

A Study on Micro Finance with Special Reference to Assam

Dr. Dilip Ch. Das

Associate Professor, Department of Commerce
Goreswar College, Goreswar (BTAD) Baksa, Assam, Pin- 781366

Abstract

In a country like India where 70 percent of its population lives in rural area and 60 percent depend on agriculture (according to the World Bank reports), micro-finance can play a vital role in providing financial services to the poor and low-income individuals. Micro-finance is regarded as a useful tool for socio-economic up-liftman in a developing country like India. It is expected to play a significant role in poverty alleviation and development. The emphasis of present paper is to study the performance and role of microfinance institutions in the development of India. The study revealed that the number of MFIs availing loans from banks during the year 2015-16 and 2016-17 increased from 9.8 per cent to 257.6 per cent. The total loans to MFIs by banks decreased during 2016-17 by 7.2 per cent over the previous year. The loan outstanding against MFIs increased all the subsequent years. It increased by 13.7 per cent and 14.3 per cent in 2015-16 and 2016-17. It is further found that the business models of MFIs in India are becoming urban centric as is indicated by the fact that the share of rural client's base of different states/UTs in 2017 with 2016 has declined, except Assam, Arunachal Pradesh, Nagaland, Jammu & Kashmir and Andaman. The highest increase was in Andaman (267%) followed by Jammu & Kashmir (17 %). The proportion of income generation loan remained same during year 2015 and it increased up to 94 per cent in the year 2017. The indicators relating to overall financial structure such as Return on assets and Return on equity, capital adequacy ratio have increased over this period and found sharp decline in total assets of MFI's.

Keywords: Microfinance, MFI's, Growth of Microfinance, Poverty



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"The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development. The ladder of development hovers overhead, and the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung. "

Jeffrey Sachs, American economist

Introduction

The concept of microfinance refers to provision of financial services to the poor through credits & deposits. The microfinance in India is gaining momentum for sustainable development. Microfinance is taken as an important tool for poverty alleviation & livelihood for the poor. It is also taken as a method for financial inclusion to improve sustainable development in the country. The innovation brought by Dr. Mohammad

Yunus at Bangladesh which is currently existing as Grameen Model as created awareness to many countries & especially in India to make it as a way of eradicating poverty. The microfinance sector is currently undergoing into huge innovations & claiming to be an emerging sector especially creeping into the concept of financial inclusion.

Objectives of the study

- To know the Concept of Micro finance India
- To study the role of Micro finance In India
- To study the Models of Micro Finance in India

Research Methodology:

This is a Conceptual Study based on the Secondary data source. The Secondary data is used to high light the conceptual analysis & review of literature. The sources of secondary data for the study are the reports of the Role of Microfinance in India. In addition to those books articles, journals.

MICRO – FINANCE IN INDIA

In early 1980"s, the existing banking policies, procedures & systems were not suited to meet the requirements of poor. For borrowings poor people usually resort to unorganized sector. NABARD recommended that alternative policies, systems & procedures should be put in use to save the poor from the clutches of moneylenders. Thus microfinance was introduced in banking sector. Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers & insurance to the poor & low income households & their micro-enterprises. Microfinance is defined as "Financial Services (savings, insurance, fund, credit etc.) provided to poor & low income clients so as to help them raise their income, thereby improving their standard of living". Micro-financing is regarded as a tool for socio-economic upliftment in a developing country like India. It is expected to play a significant role in poverty alleviation & development. Mohammed Yunus was awarded the Noble Prize for application of the concept of microfinance, with setting up of the Grameen Bank in Bangladesh. Micro credit & microfinance are different. Micro credit is a small amount of money, given as a loan by a bank or any legally registered institution, whereas, Microfinance includes multiple services such as loans, savings, insurance, transfer services, micro credit loans etc.

MICRO – FINANCE IN ASSAM

In Assam, there were 14 lakhs micro finance borrowers and 38 micro finance institutions in the state there is huge demand for micro loan. In Assam micro finance is operating under two broad model that is SBLP Model and MFI model. The SBLP is a national micro finance model of India which is under the supervision of NABARD. The MFI model is a new model in Assam as well as India under this model finance is provided by a micro finance organization's.

FEATURES OF MICROFINANCE

- It is an essential part of rural finance.
- It deals in small loans.
- It basically caters to the poor households.
- is one of the most effective & warranted Poverty Alleviation Strategies.
- It supports women participation in electronic activity.
- It provides an incentive to grab the self-employment opportunities.

- It is more service-oriented & less profit oriented.
- It is meant to assist small entrepreneur & producers.

