some others issue account payee cheques to their clients.

Table 25: Mode of Payment				
	Frequency	Percent	Valid Percent	Cumulative Percent
Cash	10	29.4	29.4	29.4
Cheque	17	50.0	50.0	79.4
Cash or Cheque	7	20.6	20.6	100.0
Total	34	100.0	100.0	

In some cases where MFIs are only assisting the SHGs in bank linkage, the loan amount is transferred to the SHG's group account by the bank. Few MFIs are also adopting the modern core banking facility of SBI and depositing the loan amount in the clients' SBI core banking account. Thus, it may be concluded that the majority of the MFIs of Assam are disbursing the loan amount through cheque and some MFIs are flexible as per the need of their clients' convenience and disburse the loan amount either by cash as well by giving both the option to their client.

3.10. Processing Fees Charged by the MFIs

The Malegam Committee suggested that MFIs should levy only two charges apart from the insurance premium. These two charges should consist of an upfront fee towards the processing of the loan which

Table 26: MFIs Charging Processing Fees				
	Frequency	Percent	Valid Percent	Cumulative Percent
No	6	17.6	17.6	17.6
Yes	28	82.4	82.4	100.0
Total	34	100.0	100.0	

should not exceed 1% of the gross loan amount, and an interest charge. The results of the survey indicate that majority (82.4%) of the MFIs in Assam charge processing fees whereas some (17.6%) of the MFIs do not charge any processing fees from their clients. Generally, the MFIs which do not charge any processing fees are perceived to be more socially responsible than the others.

The data showed that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients with a standard deviation of 2.54%. Moreover, we find that the maximum processing fees charged is up to 12% of the total loan amount which is very high. Therefore it may be concluded that some MFIs of Assam are not charging any processing fees, but the majority of the MFIs are charging processing fees of 1.95% which is higher than the standard 1% suggested by the Malegam Committee of 2011.

Table 27: Descriptive Statistics of Processing Fees

	Any Processing Fees in % of Loan Amount
No. of MFIs Charging Processing Fees	21
No. of MFIs Charging No Processing Fees	13
Mean	.0195
Median	.0100
Mode	.0100
Std. Deviation	.0254
Skewness	3.4540
Kurtosis	13.3050
Range	.1200
Minimum	.0000
Maximum	.120
Sum	.410

On further investigation it has been observed that some MFIs take fixed charges of Rs 10, Rs 15, Rs 50 or Rs 200 per loan, whereas some other MFIs charge 1% of the loan amount for a loan of more than Rs 25,000 or 0.5% of the loan amount for a loan of Rs 50,000. For some other MFIs who are involved in the bank linkage, the maximum processing charge is Rs 500 to Rs 3,000 depending on the work volume including documentation. Thus, it may be concluded that there is no unanimity in the processing fees charged by the MFIs of Assam and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount.

3.11. Collection of Processing Fees.

The results of the survey indicate that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement. Some of the MFIs, on the other hand

Table 28: Collection of Processing Fees

	Frequency	Percent	Valid Percent	Cumulative Percent
No Fees Charged	6	17.6	17.6	17.6
Collect Before the Loan Disbursal	22	64.7	64.7	82.4
Later on with Loan repayments	6	17.6	17.6	100.0
Total	34	100.0	100.0	

collect the processing fees later, along with the loan repayments.

3.12. Interest Rate Charged by the MFIs

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practised by some microfinance institutions in India. On 19th July 2010, the Governor, Reserve Bank of India also confirmed certain malpractices in MFI functioning for which banks have been asked to take corrective actions. It was also mentioned that and which also states "State Government is the best agency for regulation of the interest rates." The Malegam Committee (2011) appointed by the RBI reports that for the larger MFIs, the effective interest rate charged by the MFIs in India, calculated on the mean of the outstanding loan portfolio as at 31st March 2009 and 31st March 2010, ranged between 31.02% and 50.53% with an average of 36.79%; for the smaller MFIs the average is 28.73%.

Table 29: Descriptive Statistics of the Interest Rate Charged by MFIs of Assam

	Lending Annual Interest Rate	
	Flat Interest Rate	Reducing Rate of Interest
No. of MFIs Charging	19	15
Mean	16.63	18.20
Std. Error of Mean	1.22	1.58
Median	15.00	18.00
Mode	15.00	18.00[a]
Std. Deviation	5.30	6.12
Variance	28.05	37.46
Skewness	0.22	0.10
Std. Error of Skewness	0.52	0.58
Kurtosis	-0.99	-0.31
Std. Error of Kurtosis	1.01	1.12
Range	16.00	23.00
Minimum	8.00	7.00
Maximum	24.00	30.00
Sum	316.00	273.00

a. Multiple modes exist. The smallest value is shown

The results of the survey reveal that 55.9% of the sample MFIs of Assam prefer charging flat rate of interest whereas 44.1% of the sample MFIs charge interest rate on reducing balance. The average annual flat rate of interest has been found to be 16.63% with a minimum of 8% and maximum of 24%. On the other hand, the average annual interest rate on reducing balance is found to be 18.02% with a minimum of 5% and maximum of 30%.

Malegam Committee recommends that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding

Table 30: Lending Annual Interest Rate (Flat)

	Interest Rate	Frequency	Percent	Valid Percent
	8	1	2.9	5.3
	8.5	1	2.9	5.3
	12	3	8.8	15.8
	15	6	17.6	31.6
	16	1	2.9	5.3
	17.5	1	2.9	5.3
	20	1	2.9	5.3
	24	5	14.7	26.3
MFIs With Flat		19	55.9	100.0
Total No. of MFIs		34	100.0	

loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crore. There should also be a cap of 24% on individual loans (para, 7.11[1]).

On analysing the data further, it is seen that of the MFIs who charge flat rate of interest, 31.6% of the MFIs charged 15% flat rate of interest per annum from their borrowers whereas 26.3% of the MFIs charged 24% flat rate of interest per annum. Thus, it may be concluded that the flat rate of interest charged by MFIs of Assam is falls in line with the Malegam Committee recommendations.

Figure 2: Lending Annual Interest Rate-Flat

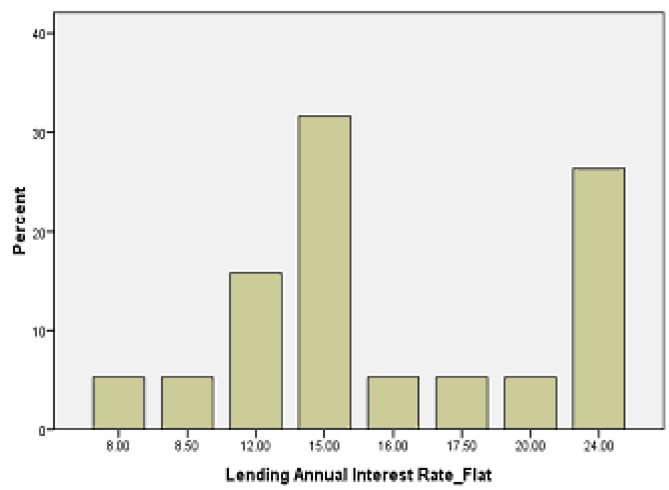
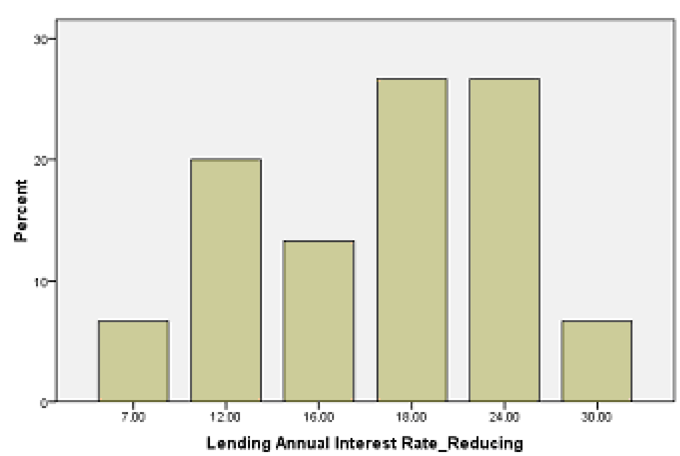


Table 31: Lending Annual Interest Rate (Reducing)

	Interest Rate	Freq-uency	Per-cent	Valid Percent
Valid	7	1	2.9	6.7
	12	3	8.8	20.0
	16	2	5.9	13.3
	18	4	11.8	26.7
	24	4	11.8	26.7
	30	1	2.9	6.7
	Total	15	44.1	100.0
Missing System		19	55.9	
Total		34	100.0	

Figure 3: Lending Annual Interest Rate-Reducing



Further, the data reveals that out of the MFIs charging rate of interest on reducing balance, majority (23.6%) of the MFIs together charge between 18% and 24% reducing rate of interest per annum from their borrowers. This is also as per norms put forward by the Malegam Committee.

There is universal agreement that the interest charges and other terms and conditions should be affordable to clients and at the same time sustainable for MFIs. MFIs need to find the right balance between the pursuit of the social objective of microfinance and the interests of their shareholders. Responsible finance has meaning only in that context. While several MFIs have published vision statements, not many have demonstrated their commitment to that vision.

3. Conclusions

The United Nations Year of Micro-Credit in 2005, the award of Nobel Peace Prize to Muhammed Yunus in 2006, and the performance of Grameen Bank till 2008 gave considerable public recognition to microfinance as a development tool and attracted global attention. 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 understand the microfinance services of the MFIs operating in Assam in terms of twelve parameters, viz., (i) assistance in loan application, (ii) average time required for opening deposit accounts, (iii) average time for loan disbursement, (iv) sanctioning authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

The results of the study indicate that MFIs of Assam are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. The study also finds that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. The study also concludes that the majority of the average SHG and JLG loan size of the MFIs of Assam conform to the Malegam Committee recommendation but the majority of the individual loan size of the MFIs is higher than the benchmark set by this committee. The study also finds that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop / home improvement are having lower preferences. The study shows that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. The study concludes that MFIs in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam committee recommendations.

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Notes

[1] Malegam Committee (2011) recommended that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crores. There should also be a cap of 24% on individual loans.

Appendix I
List of the MFIs surveyed in Assam

Sl. No.	Acronyms of MFIs	Full Name of MFIs
1	PRDS	Pragati Rural Development Society
2	MZGPS	Morigaon Zila Gramya Puthibharal Sanstha
3	NCS	Nightingle Charitable Society
4	PROCHESTA	Prochesta
5	ASOMI	Asomi
6	GS	Grameen Sahara
7	RGVN	Rastriya Gramin Vikash Nidhi
8	RGVN NE	RGVN North East Microfinance Ltd.
9	CRD	Centre for Rural Development
10	AAMIVA	Association for Advancement of Micro Institution and Voluntary Action
11	ASC	Ajagar Social Circle
12	GSEDC	Gandhinagar Socio Economic Development
13	AGUP	Anchalik Gram Unnayan Parishad
14	Pancharatna	Pancharatna Gramya Bikash Kendra
15	GM	Gwudan Muga
16	WDS	Weavers Development Society
17	BJS	Bishnujyoti Janakalyan Samiti
18	GVM	Gramya Vikash Mancha
19	LSS	Lok Seva Samiti
20	AD	Asha Darshan
21	SATRA	Social Action for Appropriate Transformation and Advancement in Rural Areas
22	SDC	Sipajhar Diamond Club Community Centre
23	AGUS	Associated Gramya Unnayan Society
24	Reneissance	Reneissance
25	MASK	Mahila Sakti Kendra
26	DASK	Doulung Ajon Samajik Kendra
27	JPYS	Jyoti Puthibharal & Yubak Sangha
28	DPYS	Donyi Polo Youth Society
29	ROAD	ROAD
30	RMI	Rainbow Microfinance Institution
31	MACC	Monacherra Athletic & Cultural Club
32	DC	Deshbandhu Club
33	Sonali	Sonali SHG Unnayan Samiti
34	Mandal	Maandal

Microfinance in North Eastern Region of India: Status and Issues

- Gyanendra Mani*

Abstract

North Eastern (NE) Region of the country is not only underserved as far availability of formal banking outlets are concerned but is also not able to attract other micro-credit providers (MFIs, etc.) on account of the prevailing geo-political environment which have not been considered to be very conducive by the outsiders. Further, most of the people in the region are availing only 'Savings' and Credit products from the formal banking system, the concept of composite financial product in form of demand based 'Savings' and/ or 'Credit' as main product and 'micro-insurance, micro-pension, etc., as add-on products is yet to get any acceptance in the region both at the MFI/ NGO or even at bank level as well as at client level.

A large number of traditional informal micro-finance institutions in form of 'Rotating Savings and Credit Association' (ROSCAs) and 'Accumulating Savings and Credit Associations' (ASCAs) are existing in North East Region which have been formed to cope up with various risk arising on account of failure or disturbances in the social, economic and natural systems. It is felt that there is a need to institutionalized these informal institutions and an attempt should be made to facilitate the convergence of these traditional groups with various developmental programmes which are either in place or being initiated by the government and other stakeholders including banks, NGOs/ MFIs etc to provide livelihood and social security in the North Eastern Region.

The initial results of the implementation of the SHG-Bank Linkage Programme was quite encouraging and helped the 'not for profit' organisations as also the 'for profit' organisations to expand their activities aimed at social and economic empowerment.

Key Words: SHG-Bank Linkage Programme, North Eastern Region, Microfinance

JEL Classification: G-21, G-29

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Overview of Microfinance Interventions in India

Various experiments and efforts made in the country during post independence period in response to the progressive policy initiatives aimed at expanding the outreach of the formal financial system to the rural poor have not resulted into the desired results and still a large number of rural population continue to remain outside the formal banking system for a variety of demand and supply side reasons and constraints. The early initiatives in this regard were mainly concentrated on building an institutional framework beginning with the expanding and strengthening banking networks of cooperative credit institutions, commercial banks and the Regional Rural Banks after their coming in to the existence. Amongst the various factors responsible for financial exclusion of rural poor, 'not-so-friendly approach' and lack of transparency on the supply side and the lack of social capital and the poor surplus generation from the activities being persuade by the rural poor on the demand side may be designated as the most prominent factors for not achieving the target of linking every household with the formal financial institutions. These factors led to the emergence and the growth of alternative informal mode of economic empowerment of rural poor in the country including the 'SHG-Bank Linkage Programme (SBLP)' pioneered by NABARD which is now the world's largest community based programme. In the endeavor of empowering rural poor, particularly the poor women, both socially and economically, NABARD sought the help and support from Banks, Non-Government organisations and also various government departments in achieving its goal of helping poor to help themselves to come out of the vicious cycle of poverty. The initial results of the implementation of the SHG-Bank Linkage Programme was quite encouraging and helped the 'not for profit' organisations and as also the 'for profit' organisations to expand their activities aimed social and economic empowerment as well as to exploit the huge untapped business potential available in rural areas of the country particularly with those who were once considered non-worthy as a business partner.

The role played by the Microfinance Institutions in linking them with various financial products during last 5-6 years is spectacular on year on year basis; the average increase in the number of their clients has been 91% and that of the size of the portfolio outstanding 107%. Even in the midst of a global economic slowdown, the industry witnessed incredible growth from 2008 to 2009, growing by 75.5% in client base and by 102.5% in portfolio outstanding, an achievement largely driven by the performance of the top MFIs (Inverting the Pyramid: Indian Microfinance Coming of Age, 3rd Edition, Intellecap, 2009). According to the report "Financial Performance of Indian MFIs-Quick Review 2010? released by Sa-Dhan, the total loan outstanding for all its 264 MFIs that reported to Sa-Dhan is Rs 8,343.9 crore reaching out to 2.67 crore active borrowers, and an additional Rs 4,200 crore of outstanding portfolio is being managed by MFIs on behalf of banks and other financial institutions, taking the total outstanding portfolio managed by MFIs to about Rs 22,544 crore as on 31 March 2010. For profit Microfinance

NBFC's hold nearly 90% of the total loan portfolio outstanding by MFIs. The average loan size from these MFIs to its clients was Rs 9,766. The total outstanding borrowings by MFIs as on 31st March, 2010 stands at Rs 6,466 crore. Out of this, 77% is held by the 10 largest MFIs, while 90% of the total borrowings are held by for profit Microfinance NBFC's. As on 31 March 2010, about 27% of the total clients of the above mentioned 264 MFIs reside in urban areas.

As far as spread of SBLP and MFI's interventions across the country is concerned, both the SBLP and MFIs have done well in the south (Andhra Pradesh, Tamil Nadu, Karnataka, Kerala, and Puducherry). As on 31 March 2010, total bank loan outstanding in South Indian states stood at Rs 48.5 lakh crore against 42.2 lakh SHGs. The south Indian States constituted 67.8% of total loan outstanding against 47.0% of total number of SHGs linked to banks in the country (NABARD: Status of Microfinance in India 2009-10).

As far as loan by MFIs is concerned, the state of Andhra Pradesh is reported to have the maximum outreach of microfinance borrowers with 62.5 lakhs clients. However, in the last five years, the growth in number of MFIs in eastern region has been very impressive. North and western region too have seen significant growth in number of MFIs. Though south still tops the list, the current trend has narrowed down the regional imbalance (in terms of presence of MFIs) to a great extent. However, the under-representation of north-eastern region (except Assam) continues to be the area of concern. Out of the 264 MFIs reported, 45% are present in South India, 36.4% in the eastern region, 22% each in north and west regions and only 5.7% from north-east regions.

The Present Study - Status of Microfinance in North Eastern Region

A quick study in North Eastern Region of the country was undertaken to understand the status of microfinance interventions with specific objectives of (i) Status and effectiveness of formal microfinance programmes (SBLP) including SGSY in North East Region (ii) Traditional microfinance forms, groups/ institutions and products (savings, credit, remittances, etc.) of North East Region - behaviour and performance with special reference to unbanked areas and (iii) Coping mechanism for various risks arising on account of the natural, social and economic hazards, viz., calamities, loss of earning family members (death), loss of productive assets, etc.

For the purpose, data from secondary sources and as well as primary sources were collected. A field visit in three states in North East, namely, Assam, Manipur and Sikkim was undertaken during the period from 16 to 24 December 2010. Interaction with 12 MFIs/ NGOs and members of 9 SHGs in Manipur; 2 NGOs, 10 SHGs and members of 4 traditional groups in Assam and 2 NGOs, members of 12 SHGs, Managing Director of Sikkim State Cooperative Bank and a Project Officer - Sikkim Rural Development Agency were made during the visit to the above mentioned states. The results/ observations are presented in two sections, the first dealing with Performance under SHG-Bank Linkage Programmes vis-à-vis SGSY in north east region and the second section dealing with the traditional microfinance institutions existing in the north eastern regions and the coping mechanisms adopted by rural poor for various risks arising on account of the natural, social and economic hazards, viz., calamities, loss of earning family members (death), loss of productive assets, etc.

Section I: Performance under SHG-Bank Linkage Programmes vis-à-vis SGSY in North Eastern Region

North Eastern (NE) Region of the country includes Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Sikkim. These eight states cover an area of 2,62,179 sq. km. constituting 7.9% of the country's total geographical area, but have only 39 million people or about 3.8% of the total population of the country (2001 census). Assam alone accounts for over 68% of the population of the region. The density of population varies from 13 per sq. km. in Arunachal Pradesh to 340 per sq. km. in Assam. The share of tribal population in these states ranges from 19.3% in Assam to 94.5% in Mizoram of the state population. BPL population as per Planning Commission, Government of India is 19.1% in NER (27.5% in rural areas) as against 27.5% at all India level (28.3% in rural areas).

Savings by SHG groups

The SHGs formed in North Eastern States account for 4.2% of the total number of saving bank accounts opened by SHGs across the country, but constitute only 1.96%

Table 1: Progress under SHG-Bank Linkage Programme as on 31 March 2010

(Amount in Rs Lakh)

States	Total SHG			Commercial Banks		RRBs		Coop	
	Number	Amount	Amount/ group (Rs)	Number	Amt	Number	Amt	Number	Amt
Savings of SHGs with Banks									
India	69,53,250	6,19,871	8,915	58.3	59.3	26.2	21	15.5	19.7
NE States	2,92,188 (4.2%)	12,167 (1.96%)	4,164	39.4	40.4	50.4	47.4	10.2	12.2
Southern States	32,23,434 (46.4%)	3,17,451 (51.2%)	9,848	67.8	69.7	20.6	14.4	11.6	15.9
Bank Loan Outstanding									
India	48,51,356	28,03,828	57,795	66.7	71.9	22.8	22.9	10.5	61.7
NE States	1,33,785 (2.8%)	67,348 (2.4%)	50,340	52	57.7	37.6	33.9	10.4	8.4
Southern States	22,82,112 (47.0%)	19,02,288 (67.8%)	83,356	73.6	75.1	19.7	19.7	7.1	5.2

Source: NABARD: Status of Microfinance in India 2009-10 of total savings mobilised by these SHGs. The average savings per SHG (Table 1) in North Eastern states (Rs 4,164) is less than half of the average amount of savings mobilised by SHG members in the country (Rs 8,915). However, the gap in average savings mobilised by SHGs covered under SGSY Scheme between the north east region (Rs 5,355 per group) and SHGs under SGSY at national level (Rs 7,631) is not very large.

A closer look at the per capita Net State Domestic Product at factor cost (2007-08 at base 1999-00 prices) indicates that the average per capita income in all the north eastern states at Rs 16,933and other states viz., Arunachal Pradesh (Rs 21582), Assam (Rs 15,526), Manipur (Rs 15,667), Meghalaya (Rs 21,597), Mizoram (Rs 19,750), Nagaland (Rs 17,129), Tripura (Rs 22,493)and Sikkim (Rs 23,684) is less than the per capita National Income of Rs 24,295 (Source - Indiastat.com). The amount saved per group also reflects almost similar pattern being lowest in Manipur Rs 2018) and highest in Tripura (Rs 10,641). It has been observed that low level of savings by the group discourages the bank to extend long term credit to the groups. These figures highlight the need for upscaling the efforts of graduating these groups to micro entreprise level in a time bound manner.

Bank Loan to SHG groups

The North Eastern States which account for 3.84% of total households and 4.32% of the total BPL in the county (1777.5 lakh households and 652.03 lakh BPL families as per BPL Survey 2002), shared 3.11% of total number of loan accounts and 1.99% of loan amount of the total loan disbursed in the country in 2009-10. However, in

Table 2: Bank Loan Disbursed to SHGs during 2009-10

(Amount in Rs Lakh)

Sl	North Eastern States	Total Loan disbursed		Out of Total-Under SGSY		Loan disbursed/ Account	
		No-SHG	Loan disb	No-SHG	Loan disb	SHG	SGSY
1	Assam	39058	19573.61	7096	7306.95	50114	102973
2	Meghalaya	1895	884.18	620	359.06	46659	57913
3	Nagaland	603	637.83	140	60.03	105776	42879
4	Tripura	5424	6270.72	3026	5779.30	115611	190988
5	Arunachal P	919	318.13	809	244.17	34617	30182
6	Mizoram	417	466.87	243	148.16	111959	60971
7	Manipur	538	301.14	109	69.90	55974	64128
8	Sikkim	454	264.51	223	134.12	58262	60143
	Total North East	49308 (3.11%)	28716.99 (1.99%)	12266 (4.59%)	14101.69 (6.42%)	58240	114966
	India	1586822	1445330.36	267403	219800.06	91083	82198

Source: NABARD: Status of Microfinance in India 2009-10

Table 3: Bank loan outstanding to SHGs as on 31 March 2010

(Amount in Rs Lakh)

Sl	North Eastern States	Total Loan Outstanding		Out of Total- Under SGSY		Loan Outstanding/ Account		NPA as% of loan O/s
		No-SHG	Loan O/s	No-SHG	Loan O/s	SHG	SGSY	
1	Assam	100422	49123.37	1103	1308.57	48917	118637	5.29
2	Meghalaya	3191	1339.83	1214	614.76	41988	50639	10.16
3	Nagaland	4236	1450.16	2886	470.81	34234	16314	12.49
4	Tripura	14580	9687.29	7176	7631.22	66442	106344	1.01
5	Arunachal P	3203	1068.49	2911	855.74	33359	29397	3.99
6	Mizoram	2097	2325.9	725	646.66	110916	89194	16.09
7	Manipur	4452	1878.58	301	192.12	42196	63827	12.99
8	Sikkim	1604	474.17	1112	336.32	29562	30245	8.47
	Total North East	133785 (2.76%)	67347.79 (2.40%)	17428 (1.40%)	12056.20 (1.93%)	50340	69177	5.51
	India	4851356	2803828	1245394	625107.70	57795	50194	2.94

Source: NABARD: Status of Microfinance in India 2009-10

contrast to the lower amount of loan disbursed per account to SGSY groups (Rs 82,198) than total SHGs (Rs 91,083) at the all India level, the SHGs were given much higher dose of loan per account (Rs 1,14,966) as compared to SHGs not covered under SGSY (Rs 58,240) in the North Eastern Region (Table 2).