Micro finance helps in women's empowerment

Micro finance in women's empowerment includes – Economic empowerment, social empowerment education, skill and training empowerment. Micro finance in economic empowerment roles included Enhances the women contribution to the household's income as a result of credit access helps in employment generation helps in understanding the bank transactions improves women access. Micro finance in social empowerment roles include micro finance helps women to gain confidence helps to gain respect in household decision making improves the ability of women to freely interact with the other members of the group and outside. Micro finance in education, skill and training empowerment roles include micro finance improves the literacy level of the family members creates awareness about children education. Helps in gaining knowledge on maintain records of financial transactions. Micro finance has been proved to be an important tool in the development process empowering the rural poor women educationally, socio economically and politically. Impact of micro finance is appreciated in bringing confidence, courage, skill development and empowerment among rural poor women's.

Geography and Demography of Assam

Assam the gateway of North East India is geographically N and 27°15' N and 92°58'10" bounded by latitudes 24°08' E (Baruah and 92°14' E and 96°01'05" longitudes 89°04'2" Choudhury, 1999). Two foreign countries and seven Indian states bound the state. Bhutan and Arunachal Pradesh are in the north of the state. To the east, there are Arunachal Pradesh, Nagaland and Manipur. Mizoram and Meghalaya skirt the southern boundary and to the west, there lie West Bengal, Bangladesh and Tripura. The state shares 632 kilometer of international boundary with Bangladesh (57.44) and Bhutan (42.56 per cent). It also shares 2275.3 kilometers of its national boundaries with West Bengal (5.6 per cent), Meghalaya (31.8 per cent), Nagaland (19.1 per cent), Manipur (6.9 per cent), Arunachal Pradesh (30.9 per cent) and Mizoram (5.7 per cent). Geographically, Assam is divided into two parts- the plains and the hills. For administrative purposes the plains of the state is divided into 25 districts and the hill areas into 2 districts. Moreover, topographically Assam is divided into two major units, viz. the Brahmaputra Plain and the Barak Plain. Karbi Plateaus and North Cachar Hills separate the two plains (Baruah and Choudhury, 1999). The Brahmaputra valley is spread over an area of 56339 sq. kms and is largely an alluvial plain with a length of about 772.45 km and an average width of 80.47 km. The Bhutan and Arunachal bound it on the north, on the east by the hills of Patkai and its branches lying in Arunachal and on the south by the hills of Nagaland and the plateaus of Karbi and Meghalaya. The valley has 22 administrative districts, which comprises about 72 per cent of the total geographical area of the state and shelters about 86 per cent of total population of the state. Barak plain is surrounded by the North Cachar hills in the north, in the east by Manipur hills and in the south by Mizoram hills. It is open only to the west. The plain is about 70 km wide on the average from the north to the south. The region is relatively small, which has only three districts and accounting for only about 8.8 per cent of the total area of the state and shelters about 7.5 per cent of total population of the state. The shape of Karbi plateau is oval and highly dissected along its margins. The plateau gives out many streams to the surrounding lowlands of Golaghat and Nagaon districts and there are terraces at places where these rivers emerge to the plain. The North Cachar Hills generally have North East-South West alignment and lie between the Karbi plateau in the north and Barak plain in the south. It is in this district that the highest hill range of Assam, i.e. Barail Range lies. It extends from the south eastern boundary of the Meghalaya Plateau and run across the North Cachar Hills district and Nagaland in the East-North-East direction and ultimately joins Patkai Range in the Indo-Myanmar border. Both the region Assam shares 2.38 per cent of total geographical area of India and shelters to 2.57 per cent of

total population of India as per Census of India 2011. According to 2011 census, the provisional total population for the state is 31169272 with a marginally better sex ratio of 954 than national average (940). The population of the state in 2011 was 26,638,407. Thus it has recorded a decadal variation of about 16.93 per cents. The density of the state has also remained very high for quite a few decades. According to the provisional population figures of 2011 census, the density of the state is 398 persons per square km as compared to 382 sq. km for the whole of India. In 2001, the density for India was found to be 312 per sq. km while that for Assam was at a higher level at 340 per sq. km. While 68.84 per cents of total households are populated in rural areas in India, it is quite higher at 85.9 per cents for Assam. Therefore, it is indicative that the economy of Assam purely based on rural population hub. In addition, literacy ratio is also less in Assam (72.2 per cent) in comparison to all India level of 73 per cents. It is interesting to note that workforce participation rate in the state is lower (38.4 per cent) than national level (39.8 per cent). Male workforce in the state is much higher (53.6 per cent) as compared to female work force (22.5 per cents). Among the total workforce, main workforce allocates 72.6 per cents while marginal workers constitute only 27.4 per cents. It is noteworthy that while out of total workforce only 30 per cents are involved in agriculture and allied activity in India, constitutes about 19.2 per cent of the total area of the state along with 6.5 per cent of the state population in two administrative districts (popularly known as Hills Area Districts).