As far as bank loan outstanding to SHGs is concerned, the North Eastern States constituted 2.76% of total loan account and 2.4% of total bank loan outstanding against the total number of SHGs formed in the North Eastern region (Table 3). The North Eastern region accounted for only about 1% of total loan extended by MFI to SHGs in the country (Intellicap 2009).

In addition to the above, Bank loans (Banks and SIDBI) to 779 NGOs/ MFIs stood at Rs 10,728.49 crore during 2009-10 for on-lending to SHGs.

In addition to the below, Bank loan (Banks and SIDBI) outstanding against 1,659 NGOs/ MFIs stood at Rs 13,955.74 crore as on 31 March 2010.

Issues Pertaining to SHG-Bank Linkage Programme & SGSY in North Eastern Region

The following observations/ issues identified during the field visits needs attention of all the stakeholders working for the development of North Eastern Region.

1. Huge Demand for Micro-credit and Low Penetration Rate:

The market potential for microfinance in India, expressed through the estimated size of the total demand for micro-credit, is huge at Rs 3,30,049 crore. As against this demand, the supply of credit is just 10.4% (i.e., Rs 3,44,14 crore, of which loan outstanding of MFI - Rs 11,734 crore and SHG-Rs 22,680 crore). The state of Uttar Pradesh has the highest credit demand (Rs 51,962 crore), and is one of the lowest by market penetration (1.48%). The demand for microfinance credit in North East Region is estimated at 4% of total demand, i.e., Rs 13,202 crore (Intellicap, 2009).

The Microfinance Penetration among Poor Index (MPPI = Share of Region in microfinance Client/ Share of Region in total population) estimated by ACCESS Development Services (Microfinance India: State of the Sector Report 2010) shows that the North Eastern Region shows some promises for growth in the microfinance sector as the Penetration Index in North East (0.71) was higher than Central (0.32) and the Northern (0.41) Regions of the country although much less than the Southern Region (3.40). Keeping the above observations in mind, two important issues (i) reaching to financially excluded so far and (ii) extending credit to the groups keeping in view the credit absorption capacity of the group/ group members, need to be addressed to expand the microfinance activities in NER in a time bound manner.

2. Lack of Sufficient Number of Formal Outlets to Deliver Microfinance Products

The North Eastern Region accounts for only 2.7% of total bank branches in the country (as on June 2009) and 80 out of 90 'unbanked' blocks in the country are in North Eastern Region. The IBA committee for NER under the chairmanship Satish C Gupta, formed after the Thorat Committee's recommendations, is working out ways to increase branches in the states and the RBI has also decided to make arrangements for viability gap funding for setting up branches in NER and likely to meet up to 50% of the expenses to set up the branches.

Various alternative models including adoption of 'Banking Correspondents' model suggested for financial inclusion, particularly in north eastern region are not able to make a big presence on account of different region specific problems. The Report of the 'Working Group to Review the Business Correspondent Model' (2009) under the Chairmanship of Shri P. Vijaya Bhaskar, Chief General Manager, Reserve Bank of India has categorically mentioned - "As almost all BC transactions are cash based, the flow of cash with BCs has been highlighted as the biggest issue. Besides the logistics of handling large volumes of cash, it leads to increased costs and added operational risks. These assume greater importance in the context of the North Eastern region of the country, on account of higher security risks, vast and difficult terrain and poor connectivity. Infact, in many cases, the commission paid by banks to the BCs is not considered adequate for a viable business model. There are costs involved in staff salaries, trainings, etc., for which the current compensation structure is not generally adequate. A majority of BCs have reported losses and some of them have even suspended their operations".

Getting Solution to the issue of reaching to unreach in these states appears to be not that simple. This issue needs to be deliberated upon at length in order to find out some workable solution.

3. Issues Pertaining to Financial Literacy in North Eastern Region

Financial Literacy can broadly be defined as the capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices. During the interaction with many SHG members in the selected states, it was observed that most of the members were not very enthusiastic about availing bank loan. They had apprehensions about their own capabilities of running 'income generating units'. Many of them did not have basic information about the SHG concept, training for skill development, interest rate being charged by banks, etc. Poor or low understanding of volunteers/ people employed SHG promoting institutions about the SHG formation process has also been found to be one of the major reasons for poor nurturing of SHGs.

4. Issues Pertaining to Banks

(i) Some banks in Manipur were reported to be putting a condition to SHGs to open a 'Recurring Deposit Account' for opening Savings Bank Account withthe bank.

(ii) Producing 'Domicile Record' by the SHG members is insisted upon by some banks in order to open a Saving Bank account.

(iii) Banks generally are not disbursing the full bank loan sanctioned to the SHGs formed under SGSY.

5. Issues Pertaining to SHG Formation and Afterwards

(i) The number of members per group was found to be varying from state to State. The number of members per group was less in Assam (7 to 20) and Sikkim (5 to 15) as compared to that in Manipur (up 50 members).

(ii) Some of the SHG members were still borrowing from money lenders Rate of interest being charged by moneylenders was found to be varying from 3% to 5% per month in different part of the region when loan is availed for comparatively longer period. However, many women (mostly non-SHG members) in Manipur who are engaged in some intra-day trading in some article in 'women market' (market especially created for women sellers) were found to be borrowing at 10% to 15% rate of interest for a day from a local money lender. These women borrow from the money lender in the morning while going to the market and return back in evening while returning to their homes.

(iii) Some SHG members avail loan from the group and lend it to some other member or non-member at a rate higher than at what he has availed from the group.

(iv) The reasons for not taking up of income generating activity by SHG members include lack of market, poor infrastructure support (including electricity), problem in getting sufficient loan from banks, long process of documentation in banks, costly loan from other sources (NGOs/ MFI, money lenders), lack of awareness/ availability of institutions providing skill development training, etc. The implementing agencies need to take into account the above factors while preparing any plan to upscale the efforts\ for microfinance interventions in their operational areas.

6. Issues Pertaining to NGOs/ MFIs Lending to SHGs

(i) Most of NGOs/ MFIs are offering only credit and saving products to their clients. They consider other microfinance products like micro-insurance, micro-pension and remittance as commercially not viable, if offered on stand alone basis.

(ii) Offering a composite microfinance product in the region is yet to get any acceptance both at the MFI/ NGO or even at bank level as well as at client level. Offering demand based 'Savings' and/ or 'Credit' as main product and 'micro-insurance, micro-pension, etc., as add-on products is the need of the hour.

(iii) Some of the MFIs/ NGOs are charging as high as 48% annual rate of interest to their clients. In Manipur, many NGOs/MFIs (People for Social Development-PSD, Organisation for Rural Improvement-ORI in Manipur) have a well set procedure of extending loan to SHGs. The first loan of Rs 5,000 per member is offered at 30% and if repayment is good, the subsequent loans of increasing amount of Rs 10,000 Rs 15,000, so on are offered at 24% per annum. Although the groups are not forced to take up any particular activity, the loans have been found to be utilised for a number of activities starting from consumption loan to income generating loan for manufacturing based activities (weaving, jewelry, etc.), agro/ allied activities (dairy, poultry, silk rearing, piggery), service sector activities (tea stall, embroidery, etc.). However, if such organisations who have got good client base in their respective area of operation, try to promote some activity on cluster basis and arrange for marketing of products produced by these clusters would certainly help SHGs/SHG members to establish micro-enterprises. The success story of 'Women's Income Generation Centre (WIGC)' at Thoubal Wangmataba, Thoubal District, Manipur, managed by Ms. Indira Oinam, Secretary need to be replicated by other MFIs/ NGOs in order to speed up the process of social as well as financial empowerment to rural poor, particularly to women folk. The WIGC has provided employment to more than 7000 members of about 500 SHGs promoted by WIGC. The WIGC has established 82 work centres which deal with one or more than one products from wood carving, stone carving, cane and bamboo products, pottery products, school for orphans, etc. The annual turn-over of WIGC is about 5.0 crore. Further, the Malegam Committee recommendation of putting a 24% cap on the interest rate to be charged by MFIs/ NGO to its client and ensuring a minimum of 75% share of income generating activities in the total loan portfolio of MFIs/ NGO may encourage the borrowers to demand more credit as well as force MFIs/ NGOs to adhere to the norm of ensuring suitable environment, financial comfort and give desired push to upscale the setting up of micro-enterprises in North Eastern Region.

(iv) NABARD has supported lot of clusters in NE Region (Annexure-I) and has sanctioned number projects from Rural Innovation Fund (RIF) to different agencies (ICAR stations, NGO/ MFIs) (Annexure-II) in the NER for the benefit of rural poor. There is need to upscale the efforts by MFI/ NGOs partners to prepare many more projects suiting the local conditions and approach NABARD for sanction.

7. Cases of Urban Microfinance -SHGs/ JLGs

The Nightingale Charitable Society, an MFI located at D.R. Pathak Bhawan, Natun Sarania Chandmari, Guwahati working in four districts in Assam is concentrating on urban microfinance only and has adopted 'JLG' concept of extending loan to its clients. A group consists of five members residing within a distance of 10 minutes walk. The first dose of loan is given at Rs 5,000 per member at an annual rate of interest of 13.52% which is to be repaid within 12 months. If repayment is found satisfactory, the second dose of Rs 10,000 extended. Although, loan is given for a purpose/ activity (mostly for handlooms), pursuance of the activity by the loanee members is not insisted upon.

8. Multiple Membership of SHG/ JLGs Members

A number of SHG members in NER, particularly in Assam and Manipur, were found to be the member of not only two or more than two SHGs but were also a part of many traditional savings groups. These members used to borrow from more than one sources/ groups which may include one or a combination of Joint Liability Group, Self-Help Group, Sonchoy Group of either ASCA (Accumulated Savings and Credit Association') or ROSCA (Rotating Savings and Credit Association) an '-ASCA), Namghar Committee (collection for religious purpose only), Handloom society, etc.

Here, the issue is that majority of loans availed by the members are utilised to satisfy their consumption requirements and not for creating income generating assets.

9. Problems Associated with SGSY Financing

The following issues emerged during the discussions with NGOs/ MFIs and SHGs in the selected states:

(i) In practice, the concept of selection of key activities and extending credit support under SGSY to a group based on the capabilities/ entrepreneurial skill of handing a suitable activity to a group is not in place in many NE states. This reduces the chance of asset creation at the beneficiary level and also of any effort by line department to provide skill development training to the SHG members for the maintenance of the asset created, if any.

(ii) The concept of unit cost for sanction of loan for an activity is not adhered to and some arbitrary amount is sanctioned without giving due consideration to the unit cost.

(iii) Normally banks do not disburse full sanctioned amount to the groups and the subsidy amount is allowed to be withdrawn only after the loan is repaid by the groups.

(iv) In case of dairy units, majority of groups have been given only one animal.

(v) Proper nurturing of groups during the group formation stage is an essential component of SHG-Bank Linkage Programme as well as SGSY scheme. It has been observed that in some states like Manipur, NGOs/ MFIs are not involved to the desired level as far as group formation under SGSY scheme is concerned.

10. Comparatively High Rate of Default

The NPA in respect of bank loan to SHGs (including SGSY) is comparatively high at 5.51% of the bank loan outstanding against SHGs in the North Eastern Region as compared to 2.94%, average NPA for the country as a whole. The NPA level in case of loan to SHGs in states like Mizoram (16.09%), Manipur (12.99%) and Nagaland (12.49%) is very high. Not much emphasis by implementing agencies, particularly, financing banks and rural development departments, on creation of income generating assets out of loan extended to the groups could be one of the reasons for default by the groups.

From the experiences gained from the success of the SHG-Bank linkage programme and other micro finance initiatives in India and abroad, it has been established that interfacing NGOs/CSOs and other socially conscious organisations/ persons between the banks and the ultimate customers would prove rewarding in terms of Financial

Inclusion. However, the NGOs/ MFIs in North East need more support both in financial and non-financial terms to ensure their participation in a big way as the geographical situation in NER is not very supportive as compared to the other parts of the country.

Section-II: Traditional Microfinance Institutions Existing in the North Eastern Region and the Coping Mechanisms Adopted by Rural Poor for Various Risks

A brief account of various traditional microfinance institutions, particularly the savings products either in cash or kind which the author came across during his visit to the three states in NER, is presented in following section. These local as well as government supported products/ innovations help the rural people to cope with various risks arising on account of failure of social, economic natural structures existing in the nature or created by the society. There may be many more institutions existing in the region which need to be documented so that good practices prevailing in isolation may be brought to light and institutionalised for the benefit of the larger society.

It has been observed that Saving with Non-Banking Financial Companies (NBFCs), Rotating Savings and Credit Association (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs) is a more common practice, due to their high outreach and simple processes. Despite major concerns about their security amongst almost all respondents - most of whom have lost money many times - saving through these informal systems continues. The ROSCAs (Rotating Savings and Credit Associations, known as Marups in Manipur) are groups of people who pool money weekly or monthly and then distribute it to the RoSCA members in turn. The turns are decided by mutual consent, lottery, and seniority within the group or bidding. The frequency of deposit in the pool depends on the occupation of members, and members all typically save the same amount (although some members may have multiple 'shares' and thus contribute double or triple the amount and thus receive two or three pay-outs). The tenure of a cycle of ROSCA depends on the number of members in the group and typically varies from 20 to 30 months. No new memberships are allowed during the tenure, and the group dissolves after the tenure. The ASCAs (Accumulating Savings and Credit Associations), also known as Sonchay, Somobay, Samiti, Got (in Assam): These are savings based groups of generally 25-40 where members deposit monthly savings of a fixed amount into a central pool, from which money is lent out to members and non-members ASCAs are usually purpose-based groups which run for 1-2 years, and often liquidate and provide payouts prior to festivals. Members earn interest in proportion to their savings amount. ASCAs are very common in the valleys of Assam, as well as in some parts of Meghalaya and Nagaland (Understanding and Responding to the Savings Behaviour of Poor People in the North East of India by Madhurantika Moulick, 2008).

Manipur

The state of Manipur has some traditional institutions providing basic financial services to the community which are in existence for a pretty long time. These are special institutions in the sense that they are unique to the area and community they represent.

(A) Marups:

Marups, the informal mechanisms falling under ROSCAs, symbolises the Meitei society (means friendship association) of Manipur state. The system originated as one of the most important institutions for mutual help in a locality at the time of death, marriage, birth and other personal has expanded its activity much more than the social sphere and fulfills most of the need related to economic sphere of its members. The Marup system can be divided into two forms as regard to its nature of organizations and functions (i) Intra-Village Marusp and (ii) Inter-Village Marups.

(i) Intra-Village Marup:

The Intra-Village Marup system stands as permanent socio-economic institutions based on some relationships like kinship, neighbourhood, etc., and is also confined within a particular territory. The memberships of Marups are non-voluntary in nature and every member in a village is a compulsory member of one such Marup. The Marups helps during the life-cycle rituals like birth, marriage, death, etc., of the community. The Intra-Village Marup is of two types -the Singlup and the Leikai Marup.

The Singlup Marup, in Manipur, is the oldest form of traditional social organisation formed to cover all the expenditure on the performance of dead ceremonies. And the organisation of this Singlup institution is usually at the Leikai (locality) level, and every family is also the member of his Leikai Singlup. The entire responsibility of such rites and rituals related to death are shared by all the members of the community.

The function of Leikai Marup is not limited to a specific ceremony and problem and this type of the Marup may not exist in all the villages because of its functional non-specificity. This type of Marup helps the members in both the monetary and material terms. All the members contribute a minimum equal fixed amount for each year, until the minimum target is reached. Contribution is also made in kind. This Marup acquires many articles and tools for letting out to its members. This Marup lent money to members at low interest. Collection (cash or kind) can also be distributed among the members during festival and crop-failure.

(ii) Inter-Village Marup

This type of Marup is non-permanent in nature whose membership is voluntary and is also organised for a particular targeted goal as its objective with a specific period of time. Once the objective goals are achieved the Marup is dissolved or reorganised. In this Marup, each member of the group contributes some fixed amount on a regular basis (weekly, monthly, etc.), and the sum of each time contribution is given to different members in rotation, as he or she wishes to use for some social ceremony or to some consumer article. Those members who had received their turn of distribution will have some extra payment from the next contribution. Therefore those who receive later will receive more. In case of default, the Marup practices the system of Potmatpa by snatching away some valuable objects (equal to the value of the amount, which he had received), from his house as compensation. This type of Marup can be again classified into two types on the basis of their contribution and distribution - (a) The Thouni Marup and (b) The Non-Thouni Marup.

The Thouni Marup is formed by some women (ranging from 30 to 50), for providing monetary and material help on a particular life-cycle ceremony like death, marriage, birth etc., in the family of the member. For this, each member needs to give a particular name of a person (among her relatives), known as Thouni, on whose ceremony, the association will give their contribution. Once a name is given as Thouni, it cannot be changed. The contribution is made when the particular ceremony of the person occurs. There are many variant of Thouni Marup.

The Non-Thouni Marup is also quite similar with that of the Thouni Marup. The only difference is that of the distribution basis. It is not based on ceremonial distribution. It is often decided by lottery system. In this Marup each member agrees to contribute some fixed amount on regular basis (weekly, monthly, etc.), and each time contribution is given to a particular member, often decided by lottery system, to finance for buying one particular item. And when all the members have received their respective turns, the Marup is dissolved. There are various sets of this type of Marup also.

(B) Anntang-Pham: Kuki-Chin Practice of Community Help

It is a traditional system of the mutual help among the villagers of the Thadou Kuki of Manipur. This system is widely practiced in many parts of Meghalaya, Mizoram and Manipur (particularly in Churachandpur District). In Mizoram, it is known as Bu-phai-tham. It is a system of collection and distribution of the rice to the local poor. The word Anntang-Pham in the Kuki-Chin dialect stands for 'handful of rice.' In Manipur, it is widely practiced among the Kuki-Chin tribes, viz. Paitei, Simte, Zou, Thangal, etc. In this system, every woman in every family takes out handful of rice from their respective houses and put the same in a particular wooden box kept by the side of the door for collection. This collected rice will be stored in the local community granary, which belongs to the church now. The rice is sold among the poor in the village at a very low price during the time of scarcity. The fund so collected from this system is utilized in the organisation of the community festival.

Assam

In the state of Assam too, a number of traditional institutions exist most of which fall under the category of ASCAs (Accumulating Savings and Credit Associations), colloquially known as Xonchois. Some of the institutions existing in Assam are described below.

(A) Kuchi

Kuchi, means a hamlet from within a village where normally households from the same Khel resides. These are generally found in the districts of Nalbari, Kamrup and Barpeta. In Barpeta neighbourhoods are also called Hatis. A fund covering all the households of the entire Khel (village) are called Kuchi. They function just like the Xonchois. However, the major departing point is that the contribution amount is not constant and only collected for some time and it is not time limited. It continues functioning and rotating its fund. The dividend is distributed time to time after meeting all community related expenses. The amount of loans provided are very small and does not cross usually Rs 10,000. These institutions have been running primarily out of the retained earnings, i.e., the interest income from the loans rotated amongst its members.

(B) Kirtan Ghar or Namghar Committees

The Namghars are socio-religious institutions in Assam. Each village/khel would have at least one of them. They were introduced by the great Saint Sankardeva, a vaishvaite, in the 15th century. These institutions are not religious bodies but also serve as the community hall where all the affairs of the village in discussed. During the daily or weekly prayers each household contribute some money to the common fund. After meeting the expenses of the Namghar, the surplus amount is used for helping the poor. Normally, the loan is given out without any interest but the beneficiary usually pays back with some additional amount.

(C) Dong Committee

Dong Committees are mostly found in the foothills of the North Bank of Assam. 'Dong', in Bodo dialect, means canalising water to the cultivable field from river or natural flow. It is associated with the Bodo Community of Assam. 'Dongs' are indigenous micro irrigation mechanism, which are owned and maintained by the community. Some of these systems are 100 years old and others are ranging from 10 - 60 years or so. Dongs are also found amongst Assamese speaking Hindus, Adivasis, Rabhas inhabiting in these areas. Only members of households with cultivable land, which are irrigated, are members of this committee. The contribution amount varies according to the land to be cultivated. However, the voting and other rights are same for each member. Generally, like the earlier traditional bodies, these committees also provide money to households, which are in distress, and are in dire need of cash. The loans are provided at interest rate ranging from 3% to 5% per month.

(D) Ayoti Committee

Ayoti, as colloquially called, is a woman who is an expert in rendering prayers or devotional songs. This group of women called as "Ayoti Dal". The Ayoti Committee's primary function is to offer prayers or Nam, in a household for occasions like marriage, child birth, death anniversary etc. and give blessings on behalf of the whole village community to the household. For this service, the owner of the household voluntarily donate cash or kind towards the group, which the Ayoti committee use for meeting some expenses of the Namghar and the remaining is used for providing financial assistance to members of the committee at times of need.

(E) Bhoral Committee

Bharal, as colloquially called in Assam, means a repository of grain. In Rabha community, the community grain bank has been in existence to meet the food security problems of the poorer sections of the community. In order to manage it a committee had been formed called the Bhoral Committee. All households having agricultural land contribute some pre-decided quantity of paddy to the committee. The household not having any agricultural land have to contribute in cash equal to the value of kind contribution. The cash of the Bhoral Committee is used to give loans to the households within the village.

(F) "Me" - traditional village council of Karbi Tribes

The Karbis, a major ethnic community of Assam, reside mainly in the Karbi Anglong district and also in North Cachar, Kamrup, Nagaon and Sonitpur districts. "Me", is the traditional village council of Karbi which is formed by the elderly male members and presided over by the village headman. "Me" decides the location of a new jhom site where the present village has to be shifted and makes allotment of Jhom sites to the families of the village. The Karbis maintain 'Kerung Amei', a traditionally maintained grain bank which is established to help the poor families during the lean months of the year. There are three types of 'grain Bank' among the Karbis. In one system of grain bank, all the families have to be contributing 5 kgs of paddy after the annual harvest to the grain bank and during the lean months. In the second system of grain bank, male youths of the village cultivate an assigned plot and the produce is kept in a granary. In the third system, the grain bank is confined to the aged people of the village who cultivate an assigned plot and the produce is kept in a granary. All the three system allows borrowing of grain by the poor families during the lean months which must be returned during the next harvest season along with 50% interest.

Sikkim

Although no specific traditional system of microfinance existing in the state of Sikkim came to the notice of the author, a number of State Government supported schemes are in place to support the rural poor. The Chief Minister has announced to work towards making the state poverty free by the year 2030. Steps towards financial inclusion include providing Rs 1,500 (Rs 1,000 for opening account and Rs 500 for insurance cover) per family to 50,000 families. Further, all the married women in the state will be provided with 'Smart Card' with a balance of Rs 1,000.

Issues Relating to Traditional Microfinance Institutions

A close look at various traditional microfinance institutions working in different parts of the region that most of these groups have been formed to cope up with various risk arising on account of failure or disturbances in the social, economic and natural systems. The formation of these groups is a result of realization of common needs of a particular cast, community/ village or an area. These are affinity groups which either already had or have developed a very strong bond among themselves after joining these groups.

The issue is how to institutionalise these traditional affinity groups? Is there a possibility of convergence of these traditional groups with various developmental programmes which are either in place or being initiated by the government and other stakeholders including banks, NGOs/ MFIs etc to provide livelihood and social security in the North Eastern Region?

Some Issues relating to Social Security Products

Micro-Insurance

Most of the MFIs are not finding it as value for money to do the business with the product relating to social security aspects, viz., micro-pension and micro-insurance, particularly in the North Eastern Region of the country. Generally they consider these products as non-viable if offered as stand alone products. At the best they can be offered as a component of a composite product with saving and credit. It is also believed that the drop-out rate is also very high (upto 60%) is case of these products and therefore, Action for Rural Development (AFORD), Manipur is one organisation which is implementing Life Insurance Corporations 'Jeevan Mangal' and 'Jeevan Madhur' micro-insurance products in the state of Manipur. LIC's Jeevan Mangal is a term assurance plan with return of premiums on maturity available to an individual in the age range of 18 to 70 years with sum assured of Rs 10,000 to Rs 50,000. "Jeevan Madhur", is a simple saving related life insurance plan covering individuals in the age group of 18 to 60 years. Minimum sum assured under the plan is Rs 5,000 and maximum sum assured is Rs 30,000. A number of micro-insurance schemes are available which need to be popularised for the benefit of rural poor. Many of them are under partnerships between private insurance companies and microfinance institutions (MFIs). The role of MFI needs to be up-scaled in the distribution the product of the insurance company to its clients.

Micro-Pensions for Vulnerable and Informal Workers

One of the key initiatives taken up by the Government in the year 2010 includes the launch of the 'Swavalamban Pension Scheme'. The scheme is aimed to encourage workers of unorganised sector to voluntarily save for their retirement. The administration of the scheme lies with Pension Fund Regulatory and Development Authority (PFRDA). The central government provides contribution of Rs 1,000 per year to each new pension account opened in the year 2010-11 and for the following three years. Some of the state governments are contributing a further INR 1,000 annually to encourage workers to save. As per the government guidelines for Swavalamban, any citizen is eligible who is not part of any statutory pension scheme of the government. The contributions of the subscribers under Swavalamban are collected through agencies, such as, Government agencies or NGOs, in flexible installments on monthly or quarterly basis.

Village Grain Bank Scheme

Village Grain Bank Scheme is another scheme for providing food security to the people living in chronically flood and drought affected areas and remote / inaccessible hilly areas of the State. Selected BPL beneficiaries, including Antodaya Anna Yojana beneficiaries of those areas will benefit from the scheme. The scheme envisages establishment of grain banks by Gram Panchayats through Gram Sabhas, Self-Help Groups or Non-Governmental Organisations (NGOs) in food scarce village/areas as notified by State Government/UT Administrations. The Central Government allocates foodgrains to each Grain Bank @ one quintal per family for an average 40 Below Poverty Line (BPL)/Antyodaya Anna Yojana (AAY) families which is released as one time grant on 'free of cost basis'. The provision for storage, transportation, training and monitoring has also been made. The people belonging to BPL/AAY families are eligible to become members of the Grain Bank, who can manage the affairs of the Bank through an executive committee elected by themselves and having at least one woman member.

Conclusion

Lack of formal financial institutions in many parts of the region and the problems associated with the access of rural poor to these institutions in areas where institutions already exist has resulted in the emergence of a plethora of informal systems based on socio-economic structures and needs. Most of these informal institutions have helped the rural poor in strengthening social bonds and some economic help to perform some religious and social ceremonies and have been able to help the poor during the stress period arising on account of social, economic or natural imbalances in their own family, village or the region. However, these informal institutions could not do much to help the individuals/ families to take up some income generating activities and come out of the vicious circle of poverty.

Annexure I: List of NABARD CDP clusters as on 31.03.2008

Sl No	Name of cluster	State	District	Participatory / / Intensive	Date of in Principle Approval
1	Sericullture	Assam	Goalpara	Participatory	29.06.2006
2	Handloom (Seri culture)	Assam	Kamrup	Participatory	02.05.2006
3	Muga silk	Assam	Sibsagar	Participatory	17.05.2006
4	Eri silk	Assam	Chirang	Participatory	17.05.2006
5	Sericulture	Assam	Karbi Anglong	Participatory	17.05.2006
6	Sericulture	Assam	Udalguri	Participatory	10.07.2006
7	Pottery	Assam	Kamrup	Participatory	24.02.2006
8	Handloom	Assam	Cachar	Participatory	07.09.2006
9	Sericulture/weaving	Assam	Darrang	Participatory	15.03.2007
10	Japi (Bamboo craft)	Assam	Nalbari	Participatory	15.03.2007
11	Sericulture & Weaving	Assam	Kokrajhar	Participatory	30.04.2007
12	Value Addition of Bamboo - CBTC	Assam	Nagaon Dist	Participatory	24.9.2007
13	Bamboo	Assam	Sibsagar	Participatory	20.04.2006
14	Sericullture	Assam	Dibrugarh	Participatory	29.06.2006
15	Indigenous Pottery	Manipur	Ukhrul	Participatory	30.03.2007
16	Handloom	Manipur	Imphal West	Participatory	Oct 2005
17	Handloom weaving	Meghalaya	West Garo Hills	Participatory	22.07.2005
18	Turmeric Cluster	Meghalaya	Jaintia Hills	Participatory	10.3.2008
19	Rural Tourism	Sikkim	Lingee Payong	Rural Tourism	06.06.2007
20	Rural Tourism	Sikkim	Ray Mindu	Rural Tourism	06.06.2007
21	Broom Binding	Sikkim	East, West & South Sikkim	Participatory	04.06.2007

There is a need to document such traditional institutions for each and every state of the region and a state specific strategy may be prepared for convergence of these institutions with various developmental initiatives of government, banks, MFIs/ NGOs, etc., in order to put these states on a higher growth path.

Annexure II: NABARD-SDC Rural Innovation Fund (RIF)

List of projects sanctioned under the innovative component of RIF as on 31 March 2008 by NABARD in NE Region

Sl. No.	Name of the Project	Champion of the Project	State	Amount Sanctioned (Grant) Rs in lakhs
1	Arecanut Leaf Plate Making in Barpetta District	DHRITI, Guwahati	Assam	10.24 (Grant)
2	Low Cost Rain Water Harvesting Structures	ICAR Research Centre, Umiam, Meghalaya	Meghalaya, Tripura, Nagaland, Manipur	10.00 (Grant)
3	Stevia Tea Cottage Industry	Essomi Foundation Trust, Arunachal Pradesh	Arunachal Pradesh	17.64 (Grant)
4	Soil Health Cards to Farmers Club Members	ICAR Research Centre, Agartala	Tripura	13.37 (Grant)
5	Rooftop Rain Water Harvesting Structure	Action for Rural Development (AFORD), Manipur	Manipur	12.25 (Grant)
6	Low Cost Storage technology for table/ seed potatoes.	Central Potato Research Station, ICAR, Shillong	Meghalaya	4.33 (Grant)

Traditional Mechanisms of Financial Services - The Xonchois of Lower Assam

- Abhijit Sharma*

Abstract

Providing financial services in the remote regions like the North East Region is challenging because of its hilly terrain and large diversity. While different delivery mechanisms like IT based solutions or mobile banking has the potential of extending outreach to these areas, it is social capital of these areas which could be leveraged to provide the basic financial services in a sustainable manner. This paper attempts to understand the workings of one such institution in the valley regions of Lower Assam called the Xonchois to see whether it has the potential of serving as a last mile link to the formal financial sector. This paper clearly brings out the extensive use of these institutions by the rural households both for savings and credit services in large areas of Lower Assam. This is because they have the ability to satisfy the needs of the rural households as regards the financial services. The paper brings out the strengths of these institutions vis-à-vis the attributes related to savings. It also highlights some of its weaknesses. Finally, it highlights some of the lessons for banks, microfinance institutions and SHGs.

Financial inclusion is the reason for the strong emphasis of the Government of India and the Reserve Bank of India for financially including the majority of the population of the country.

Introduction

Financial inclusion is a sine-quo-non for development especially in the context of a developing region. This is the reason for the strong emphasis of the Government of India and the Reserve Bank of India for financially including the majority of the population of the country. This is more so for the regions like the North East Region which has a large number of population

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Key Words: Financial Inclusion, North East Region, Xonchois
JEL Classification: G-21, G-20

still outside the fold of the formal financial agencies. At a disaggregated level, the situation is much more acute with more than 70% of the districts in Assam having an exclusion which ranges from 96.1 - 98.5% (Rangarajan, 2008). The situation was worse for the other states, particularly Manipur, where the report calculated a credit gap of 97.2 - 99.2 for all the districts in the state. In order that financial inclusion takes place as per plan, various methods have been prescribed for increasing outreach of banks, viz., enlarging the branch network, expanding the SHG-Bank Linkage programme, using technology like biometric card, mobile banking, etc. However, for this region, an innovative approach has to be adopted where the diversity is immense both in terms of physical and social dimensions and the costs of offering financial services would remain prohibitively high because of hilly terrain and low density (Sharma, 2008). On the other hand, there is a fairly vibrant rural financial market operating in the region, across geographies, which is mostly informal in nature. The 59th round of NSSO clearly reports that almost 80% of the households in Assam were indebted to the informal sector as compared to only 60% for the country as a whole. And a large portion of these suppliers are the community based traditional financial institutions. Some of these are Xonchois in Assam, Marups in Manipur, Maharis in Garos Hills of Meghalaya,etc. Studies have shown their large presence in this area and also its popularity amongst all section of population. (Moulick, 2008; Sharma and Mathews, 2009). The existence of such traditional community based financial institutions may have come about due to the abundance of social capital available in the region - thanks to the distinct tribal attributes within the social and cultural life of the community.

This clearly shows the importance of these institutions in the rural life of the region. Given the challenges posed to the formal sector in expanding outreach to the rural areas, it was felt that an understanding of the outreach and workings of these set of institutions would inform the formal sector both in terms of the product development and also in building linkages with them, thereby helping in expanding outreach for the formal financial institutions to the financially excluded region.

It is in this connection that this study has been undertaken to understand the institutions existing traditionally in the rural areas of the region. The region chosen for this study is the seven districts located in the Lower Assam. This is because earlier studies reveal a large presence of Xonchois - a typical ASCA in this area (Sharma and Mathew, 2009).

The study is based on the analysis of both primary and secondary data. For secondary data, Census of India, Banking Statistical Returns of RBI, NSSO data besides data from other studies and reports were used.The primary data was collected from samples. As the districts have a diverse group of population, attempts were made to make the samples as representative as possible by covering most of the major groups in the study area.

A two-stage sampling was undertaken. At the first stage, 5 villages were selected per district. A stratified random design was undertaken for selection of villages covering the major communities.

At the second stage, the following samples were selected within each of the sample village for the study:

- Households at the village level,
- Informal savings and credit groups at the village level,
- Traditional financial institutions involved in financial intermediation, and
- Groups of people from village for various PRA (Participatory Rural Appraisal) exercises

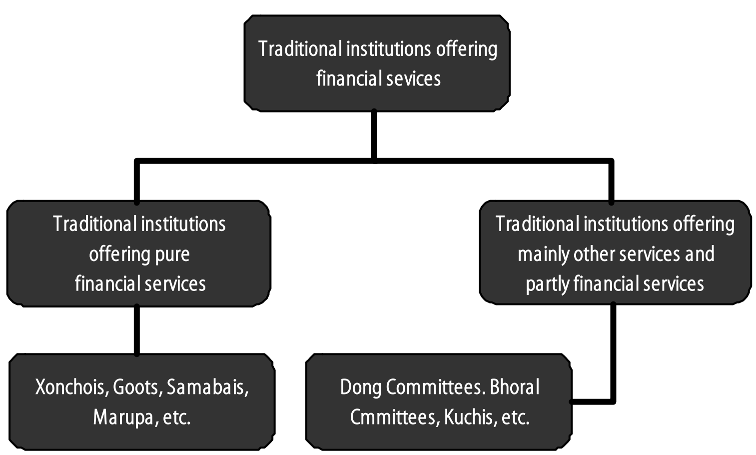
The break-up of samples are given in the table below.

Particular	Barpeta	Dhubri	Goalpara	Kamrup	Kokrajhar	Nalbari
No. of villages covered	5	5	4	5	5	5
No. of HHs covered	75	74	55	58	75	74
No. of Xonchois covered	6	37	26	57	19	84
No. of persons (PRA)	39	68	41	38	37	48

1.2 Operational Definition

Traditional Institutions have been defined differently in different branches of social sciences, particularly in anthropology. However, for the purpose of the study, traditional institutions offering financial services have been defined as those institutions which have been spontaneously formed by people and naturally managed by them. Their norms of its functioning are devised by them and therefore do not need any external stimulus and intervention to form or run.

In Assam, these traditional institutions which provide financial services fall into two categories as shown in the figure below.



The first type are those traditional institutions which provide only financial services like the Xonchois, Guts, Samabais, etc. The second type of traditional institutions provide other community services like building and maintaining of community assets, adjudication, etc., and providing financial services form only a minor part of its role. These institutions provide finance only as a last resort and are viewed by the community as such. Finances are generally provided to individuals only in times of distress and the households cannot go anywhere else for money. The paper would cover only the Xonchois which belong to the first category of the traditional institutions.

Xonchois are association of people voluntarily coming together with a sole objective of building up a common fund with monthly equal contribution by each member for a fixed term. This is then used to provide credit facility to its members. When the term expires, the fund is distributed amongst its members and it closes to be started all over again. They are commonly known as Accumulated Savings and Credit Associations (ASCAs) which have been popularised by Stuart Rutherford (Rutherford, 1999).

The important features which distinguish these institutions are:

- These are totally informal setup which is formed by the households who form its members.
- The sole aim of these institutions is to provide savings and credit services to its members
- Normally it exists for a specific term as decided by its members.
- One household may have multiple shares in one Xonchois or be member in multiple Xonchois.
- The key person in the institution is the manager who operates it by maintaining the records and ensuring that the collection and disbursal of money is maintained as per the norms.

1.3 Objectives

Xonchois as an informal institutional mechanism is used extensively in the Lower Assam. The study intends to understand:

a) the spread and the depth of outreach of these institutions in the rural areas;
b) their operations including membership, products; and
c) their strengths and their weakness.

1.4 The Context of the Study Area

The study area consists of the seven districts of Lower Assam as shown in figure below:

The area is highly dense and also is poorer in social and economic indicators as shown in the table 1. Except for Kamrup which host the metropolitan city of Guwahati, the rest of the districts are extremely poor in all of the parameters.

Figure 1: Map Showing the Study Area

These districts also have the distinction of having a very low spread of banking network as can be seen from the Figure 2. This low spread in the banking network has led to large scale financial exclusion.

Table 1: Socio-economic profile of the study area					
Sl. No.	District	Density	Sex ratio	HDI	Urbanisation Rate
1	Barpeta	506	941	0.396	7.62
2	Dhubri	584	944	0.214	11.66
3	Goalpara	451	955	0.308	8.18
4	Kamrup	579	894	0.574	35.81
5.	Nalbari	504	937	0.343	2.41
6.	Kokrajhar	294	945	0.354	6.84
	ASSAM	340	932	0.462	11.10
	INDIA	324	933	0.612*	27.80

Source: Census of India, 2001, State Human Development Report, 2003

The Figures 2, 3 and 4 shows the scale of financial exclusion of the study area as compared to the rest of the state of Assam.

Thus, it is clear that the study area, which consists of the seven districts of Lower Assam, is poor and is excluded from the formal financial services much more than the other parts of the state. It is another matter that the state is also fairly low in these parameters as compared to the nation as whole.

Given the state of poor supply from the formal sector, it is obvious that the financial markets especially in the rural areas are dominated by the informal sector. A study of financial markets conducted for these parts clearly shows that dominance of the informal sector. The study goes on to suggest the dominance of the informal sector is primarily because of certain attribute of the credit markets. Given the endemic poverty levels, most of the financial requirements of the households are low and these are mostly used to meet life cycle needs and crisis as also the gaps in incomes and

Figure 2: Map Showing the Average Population per Branch Office, 2008

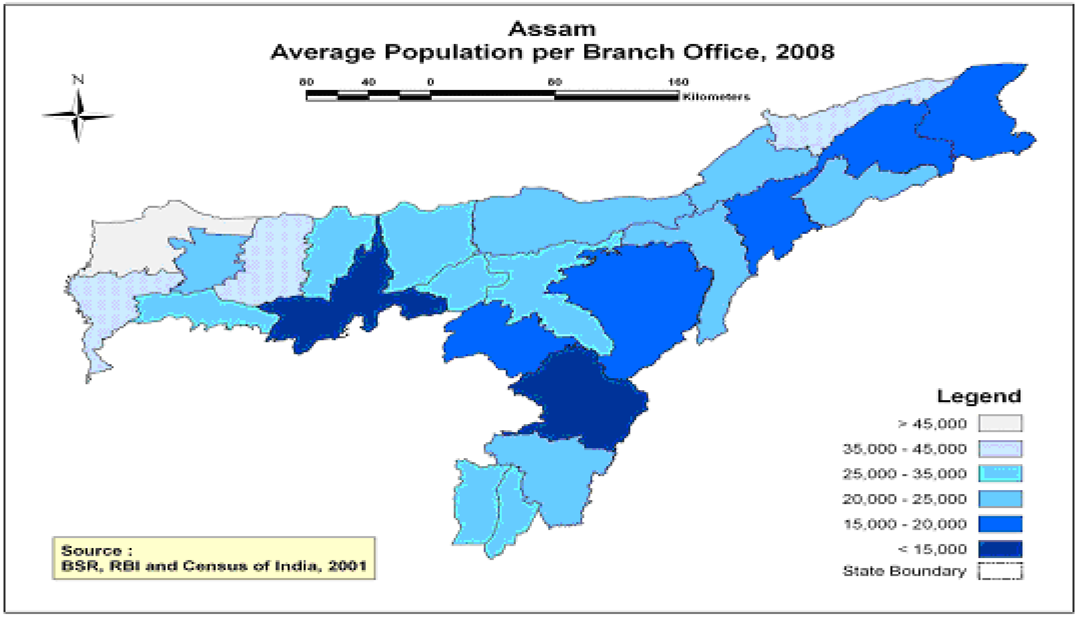


Figure 3: Map Showing the Savings Accounts per 100 Adult Population in Lower Assam

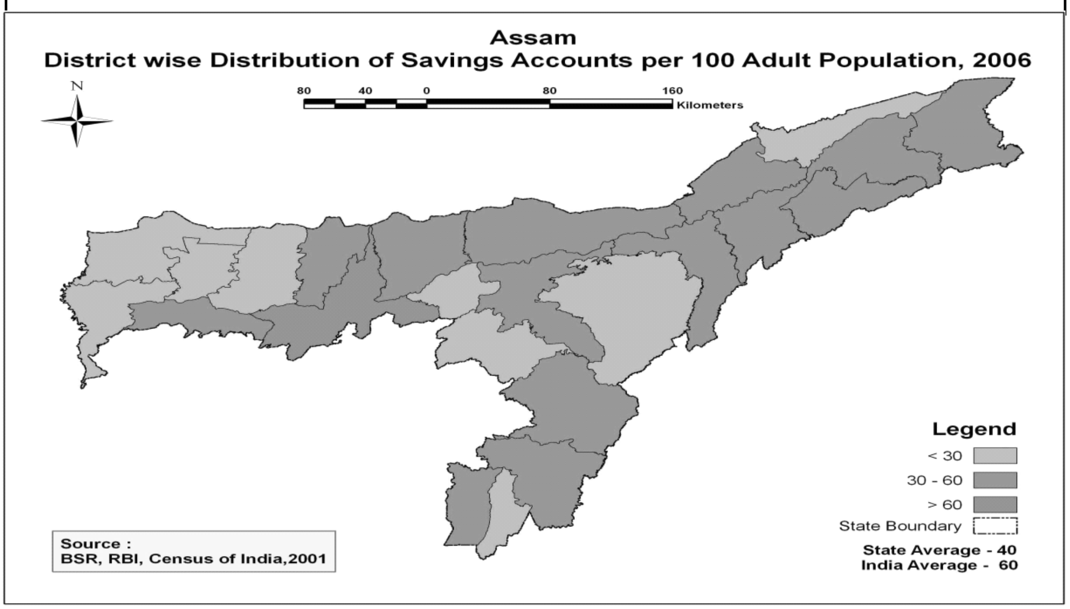
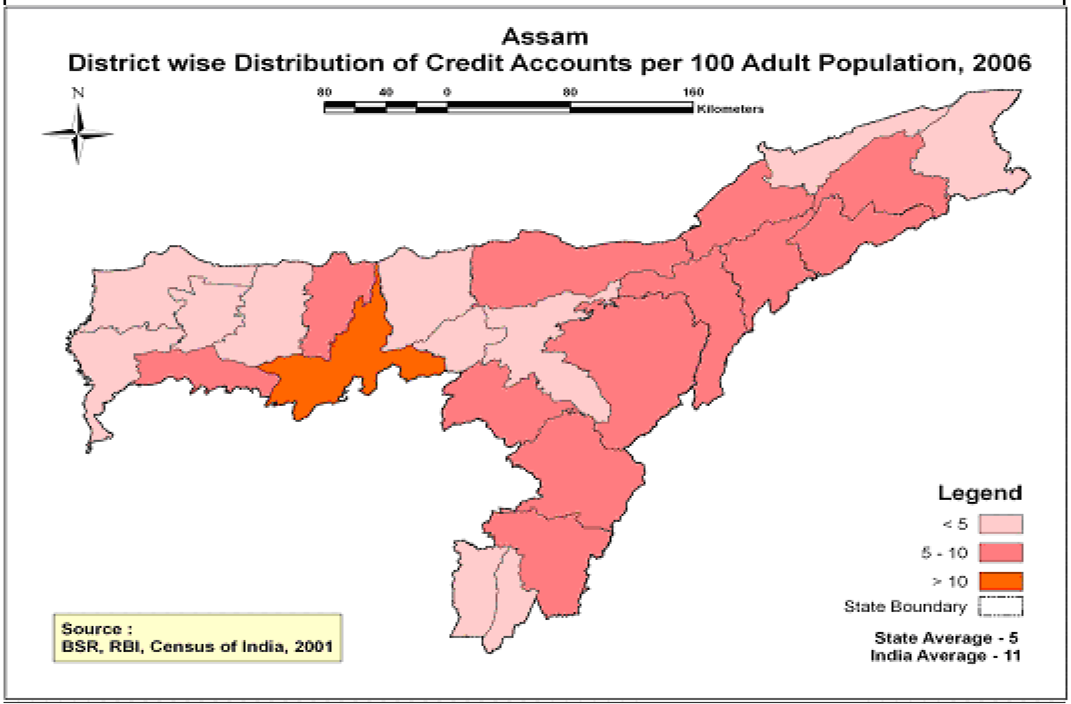


Figure 4: Map Showing the Credit Accounts per 100 Population in Lower Assam



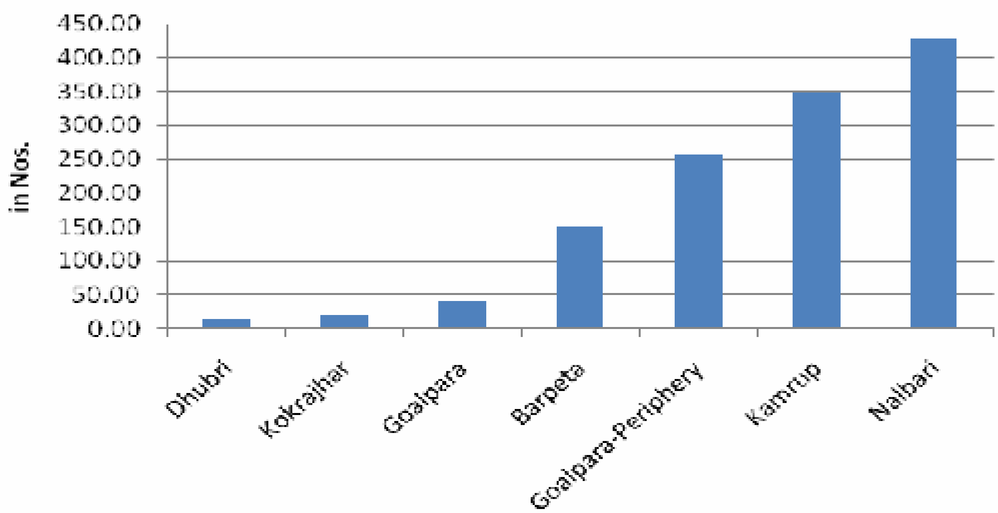
expenditures, due to seasonality of income in the households. Thus, given the nature of demand, it is the informal sector which is better placed to serve the market compared to the formal sector (Sharma, 2010).

1.5 The Spatial Distribution of Xonchois

Xonchois are not evenly spread across the entire study area. The highest density is recorded in the district of Nalbari. The density is measured in terms of the membership in Xonchois per 100 households. The Fig 5 and Fig 6 show the density pattern of the Xonchois across the districts.

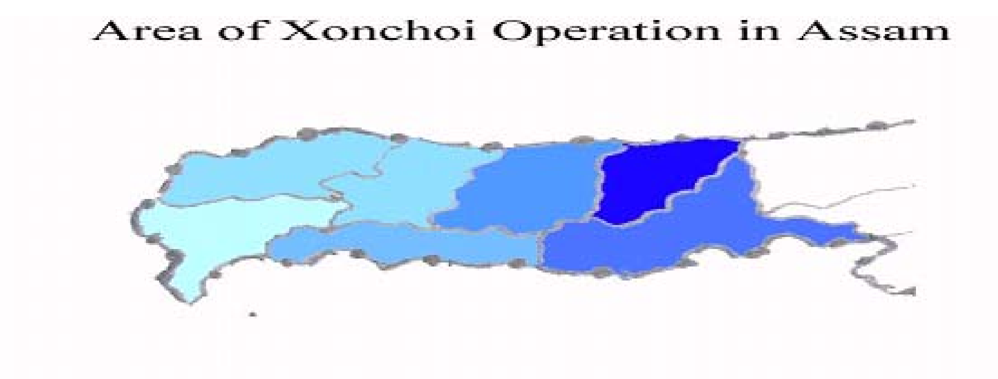
The figures clearly show that highest occurrence of Xonchois are in the district of Nalbari. This gradually tapers down as one move westward and almost becomes negligible in the district of Dhubri, which is situated in the western boundary of Assam. Despite no physical barrier across these districts, the gradual tapering of these highly popular institutions could be due to the changed population composition or due to historical reasons. The erstwhile district of Goalpara had been incorporated under the Bengal Presidency immediately after the Battle of Plassey in 1757. Thus, it followed the permanent settlement land tenure system where the Rajas or the lesser chiefs had permanent, heritable and transferable rights over their lands including forests, mineral,

Figure 5: Graph Showing the Density of Xonchois Across the Districts



fisheries, mines etc(Das, 1985). This had built up a class of Zamindars which had 'Master-Serf' relations with their subjects under them and therefore discouraged mobilization of the community for any other purposes. This historical legacy could be one of the reasons for lack of social mobilisation of any form including group formation. The districts of Barpeta, Kamrup and Nalbari and parts of Goalpara which did not fall under this system were relatively 'freer' and therefore provided the right environment for the Xonchois to grow. The strong correlation of 0.665 with a significance of 99% strongly suggests that this could be one of the major factors for the low spread of Xonchois in the districts of Dhubri, Kokrajhar and Goalpara as compared to the districts of Nalbari, Kamrup and Barpeta.