Demand for Microfinance in the State

Microfinance services are demanded by household, micro enterprises of both formal and informal sector. While household demand for microfinance arises due to consumption smoothening and to cope up other inadvertent situations; microfinance demand is also urged as fresh investment for livelihood in the form of small and micro enterprises at individual level. Despite the potential role as assumed to be played in the economy of Assam, there is hardly any official estimation on demand and supply of microfinance sector. Based on the methodology an estimation of microfinance demand in Assam and India is made, which is shown in Table 1. The estimation indicates that the demand for microfinance in Assam ranges from INR 2292 Crore to INR 38018.6 Crore with an average demand of INR 8824.2 crore. On the other hand, the demand for microfinance for India ranges from INR 70936 crore to INR 1176651 crore with an average demand of INR 273104 crore. The estimated demand for Assam shares in the range of 2.6 to 43.2 per cent of NSDP and 1.2 to 20.1 per cent of GDP of India.

Supply of Microfinance in Assam

In Assam, microfinance is operating under two broad models, e.g., SBLP model and MFI model. SBLP is a national microfinance model of India, which is under the supervision of NABARD. The model was initiated in 1992 by NABARD and since then it encompasses vast outreach in terms of client outreach and credit outstanding in all regions of the country. Although SHG approach is quite older practiced non-formal version of microfinance in India, the new version of the microfinance approach by rural financial institutions assumed the form of the SBLP. While, in this model a number of commercial banks and government agencies advances credit, the route of delivery is channelized in various forms as such three widely practiced models exist in India. This model has worldwide attraction as a possible way of delivery microfinance services to poor that have been difficult to reach directly through banks or other financial institutions. Under the SHG-bank linkage program, NGOs and banks interact with the poor, especially women, to form small homogenous groups not exceeding 20 members. These small groups are encouraged to meet frequently and collect small thrift amounts from their members and are taught simple accounting methods to enable them to maintain their accounts. This is the first step in establishing links with the formal banking system. Groups then, meet often and use the pooled thrift to impart small loans to members for meeting their small emergent needs. Gradually the pooled savings grow and soon they are ready to receive external funds from the rural commercial banks. By

aggregating their individual savings into a single deposit, self-help groups minimize the bank's transaction costs and generate an attractive volume of deposits. MFI model on the other hand is a newer model in Assam as well as India. Under this model, finance is provided by a microfinance organization. Microfinance organization also forms SHG not exceeding 20 members in the group and Joint Liability Group (JLG) of 3 to 5 members. The creation and formation of such groups are under the discretion of respective branch managers of the MFIs. These MFIs are registered under Societies Registration Act 1860, Section 25 Company and Non-Banking Financial Corporation Act. In Assam, Bosco Reach Out was the first of its kind, which supports SHGs for better livelihoods. In subsequent period another five more prominent professional MFIs were emerged, out of which RGVN (NE) and ASOMI and Bandhan have considerable depth and breadth of outreach. The present analysis is based on the database of MiX Market and Bharat Microfinance Quick Data 2010 from where 7 MFIs from Assam and 439 MFIs from India are considered for estimating supply of microfinance. A recent microfinance supply scenario is portrayed in Table 3, where it is apparent that microfinance supply in terms of total loan outstanding for the concerned period stands at INR 346.2 billion, which is 0.70 per cent of GDP of India. Further, the share of microfinance supply of Assam is the least as compared to all other regions of the country, while southern region captures a lions' share of total microfinance supply of India. The share of microfinance supply under MFI model in southern region is 71.36 per cents. The supply of microfinance is catered by SBLP model, which shares commendably large portion of total microfinance supply in both Assam and India. However, the share of loan outstanding to total loan outstanding of microfinance under MFI modeling Assam is comparatively higher than central and western regions. It is estimated that the supply of microfinance under MFI model is still lower as compared to SBLP model in Indian states as well as Assam. Since microfinance under MFI model is a nascent delivery mechanism and the issues of equity funding and securitization emerged as coveted mechanism, therefore, it seems the model could penetrate to the considerable depth of outreach in India and which results in better supply of microfinance via this model. Instantaneously, in Assam there are a few professional MFIs and institution like ASOMI able to receive foreign investment. Similarly, premier MFI like SKS in India shows the way of receiving equity capital from open market.

Conclusion

The above estimation and discussion indicates that except Northern and Western region of India, all other regions have demonstrated increasing growth of microfinance demand. Assam and NER also shows an increasing growth, which is greater than the national growth rate. The demand from microfinance will increase even more since most of the MFIs in India considers person above the poverty line as its client. However, the supply of microfinance is still inadequate and it is highly deficient if the size of loan is higher. The nascent microfinance market like Assam and NER are considerably deficient in terms of microfinance supply. Although in recent times, a number of MFIs have been joined the operation, it is quite insufficient to meet the burgeoning demand. Increasing rural bank branches and opening the avenues of public-private partnership in the sector may temporarily meet some demand. Moreover, in the absence of concrete microfinance regulation, it is quite challenging to attract big MFIs, which may increase supply of microfinance significantly. Therefore, it seems that government should make some sort of credible arrangements to helps microfinance sector and for smoother operation. Such type of initiative may attract foreign investment and thus it will become incentive for larger players. On the whole, although mismatch remains as a future challenge, it may be reduced considerably if formal banking system and microfinance becomes complementary of each other.

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