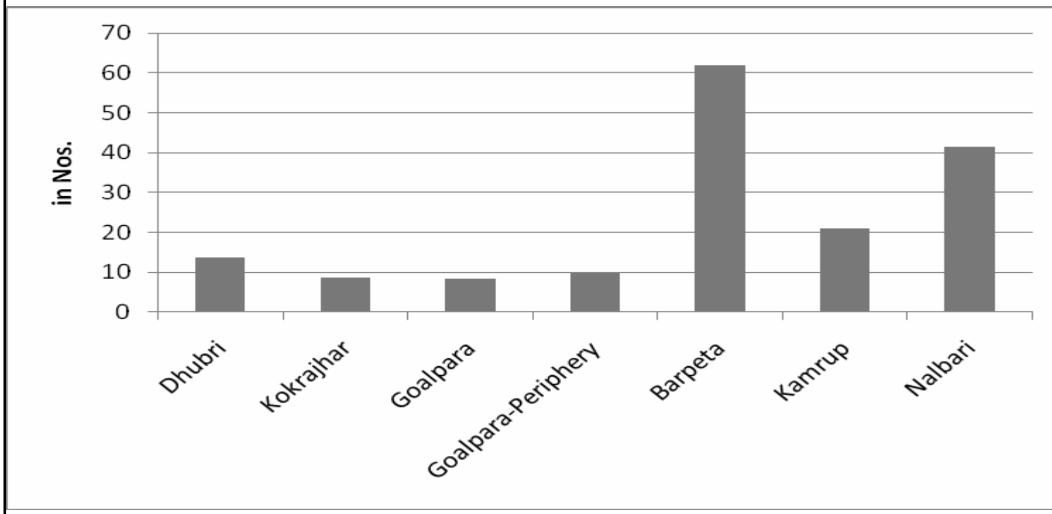
Figure 6: Map showing the spread of density across districts



1.6 Size of the Xonchois

The size of the Xonchois in terms of members differs across the region. Xonchois in Barpeta are the largest followed closely by groups from Nalbari. Barpeta is home to the business community in Assam and also has institutionalized a form of thrift and credit co-operatives called 'Kuchis' way back in the 18th century. It is possibly due to this tradition that the groups are larger in Barpeta. The size of groups of Nalbari is also large primarily due its intensive use over time thereby increasing trust in the people and the operations of these institutions. As compared to SHGs these are definitely much larger in the core area.

Figure 7: Average size of the Xonchois



Source: Primary survey conducted in the study area, CMR-IIBM

1.7 Spread of the Xonchois (in terms of usage) in the Study Area

The Xonchois are used extensively by rural households from across all walks of life for savings purposes. As can be seen from the table below, nearly 90% of the households use Xonchoisas compared to coverage of 39% by banks and 43% by SHGs in Nalbari district - the core area. Even in Goalpara-periphery, almost 90% of the households use Xonchoisas compared to only 20% coverage by banks. Obviously, its usage reduces as the density of the Xonchois decreases. However, even accounting for the low density in the outlying districts, the average penetration (52%) of Xonchois in the entire region is still far larger than the banks (40%) or the much promoted SHGs (43.1%).

Table 2: Proportion of households having savings accounts in different institutions

	Dhubri	Kokrajhar	Goalpara	Goalpara Periphery	Barpeta	Kamrup	Nalbari	Total
Bank	27.0	40	60.0	20.0	50.7	53.4	39.2	40.1
P.O	4.1	10.7	0	5.0	14.7	15.5	13.5	10.5
Insurance	21.6	52.0	26.7	30.0	40.0	46.6	36.5	37.7
NGO MFI	1.4	0.0	40.0	0.0	1.3	0.0	0.0	1.9
SHG	52.7	36.0	40.0	45.0	36.0	48.3	43.2	43.1
NBFC	12.2	36.0	6.7	2.5	12.0	12.1	17.6	16.3
Special Traditional Institutions	2.7	0.0	0.0	0	1.3	5.2	6.8	2.7
F&R	1.4	1.3	6.7	22.5	1.3	1.7	8.1	4.9
Xonchoi	13.5	32.0	13.3	90.0	49.3	69.0	90.5	52.6
Total (in all institutions)	83.8	90.7	86.7	97.5	89.3	96.6	95.9	91.5

Source: Primary Survey, CMR-IIBM, 2010

Similarly, the households which are using it for credit purposes are also quite high for Nalbari (77%), Kamrup (41%) and Goalpara-periphery (72.5%). In comparison, only 5%, 10% and 0% households used banks to meet their credit requirements respectively. Even SHGs which have been promoted so vigorously by different agencies had only 19%, 19% and 7.5% penetration in these districts respectively. Overall, in the entire study area, around 36% of the rural households use these institutions to meet their credit requirements as compared to only 11% in case of banks and 18.3% in the case of SHGs. In places like Nalbari and Goalpara-periphery, where it is ubiquitous, they are more dominant than even the money lender.

Table 3: Proportion of households having credit accounts in different institutions

	Dhubri	Kokrajhar	Goalpara	Goalpara Periphery	Barpeta	Kamrup	Nalbari	Total
Bank	9.5	17.3	6.7	0.0	18.7	10.3	5.4	11.0
Insurance	0.0	0.0	0.0	0.0	1.3	0.0	1.4	0.5
SHG	9.5	36.0	13.3	7.5	14.7	19.0	18.9	18.3
NGO MFI	2.7	2.7	6.7	0.0	4.0	1.7	0.0	2.2
NBFC	0.0	1.3	0.0	2.5	1.3	0.0	1.4	1.0
F&R	9.5	8.0	13.3	22.5	21.3	6.9	27.0	15.6
Moneylender	45.9	22.7	0.0	0.0	8.0	1.7	6.8	15.4
Xonchoi	4.1	10.7	6.7	72.5	36.0	41.4	77.0	36.4
Total	71.6	69.3	40.0	87.5	77.3	75.9	90.5	76.4

Source: Primary Survey, CMR-IIBM, 2010

1.8 Breadth of Xonchois in the Study Area

They are used by almost all the households in the rural areas, including in Nalbari and Goalpara where, they are used more extensively. This extensive use or scope is being measured by the number of accounts (savings or credit) per 100 rural households. On an average there are 481 savings accounts in Xonchois for every 100 rural households in Nalbari. These are also high for Kamrup and Goalpara districts. In comparison, the bank accounts were only 55 for Nalbari, 103 for Kamrup and 42 for Goalpara. Similarly, the SHG accounts were only 53 for Nalbari, 52 for Kamrup and 44 for Goalpara. In other words, the rural households were using these institutions extensively for meeting their savings requirements. Overall, for the region, there are 162 savings accounts per 100 rural households in Xonchois in comparison to only 68 savings accounts in banks.

Table 4: Average number of savings account per 100 rural households

	Dhubri	Kokrajhar	Goalpara	Goalpara Periphery	Barpeta	Kamrup	Nalbari	Total
Bank	46	61	80	28	101	103	55	68
P.O	4	11	0	5	31	17	18	14
Insurance	24	83	27	43	76	79	62	61
NGO MFI	1	0	47	0	1	0	0	2
SHG	59	36	40	48	37	52	53	47
NBFC	15	59	7	3	19	16	20	23
Special	3	0	0	0	0	5	9	3
F&R	1	1	7	23	1	2	8	5
Xonchoi	16	35	13	208	89	203	481	162

Source: Primary Survey, CMR-IIBM, 2010

As with savings, the average credit accounts per 100 households in Xonchois is as high as 141 per 100 rural household in Nalbari and 118 per 100 rural household

Table 5: Average number of credit accounts per 100 rural households

	Dhubri	Kokrajhar	Goalpara	Goalpara Periphery	Barpeta	Kamrup	Nalbari	Total
Bank	11	17	7	0	21	10	5	12
SHG	11	36	13	8	15	19	19	18
NGO MFI	3	3	7	0	4	2	0	2
NBFC	0	1	0	3	1	0	1	1
F&R	9	8	13	25	25	7	30	17
Money lender	46	23	0	0	8	2	9	16
Xonchoi	4	13	47	118	41	62	141	53

Source: Primary Survey, CMR-IIBM, 2010

in Goalpara-Periphery as compared to only 5 credit accounts and 0 credit accounts for banks and 19 and 8 credit accounts for SHGs respectively.

This large scale use by rural households is because Xonchois provide them a mechanism to meet the 'three needs of managing basics, coping with risks and raising lumpsums'. (Collins et al, 2010). For instance, the study has documented 8 different savings products offered by Xonchois. These are given below:

i) Recurring deposit - short-term (less than 3yrs)
ii) Recurring deposit - short-term linked with banks/P.O (less than 3 years)
iii) Recurring deposit - long-term (more than 3 years)
iv) Recurring deposit - long-term linked with banks (more than 3 years)
v) Term deposit - short-term (less than 3 years)
vi) Term deposit - short-term linked with banks (less than 3 years)
vii) Term deposit - long-term (more than 3 years)
viii) Term deposit - long-term linked with banks (more than 3 years)

Given the different savings needs of households, the different products do cater to meeting part of the needs stated above. In addition to savings, multiple accounts in them also allows to access larger sums of money as credit as and when required by the households - almost on the line of credit card.

Thus, it is clear that Xonchois are highly pervasive and dominate the financial landscapes in large parts of the Lower Assam. This is so primarily due to certain attributes which endear them to the households.

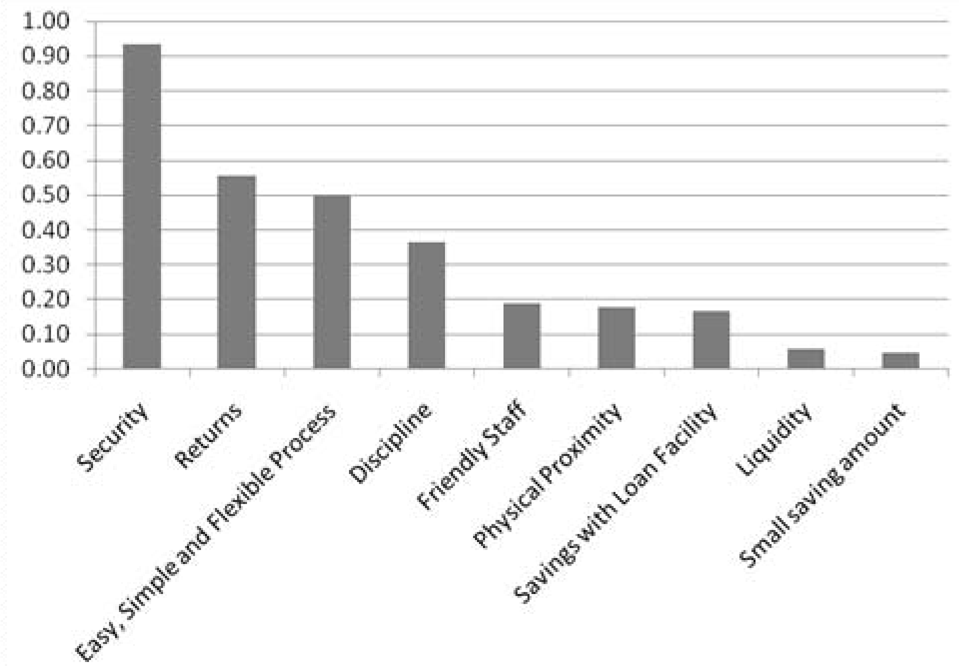
1.9 Attributes that Makes Xonchois Popular for Savings Services

The popularity of the Xonchois can be understood from the attributes that the savings financial markets emphasize on. The attributes have been collected and indexed based on the preferences of the rural households in the study area.

As can be seen from the graph above, security is ranked very high as an attribute for savings. This is followed by high returns, easy, simple and flexible process followed by discipline and other attributes as shown in the figure 7. Xonchois are preferred over other financial providers because it ranks high in all the above attributes as can be seen from the table 6.

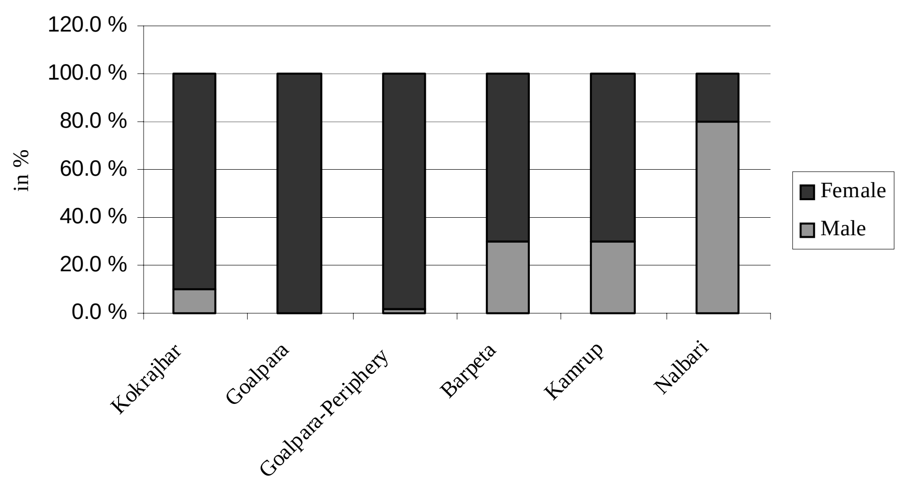
The table 6 brings clearly the reasons for the large scale use of the Xonchois in the rural financial market as compared to the formal sector institutions. Unless the formal sector institutions like banks adopt some of the attributes preferred by the rural households, they would find it very difficult to penetrate the rural financial market. Designing appropriate products and having delivery mechanisms which offer those products easily to the rural households is the key to penetrate this market. Thanks to the large scale popularity, it is being used not only by females (normally group based mechanism is preferred by females) but also extensively by males especially in its core-area, i.e., Nalbari.

Figure 8: Preferences for Savings Product Attributes by Rural Households



Source: Adapted from unpublished dissertation 'Rural Financial Markets- A Spatio-Economic Analysis', 2010

Figure 9: Gender Composition of Members in Xonchois



Source: Primary Survey, CMR-IIBM

Table 6: Institutional preferences of rural households based on attributes related to savings

Attributes	Formal Sector	Informal Sector
Security Safety of the savings is an important attribute to determine whether to use that service or not.	Formal sector banks are perceived to be very safe and therefore score much above the informal sector. However, this is not the only attribute for deciding to use the service.	The informal sector is perceived to be unsafe and there is fear the households may lose their savings in dealing with institutions in this sector. However, there are exce-ptions. If an institution is more familiar and nearer to the households and formed of members from their own locality like the xonchois, they would feel more secured despite it being in the informal sector. The experience of very low defaults of these institutions also helps. They are are therefore perceived to be safe and hence on an ave-rage each rural household saves substantial amounts in these institutions in Assam going up to Rs 7,000 or so.
Returns One of the important attribute for savings service is the returns from it. Higher the return more sought after would be the service.	The returns given by the formal sector is very low and hence score very less in this attribute.	The informal sector offers very high returns. The xonchois particularly offer effective rate of return between 36-60% per annum. This attribute of the xonchois makes it very popular.
Easy, Simple and Flexible process Given the fact that most of the people are semi-literate and busy, they rank the simplicity of process to be very important.	The process in the formal sector is very cumbersome and time consuming besides having a lot of documentation. The formal sector therefore scores very lowly under this.	The process in the informal sector is on the other hand very easy and simple. People therefore find it very easy to deal with such institutions. The documentation is minimal and most of the work is carried on orally. Flexibility of the process is also most sought after attribute. In the case of xonchois, the regular monthly contribution could be changed into loan when the household finds it difficult to repay during lean months. This facility of the xonchoi is used extensively by its members especially the poor.
Discipline Rigid and compulsory rules makes it mandatory for people to save. Unless the system does not force the household to set aside money for savings, they would fritter away the what-ever little they earn as there are several other financial pressure in the household.	The formal banking sector does have product like recurring deposit which suit the requirements of the people. The distances and the attitude of the staff make it difficult to access this facility. Despite this hindrance however, people do try to make use of this facility as the example of the Mazarpara village has shown. The long term savings under the insurance companies are also popular primarily because of this attribute.	The informal sector also has very rigid rules for savings. xonchois which are savings product insist on a very fixed mode of payment and the payment is mandatory. This rigidity ensures that the small lumpsums gets built up over time for larger lumpsums. Even during the lean months, the members are expected to save and if they find difficult they are advanced loans in order to save. Since everyone benefits in the long term, they do not resent it and in fact embrace it.
Friendly Staff Friendly behaviour is an important attribute which makes the household at ease and feel more comfortable to deal with the institutions.	The staff of the formal sector institutions like banks is busy and hence cannot give enough time to the people. The people feel negle-cted and unwanted in the bank premises. They therefore resent going to a bank branch and use its services.	The people associated with the informal sector on the other hand are from their own locality and hence very familiar. This increases their comfort level and also increases trust. Therefore, the extensive use of these institutions.

(Contd....)

Table 6: Institutional preferences of rural households based on attributes related to savings *(Concluded)*

Physical Proximity Physical proximity of the nstitution is important as lot of time gets wasted in going to an institution which is far off. In rural areas where the transport and communication is poor this increases the cost further in terms of physical fatigue.	Most of the formal sector institutions are located in urban or semi-urban areas. This makes them far off from the rural population. The low density of the bank branches in the rural areas have already been	The institutions within the informal sector are located within the locality. This makes them very easily accessible and hence carries very low transaction costs. Not only are they physically close, they are also accessible anytime of the day o or night. thereby making them very close.
Savings with Loan Facility This attribute is also very important for the rural household because during the lean periods, the household would like to access loans to tide over the crisis as they do not have enough to save.	The Formal sector banks do not have such facility of very short term loans.	The xonchois are well designed to meet this eventuality and most of the time the households access short term loans from these institutions.

As is clear from Table 7, the loans outstanding against male groups are consistently higher than female groups across all the districts except Kokrajhar. There were no male groups in some districts. This does point out to the fact that the male groups were putting their loans towards production which would lead to income generation unlike the female groups which use it mostly to meet their consumption needs.

Table 7 District-wise Distribution of Average Loan Outstanding Across Gender

	Kokrajhar	Dhubri	Goalpara	Barpeta	Kamrup	Nalbari
Male	3000	Nil	Nil	109347	61623	45528
Female	22714	8280	15158	26603	21361	12583
Mixed	25300	Nil	3200	76994	21084	33895
Total	21260	8280	14454	44696	31326	32846

Source: Primary Survey, CMR-IIBM

1.10 Conclusions

Xonchois are very popular institutions as is evident from its extensive use across all the segments of the society in the rural areas of Assam. They are popular because they have been able to meet some of the financial needs of the rural households quite efficiently and effectively. They score very high in most of the attributes that the rural households look for as is very clearly illustrated in the paper. Trust in the institution is ensured as it is member owned and member managed. Moreover, fixed tenureship means mandated balancing of books leading to transparency in operations. It is therefore no wonder that wherever this technology has been perfected, it has become all pervasive and used by all segments including both the genders.

Formal financial institutions like banks need to draw from them and incorporate some of the practises in order to provide truly inclusive services to the poor households in the rural areas.

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Microfinance and Socio-economic Change: An Assessment of Women Clients of Meghalaya

- Benjamin F. Lyngdoh* and A.P. Pati**

The interference of microfinance has resulted in positive socio-economic change in income, expenditure and savings, improvement in asset structure, education, decision making, improved health status, family planning decisions, recognition and acceptance, etc.

Abstract

Microfinance has evolved the world over as a vital intervention towards empowerment of women. Although not a panacea, studies have shown its potency and efficacy. This article delves into the analysis of microfinance oriented "socio-economic change" in Meghalaya. It covers a period of five years, where in, data are compiled for 200 microfinance women clients (experimental group) and 100 non-microfinance women clients (control group). The groups are matched on base variable for comparison of change. Further, multiple base variable matching is applied for computation of difference-in-difference scores between the groups for specific statistical inferences. The study revealed that microfinance has resulted in positive socio-economic change which is better than the control group. It has led to an appreciation in income, expenditure and savings, improvement in asset structure, increased access to productive assets and household property, etc. Similarly, favourable social change is visible in education, decision making, improved health status, family planning decisions, recognition and acceptance, etc. These findings are motivating towards a continuing, better and bigger float of microfinance intervention in the state.

Section 1: Introduction

Finance is an elixir of trade and a propeller of economic growth. However, its provision to the underprivileged, particu-

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larly women, is a major challenge. Despite executing critical roles in economic growth with resounding contributions to households, communities and national economies (Grown, Gupta & Khan, 2003), they have a limited presence in economic activities and are hardly considered in the formulation and implementation of any developmental programme. They own two percent of the land, receive one percent of agricultural credit, five percent of agricultural extension resources and the number of rural women living in poverty has doubled since 1970 (Ghosh, 2007). Hence, although an important partner, they are inadequately covered under finance and consequently have a minor stake in economic development. Generally, the combination of women, finance and business is considered as a conundrum.

World-wide, women are actively involved in small enterprise (GENDERNET, 2011), but their share in finance uptake is low. Women's access to finance faces some serious challenges like small personal capital available for start up, have a greater need for external funding, lack knowledge about the available options, face explicit or implicit gender discrimination, inaccurate perceptions of women's borrowing and entrepreneurial behavior and higher interest rate charge or provide higher guarantees (UNECE, 2004). Accordingly, societies that discriminate on the basis of gender have greater poverty, slower economic growth, weaker governance and a lower standard of living (World Bank, 2001).

Against this backdrop, the concept of microfinance was initiated. It is defined as 'the provision of thrift, credit and other financial services and products of very small amounts to the poor enabling them to raise their income levels and improve living standards' (NABARD, 2000; RBI, 1999). Amongst all these, microcredit is more popularly used in many parts of the world as a strategy for poverty alleviation. Microfinance is different from the other forms of small finance as it is mainly exercised through Self-Help Groups (SHGs). It has a unique socio-economic profile focused primarily on women, gender equality and empowerment. Significantly so, as women had to struggle to improve their economic and social rights and upgrade their social role and status (Torun, 2010). The economic well-being of women is often used as an indicator of overall advancement and the better women fare relative to men, the better the overall society (www.pacificweb.org). Hence, worldwide most of the groups are women. In addition, SHGs are based upon attributes which are strongly associated with women like trust, loyalty, perseverance, determination and hard work. They are more likely to be more satisfied even with a small loan and have better investing skills of such amounts as compared to men. Thus, to deal with the problems of access to finance for women and their subsequent growth, microfinance has been pushed in the modern era as an intervention.

Microfinance intervention mainly manifest through socio-economic change. Studies have shown that making microfinance assessable to underprivileged women can be the magic formula towards their mainstreaming into economic activity (Ahmed et al, 2006; Shaw, 2004; Park, 2001; Coleman, 2006; Haitt and Woodworth, 2006) contributing to savings and borrowings (Sinha, 2005) leading to poverty reduction (Khandker, 2005) and positive economic spillover effects (Hermes & Lensink, 2007) like participation in decision-making (Cheston and Khun, 2002) increased role in family planning, sending daughters to school, children's marriage, buying and selling of property (Ashe and Parrott, 2002). It helps reduce vulnerability to drought, encouraged entrepreneurial behavior, livelihood diversification and improved social capital (Garikipati, 2008). Overall, it contributes to poverty reduction and financial sustainability, economic empowerment, increased well-being and social empowerment, thereby, addressing goals of gender equality and empowerment (Mayoux & Hartl, 2009).

Accordingly, an assessment is conducted on the impact of microfinance on socio-economic change of women clients by considering Meghalaya as a micro case. The objectives of the study are two-fold. Firstly, it aims to assess the status of women and microfinance intervention in Meghalaya vis-à-vis North Eastern Region (NER) and secondly, to examine the impact of microfinance on socio-economic change.

Apart from the introduction, the article is ordered in four additional sections. Section II highlights the methodology. Section III deals with the status of women and microfinance in Meghalaya vis-à-vis the NER. Section IV portrays the assessment of microfinance and socio-economic change and Section V pens down the observations and conclusion.

Section II: Methodology

The study focuses only on the microcredit aspect of microfinance in Meghalaya during 2004-05 to 2009-10, where in, pre and post intervention data are compiled. The clients considered are women "who have received microfinance for a period of not less than five years". This period is considered as a benchmark as it provides a sufficient time range to analyse the impact of microfinance. Microfinance women clients belonging to SHGs of Swarnjayanti Gram Swarozgar Yojana (SGSY), IFAD funded project, Meghalaya Rural Development Society (MRDS), NGOs, Private Equity Groups, Churches, etc form the treated population. Moreover, non-microfinance women clients dwelling in the same village as the treated clients form the non-treated population. The total sample size is 300 divided into 200 microfinance women clients [experimental group (EG)] and 100 non-microfinance women clients [control group (CG)]. The EG/CG comprises of 120/60 samples from districts of Garo Hills and 80/40 samples from Khasi-Jaintia Hills. The EG and CG clients are picked through stratified random sampling from amongst the seven districts by narrowing down to 17 of the 39 blocks covering 64 villages. Group classifications are considered so as to enable comparison of change. The variables considered are highlighted in Table 1 with its applied definition and they represent the entire socio-economic spectrum of microfinance oriented outcomes. The quantitative variables are absolute measurements and the qualitative variables are measured as 'change' through rating as 'major', 'minor', 'negligible' and 'no' in the scale of 4, 3, 2 and 1 respectively. Here, 'major change' refers to a substantial improvement and 'minor change' to a visible improvement in the clients over the study period recorded through a schedule and observation. Apart from primary survey, secondary sources like NABARD, RBI, SBI, etc publications are also consulted in the study.

Table 1: Definition of Variable

No.	Variable	Definition
	Type: Quantitative Economic	
1	Income	An economic return from business activity of the client per month.
2	Expenditure	Income contributed to family related expenditure by the client per month.
3	Savings	Surplus of income over contribution to family expenditure of the client.
	Type: Qualitative Economic	
4	Asset Structure	Total tangible assets at the disposal of the respondent.
5	Increased Access to Productive Assets	Capital assets that can be used for further generation of wealth like livestock and micro-machines.
6	Increased Access to Household Property	Property which are purely household like family wealth and family savings.
7	Household Economic Decision Making Ability	Economic decisions relating to day-to-day petty household matters.
8	Ability to Make Purchase Decisions	Decision making concerning purchases of the household.
	Type: Qualitative Social	
9	Education Decision Making	Decision making concerning school and college of the children.
10	Health Status	Concerns the overall health of self and family through access to health services like PHC and CHC.
11	Family Planning Decisions	Decisions concerning usage of contraceptives, etc., for planning of child birth.
12	Access to Social Amenities	Access to basics like water, electricity, food rations, etc.
13	Mobility	Ability to move freely within the community.
14	Recognition and Acceptance	Respect and acceptability at family and community as a whole.
15	General Awareness about Developmental Programmes	Rural development programmes and schemes at the state and national level like National Rural Employment Guarantee Scheme, etc.
16	Participation in Developmental Programmes	Having a role in developmental programmes at community level.

The analysis contain of two parts. The first part comprise of comparison of socio-economic change between the EG and CG on a single base variable. The second part balances the groups on multiple base variables and computation of difference-in-difference (D-in-D) score. D-in-D refers to the intra and inter difference between the EG (E) and CG (C), symbolically, $(E_1 - E_0) - (C_1 - C_0)$ where 1 = current year and 0 = base year (Deininger and Liu, 2009) and is applied in case of both the variable type. This pre and post intervention analysis of microfinance intervention and further comparison with the CG clients ensures conduct of an objective and reliable assessment and derives the factual and accurate impact of microfinance on socio-economic change. The tools used are frequency distribution and ANOVA.

Section III: Women and Microfinance in Meghalaya vis-à-vis NER

In Meghalaya, microfinance is still at its initiation. The sector is still in its infancy and opening-up to new possibilities. Group formation concept has started picking-up in recent years. The SHG movement started in 1988 with the formation of the first SHG in Mawryngkneng village in East Khasi Hills District. However, after this inception, the visible presence of SHGs was seen only from 2002 onwards. Apart from the SHG bank linkage programme of NABARD, SGSY is in operation. These are the two major models of microfinance. Besides, many SHGs are also formed under the patronage of NGOs, internationally funded projects and church organisations.

The income generating activities (IGAs) of the women and women SHGs trends towards the feministic oriented enterprise ranging from livestock to medicinal plants. The more popular activities include piggery, cattle rearing, handloom, arecanut-betelvine plantation and grocery outlets. In addition, poultry, fishery, tailoring and knitting, ginger and vegetable plantation and bakery are also an accepted means of enterprise (www.megselfhelp.gov.in). In recent times, the women clients have started other form of IGAs which are more sophisticated and requiring a high degree of knowledge, skill and professionalism like seasonal vegetable cultivation, system for rice intensification and silk rearing (MRDS, 2010).

Table 2 highlights the savings and loans outstanding of SHGs as on 31st March, 2010. In terms of savings, 51.87% of the total SHGs are under SGSY with an amount share of 50.45%. In addition, 60.30% of the SHGs are exclusive women with an amount share of 53.51%. Overall, Meghalaya has 7.27% of the savings linked women SHGs in the region with an amount share of 3.68%. The savings per women group is Rs 2,712. This is far short as compared to the region average of Rs 5,348. In terms of loans outstanding, 38.04% of the loans outstanding SHGs in Meghalaya are under SGSY with an amount share of 45.88%. The share of exclusive women SHGs in loans outstanding is 59.39% with an amount share of 57.01%. Overall, Meghalaya has 3.63% of the loans outstanding women SHGs in the region with an amount share of 2.52%. The loans outstanding per women group is Rs 40,306 as compared to NER average of Rs 58,179. The figures indicate a small but meaningful presence of microfinance in relation to NER. However, an increase in savings per group is of utmost importance, as it impact upon the credit generation capacity. Moreover, conversion of SHGs from savings to credit linked needs due attention.

Women in Meghalaya are actively involved in microfinance and SHGs. Their numbers are not large at present, but, increasing steadily. The slow growth of SHG movement can be attributed to matrilineal from of society whereby women are customarily empowered by traditional laws and have property and property rights.

Table 2: Savings and Loans Outstanding of SHGs as on 31st March, 2010

(Rs. in lakh)

State	Total				Out of Total under SGSY				Out of Total Women SHGs			
	Savings		Loans Outstanding		Savings		Loans Outstanding		Savings		Loans Outstanding	
	No. of SHGs	Amount (Rs.)	No. of SHGs	Amount (Rs.)	No. of SHGs	Amount (Rs.)	No. of SHGs	Amount (Rs.)	No. of SHGs	Amount (Rs.)	No. of SHGs	Amount (Rs.)
Meghalaya	11787	360.25	3191	1339.83	6114	181.74	1214	614.76	7108	192.76	1895	763.8
NER Total	292188	12167.09	133785	67347.79	80454	4308.29	43972	30034.78	97835	5232.48	52195	30366.5

Source: NABARD, 2010

In addition, structural problems like composition of SHGs and post SHGs formation problems like guidance, counselling, market and technical assistance form causes for average participation of women. Hence, there is an urgent requirement for dealing with these limitations. To this end, the role of NGOs becomes important. They are the hand holders, guiders and educators for the SHGs. A concerted effort on their part can transform the state of microfinance revolution.

Section IV: Assessment of Socio-economic Change

As cited in the methodology, the assessment of change comprises of two parts. Firstly, the socio-economic change of the EG and CG clients is analysed on the basis of two base variables separately, age and educational qualification. This technique of comparison ensures matching of the clients on a certain standard. Here, 'change' is the intra difference (i.e., outcome currently - outcome five years back) in the EG and CG and expressed as a frequency distribution. This portrays a relevant picture on their development over time. The change in the EG clients is an outcome of microfinance intervention, whereas, in case of CG clients it is result of other rural measures. Secondly, the EG and CG are balanced on multiple base variables and analysed on D-in-D score (i.e., intra and inter difference between EG and CG). Technically, it provides a far better and sound analysis on the potency of microfinance in transforming socio-economic status.

Table 3, 3a and 3b highlight the change in basic, related economic and social variables respectively, on base variable, age. Across the age levels, the EG has experienced better outcomes as compared to the CG. The appreciation in income, expenditure and savings is more in the EG. In addition, the change in related economic variables and social variables is better in the EG as against the CG. This is more so in the age bracket of 26-55 years. This explains that microfinance intervention has made major inroads into effecting the socio-economic status of the clients. Overall, the EG clients have migrated from a lower socio-economic status to higher, with access to microfinance.

Table 3: Change in Basic Economic Variables									
On Basis of Age		Experimental Group (%)				Control Group (%)			
		<501	501-1500	1501-2500	>2500	<501	501-1500	1501-2500	>2500
<26	Income	23 (3)	54 (7)	23 (3)	0 (0)	67 (10)	13 (2)	0 (0)	20 (3)
	Expenditure	23 (3)	46 (6)	31 (4)	0 (0)	67 (10)	13 (2)	7 (1)	13 (2)
	Savings	100 (13)	0 (0)	0 (0)	0 (0)	100 (15)	0 (0)	0 (0)	0 (0)
26-35	Income	10 (7)	34 (26)	34 (26)	22 (17)	47 (19)	38 (15)	3 (1)	12 (5)
	Expenditure	11 (8)	37 (28)	38 (29)	14 (11)	50 (20)	35 (14)	3 (1)	12 (5)
	Savings	95 (72)	5 (4)	0 (0)	0 (0)	97 (39)	3 (1)	0 (0)	0 (0)
36-45	Income	8 (6)	29 (23)	54 (43)	9 (7)	57 (16)	25 (7)	7 (2)	11 (3)
	Expenditure	9 (7)	30 (24)	56 (44)	5 (4)	57 (16)	25 (7)	11 (3)	7 (2)
	Savings	97 (77)	3 (2)	0 (0)	0 (0)	100 (28)	0 (0)	0 (0)	0 (0)
46-55	Income	9 (2)	38 (10)	38 (10)	15 (4)	85 (11)	15 (2)	0 (0)	0 (0)
	Expenditure	9 (2)	50 (13)	38 (10)	3 (1)	85 (11)	15 (2)	0 (0)	0 (0)
	Savings	88 (23)	12 (3)	0 (0)	0 (0)	100 (13)	0 (0)	0 (0)	0 (0)
>55	Income	0 (0)	33 (2)	67 (4)	0 (0)	75 (3)	25 (1)	0 (0)	0 (0)
	Expenditure	0 (0)	33 (2)	67 (4)	0 (0)	75 (3)	25 (1)	0 (0)	0 (0)
	Savings	100 (6)	0 (0)	0 (0)	0 (0)	100 (4)	0 (0)	0 (0)	0 (0)

Note: Number of Respondents in Parentheses

Table 3a: Change in Related Economic Variables *(Average)*								
On Basis of Age	Experimental Group (%)				Control Group (%)			
	Major	Minor	Negligible	No	Major	Minor	Negligible	No
<26	23 (3)	62 (8)	15 (2)	0 (0)	13 (2)	40 (6)	40 (6)	7 (1)
26-35	47 (36)	42 (32)	11 (8)	0 (0)	12 (5)	40 (16)	38 (15)	10 (4)
36-45	58 (46)	37 (29)	5 (4)	0 (0)	14 (4)	47 (13)	32 (9)	7 (2)
46-55	58 (15)	38 (10)	4 (1)	0 (0)	15 (2)	38 (5)	38 (5)	9 (1)
>55	50 (3)	33 (2)	17 (1)	0 (0)	25 (1)	25 (1)	25 (1)	25 (1)

Note: Number of Respondents in Parentheses

Table 3b: Change in Social Variables *(Average)*								
On Basis of Age	Experimental Group (%)				Control Group (%)			
	Major	Minor	Negligible	No	Major	Minor	Negligible	No
<26	46 (6)	31 (4)	23 (3)	0 (0)	7 (1)	40 (6)	40 (6)	13 (2)
26-35	51 (39)	32 (24)	17 (13)	0 (0)	17 (7)	38 (15)	35 (14)	10 (4)
36-45	56 (44)	30 (24)	14 (11)	0 (0)	14 (4)	43 (12)	36 (10)	7 (2)
46-55	58 (15)	30 (8)	12 (3)	0 (0)	15 (2)	54 (7)	23 (3)	8 (1)
>55	33 (2)	33 (2)	17 (1)	17 (1)	25 (1)	50 (2)	25 (1)	0 (0)

Note: Number of Respondents in Parentheses

Table 4, 4a and 4b portray the change in basic, related economic and social variables respectively, on base variable, educational qualification. In all the educational levels, the EG has experienced better change as compared to the CG. The increase in income, expenditure and savings is more in the EG. Similarly, the change in related economic variables and social variables is better in the EG as against the CG. This is in case of all the educational qualification, except high school, where, the CG clients also showed visible positive change. This highlights that microfinance intervention

Table 4: Change in Basic Economic Variables

On Basis of Educational Qualification		Experimental Group (%)				Control Group (%)			
		<501	501-1500	1501-2500	>2500	<501	501-1500	1501-2500	>2500
Illiterate	Income	11 (4)	56 (20)	19 (7)	14 (5)	75 (18)	21 (5)	4 (1)	0 (0)
	Expenditure	16 (6)	53 (19)	28 (10)	3 (1)	75(18)	21 (5)	4 (1)	0 (0)
	Savings	94 (34)	6 (2)	0 (0)	0 (0)	100 (24)	0 (0)	0 (0)	0 (0)
Primary	Income	4 (2)	40 (18)	40 (18)	16 (7)	54 (13)	29 (7)	4 (1)	13 (3)
	Expenditure	4 (2)	44 (20)	36 (16)	16 (7)	54 (13)	29 (7)	8 (2)	9 (2)
	Savings	93 (42)	7 (3)	0 (0)	0 (0)	100 (24)	0 (0)	0 (0)	0 (0)
Upper Primary	Income	10 (4)	29 (12)	48 (20)	13 (6)	44 (8)	28 (5)	6 (1)	22 (4)
	Expenditure	10 (4)	30 (13)	50 (21)	10 (4)	44 (8)	28 (5)	6 (1)	22 (4)
	Savings	100 (42)	0 (0)	0 (0)	0 (0)	100 (18)	0 (0)	0 (0)	0 (0)
High School	Income	13 (8)	21 (13)	52 (32)	14 (9)	61 (19)	23 (7)	3 (1)	13 (4)
	Expenditure	13 (8)	24 (15)	53 (33)	10 (6)	61 (19)	23 (7)	3 (1)	13 (4)
	Savings	95 (59)	5 (3)	0 (0)	0 (0)	100 (31)	0 (0)	0 (0)	0 (0)
Graduation	Income	0 (0)	34 (5)	33 (5)	33 (5)	0 (0)	100 (3)	0 (0)	0 (0)
	Expenditure	0 (0)	34 (5)	53 (8)	13 (2)	100 (3)	0 (0)	0 (0)	0 (0)
	Savings	93 (14)	7 (1)	0 (0)	0 (0)	0 (0)	100 (3)	0 (0)	0 (0)

Note: Number of Respondents in Parentheses

Table 4a: Change in Related Economic Variables

(Average)

On Basis of Educatonal Qualification	Experimental Group (%)				Control Group (%)			
	Major	Minor	Negligible	No	Major	Minor	Negligible	No
Illiterate	53 (19)	42 (15)	5 (2)	0 (0)	8 (2)	34 (8)	50 (12)	8 (2)
Primary	51 (23)	40 (18)	9 (4)	0 (0)	8 (2)	42 (10)	42 (10)	8 (2)
Upper Primary	50 (21)	45 (19)	5 (2)	0 (0)	11 (2)	50 (9)	33 (6)	6 (1)
High School	48 (30)	40 (25)	12 (7)	0 (0)	23 (7)	44 (14)	23 (7)	10 (3)
Graduation	60 (9)	40 (6)	0 (0)	0 (0)	0 (0)	67 (2)	33 (1)	0 (0)

Note: Number of Respondents in Parentheses

Table 4b: Change in Social Variables								
								(Average)
On Basis of Educatonal Qualification	Experimental Group (%)				Control Group (%)			
	Major	Minor	Negligible	No	Major	Minor	Negligible	No
Illiterate	53 (19)	31 (11)	16 (6)	0 (0)	12 (3)	42 (10)	34 (8)	12 (3)
Primary	53 (24)	31 (14)	16 (7)	0 (0)	12 (3)	50 (12)	34 (8)	4 (1)
Upper Primary	50 (21)	31 (13)	19 (8)	0 (0)	17 (3)	44 (8)	33 (6)	6 (1)
High School	52 (32)	32 (20)	14 (9)	2 (1)	20 (6)	35 (11)	35 (11)	10 (3)
Graduation	60 (9)	27 (4)	13 (2)	0 (0)	0 (0)	33 (1)	67 (2)	0 (0)
Note: Number of Respondents in Parentheses								

has had a meaningful impact on the socio-economic status of the clients. Overall, microfinance has enabled the EG clients to move from a lesser status to a much more appreciable and acceptable status.

The current comparison of the EG and CG gives us a general overview of the impact of microfinance. Comparison of the clients on the basis of a single variable does not ensure optimum practice. Moreover, 'change' expressed in the form of frequency do not highlight the absolute picture. 'Change' derived of microfinance when compared against the CG on the basis of multiple base variables and differencing of score of the two groups is more valid and reliable. This paves the way for the application of D-in-D technique, which forms the second part of the assessment. Annexure 1 presents the variables with their respective codes. These codes represent the intra and inter difference in change between the EG and CG. Variables having the minimum variation are used as base variables as they ensure a large matched sample. For this purpose, ANOVA is used. Table 5 show the base variables found suitable for application in balancing the two groups. On balancing the EG and CG on the basis of multiple base variables, 126 matched samples were found, of which the socio-economic outcomes

Table 5: ANOVA on Base Variables			
Base Variables	P - value	F – value	F – critical at 5%, df = (1, 298): 2 – tailed
Age	0.1402	2.1871	5.0750
Educational Qualification	0.1397	2.1930	5.0750
Employment Status Five Years Back	0.9640	0.0020	5.0750
Marital Status	0.6141	0.2547	5.0750
Family Type	0.9467	0.0045	5.0750
Satisfaction Level Five Years Back	0.1810	1.7982	5.0750
Savings Five Years Back	0.0672	3.3755	5.0750

are compared through D-in-D. This D-in-D between the matched samples highlights the true, reliable and valid impact of microfinance on socio-economic status of the clients.

Table 6 depicts the information on average microfinance (per client) and average D-in-D of economic and social variables. Microfinance intervention has had a positive impact on the income, expenditure and savings of the clients. The microfinance clients earned, spent and saved sufficiently more than the CG. This highlights the potency of microfinance in transforming the basic economic variables. It has given them a means of enterprise and subsequently acted as a means for transforming their household. The related economic variables also show positive results. This implies that the economic change in the EG is better than the change in the CG. This is more so in case of increased access to productive assets and ability to make purchase decisions. The transformation in the basic economic variables has enabled the clients to have a say in many other economic fronts.

The D-in-D of social variables also shows a meaningful impact of microfinance. All the social variables fared better in case of the EG as compared to the CG. This depicts that microfinance intervention has led to positive change in social status of women. The women are better-off when being clients of microfinance through SHGs. This develops social capital and acts as a supplement to change. Access to microfinance has encouraged decision making in many spheres and improved the overall social condition, particularly in the area of recognition and acceptance and participation in developmental programmes.

Table 6: Average Microfinance and Average D-in-D of Economic and Social Variables

Microfinance (Rs)	DE_1 (Rs)	DE_2 (Rs)	DE_3 (Rs)	DE_4	DE_5	DE_6	DE_7	DE_8
1962.12	931.40	830.49	100.91	0.54	0.97	0.75	0.88	0.91
	DS_1	DS_2	DS_3	DS_4	DS_5	DS_6	DS_7	DS_8
	0.66	0.39	0.60	0.60	0.40	1.00	0.75	0.93

Section V: Observations and Conclusion

Women microfinance clients of Meghalaya form a small share in the NER in physical terms and financial exposure. Despite the shortfall, the state has seen a promising growth over the years. Microfinance has had a positive impact on income, expenditure and savings of the clients. The clients have generated more and better income levels out of microfinance oriented microenterprise. This has subsequently led to the increased contribution towards family expenditure. It has led to overall self and family economic growth. In addition, it has instilled a habit of savings and sound financial practice. Microfinance has led to an improvement in overall economic status through a change in asset structure, increased access and application of productive assets and household property, greater say in household economic decision-making ability and ability to make purchase decisions. It has also impacted social change. It resulted in a meaningful influence on their social development. The clients had a better say in education decision-making for their children, improved health status, influence on family planning decisions, improved access to social amenities, influenced mobility, improved recognition and acceptance, increased awareness and participation in developmental programmes.

Microfinance has had a meaningful influence on the socio-economic well-being of women. However, it can further transform the livelihood of the underprivileged if it expands its width and reach in the rural areas. Appropriate policies and action plans are required so as to ensure that this intervention measure is made accessible to a major target population. Gender mainstreaming, profitable products design, vast delivery systems, value added services, marketing services and group dynamics are important areas of microfinance and appropriate strategies are to be formulated so as to ensure synergetic operations and outcomes from microfinance.

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Annexure 1: Variable Code

Experimental Group (EG)		Control Group (CG)		Difference-in-Difference (D)
Code	Economic Variables (E)	Code	Economic Variables (E)	Economic Variables (E)
EGE_{10}	Income per month before microfinance intervention	CGE_{10}	Income per month five years back	$DE_1 = (EGE_{11} - EGE_{10}) - (CGE_{11} - CGE_{10})$
EGE_{11}	Income per month currently after microfinance intervention	CGE_{11}	Income per month currently	
EGE_{20}	Contribution to family expenditure per month before microfinance intervention	CGE_{20}	Contribution to family expenditure per month five years back	$DE_2 = (EGE_{21} - EGE_{20}) - (CGE_{21} - CGE_{20})$
EGE_{21}	Contribution to family expenditure per month currently after microfinance intervention	CGE_{21}	Contribution to family expenditure per month currently	
EGE_{30}	Savings per month before microfinance intervention	CGE_{30}	Savings per month five years back	$DE_3 = (EGE_{31} - EGE_{30}) - (CGE_{31} - CGE_{30})$
EGE_{31}	Savings per month currently after microfinance intervention	CGE_{31}	Savings per month currently	
				0 = base year, 1 = current year
The following refers to intra change in the economic variables of EG and CG over a period of five years.				Difference-in-Difference (D) Economic Variables (E)
EGE_4	Asset structure	CGE_4	Asset structure	$DE_4 = EGE_4 - CGE_4$
EGE_5	Increased access to productive assets	CGE_5	Increased access to productive assets	$DE_5 = EGE_5 - CGE_5$
EGE_6	Increased access to household property	CGE_6	Increased access to household property	$DE_6 = EGE_6 - CGE_6$
EGE_7	Household economic decision making ability	CGE_7	Household economic decision making ability	$DE_7 = EGE_7 - CGE_7$
EGE_8	Ability to make purchase decisions	CGE_8	Ability to make purchase decisions	$DE_8 = EGE_8 - CGE_8$
Code	Social Variables (S)	Code	Social Variables (S)	
The following refers to intra change in the social variables of EG and CG over a period of five years.				Difference-in-Difference (D) Social Variables (S)
EGS_1	Education decision-making	CGS_1	Education decision-making	$DS_1 = EGS_1 - CGS_1$
EGS_2	Health Status	CGS_2	Health Status	$DS_2 = EGS_2 - CGS_2$
EGS_3	Family planning decisions	CGS_3	Family planning decisions	$DS_3 = EGS_3 - CGS_3$
EGS_4	Access to social amenities	CGS_4	Access to social amenities	$DS_4 = EGS_4 - CGS_4$
EGS_5	Mobility	CGS_5	Mobility	$DS_5 = EGS_5 - CGS_5$
EGS_6	Recognition and acceptance	CGS_6	Recognition and acceptance	$DS_6 = EGS_6 - CGS_6$
EGS_7	General awareness about developmental programmes	CGS_7	General awareness about developmental programmes	$DS_7 = EGS_7 - CGS_7$
EGS_8	Participation in developmental programmes	CGS_8	Participation in developmental programmes	$DS_8 = EGS_8 - CGS_8$

Traditional Financial Inclusion and Microfinance in the context of Northeastern India

- Falguni Rajkumar*

The North East Region (NER) of India with its rich ethnic, social and cultural diversity has a distinct identity and ethos. The region poses its own unique set of problems that often defy the various problem-resolving methods and mechanisms from other regions in the country.

Abstract

The northeast region of India with its distinctive ethos and sensibilities is not always receptive or conducive for successful introduction and adoption of many developmental intervention models being implemented in other regions of the country. What have been successful instead are those developmental intervention models that have been evolved and suit the unique needs and requirements of the people of the region. This aspect is often forgotten by developmental planners in the country.

Based on this premise the paper cautions the exponents and prime-movers of the microfinance movement in the region to therefore evolve a model keeping in view this aspect while extending its reach within the Northeast. As an example the paper high-lights the reasons behind the successful implementation of an internationally aided development intervention programme from the region, which has intelligently introduced important aspects of Northeastern lifestyles into its programs from the conception to the implementation stages. It suggests a similar line of approach to make the microfinance movement a success in the Northeastern region of the country.

Introduction

The North East Region (NER) of India with its rich ethnic, social and cultural diversity has a distinct identity and ethos,

Key Words: Financial Inclusion, North East Region, Developmental Intervention, Microfinance

JEL Classification: G-21, G-2

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quite different from the rest of the country. In the process, the region poses its own unique set of problems that often defy the various problem-resolving methods and mechanisms from other regions in the country. This aspect is much more pronounced in resolving the various issues pertaining to matters of development interventions. However, simultaneously and ironically, the region also provides its own unique sets and forms of problem-resolutions in the areas of its politics, social, cultural and economic development. This distinctiveness is possibly because of the region's geo-political isolation from the rest of the country having only 27 km wide corridor connecting it with the rest of the country. The rest, 98% of the region's borders are with foreign countries. Being thus part of South East Asia region both morphologically and tectonically, the people of the region share many social characteristics and cultural attributes with the various South East Asian ethnic groups. The NER presents a complex and difficult region for many.

Inability to properly appreciate and contextualise these distinctive qualities, attributes and sensibilities of the region by development planners of the country in the past has led to the introduction of many inappropriate development intervention models, which otherwise were successful and found acceptance in other regions of the country. On the contrary in many cases in the Northeast, these had very serious adverse psychological ramifications as these were considered as 'transplantations' and as 'impositions'. There is therefore a need for a conceptual paradigm shift in formulating development intervention models of microfinance for the Northeast and various development projects and schemes in general.

In the backdrop of these experiences in the Northeast region of India, this paper examines the attempts and impact at financial inclusion through microfinance practices from across the country as part of the overall development intervention in the region by various banks, financial institutions and other agencies. Simultaneously, the paper cautions the prime-movers and exponents of financial-inclusion to be careful as such in their attempts in introducing the various models and concepts lest these create more problems rather than solve the development problems of the region as it happened in the past.

In line with this suggestion, the paper takes a holistic view of the comparatively successful internationally funded project called, the North Eastern Regional Community Resource Management (NERCORMP), which has substantial microfinance inputs being undertaken jointly by the International Fund for Agriculture Development (IFAD) and the North Eastern Council (NEC) in the three states of Assam, Meghalaya and Manipur. The paper examines the NERCROMP not so much as to evaluate it as a development intervention model as much as trying to appreciate the fact that its success was largely and primarily because of its ability to involve the community in which the various schemes under the project were implemented. The study addresses whether based on the success of this experience of the project, (which involved the community right from the inception stage of the Project) can the fledgling and dithering microfinance movement in the Northeast be much more effectively extended. Based on this assumption the paper suggests that it may be desirable to evolve a new model and approach to microfinance in the region which incorporates some of the important elements of the traditional financial security and inclusion practices from within the region (in which the community is closely involved) with appropriate inputs from available models of financial inclusions practiced by various financial institutions, banks and other practitioners from across the country.

To come to a conclusion on this approach, the paper is divided into the following parts for better appreciation of the problems and issues involved. (1) The concept and meaning of microfinance in the context of 'financial inclusion' as envisaged by the Government of India especially with reference to the Northeast. (2) The types and role of the traditional 'banking' systems of 'financial inclusion' practiced by various communities and people in the region. (3) Analyze the NERCROMP project based on its track record and performance as reviewed by various agencies including international bodies, which have found the project very successful per se, mainly because it was extremely appropriate, user-friendly (read beneficiaries-friendly), hence very practical and prudent. (4) Exploring whether it could possibly be considered as an alternative model of pursuing financial inclusion goals as part of the overall development interventions in the region keeping in mind the particular and specific needs of the region. (5) Highlight the need for further improvisations and adjustments of the microfinance efforts for the Northeast region if need be, in line with specific needs and requirements of microfinance conditionalities and norms.

Microfinance as a Means to 'Financial Inclusion' in the Context of the North East.

The Region

The focus area for the present study, the North East Region of India comprises of people living in a remote region, economically backward and includes tribal upland and non-tribal lowland people and communities who have their respective distinct ethnic identities. The places they reside are mines of precious industrial and commercially valuable raw materials. The economy is based predominantly on agriculture[1], where land holdings are largely community oriented in the upper-reaches of the region, while in the valley-areas it is predominantly private holdings. The 'life-cycle' financial needs of the people are sustained over the years by various self-engineered social-security systems that have grown within each group and community. The success of these self-engineered social-security systems is based on mutual dependence and trust as members of a clan or community. The communitarian spirit ingrained in each of them provides the much-needed support-systems to the individual members in these communities and hence is an essential element for their survival. The pull of modern financial risk-covers like microfinance threatens this support-mechanism.

These communities and societies have been 'excluded' from the general trend of development taking place in the country, much more especially in the case of the upland tribal communities who have lived 'quarantined' lives. In other words, social-inclusion and affects of various developmental interventions on these communities in the Northeast has only recently begun. In fact, the restrictive 'Inner Line Permit' system introduced by the British as far back as 1873 in many of the areas in the region has only been revoked very recently in 2010-2011 from most of the region. Because of these factors, development has been comparatively slow, retarded and often disjointed. In aggregate terms, the growth has been poor and marginal. Consequently, introduction of concepts like financial inclusion as evolved in the present-day context tend to be seen as 'intrusive' alien concepts by many of these of communities. It is therefore important to understand the socio-cultural inhibitions of these societies before implementing any development interventions and financial inclusion models, scheme or project which might have proved successful elsewhere in the country are introduced. A proper contexualisation of these factors seem essential pre-requisites to success.

To address all the issues of financial interventions confronting the NER with the main intention of being user-friendly for a much better response from the people of the region it is necessary to address some of the specific needs of the region arising out of its ethnic, social and cultural distinctiveness and diversities. Any change must also bring out and adopt the inherent "core competences" or "distinctive native concepts" by utilising "appropriate technologies" or "survival skills" of these communities, rather than push for untried financial inclusion models, especially in a region like the NER where there are many strongly entrenched traditional informal financial security systems in actual usage and practice. This is also because the tendency of 'developing' any system by transplanting from 'outside' into the region tend to be extremely costly, both in terms of finance, time and in implimentations. More importantly, there is no guarantee of success. In short, it is best to adopt the best successful practices from within the region with an intelligent mix of some of the successful features of other models from other regions in the country. Such a workable model suited to the general psyche of the people, would be much more result-oriented and practical. It is in this context that NERCROMP[2] a livelihood project, conceptualised in this manner and which has large elements of microfinance input, is being analysed and referred to as a case in hand.

Microfinance in the North East India Context

Based on the figures of NABARD[3], the 'Status of microfinance in India for 2009-2010' the North Eastern Region has 3.84% of total household and 4.32% of the BPL in the country. As per NABARD[4] the NER in the SHG Bank Linkage Programme had 2,92,188 numbers or 4.2% of the total country involving an amount of Rs 12,167 lakh or 1.96% respectively. The average amount held per group in the NER was Rs 4,164 as against the national average of Rs 8,915. The NER accounted for 2.8% of bank loan outstanding amounting to 2.4% of the country's share.

It is indeed commendable that the Microfinance (MFI) sector in the region has been perhaps one of the few sectors, which has grown in spite of all the problems of its appropriateness for the region. Additionally, it is perhaps one of the few demand-led services that are considered as positive despite of the many constraints and problems the region possess. However, there are ominous signs of it being derailed due to several factors. One such area of concern is the visible high rate of default, the result of which is apparent in the NPA (Non-Paying asset) in respect of bank loan as against SHG outstanding in NER which is higher at 5.51% comparatively to the national average of 2.94%. In Mizoram it is 16.09%, Manipur 12.99% and Nagaland 12.49%. Further, as per NABARD Report, 2008, the North Eastern Region shares on all India basis in the SHGs linked category is 4%, 2.28% of savings and 2% of loan of all India figures.

Thus in spite of having the potentiality for further expansion and growth in the Northeast as brought out by ACESS Development Services and opined by the Indian Institute of Banking Management, Guwahati in 2008 in their study 'Banking Industry In The North East Region: Making It Financially More Inclusive' and recently by Gyanendra Mani, in a paper presented by him in the seminar on 'Microfinance in North East' organised by BIRD with IIBM in 28-29 January 2011 at Guwahati for various reasons, the intensity and spatial spread of the penetration of Microfinance in the region has not been commensurate with the region's assessed potentiality.

While there is a general tendency to explain away this comparative lack-lustre performances as collateral adverse affects of geography of the region, general law and order conditions, lack of infrastructure, the general poor economic performance, levels of general development due to geo-political isolation of the region in comparative terms and levels with the rest of the country, the real issue may not wholly be attributable to these factors alone.

In my considered personal view, some of the signs of inadequacy and sluggish nature of success are primarily due to several factors, but chiefly arising out of the inappropriateness of some of the models of microfinance and banking models4 in general being introduced and adopted in the region. For instance, the models adopted in the region leading to poor banking network are because the focus of the banks is in the urban centres in the region and that too very inadequately manned. And even if they are based on rural banking models, these are modeled on other states and regions of the country, which are both geographically and socio-anthropologically different from the Northeast region of the country; the focus area. Consequently, the costs of opening branches, or forming and operating the SHGs as conceptualised and modeled to fit the prescription of All-India's apex development bank, NABARD is an uphill task and involve heavy operational costs that will render them unviable if they are introduced and adopted in the Northeast region. The question therefore that arises is how such a trend can be corrected. It is pertinent to understand and appreciate the reasons for this.

Solutions, Re-orientations and Innovations

While the general remedies suggested for the country as a whole can address various issues like (a) risk/vulnerability reduction of the livelihoods of poor arising out of various market imperfections. (b) Help create strong safety and security nets. (c) Enable to pursue diversified and migratory livelihoods for those who depend on agriculture. (d) Facilitate re-inclusion. (e) Create risk management mechanisms to continue to remain financially included, the NER need additional perceptive remedies which have to be properly context and tailored to suit the region. The solution to the floundering steps of microfinance and all the related problems associated with its performance may lie in finding a viable solution of how to evolve a model in which there is a workable convergence between the traditional informal systems of financial inclusions so strongly entrenched in the region with the non-traditional methods and systems practiced and advocated by various financial institutions across the country.

Problem Lies in Basic Differences

It is evident from the structure and composition of the various existing financial intervention methods and programs that these are essentially urban-based or semi-urban or rural-based tried models (or pretensions to it) with a few modifications but applied mostly in traditional rural social settings. In addition in the NER these financial intervention methods and programs are placed and introduced in an entirely different socio-cultural zone and setting, quite different from the prevailing conditions in other regions of the country. The region is also developmentally and economically performing at a sub-optimal level in comparison to other regions in the country. There is therefore, a schematic mismatch, a major disconnect of the financial inclusion approaches like microfinance with what people (target group) to whom it is being applied in the context of a region like the NER perceive or have in their minds. Further, the present system is principally based on ensuring the security of the suppliers, the financier rather than the helping the user or beneficiaries. Present effort to evolve and introduce a national model for a region like Northeast as such cannot successfully materialise or work. This primarily because experiences have shown that introduction of any model considered exogenous in the Northeast has proved ineffective in the past.

Thus, the danger of introducing the national model in its undiluted form in the Northeast as such may not only discredit it because it is bound to fail in its attempt at achieving the expected targets set, but can also in the process, effectively destroy the inherent native systems that have survived and nurtured the communities in the region through the ages.

Seen in perspective, part of the problem lies in the fact that a number of assumptions and suppositions cloud the minds of policy-makers in initiating any development intervention models for the Northeast. This is because the concepts they have in mind are formulated on a national basis and are not region specific, most of which are not only new to the region but are considered as exogenous models by the beneficiaries in the NER.

In addition, most bank-sponsored financial intervention models carry with them the associated tag of being government backed and sponsored, making them often vulnerable to the psychological predilections of being considered as 'unencumbered' and as potential 'write-offs', an unfortunate development that prevail in the thinking among the poor in the region and country. Therefore, unless methods or mechanisms for neutralising this misgiving and perception are inbuilt in the scheme or project itself most government or semi government or government backed schemes and projects will continue to suffer. The threat to the microfinance movement in the NER from this angle is real.

Traditional 'Banking System'

Seen against this backdrop, the Northeast of India which has still got a number of successful well entrenched traditional systems of financial security[5] practices for generations and in many cases quite efficiently and diligently managed locally by their own ingenious methods even today can provide alternative successful models of financial inclusion. These native practices can be refined or modified and propped up with new managerial and technological inputs to further improve and convenience the users. In this effort the balance of innovation must tilt in favour of the users so that this can consequential help and facilitate the providers (financial institutions, NGOs, etc.) to service their customers much better and much more efficiently, which in turn would greatly benefit them. The crucial issue is how to find convergence between the traditional informal financial security systems so strongly entrenched with the non-traditional methods and systems practiced at present by various financial institutions across the country.

Before proceeding in examining one of the successful convergence models that incorporates and has used extensively a workable mix of the traditional forms of management including informal financial security systems with the non-traditional methods and systems of financial managements in the area of Microfinance; the North Eastern Regional Community Resource Management Programme (NERCORMP), it is necessary to clarify a few assumptions about the traditional 'banking systems' of financial security in the NER.

Characteristics of Traditional Financial Security Practices

To begin with, first microfinance is often considered as a new instrument for financial security for livelihood forgetting the basic fact that it is as old as human civilization itself and always existed in some form or the other. It has consequently native attributes, characteristics and traits, which are inbuilt in every societal-formation and are unique and distinctive. Even though they are implemented differently and called by different names, in principle they are governed by the basic needs to safeguard human beings against life's insecurities. In other words, the variations that exist are variations of the locale, context, etc., but the basic principles are the same. While most of the old traditional forms of financial securities have disappeared from the most parts of the world due to the inroads of modern civilisational practices, there are still many societies that still use them due to the insular nature of the societies, or due to their lack of exposure to the new concepts of modern financial managements and transactions.

Therefore, one must appreciate the fact that the term Microfinance so aggressively used (pursued) today by financial gurus, social scientists and various economists in tow to lighten the financial burden of the poor, is as such merely a recent rechristening of a term and concept that always existed. It is not a new concept or system being discovered now. Conceptually and in principle it denotes the same thing as it did in the past, except that operationally it has acquired a new elevated status and importance in recent times.

Differences

There are however significant differences in the traditional models of financial security in the 'traditional banking' models from the current models popularly coming under the broad definition of Microfinance, which makes the traditional models successful in the NER. The differences are basic and fundamental. These are;

(1) Traditional informal systems are essentially directed at financial support and help to discharge and perform social and religious ceremonial obligations and commitments mandated by life-cycle needs as customarily enforced by the community or society on itself. These rituals and ceremonies are part of the societal responsibilities and obligations of people as members of a community. The community or society therefore, which has introduced these ceremonies and rituals, is mandated to support every member to fulfill these societal or communitarian obligations. In other words they have to necessarily support the members of the community as these ceremonies and rituals are self-created requirement by the community, in which the individuals are an integral part.

It is because of this distinctive factor that social-support or support of the community comes voluntarily and as a consequence, the traditional 'financial security' systems associated with life-cycle rituals and ceremonies are inherently made and conceptualised to be necessarily successful and are hence effective. In the beginning this 'support' was normally not associated with efforts to take-up income generating activities or provides help for undertaking economic activities. This was because historically in the beginning the support was given in kind or in the form of labour or both, there was no monetary contribution involved. Once monetisation and the concept of exchange came in vogue, contributions in the form of money were introduced. Subsequently, because of these developments contribution of money as working capital came into existence. Thereafter, progressively financing economic activities also started in due course. It is not surprisingly that even today if there is bereavement in a family the extended members of the family and others from community, bring in materials or contribute their labour instead of money to fund and help the family in their time of need and distress.

Social-security-financing for economic and other livelihood activities therefore came in much later due to economic compulsions. The idea of self-financing 'groups' and 'association' thereafter got extended to other areas of human activities, like the formation of self-help groups for various economic activities. For instance women folk in the region enter into informal groups for ensuring timely availability of finances or yarns, dye and other material for their home looms in the handloom sector, which are home based.

(2) Even today because of its history and uniquely endowed attributes; having societal consensus over time and perfected over hundreds of years by various social formations and groupings many of these traditional financing systems prevail in the region. Consequently, trying to introduce new practices and arrangements or changes into societies where these traditional systems operate, inspite of their imperfections, can be both time and energy consuming and also with no guarantee of their success. It goes therefore without saying that introduction of any scheme or method of financial inclusion or intervention must recognise this aspect and be undertaken with a lot of precaution and care. Conversely, engineering to bring about uniformity based on an idea of 'best-practice' found elsewhere in other regions in the country in their undiluted form can be quite unproductive, in fact it can harm or destroy existing practices and forms in existence irrevocably, particularly in backward regions and people who had to depend only on these models for a long time.

(3) It must be stated that the continuation, perpetuation and endurance of the traditional systems of financing depend largely on the process and extent the disintegration of the social structure that sustains it remains. The endurance of the traditional systems are as such linked to the rapidity with which a given social structure or system is exposed to other external influences, mostly to processes of urbanisation, modernisations and changes affecting life-styles. These exposures; new standards of civilisational values and norms, exert their pressures on various traditional systems and methods, leading to collapse of the traditional social security net work. This influence can impact positively in the short term but can adversely affect in the long term, unless the new scheme of things brought in as substitutes are closely and carefully monitored until the hand-holding stage is definitively over. This is essential, since the

community finds it almost impossible to get back to the old traditional systems back in place once it gets disrupted. The experiences of many people in the NER and in many parts of the country in this respect have been very unpleasant and traumatic.

Thus the introduction of urban based microfinance concepts in rural Indian context like the Northeast therefore entails other necessary standby alternative arrangements to come to the rescue of the unsettled community which have not been able to adapt to the new scheme of things. Unless such a contingency plan is well-set down, a vicious cycle of mistrust can set in, which in turn can self-destruct not only the existing traditional methods but also the very concept that was meant to replace it forever. The fate of many Government, Government-sponsored programs and schemes and in many cases of NGOs, SHGs and other private bodies has suffered due to such incidences and occurrences.

(4) An important aspect of the traditional systems and practices are based totally on mutual trust and respect, there is no helping hand involved (no God-father in the form of government or government institutions to come to their support exist) in the concept and working, and hence people put in their best and are totally committed to ensuring its success. This 'commitment' to the success of the 'partnership' is an inbuilt self-correcting mechanism, which traditional system provides in most cases. Any help or attempts at financial inclusion through SHGBLP or any other method however in today's context, carry along with them the "Loan-write off" syndrome, (which Government is compelled to provide from time to time) an unfortunate tag of being potentially doomed to fail from the start. This psychological bend of mind puts microfinance movement including SHGBLP in a vulnerable position as beneficiaries tend to consider "banks" including FIs as being Government agencies and hence often do not take repayments of loans seriously. The NER also suffer from this syndrome and pernicious predilections and much more because the NER largely depends on the devolution of Central Government funds for almost everything. A method and way to schematically delink the notion of such an idea by educating the beneficiaries seems necessary. One such effort has been to ask the beneficiaries to make their share of contributions to these schemes so that their stakes and interests are somewhat ensured.

The Way Forward

Based on these observations the success and working results of NERCROMP project (even though skeptics tend not to agree with this qualification), especially its significance in the context of the important need of why it may be much more practical, prudent and successful to adopt some of the traditional practices of 'financial inclusion' from the region by giving them a new schematic reorientation by combining and infusing some of the relevant modern new practices available and used successfully by various financial institutions and microfinance bodies across the country at present, is analysed. The project was formulated after detailed study of several programmes and schemes from across the country and the NER way back in 1999.

Several findings preceding the formulation of NERCROMP revealed that the general problems of development interventions including financial inclusions in the NER lie in addressing a number of fundamental issues. It was found that while some of these can be addressed through general solutions common across the country, quite a few had to be NER specific, NER oriented solutions. A few of the important general remedial measures both emanating from the NER and from the rest of the country are;

(a) *Remedy structure causes:* Need to recognise the NER's distinctiveness and variations socially and culturally. Take advantages of inherent socio-cultural, social institutions as core-competencies by utilizing them as support mechanism in affecting changes. Thereafter formulate appropriate models and methods of financial intervention to ensure and enhance the staying power of the poor.

(b) *Correct market imperfections:* Because they tend to become the 'takers of prices' offered by 'middlemen' outside, financial inclusion models must help them in getting prices commensurate with their efforts, labour especially as craftsmen, etc. This will reverse the inequitable development and stop their dependency outside, and instead focus should be on areas of self sustenance through community backed and based services and products as far as possible. In other words there is need to create opportunities to sustain the economic and financial staying power of the poor.

(c) *Microfinance should include:* Both credit and insurance and can only be a part of the overall development intervention efforts and not the sole means to economic emancipation. Economic emancipation must address all types of poverty: Economic poverty, nutritional poverty and basic amenities poverty, etc.

(d) *Multitasking and asset formation:* Microfinance should help to cater for various economic activities to increase employment in non-farm sector in areas of cottage and village industries, handloom, handicraft and other self-sustaining activities, besides agriculture, horticulture, plantation, etc.

(e) *Rotate scarce capital:* Within members by preventing the flight of capital from the community by means of evolving a regular source of income for at least one member of the family.

Some Developments in the Banking Sector for the NER

While the NERCROMP was being implemented in the six districts of three states in the NER the RBI constituted a committee of experts to specifically look into the various issues of the financial sector in the northeast. A quick reference is being made in the passing before proceeding further.

The Reserve Bank of India set up a committee on Financial Sector Development for the NER under the Chairmanship of the Deputy Governor, Ms Usha Thorat. The report of the committee officially called the 'Report of the Committee on Financial Sector Plan for the North Eastern Region' submitted its report on July 2006 where it gave a series of recommendations to make the banking sector in the region 'more inclusive'.

The terms of reference of the committee were five: (a) to review the action taken so far for extending banking coverage and increasing the flow of credit in the North Eastern Region; (b) to identify bottlenecks in the extension of financial services, in particular, timely and smooth flow of credit, in the region; (c) to suggest measures, in particular, the process as well as procedures, keeping in view the special circumstances, such as land tenure rights, to overcome the impediments in financial inclusion, and enable greater flow of credit; (d) to draw up state-wise action plan appropriate to local conditions in each of the States; and (e) to consider matters relevant to the above by the committee and to recommend appropriate actions on them.

The committee comprised of various bank and official representatives of all the seven states of the Northeast. Sikkim even though referred to, was not represented in the committee. It also setup state level Task Force to make state specific recommendations. The committee met twice in Guwahati, once each at Kolkata and Mumbai between February 1 and March 2006. Shri Ashok Kini, Advisor to the committee travelled to all the seven states and collected first hand information.

The Usha Thorat Committee Report even though came in much later when NERCROMP had almost run its full course and was coming to a close by 2008, and the Report for all practical purpose was irrelevant for NERCROMP as it had already come to a close, it may be worth the while to relate to some of the important recommendations made in the context of the present study undertaken in this paper in passing. This is partly because the committee is one of the few and rare committees that were specifically setup to look into the affairs of the region by the RBI.

Some of the recommendations related to increasing the outreach by the post offices, traditional institutions and NGOs all of which were needed to be co-opted by the banking industry because of their inherent strength under the Business Correspondent and Business Facilitator models. It suggested increasing the Self-Help Group (SHG) - Bank Linkage Programme and to introduce and expanded the No Frill Account. An important recommendation was to use Information Technology (IT) by the bank extensively and also other IT enabled services to reduce transaction costs to the clients. It was also suggested to train and sensitize the bankers as well as the public in this regard. Additionally, the Regional Rural Banks (RRBs) and Urban Co-operative Banks (UCBs) were to be strengthened.

As is evident from the above, the recommendations were limited, partly by the terms of reference given to the committee on one hand, and by the committee's own volition on the other. The committee in para 1.10, page 19 of the Report candidly admits that it "... has basically relied on an approach that addresses the supply side gap, since such a gap existed in the region." This observation of the committee will indicate the reasons for the limitations of its recommendations. Implying thereby that the larger contextual issues involved pertaining to the region referred to in this paper had not been dealt or looked into. Possibly this was partly also because of the time constraint imposed in submitting the Report, which was constituted in January 2006 and was to submit it within three months by April 2006. This was later extended till June 2006.

In short, a quick look at the Usha Thorat Committee Report therefore, tend to be descriptively prescriptive of the general issues and remedial measures specifically required to be undertaken by the Banking and financial institutions for addressing the general problems of financial interventions in the Northeast. In other words, the recommendations are not necessarily made from the demand side, the point of view and needs of the people of the region. In short, the committee did not go into the core or basic problems connected with the 'inappropriateness' of many of these financial inclusion models per se used by the banks and other financial institutions in the NER at present, which this paper has so far highlighted and stressed could be the very problems that hinder the financial inclusion efforts being made in the region.

North Eastern Regional Community Resource Management Programme (NERCORMP)

The North Eastern Regional Community Resource Management Project for Upland Areas (NERCORMP) is a rare mix and combination of the best local or indigenous practices with many aspects of other successful practices from across the country specifically tailored to suit the needs of the Northeast. It has proved successful as a livelihood project and as such is worthy of being examined as an alternative financial intervention model by the financial institutions across the board in the country. Further because of its performance NERCROMP has now been extended to new adjoining districts in the three states as NERCROMP-II. Because of its success, the World Bank has in collaboration with the Government of India through the Ministry of Development of North East Region (DoNER) launched and started another Project as a 'follow-on', modeled and based on the experiences gained in NERCROMP called the North East Rural Livelihood Project (NERLP) covering the four states of Mizoram, Nagaland, Sikkim and Tripura.

NERCROMP was co-sponsored by the International Financing for Agriculture Development (IFAD, Italy), under its Strategic Framework, PI Regional Strategy and COSOPS of 1999 and 2001, and the Government of India and executed as a society under the supervision and control of the North Eastern Council (NEC). The Project was designed during 1994 to 1997. The reasons why it (NERCORMP) has been chosen for analysis as a distinctive case is the fact of its commendable performance and successful implimentations as evaluated and opined by various assessing bodies particularly by the IFAD. Most of these evaluations show that the project has been very successful as a developmental intervention model in the Northeast because it was region-specific, much more sensitively conceptualised, made people and community centric and addresses the problem of utilising the available core-competences of the people and local communities in the project areas.

NERCRMOP's Aim and Objectives: The overall objective of the Project was "To improve the livelihoods of vulnerable groups in a sustainable manner through improved management of their resource base in a way that contributes to preservation and restoration of the environment." Its focus was to come up with a development model by synergizing the best strengths of Government, IFAD (International Organisation), NGOs and communities of the project areas. It was conceived and modeled as a pilot project with the intention of duplicating the experiences based on its working results.

> "The main justification was the near total failure of previous top-down, culturally inept development initiatives, economic stagnation and resultant chronic poverty; inability of the traditional jhum system of shifting cultivation to cope with increasing population and decreasing fertility, with consequent threat to environment and biodiversity; and the general air of distrust and disillusion about Government intervention. Given this background, the primary thrust of the strategy was to introduce a development approach that was technically appropriate, culturally sensitive and institutionally effective."

The key intervention areas were social, village infrastructure, land and water development, economic livelihood, market credit linkages, etc. The six districts selected were hilly areas and covered tribal populations in the three states of Assam, Manipur and Meghalaya. The project areas and target groups were upland tribal communities depending "…on jhum, small farm acreage; rainfed cultivation; and prevalence of disadvantaged, vulnerable families. Specific emphasis was placed on empowerment of women, water catchment integrity; and pro-poor, differential benefit entitlement, to augment traditional tribal poverty alleviation customs and practices."

Rationale for NERCORMP-II: Further, based on the experiences of NERCROMP, the NERCROMP-II has been extended to other new villages from the same districts of the three States of Assam, Manipur and Meghalaya, which has been further renovated and refined. The reasons for extension and continuation of NERCROMP-II are "The largely self-sufficient life cycles that balanced different economic needs of the upland communities in the NER of India has been seriously disrupted …" due to "…two main reasons…firstly, increasing population…" which has led "… to increased cultivation of marginal and forest lands, making foodcrop-based farming system increasingly unsustainable; and, secondly, improved communication systems have brought awareness of vastly different lifestyles and thus the aspirations of the people have arisen. The net result of this process has been a weakening of the sustainability of past survival systems and accentuation of poverty conditions in upland areas." "Moreover, people in the region are increasingly recognizing that outmigration is not a viable solution to the economic insecurity and that opportunities for improved well-being must be found closer home. Myriad varieties of development programs have earlier failed to adequately address the situation mainly due to lack of 'ownership' of the development process by beneficiaries themselves."

The NEC in its 57th Meeting held in Delhi during January 2009 decided to extend the NERCORMP project as NERCORMP II, beyond 31-3-2009 covering new villages not covered in the original NERCORMP in the same six districts of the three states of Assam, Manipur and Meghalaya.

Project Impact: The Project was evaluated by IFAD. The overall impact of the Project based on nine specific set pre-project objectives and indices has been accorded 5 points out of 6. The 9 impact areas that were set and measured were; Physical and financial Assets, Human Assets, Social Capital and empowerment, Food security, Environment and community resource base, Institutions; Policies and regulatory framework, Gender, Sustainability, and lastly Innovation and scope for replication.

In a report prepared by the Indian Institute of Bank Management (IIBM), Guwahati sponsored by the NEC, which was presented to the then Finance Minister, Shri P. Chidambaram; "Banking Industry In The North East Region: Making It Financially More Inclusive", during a special meeting held in Delhi on the 4th of October 2008, observed that the growth trend of microfinance institutions in the region was affected by NERCROMP in the three states of Assam, Manipur and Meghalaya where it was adopted. It observed that "... at the disaggregated level we find that there is some decline in states like Meghalaya, Manipur, Tripura." The Report observed that while earlier "...these states showed a high growth during previous decade. This has been primarily because of the strong intervention of government under the aegis of SGSY and donor agencies like IFAD, which led to emergence of these institutions in the states of Meghalaya and Tripura. This same phenomenon has also been responsible for the emergence of the institutions in the hilly districts of Assam." In this connection it is to be noted that NERCROMP was officially closed on 30th September 2008.

In the Project it was observed that even though SHG, NGOs through Microfinance institutions can intervene in all the areas it is basically in the areas of creating physical and financial assets, which they can directly participate and intervene. The consequences of the impact of these bodies; SHG, NGOs and Microfinance Institutions was in helping the Project in evolving earning capacity of the target groups in areas of "...promotion and support of small business ventures for women and consequent enhancement of family funds, net income and profits...". Their (microfinance institutions) role has led to "...widespread sensitisation, training and endowment with experiences of farmers, village leaders and communities... the support of the productive, food producing and income generating processes by improved infrastructure and social service provision". The cascading benefits in building Human Assets, Social Capital and empowerment, Food security etc, as demonstrated in the Project quite adequately justifying the role and intervention of the financial institutions.

The important point to be noted here is the fact that microfinance institution could succeed because of the community participation and involvement. Their role has been a crucial factor in the success of the project in almost all the project areas evaluated.

A Few Highlights of NERCROMP

(1) *Financial status:* (a) Project cost as per original Project Appraisal-total Rs 159.36 crore or US $33.20 million; (b) IFAD contribution (all in crore) was Rs 109.92 or 68.98%; (c) NEC (GOI) Rs 26.88 or 16.86%; (d) Beneficiaries contribution Rs 16.80 or 10.54%; and (e) Financial institution contribution Rs 5.76 or 3.62%.

(2) *Participatory approach where communities are involved at all levels:* The Self-Help Groups (SHG) are predominantly women's groups engaged in savings, micro-credit and some social activities and in creating Income Generating Activities (IGAs). The Natural Resource Management Groups (NaRMGs) are village/community developmental planning and implementing bodies with 50% membership each for both men and women from each house-hold.

(3) *Cluster-wise approach:* Project has adopted on a cluster basis ranging from 10-25 villages on an average, having physical contiguity and homogeneity so that the various activities can be undertaken in a uniform manner. Besides solidarity the concept enables evolving homogeneity of solutions making the task of problem resolution much easier.

(4) *Bottom-up approach both in letter and spirit, with emphasis on transparency and accountability.*

(5) *Project management as informed Facilitators.*

(6) *Family as a unit:* In the NERCROMP two members of a family; the husband and the wife are both beneficiaries and are taken as a unit for the project and not confined to only a single member. While in the NERLP the husband, wife and an adult child; three members of a family are considered as a unit for participation as beneficiaries. The advantage of having more than member of a family was that while the finances obtained through the Project by one of the family members was used for creating a regular source of income on a regular basis, the second amount available was used for the community infrastructure developments and other risk taking ventures, which did not guarantee a regular income.

(7) *Comprehensive:* Both NERCORMP and NERLP are both comprehensive all inclusive general welfare and development project in which financial support and assistance is just one part of the total package. Both of these project act as catalysts by integrating various existing government programs and schemes.

(8) *Emphasis on providing regular source of income to beneficiaries:* There are many examples to demonstrate this aspect of the Project; however one of the best examples in this regard that clearly stands out is the case of the transport sector. In all 72 vehicles ranging from buses, pick-up jeeps, trucks and small passenger vehicles were purchased with credit support from different financial institutions by the various communities involved from within in the project areas, which were spread out over the 6 districts across three states. The important aspect to be noted is that while financial institutions namely SBI, NEDFI, Mahindra Finance and vehicle manufacturing company like TELCO provided the finances and the vehicles under a marketing package, the community had also to contribute for the purchase of the vehicles. It was mandatory for the communities in the entire project area to make their contributions. For instance in the West Garo Hills district while Rs 89,20,000 was availed as loan from SBI and TELCO the communities in the project area contributed Rs 31,30,000 for the purchase of 21 vehicles. The transport network is providing services to 53 villages in the project area. In West Khasi Hills, similarly while NEDFI and TELCO provided Rs 33,45,000 loan for the purchase of 8 vehicles, the community has contributed Rs 22,40,000. The transport network is providing services to 22 villages in the project area. In fact in Ukhrul the Apex Cluster Association has purchased one vehicle at Rs 5,20,000 through the contributions from the community alone. The transport network developed has facilitated the various communities to have market-linkages for the commodities produced besides facilitating the movement of people and enabling access to better health care, education services etc. More importantly, the transport operation provides a steady regular inflow of funds and is one of the main sources of regular income to the community management centres/groups that is looking after the projects and to the members and families involved.

Approach and Methodology of NERLP (North East Rural Livelihood Project); the Follow-on Model

Based on the success of NERCORMP the Government of India has launched a similar programme for the remaining four states of the Northeast excluding Arunachal Pradesh. A separate project for the state of Arunachal is being worked out without involving any international financial institutions or bodies since their involvement has various geo-political implications. The remodeled Project; the North East Rural Livelihood Project (NERLP)9 for the states of Mizoram, Nagaland, Sikkim and Tripura is being undertaken through the aegis of the World Bank and the Ministry of DoNER, Government of India. The head office of NERLP is based in Guwahati in Assam, in a non-participating state and is a separate entity, distinct from NERCORMP which was based in Shillong in Meghalaya one of the participating beneficiary states. NERCORMP-II is being handled by NEC from Shillong.

The NERLP Project Implementation Plan document observes the following about NERCORMP and based on which the NERLP project was formulated. "The basic thrust of the NERCORMP was to demonstrate a new approach to development by adopting a genuine approach with all relevant stakeholders under which interventions are truly demand-driven and client-oriented; in line with indigenous knowledge and capabilities of the people and implemented with clear transparency and accountability. Evaluation results have indicated that the project was a notably successful development intervention."

Reasons Behind Success of NERCROMP-Need for a Closer Study in the Context of the Microfinance Sector in the NE Region

The conclusions to the proposition made in the paper may lie in appreciating why the NERCROMP has succeeded in comparative terms in areas where other projects or schemes could not.

The main key to the success of NERCROMP was the intelligent adoption and usage of the inherent communitarian spirit of cooperation and partnership that exists and prevail in most of the societies, communities and clans in the Northeast region of the country, which is embedded in their social psyche and demeour. It is a phenomenon, the value of which has been recently discovered and is being used. The Communitarian approach to development initiated by the Nagaland Government is an example. The NERCROMP has very intelligently combined the traditional approach and practice of participative management with a few specifically indentified methods of modern management in the selected communities of the project area.

The idea of financially including the individual members of the targeted communities so that each member can develop skills and income generating activities is only a part of the total development package and is not purposely made the focal point in the initial stages of the project. While finance and all that goes with it was certainly a very important element in the whole project, the emphasis was more on getting the community involved in the management of the various schemes of the project by utilising the innate communitarian skills of management in these communities have. The success lies in effectively utilising this tremendous native social asset in the best possible manner.

In process of getting the community directly involved in the management of their 'own affairs', that includes managing 'community resources' (read as management of the finances), asset- creation activities etc right at the initial stages of the Project itself, the individual members of the community (the main beneficiaries of the financial support) automatically come under the umbrella of the overall control and management of the community. It is this initial responsibility thrust on the community by the Project managers to manage its affairs and 'own resources', as already observed, which includes overall supervision of individually availed finances (grants and loans) from the project that the onus and responsibility of ensuring repayments and recovery of individual loans, etc., becomes a communitarian responsibility. This responsibility, undertaken by the community greatly facilitates the management of finances in the Project areas. The confidences of the financial institutions get reinforced by this factor.

A classic example cited by the various Natural Resource management Groups from these communities (NaRMGS) during the summation Review of NERCROMP in 2008 is the fact that inspite of all the various adverse law and order situation prevailing in the areas of some of these project areas, the reported cases of the various insurgency groups making a demand on the community or individual members have not been reported. On being questioned the reply given by one of the beneficiaries during the closing function of NERCROMP held in Shillong sums up the importance of the role of the community.

"The underground insurgents have to depend on us as members of a community for their safety often for food, ration and sometimes even shelter. These groups know that they cannot survive without our help. They cannot offend us as a group even if they trouble a few of us individually. Importantly, each one of us is given individually very small sums of money at a time by the project in our hands and we never keep large sums of money with us. Moreover, if the various underground insurgents have to collect the little sums we get and keep from each one of us individually, they will take days to recover from us and by which time the security forces would have descended on them." The NERCROMP does not have a single reported case of any such demands for payments from any of the insurgency groups in the entire project areas spanning three states.

In my view this emphasis of comprehensively introducing and involving the community to manage the project as their own, right from the inception of the project in their respective areas of jurisdiction, is one of the main key of the success of NERCROMP. In a nutshell NERCROMP succeeded because it was a project that was conceived and 'tailored' in such a manner to suit the beneficiaries' native management traits and skills. It was not an alien concept, formulated and found successful in other regions of the country and then superimposed and transplanted in the region as is the normal practice.

Conclusion

It is apparent from the foregoing facts analysed and observed that the Northeast region of India has its own unique sets of problems and also simultaneously has its own methods of resolving them. The analysis of the reasons behind the success of NERCROMP project, clearly demonstrates that an intelligent well articulated mix of local social attributes and systems of management combined with appropriate and relevant modern-day management tools, concepts and ideas in the area of financial management in rural and semi-rural areas can yield positive results in the NER. Conversely, it is also apparent that introduction of schemes and projects formulated on a national level, quite successful in other regions of the country in their undiluted forms, may not yield the desired results in the Northeast as they are being experienced and being discovered at present. Consequently, it is amply clear that any financial intervention model or alternatives, for the region must essentially incorporate and infuse existing native practices as well as concepts if it has to be successful.

This proposition certainly calls for a radical change in thinking and approach to banking and related proposals for the region. The present tendency, therefore to introduce well-entrenched banking models from outside the region is ill conceived and in a sense quite undesirable. While, the larger towns and the few cities in the region can fit into the scheme of things like anywhere else in the country, the rural areas and the population involved, especially the target- areas of financial inclusions through microfinance, may not be able to adequately absorb and make the various Banking and financial intervention models work in the region. The problem multiplies keeping the topography and other imponderables involved in view.

Taking cue therefore, from the success of NERCROMP as a livelihood model in the Northeast, which as we have seen is attributed greatly to the active involvement and participation of the community in the management of the affairs of the project, makes it important to appreciate the role of the community in making any project a success. It is rudimentary but never the less, an absolutely essential prerequisite for the microfinance movement to succeed in the NER. In other words, microfinance intervention models for the Northeast must be appropriate, and tailored to suit the native needs and requirements, which the current models are found wanting. In the end it can be said with some amount of certainty that it may be worth the while to extend this particular aspect of the NERCROMP experience in other related developmental areas including efforts at financial inclusion through microfinance in the Northeast region of India.

References

Mani, Gyanendra (2011): 'Microfinance in North Eastern Region: Status and Issues', Table-1 in the paper, MFR, BIRD, Lucknow.

Mani, Gyanendra (2011): 'Microfinance in North Eastern Region: Status and Issues', 'Microfinance India: State of the Sector Report (2010)', for various reasons the intensity and spatial spread of the penetration of microfinance in the region has not been commensurate with the region's assessed potentiality. IT is pertinent to understand and appreciate the reasons for this. The types and varieties of traditional financial security systems have been cataloged in this paper, MFR, BIRD, Lucknow.

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North East Rural Livelihood Project (NERLP), Ministry of DoNER, Government of India-Regional Project Implementation Plan, page-15.

Notes

1. Tenth Five Year Plan: The Reserve Bank of India (RBI) in its Annual Report (2005-2006) has pointed out that at the macro level the 11th Plan growth levels is estimated at 9% of the GDP, while Agriculture should grow at 4%.

   In NER the figures are irrelevant as there is not likely to be 4% growth in agriculture or the GSDPs of all the states in the region or are likely to be able to match the average national averages of 9% GDP growth figures. In the Vision 2020 document realised in 2008 it was stipulated that the NER to reach the national averages has to grow at an astonishing rate of over 12-14 percent per annum at an average till 2020. The problem of unemployment is a stark reality as no secondary or tertiary employment opportunity exists in the region. In this context what can be done is a change in approach to address the problem. In NER the emphasis need to (1) focus on "distinctive competence and survival skills" rather than "push them into untried livelihoods". This is because of the existence of extensive (2) problems of market imperfections, (3) poor infrastructure and (4) lack of convenient financial services.

2. The author was Chairman of NERCROMP in the last penultimate years of the project during 2007 and 2008, and was responsible for working out the second phase of NERCROMP-II under the NEC directly. He was also involved in providing various inputs in conceptualising and formulating the NERLP to the Ministry of DoNER and the World Bank.

3. NABARD Report; Status of Microfinance in India 2010, Physical; Some Highlights of SHG-Bank Linkage Programme. Other details are as follows:

   - Out of total [of which] - SGSY SHGs : 16.94 lakh
   - Total number of SHGs credit linked during 2009-10 : 15.87 lakh
   - Out of total [of which] exclusive Women SHGs credit linked : 12.94 lakh
   - Out of total [of which]-SGSY SHGs credit linked : 2.67 lakh
   - Total number of SHGs having loans outstanding as on 31 March 2010 : 48.51 lakh
   - Of which exclusive Women SHGs : 38.98 lakh
   - Of which-SGSY SHGs : 12.45 lakh

- Estimated number of families covered up to 31 March 2010 : 97 million

Financial

- Total savings amount of SHGs with banks as on 31 March 2010 : Rs 6,198.71 crore
- Out of total savings of exclusive Women SHGs : Rs 4,498.66 crore
- Out of total savings of SGSY SHGs : Rs 1,292.62 crore
- Total amount of loans disbursed to SHGs during 2009-10 : Rs 14453.30 crore
- Out of total loans disbursed to Women SHGs : Rs 12,429.37 crore
- Out of total loans disbursed to SGSY SHGs : Rs 2,198.00 crore
- Total amount of loans outstanding against SHGs as on 31 March 2010 : Rs 28,038.28 crore
- Out of total loans o/s against Women SHGs : Rs 23,030.36 crore
- Out of total loans o/s against SGSY SHGs : Rs 6,251.08 crore
- Average loan amount outstanding per SHG as on March 2010 : Rs 57,795
- Average loan amount outstanding per member as on 31 March 2010 : Rs 4,128
- MF not stand-alone, part of total effort-link to other programmes.
- SUCCESS-Initiative-Drive-individual-profit/social service
- Govt. and Institutions-service-
- Solution link to other

4. (i) SHG Bank Linkage Programme (SHGBLP) Model: and its variants supported by NABARD and Public Sector Commercial Banks. Formed usually as informal groups or associations-began with women meet regularly to save small amounts. They are supported by NGOs or government agencies. Benefits are both economical (financial) as well as social, local elections, active social rolls, etc.

(ii) The MFI Model: Institutional MFI Model of SIDBI, Commercial Banks and other stake holders. MFIs began in 1997 in the work of SIDBI/SFMCs* (SIDBI Foundation of Micro-credit). Spread out to private sector banks-highly dispersed led to sharp increases in credit. Private sector banks mostly lend to MFIs while public sector banks and RRBs of rural branches finance SHGs. Method; MFIs borrow money from banks and then on-lend to their end customers. Lending by MFIs ask borrowers to form groups, even though lending is to the individuals, the group ensure as guarantees as JOINT LIABILITY GROUP or JLG). As on March 2007 about 900 MFIs over 10 million borrowers exceeds amount of Rs 3,000 crore.

(iii) Bank Based/ Driven Models: Partnership Model of ICICI and other commercial banks. Model based on recommendations of the Khan Committee Report of July 2005, based on which RBI circular to extend financial inclusion by using banking and financial services through BUSINESS FACILITATORS and BUSINESS CORRESPONDENTS. ICICI has been a leader. However, due to RBIs guidelines of 9th January 2007 to compensate the Correspondents and associated outsourcing parties' original model became less popular. It has not grown as much thereby choking about Rs 700 crore of cash flow for low income groups from the financial system.

In the SHG-BLP, SHGs are formed under three different models. - Model I, Model II, and Model III. In Model I, the SHGs are formed and financed by banks (All India 20%, NER 76%). In Model II the SHGs are formed by agencies other than banks such as non-government organizations (NGOs) and community based organisations (CBOs), but is financed by banks (All India 74%, NER 16%) (NER figures pertain to 2006). In Model III (6%) NGOs act as intermediaries and are financed by the banks to lend on to the SHGs.

In NER the three models indicate the prime driver is the Banks (Model I) where 76% have been formed and financed. Surprisingly, in Model II those formed by other agencies than the banks but financed by the Banks are only 16% as against the All India figures of 74%. This shows less use of community, NGOs, leading to social-capital underutilization. This must be remedied.

Proceedings of the Seminar on "Microfinance in North East" Organised by BIRD, Lucknow in Collaboration with IIBM, Guwahati on 28 and 29 January, 2011

Background to the Seminar

Centre for Microfinance Research (CMR), BIRD, Lucknow organises a 'National Seminar on Microfinance' annually in which various issues related to the microfinance scenario in the country are discussed and papers are presented by eminent practitioners of microfinance. However, it was increasingly felt that the issues related to microfinance sector of the North Eastern Region (NER) of the country were not being adequately addressed in the seminar. Microfinance sector of the NER is much more complex and challenging, as compared to the remaining part of the country due to reasons well known.

Against the above background, and with a view to design microfinance products keeping in mind the needs of the people of that region, it was considered necessary to organise an exclusive seminar on microfinance for the north eastern region and accordingly, the same was organised by CMR, BIRD on 28-29 January 2011 in collaboration with its sub centre at the Indian Institute of Bank Management, Guwahati. The Programme Schedule of the Seminar is given in Annexure-I. The seminar was divided into (i) Inaugural session (ii) Technical session and (iii) Status paper on Microfinance in North Eastern Regions by Regional Offices of NABARD in North East. Dr. Jayanta Madhab, Chairperson, Rashtriya Gramin Vikas Nidhi (RGVN), Guwahati was the distinguished Guest of Honour during the inaugural session. The Inaugural Session as well as the Technical Session on the first day was presided over by Dr. A K Bandyopadhyay, Executive Director, NABARD.

The seminar was organised for two days. The first day was devoted to the presentation of research papers by various scholars working in North Eastern Region. On the second day, presentations were made by the representatives of the NABARD Regional Offices in North East on 'present status of microfinance in North East and designing the future strategy to scale up microfinance interventions in these states'. A total of 12 papers were presented during the technical session on the first day covering the following three themes:

(a) Traditional microfinance forms, groups/ institutions and products (savings, credit, remittances, etc.) of North Eastern Region – behaviour and performance with special reference to unbanked areas;

(b) Coping mechanism for various risks arising on account of the natural, social and economic interventions, viz., calamities, loss of earning family members (death), loss of productive assets, etc.; and

(c) Status and effectiveness of formal microfinance programmes (SBLP) including SGSY in North Eastern Region in replacing the informal/ traditional system.

The second day of the seminar started with the presentation by NABARD Head Office on macro perspective of microfinance in North Eastern Region followed by presentations by the Regional Offices of North Eastern Regions on the State-specific status paper on microfinance covering the following aspects:

- Present Status of the microfinance sector in terms of spread, volume and reach.
- Various initiatives taken so far.
- Perspective plan for the sector.
- Support anticipated from the various stake-holders to realise the perspective plan.

Summary Findings of Papers Presented during the Technical Sessions

1. *"Microfinance in North Eastern Region: Status and Issues"* by Gyanendra Mani

   - There is huge demand for micro-credit in the North Eastern Region. However, Penetration Rate is low.
   - There is a lack of sufficient number of formal outlets to deliver microfinance products in NER.
   - Most of the Self-Help Groups are not having much information about various financial products being offered by banks, MFIs, etc.
   - Low confidence level amongst the SHGs members to run income generating units has been observed. The reasons for not taking up income generating activity by SHG members include lack of market, poor infrastructure support (including electricity), problem in getting sufficient loan from banks, lengthy process of documentation in banks, costly unviable loans from other sources (NGOs/ MFI, money lenders), lack of awareness/ availability of institutions providing skill development training, etc.
   - 'Producing Domicile Record' by the SHG members is insisted upon by some banks in order to open a Savings Bank account.
   - Most of NGOs/ MFIs are offering only credit and saving products to their clients. They consider other microfinance products like micro-insurance, micro-pension and remittance as commercially not viable, if offered on stand alone basis.

- Traditional microfinance institutions working in different parts of the region have been formed to cope up with various risks arising on account of failure or disturbances in the social, economic and natural systems. There is a need to document such traditional institutions for each and every state of the region and a state specific strategy may be prepared for convergence of these institutions with various developmental initiatives of government, banks, MFIs/ NGOs, etc., in order to put these states on a higher growth path.

2. *"Relevance of Marups in Manipur: Issues and Challenges"* by Dr N Mohendro Singh

   The Marup, an age old traditional institution in Manipur has been acting as building block against eventualities and concerns experienced by Manipuris from time to time. There is a need to highlight the strong points of Marups like spirit of co-operation, transparency, accountability, intimacy, fair understanding, improved financial discipline, proximity to the poor people, potential as a partner of inclusive finance, etc. It was suggested that the Marups could play the role of Business Correspondent for banks and also function as SHPIs.

3. *"Traditional Mechanism of Financial Services in Lower Assam - The Xonchois of Lower Assam"* by Prof. Abhijit Sharma

   Xonchois as an informal institutional mechanism is functioning extensively in the Lower Assam. The *Xonchois* are used extensively by rural households from across all walks of life for savings purposes. It has been seen that the members of the SHGs are slowly getting disinterested in the workings of the group. One manifestation of this could be seen in the increasing delinquency in them. SHGs could be sensitised to adopt this practice from the X*onchois* by deciding on a fixed date for paying some portion of the corpus fund as lumpsum at the end of the period. This would help the household immensely in meeting certain requirements. This would also ensure more interest from members and their active involvement in the operations of the group, thus increasing the scope for sustained operations.

4. *"Traditional Microfinance Institutions in North Eastern Region with Special Reference to Manipur State"* by Kh. Somorendro Singh

   The study was based on primary data collected through a sample survey of the 80 women SHGs spread over five districts out of nine districts of Manipur. The group members were earning Rs 500 to Rs 2,500 per month after joining the microfinance programme supported by NCUI project as against Rs 385 on average, in a month before joining the group. Women SHGs having micro-enterprises and those women who are members in the SHGs are able to access credit easily. The study suggests that for women, training can play an important role in developing the next generation of business leaders and enhance their careers. Women entrepreneurship training initiatives in addition to other entrepreneurship courses, together with mentoring and coaching, could make a significant difference. Women SHGs could thus develop hand-on-techniques for running a business in a socially acceptable and culturally viable environment.

5. *"Status and Performance of Self-Help Groups in Assam: Evidences from Field Study"* by Ms. Dimpi Chakravorty.

The study observed that the SHGs in the Study area are dominated by women members accounting for as high as 93.5% share in the total members. In mixed groups having male members, important positions i.e., president, secretary, record keeper are held by women. Weaving remains the dominant primary activity for about 21.5% of the sample SHGs, which is followed by goatery (18.5%). An annual income of Rs. 6,098/- is hardly sufficient for sustenance which denotes the need for alternative/ secondary occupation for group members. The study shows that for SHGs to make a mark and sustained impact on poverty, it is necessary for them to adopt a more encompassing approach with various community-based organisations and programmes by laying far greater focus on processes, capacity building, convergence with various on-going programmes, etc.

6. *"Self-Help Group and Micro-enterprise Development towards Savings Habits with Special Reference to Manipur"* by Dr. S. Dilan Singh

The SHG Bank linkage momentum is increasing fairly well in the state of Manipur but has not achieved the status of developed states like Andhra, Karnataka and Tamil Nadu. For the sustenance of SHG, microenterprise development of members is necessary. The programmes enlightened the members with new knowledge and skills. Limited skill, knowledge, technology, resource, and other inputs are the major barriers. The study showed that transportation being a bottleneck, raw material cannot be purchased on time and finished product do not reach markets at the opportune moment which leads to low profitability. Systematic market information is not available which affects the supply chain. Lack of infrastructural facilities like power, working sheds, communication, etc., are other hurdles for the growth of the SHG units. Availability of substitute products, price fluctuation, competition, social ailments are the challenges. The uneven distribution of banks in Manipur is one major factor in the slow pace of the financial inclusion in Manipur. The financial literacy imparted to the SHG members also gives a positive impact on the saving mobilisation strategies of the groups. The study shows that SHG members do adopt various types of saving products offered by banks and other formal agencies.

7. *"SHG-Bank Linkage Programme and Rural Credit: An Impact Assessment"* by Ms. Sakiya Khan

   - Scheduled Caste/Scheduled Tribes and Backward classes constituted (78.67%) of the sample in the study area. There is perceptible change in the savings habit and borrowing pattern among the sampled members. The share of production oriented credit has increased and dependence on moneylender and relatives for credit has decreased. It was observed that in post SHG situation, about 82.6% of the SHG members borrow from SHGs and about 10.4% from friends and relatives. Out of 223 SHGs studied for the purpose, 60% of the sample SHGs had joined SGSY scheme in view of the subsidies being offered under the programme.
   - It was also observed that a major (71.75%) chunk of the linkage is accounted by Model 1 (Bank to SHG) due to the limited involvement of NGOs, Model II (NGO Facilitation) and III (NGO Intermediation) account for only 10.76% and 17.47% respectively.
   - The study felt that the key to the success of the SHG-Bank linkage programme lies in the proactive involvement of stakeholders such as NABARD, financial institutions, NGOs and the government. The amount and frequency of loans availed by SHG members should be adequate to enable them to make up economic activities.

8. *"Microfinance in Assam: An Overview"* by Dr. Debabrata Das

   - Most of the informal microfinance providers in Assam are not having any legal status (except one which was registered as NGO). The interest rate charged by these informal microfinance providers is very high. It ranges from 36% to 48% per annum whereas in case of formal MFIs it ranges 7.5% to 30% per annum.
   - Availability of credit is given preference over the cost of credit by the borrowers.

- Demand for micro-credit is very high and a wide gap of demand-supply is observed specially in the rural areas. It was also observed that unhealthy competition amongst the MFIs was leading to multiple borrowing. Suitable legal provisions are needed for enabling the MFIs, especially the small ones, to work for the poor.

9. *"Microfinance and Socio-economic Change: An Assessment of Meghalaya"* by Benjamin F. Lyngdoh

Microfinance has had a positive impact on income, expenditure and savings of the clients in Meghalaya. This has led to an improvement in access to productive assets and a greater say in household economic decisions by women SHG members. Economic empowerment has brought about social empowerment also to an extent for these members. It is felt that appropriate policies and action plans are required so as to ensure gender mainstreaming. Profitable products design, vast delivery systems, value added services, marketing services and group dynamics are important areas of microfinance and appropriate strategies are to be formulated so as to ensure synergetic operations and outcomes from microfinance.

10. *"Microfinance in the NER: Assam's case study of Rural Transformation and Socio-economic Development through Skill Enhancement and Empowering Education"* by Asmin Nath Hussain

- The study took the clue from the observations made on the basis of a Case Study of 370 educated unemployed youths of the state, coming under Government of Assam's pilot project on Employment Generation Scheme (EGM), and has made some suggestions on further course of action required to replicate the programme in the other parts of the region.
- In order to establish a linkage between academic, social, and economic activities, it is inevitable that innovative, interdisciplinary courses are designed and taught — maintaining a balance between (a) theory and hands-on skill, (b) value-based education and business management, and (c) social obligations and profit making. If the high-end research work in the field of Biotechnology could be linked with formation of Agri-clinics, Agri-business-hubs, and other field level activities, the gap between education and unemployment, or school dropouts may be minimised. This would ensure a holistic growth of the society through a self-sustaining cycle of Education — Entrepreneurship Development — Socio-economic Growth, by which the rural youth would get all the necessary ingredients for an overall development of his/her personality through integration of body, mind and soul.

11. *"Microfinance - A key to Successful Financial Inclusion"* by G. Mahesh Sharma

    The paper is based on a Study on Traditional informal, Groups in Manipur. The study suggests that the traditional/ informal form of financing should penetrate to the rural north east. The Marup way can also be used in formal Microfinance through NGOs. The paper observed that in the absence of banks, agricultural loan are provided by NGOs in Manipur. The Marups could be explored for linking with formal financial institutions.

12. *"The Impact of MF Accessibility through Group Initiative to Rural Women in Manipur – A Case Study"* by Dr K I Meetei

    The study examined the development pattern of the NCUI-Women Cooperative Education Project, Imphal East and found that the agency has delivered essential services of microfinance to needy rural women (7,470 through 526 SHGs) during the last 10 years. The average monthly income earning capacity of these women members has increased from Rs 2,414 to Rs 3,346. It was observed that the saving capacity and effective productivity of SHG-members has ensured better economic life for them. It was felt that the NE region faces two kinds of challenges - product challenge and market/technical skill challenge which have to be addressed.

Conclusions and Recommendations

The following conclusions and recommendations emanated from the Seminar:

- The principles and practices of Marups may be researched further.
- Ways and means to enlarge the scope of microfinance initiatives for the benefit of the region in particular may be studied further. Role of traditional institutions providing microfinance in the area may be documented and state specific strategies drawn up.
- Encouraging formation of more producer group companies on SHG pattern and principles.
- Continuous thrust on capacity building programmes to be given by NABARD.
- Sanction of more SHPIs and MEDPs in the region by NABARD.
- Evaluation of Post Office Microfinance Programme of NABARD and extending it further in the North Eastern Region.
- Granting of more licences by RBI for opening branches by banks especially in Nagaland.
- Incentives for development of new microfinance products should be thought of.

Annexure-I

Seminar on Microfinance in North East Region
28 - 29 January 2011

Day I (28 January 2011)

08.30 hrs -09.00 hrs	Registration & Introduction
Inaugural Session	
09.00 hrs – 09.15 hrs	*Welcome Address by* Shri C.C. Mitra, Director, IIBM, Guwahati
09.15 hrs – 09.30 hrs	*Address by* Shri A.K. Srivastava, CGM, NABARD, Assam RO
09.30 hrs – 10.00 hrs	*Inaugural Address by Guest of Honour* Dr. A.K. Bandyopadhyay, ED, NABARD
10.00 hrs - 10.40 hrs	*Key-note address by* Chief Guest: Dr. Jayanta Madhab
10.40 hrs - 10.45 hrs	*Vote of Thanks by* Shri R.K Das, Joint Director, BIRD
10.45 hrs - 11.00hrs	Tea Break

Technical Session - I

Chairman of the Session: Dr. A.K. Bandyopadhyay, ED NABARD.
Panelists: Shri Falguni Rajkumar, IAS(Retd), Ex-Secretary, NEC;
Shri A. K. Srivastava, CGM, NABARD.

11.00 hrs – 11.20 hrs	*Paper-1:*	Microfinance in North East Region: Status & Issues by Dr. Gyanendra Mani, Faculty Member, BIRD.
11.20 hrs – 11.45hrs	*Paper-2:*	Relevance of Marups in Manipur: Issues and Challenges by Dr. N. Mohendro Singh, Former Member, Steering Committee, NER Vision-2020, DoNER GOI, Imphal; Shri A Karna Singh and Ms. Th. Ibetombi Chanu 'The People for Social Development', Manipur
11.45 hrs – 12.10 hrs	*Paper-3:*	Traditional Mechanism of Financial Services in Lower Assam by Prof Abhijit Sharma, IIBM, Guwahati
12.10 hrs – 12.35 hrs	Paper-4:	Traditional Microfinance Institutions on North East Region with Special Reference to Manipur State by Dr. Kh. Somorendro Singh, Principal, Institute of Coop Management, Imphal
12.35 hrs – 12.50 hrs	Summing up by the Chairman of the Session	
12.50 hrs -13.45 hrs	LUNCH BREAK	

Technical Session -II

Chairman of the Session: Prof N. Mohendro Singh, Former Member, Steering Committee, NER Vision-2020, DoNER, GoI, Imphal, Manipur
Panelists: Shri C.C. Mitra, Director, IIBM; Dr. Amiya Sharma, ED, RGVN

13.45 hrs - 14.10 hrs	Paper-5: Status and performance of Self-Help Groups in Assam: Evidences from Field Study by Ms. Dimpi Chakravorty, Dibrugarh University.
14.10 hrs – 14.35 hrs	Paper-6: Self Help Group and Micro-enterprise Development towards Savings Habits with special reference to Manipur by Dr. Dilan Singh, Institute of Coop Management, Imphal.
14.35 hrs – 15.00 hrs	Paper-7: SHG-Bank linkage Programme & Rural Credit: An Impact Assessment by Ms. Sakiya Khan and Ms. Anamika Deka, Gauhati University.
15.00 hrs – 15.25 hrs	Paper-8: Microfinance in Assam: An Overview by Dr. Debabrata Das and Ms. Pinky Dutta, Tezpur University.
15.25 hrs – 15.40 hrs	Summing up by the Chairman of the Session.
15.40 hrs – 16.00 hrs	Tea Break

Technical Session -III

Chairman of the Session: Dr. S.L. Kumbhare, CGM, MCID
Panelists: Shri Dilip Sarma, CHD; Dr. P. C. Sekligar, Faculty Member, NIRD, NERC.

16.00 hrs – 16.25 hrs	Paper-9: Microfinance and Socio-economic Change: An Assessment of women clients of Meghalaya by Dr. Benjamin F. Lyngdoh & Shri A.P. Pati, North-Eastern Hill University, Shillong, Meghalaya.
16.25 hrs – 16.50 hrs	Paper-10: Micro-finance in the NER: Assam's Case Study of Rural Transformation and Socio-economic Development through Skill Enhancement and Empowering Education by Ms. Asmin Nahar Hussain and Shri Subhra Jyoti Bharali, ASOMI.
16.50 hrs – 17.15 hrs	Paper-11: Micro-Finance – A Key to Successful Financial Inclusion by Shri G. Mahesh Sharma, Dr. Mitrani Foundation, Imphal, Manipur.
17.15 hrs – 17.40 hrs	Paper-12: The Impact of MF Accessibility through Group Initiatives to Rural Women in Manipur – A Case Study by Dr. K.I. Meetei, Faculty Member, VAMNICOM, Pune.
17.40 hrs - 18.00 hrs	Summing up by the Chairman of the Session.

<table>
<tr><td colspan="2" align="center">DAY-2 (29 January 2011)</td></tr>
<tr><td colspan="2"> Technical Session –IV Chairman of the Session: Dr. A.K. Bandyopadhyay, ED, NABARD
Panelists: Dr. S.L. Kumbhare, CGM, MCID, HO, NABARD;
Prof N. Mohendro Singh, Former Member, Steering Committee, NER Vision-2020, DoNER, GoI, Imphal, Manipur.</td></tr>
<tr><td>09.00 hrs – 13.00 hrs
(Each RO 30 mts)</td><td>- Presentation by Regional Offices of North East (30 mts each) on ‘Strategic Discussion of Future Action Plan for Upscaling Microfinance activities in North Eastern Region’
- Present Status of the Microfinance Sector in Terms of Spread, Volume and Reach
- Various Initiatives taken so far
- Perspective Plan for the Sector
- Support Anticipated from the Various Stake-holders to Realise the Perspective Plan.</td></tr>
<tr><td>13.00 hrs - 13.30 hrs</td><td>Summing up by the Chairman of the Session</td></tr>
<tr><td>13.30 hrs - 13.45 hrs</td><td>Vote of Thanks by S Krishnan, AGM,
Centre for Microfinance Research (CMR), BIRD</td></tr>
<tr><td>13.45 hrs - 14.30 hrs</td><td align="center">LUNCH</td></tr>
</table>

Studies Conducted by Centre for Microfinance Research (CMR), BIRD, during the Last Two Years

The Centre for Microfinance Research (CMR) has been set up within Bankers Institute of Rural Development (BIRD) to take up research activities in the field of microfinance for facilitating policy initiatives and improvements in design and delivery system of microfinance services. Its vision and mission is to emerge as a centre of reference for information, knowledge and valued opinion related to the microfinance sector, strengthen the microfinance sector through supply of researched inputs that facilitate policy initiatives and improvement in design and delivery systems that provide poor with sustainable access to quality financial services. The CMR has brought out nine study reports conducted by the CMR Main Centre at BIRD and it's four sub-centres established at Indian Institute of Bank Management, Guwahati; Centre for Microfinance Institute of Financial Management and Research, Chennai; Institute of Development Studies, Jaipur and Chandragupt Institute of Management, Patna. The findings of these nine studies in brief are presented below.

1. Microfinance Outreach: Comparing Bank and mFI (Bandhan) in Cooch Behar District

(Study done by Main Centre)

Objectives of the Study:

A Comparative study on the performance of the operation of mFI Bandhan and SBLP through UBKGB.

Study Area:

Cooch Behar District in West Bengal.

Findings of the Study:

- Poor delivery process of SBLP as against the sound delivery process of Bandhan.
- Due to better access to Bandhan, customers are not reluctant to pay even higher rate of interest.
- Bandhan takes the job of microfinancing more seriously, whereas bankers view it as a social responsibility.

Suggestions:

- Bankers should view microfinance as a business model.
- Bankers should adopt low cost credit delivery models by opening satellite microfinance branches.
- Bankers should do more to win the faith of the poor.

Central Message of the Report:

- Microfinance delivery process needs to be viewed as a business proposition by banks in addition to social responsibility.

2. Study on SHG Federations - Challenges and Opportunities

(Study done by Main Centre)

Objectives of the Study:

- To explore the potentials of SHG federations in making SHGs financially and organisationally sustainable and to recommend strategies to strengthen them.

Study Area:

Rajasthan, Andhra Pradesh, Maharashtra, Orissa and Uttar Pradesh.

F***indings of the Study:***

- SHG Federations are engaged in socially meaningful tasks.
- They are essentially serving the vulnerable by meeting their credit needs.
- They are facing fund constraints.
- There are regions, where bankers are still reluctant to finance SHGs, by which SBLP is not able to make the desired head-way.

Suggestions:

- A study may be conducted to estimate average amount of bank loan per SHG in all the districts.
- If average amount of bank loan per SHG in any district is found to be deficient of 25% of the national average, NABARD may enable bulk lending to NGOs to finance these SHGs.

- Fee based services should be undertaken by the SHG federations for the non-financial services rendered by them.
- SHG federations should be encouraged to work as BC/BF for banks.
- NABARD should continue to promote capacity building activities for SHG federations.

Central Message of the Report:

- SHGs need to be federated for their sustainability.

3. Micro-Insurance in India: Outreach and Efficacy

(Study done by Main Centre)

Objectives of the Study:

To know :

- What are the major risks/shocks, poor and low income groups mostly confronted with?
- What is the understanding and practice of formal insurance among micro-credit clients?
- How risks and risk management behaviour are different across groups?
- What are the nature and benefits of existing micro-insurance products in the study area?

Study Area:

Orissa and Tamil Nadu.

Findings of the Study:

- MFI as distribution channel of micro-insurance is found to be effective in reducing administrative costs.
- Micro-credit linked insurance business is one of the key drivers for microfinance business.
- Involvement of local community based organisations could be useful for better outcome of micro-insurance coverage.
- Client feedback is required for product design and customisation.
- Better incentive for intermediaries and training to the field staff are required.

Central Message of the Report:

- Micro-credit linked insurance is one of the key drivers for microfinance business

4. Microfinance for Housing in India

(Study done by Main Centre)

Objectives of the Study:

- To examine the overall demand and priority of housing and current housing finance arrangement for low income groups.
- To estimate the potential for housing microfinance market in rural areas.
- To examine the non-MFH borrowing by the poor and its implications.
- To assess the performance of different MFH programmes and the possibilities of upscaling them.

Study Area:

Kerala and Karnataka (Programmes Covered: Bhavanshree in Kerala; Sanghamitra Rural Financing Services in Karnataka).

Findings of the Study:

- On operational and fund management ground, Intermediary Model of MFH holds good.
- Dearth in information on nature of housing demand makes it difficult to tailor housing loans.
- Inclusive beneficiary selection process, regular monitoring and supervision for MFH loans are more effective than overcautious approach followed by the lending institutions.

Suggestions:

- Suitable housing measure index as one developed by Cashpor for poverty can be used.
- Designing different MFH product lines for different lending institutions in order to meet bigger and diverse credit needs for housing.
- On the basis of occupation, income and household asset holding, realistic and flexible approach for loan repayment is required.
- For up-scaling of MFH, special package that includes providing subsidised

funds, technical support, alternate fund raising and inclusion of some moderate income clients are important.

- Suitable housing plan and low cost housing technology must be a part of the MFH programme.

Central Message of the Report:

- Suitable housing plan and low cost housing technology must be a part of the MFH programme

5. Equity Investment in Indian mFIs: A Guide for Practitioners

(Study done by IFMR, Chennai sub centre)

Objectives of the Study:

- Documentation and Analysis of the recent rise in private equity inflows into Indian microfinance.

Findings of the Study:

- The flow of private equity funds into Indian MFIs has increased dramatically over the past three years.
- It is driven by big ticket investments made by mainstream private equity funds.
- Private equity investment in MFIs will continue to increase in the years to come.
- Report provides tips for raising equity to the MFIs seeking it for the first time.

Central Message of the Report:

- Portfolio buy-outs and securitisation are the potential sources for financing to MFIs.

6. Access to Finance in Andhra Pradesh

(Study by CMF-IFMR sub centre)

Objectives of the Study:

- Detailed survey of access to finance in rural areas of Andhra Pradesh, the state in which microfinance has achieved great penetration.
- To describe the history of microfinance in Andhra Pradesh.
- To understand the current landscape providers of microfinance in Andhra Pradesh

Study Area:

Coastal districts of Andhra Pradesh.

Findings of the Study:

- Proportion of rural households with a savings account is as high as 78.6% in Andhra Pradesh.
- Except around 14% of the accounts, rest are opened by the people to avail benefits from goverment and loans from banks.
- Around 41% of the accounts are dormant.
- More than 90% of the rural households have loan outstanding as against the previous estimate of 33.2%, made by All India Debt and Investment Survey in 2003.
- However, only a small share of rural households (11%) had a loan outstanding to MFIs.
- Around 72 % of rural households had a member who belonged to some SHG.
- Multiple borrowing is very common. An estimated 83.7% of the households had more than one loan outstanding.

Suggestions:

- The results of the Report suggest that government initiatives as well as the burgeoning microfinance sector have enormous impact on financial inclusion of rural people in Andhra Pradesh.
- More effort is required to understand the changing financial inclusion of other states in the country.

Central Message of the Report:

- Government initiatives in the microfinance sector have enormous impact on financial inclusion of rural people.

7. Cost Structure and Other Complexities in Scaling up of Operations of Small Microfinance Institutions in Bihar

(Study by Chandragupt Institute of Management, Patna sub centre)

Objectives of the Study:

- To ascertain the cost structure of small MFIs in Bihar.

- To understand the complexities associated with the scaling up of operations of small MFIs in Bihar.

Study Area:

Bihar State.

Suggestions:

- There is a need to make interest rate transparent by charging rate of interest on reducing balance. Any upfront payment should be included in the interest rate structure itself.
- Repayment of loan should be tagged with accrual of income.
- Transaction costs should be brought down by 4-6 % as it is very high at around 42% of income.
- Risk Costs should be brought down below 1% of WC.
- MFIs should endeavour to maintain capital adequacy ratio at least 10% of RWA.
- Financial sustainability ratio of the organisation should be more than 100% (TI to TE).

Central Message of the Report:

- MFIs should endeavour to maintain capital adequacy ratio at least 10% of RWA.
- MFIs should develop Leadership to meet the double bottom-line.

8. Study on Scope for Promoting Micro Enterprises Activities through SHGs in Bihar and Uttar Pradesh

(Study by Chandragupt Institute of Management, Patna sub centre)

Objectives of the Study:

- To examine the scope for promoting micro enterprises in the study area on the basis of identifying the key indicators which lead matured SHGs towards micro enterprises.

Study Area:

Bihar and Uttar Pradesh.

Suggestions:

- SHGs need to be federated and federation should own the responsibility to collect the products from SHGs.
- Federation should act as the liaisoning agency with the various market players for better sales of SHG products.
- Quality Control, Branding, Pricing and Packaging strategies need to be considered for better marketing of the products.
- Large scale production of single product needs to be attempted.
- Value Chain to be considered.
- Common servicing centre for packaging and use of latest technology in packaging need to be introduced.

Central Message of the Report:

- Micro enterprise development is conditional upon technology use, cost cutting and competitive pricing.

9. Rural Households and Cash Flows

(Study by Institute of Development Studies, Jaipur sub centre)

Objectives of the Study:

- Find out the pattern of income diversification and expenditure flows in rural areas

Study Area:

Himachal Pradesh, Punjab, Haryana, Rajasthan and Madhya Pradesh.

Findings of the Study:

- Lack of income diversification is still predominant in rural areas.
- Loans for housing, health and education are the emerging demands in the study area.
- Non-farm activity is not sufficient in rural areas.

Suggestions:

- Skill development and credit availability can lead to income diversification.

- Specific microfinance products should be designed for housing, health and education
- The borrowers' entire household income should be considered for judging his credit worthiness.

Central Message of the Report:

- Loans for housing, health and education are the emerging demands in rural areas.

* * *

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