CHAPTER - 2

CONCEPTUAL REVIEW OF MICROFINANCE

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Chapter-2
Conceptual Review of Microfinance

2.1. Introduction

This chapter briefs about microfinance sector based on a review of related literatures relevant to the study. It talks about the brief historical background of microfinance, the definition of microfinance, the various credit delivery models in India, overall progress of microfinance in India and North East, growth of MFIs in India and impact assessment methodologies for microfinance.

2.2. Historical Background of Microfinance

The concept of micro finance is not new. Informal credit and saving institutions for the poor have been around for decades, providing customers who were traditionally neglected by commercial banks. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world.\footnote{Mohan, C.P.(2005), “Microfinance & India’s RRBs: The Best Fit”, Cab Calling, Jan-Mar, p26.} Formal credit and savings institutions for the poor have also been around
for decades, providing customers who were traditionally neglected by commercial banks to obtain financial services through cooperatives and development finance institutions. These informal groups are also known as Rotating Savings and Credit Association (ROSCAs) which consist of a group of men and/or women who contribute to a collective fund and decide either by auction or collective decision, to extend collected money to one of the group members. The other type of informal group is known as saving and credit co-operatives (SACCOs).

One of the earlier and longer-lived micro credit organizations providing small loans to rural poor for short period of 20 weeks with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift to assist the “industrious poor” who could not obtain credit elsewhere, and to smooth consumption among the poor. The origin of micro-finance could be traced back to the beginning of the co-operative movement in Germany started in 1944 in the field of co-operative-based credit system by the “Raiffeisen Societies” as well as “Rochdale Pioneers” in England. Similarly, the enactment of the Cooperative Credit Societies Act, 1904 could be considered as the beginning of micro-finance in India.
The emergence of ‘micro-enterprise lending’ programmes was seen in the late 1970s and 1980s with almost exclusive focus on credit for income generating activities and targeting very poor mostly women borrowers. The early focus of most micro enterprise lending programmes concentrated on proving that the poor were creditworthy.

Professor Muhammad Yunus, head of Rural Economics Program at the University of Chittagong, Bangladesh launched an action research project known as ‘Grameen Bank’ at Jobra village adjacent to Chittagong University to examine the possibility of designing a credit delivery system to provide banking services to the rural poor in 1976 which was then considered to be the origin of institutionalized or modern microfinance. He established that poor are not only bankable but also profitable business. Later, the project started in 1976 was formally recognized as a bank through an ordinance issued by the Government in 1983 which largely focused on credit to poor especially to women, with saving mobilization as means to promote discipline and a method to ensure repayment. The Grameen Bank of Bangladesh is often referred to as the “flagship” of the new micro-enterprise lending movement. In 1980s, the Bank’s founder, Dr. Mohammed Yunus of Bangladesh, referred to “credit as a human right.”
Micro-credit programs throughout the world have improved upon their original methodologies and defied the conventional wisdom about financing the poor by firstly showing that poor people, especially women, had excellent repayment rates among the better programs, rates that were better than the formal financial sectors of most developing countries. Secondly, poor were willing and able to pay interest rates that allowed microfinance institutions (MFIs) to cover their costs.

The provision of credit to the poor had re-emerged by the late 1980s as probably the most popular and widely acclaimed of all development initiatives. The term micro-enterprise lending began to be replaced in the mid 1990s by a new term known as micro enterprise finance or “Microfinance” that includes not only credit, but also a range of financial services to the poor such as savings, insurance and occasionally pawning, or leasing. Thus modern microfinance became the most popular terminology for providing financial services to poor. It has also been recognized as one of the most effective tools for poverty alleviation. Professor Muhammad Yunus and the Grameen Bank were awarded Nobel Peace Prize in 2006 for his big contribution for poverty alleviation through his new innovative microfinance.
2.3. Microfinance: Definition

Microfinance refers to the provision of credit and other financial services to the poor and low-income people. More broadly, microfinance refers to a movement that envisions a world in which low-income households have permanent access to a range of high quality and affordable financial services such as savings, credit, insurance, remittances, and payments, and others.

It was in 1999 that the task force on micro finance set up by National Bank for Agriculture and Rural Development (NABARD) came up with a definition which has become the definitive one.

“Micro Finance is provision of thrift, credit, and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards”,

Microfinance can thus be defined broadly as the provision of a range of financial services to the poor which among others includes skill upgradation, entrepreneurial development, marketing input that would enable them to overcome poverty. Microfinance has immensely helped the poorest

of the poor, especially women groups to generate income for themselves and for their families.

2.4. Self Help Groups (SHGs)

a) Concept of Self Help Groups

The Self Help Groups (SHGs) are usually those informal groups whose members have a common perception of need and importance towards collective action for a common cause such as meeting their emergent economic needs without being dependent on outside help. These groups also promote savings among members and use the pooled resources to meet the emergent needs of their members, including the consumption needs. The number of members in SHGs normally ranges from 10-20 with main objectives such as to inculcate the habit of thrift, saving, banking culture, that is availing the loan and repaying the same over a given period of time and in the process, gain economic prosperity through credit. In short, a SHG is a group of about 10 to 20 people, usually women, from a similar class and region, who come together to form savings and credit organization.
b) **Dynamics of Self Help Group**

Success of microfinance largely depends upon the quality of SHG and the way it functions. Thus, the core element of microfinance programme is the SHG. A common fund is usually created by group members by contributing their small savings on a regular basis and in the process the Group evolves a flexible system of working (sometimes with the help of NGOs) and manages pooled resources in a democratic way. Loan requests by group members are considered by group in periodic meetings and competing claims on limited resources are settled by consensus. Loans are usually given mainly on trust with minimum paper without any security. The loan amounts are small, frequent, and are given for short duration mainly for conventional purposes. The rates of interest vary from group to group and the purpose of loan and where the rate is usually higher than that of banks but lower than that of moneylenders. Besides collecting money, social and economic issues are also discussed in the periodic meetings. The group pressure technique and intimate knowledge of the end use of credit makes default rate very rare.
The main aim of the SHG-Bank Linkage programme being implemented in India since 1992 is to tap the potential of the SHG concept to bring banking services to the doorsteps of poor.  

The important features of the product developed under the SHG-Bank linkage programme in India are as under:

- The members of the groups should be residents of the same area and must have an affinity. Homogeneity of relationship could be in terms of caste/occupation/gender or economic status (which is critical).
- Saving first, credit later. Small fixed savings at a regular interval. It helps in building up financial discipline.
- SHG should hold regular meetings.
- SHGs should maintain record of financial and other transactions.
- They should have norms regarding membership, meeting etc.
- Group leaders should be elected by members and rotated periodically.

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- Transparency in operations of the group and participatory decision making.
- Rates of interest on loans should be decided by the group.
- Group liability and peer pressure to act as substitute for traditional collateral.
- Shorter repayment period and progressive lending.
- The SHG deciding the quantum as also the terms and conditions for loans to members.
- No subsidies and no subsidization of interest.

The meetings of the SHGs advantageously serve as time and place for collection of regular savings and loan installments and also for consideration and sanction of new loans. The attendance in the meeting is made compulsory and any one found absent would be fined. The fine so collected indicates that the “Group” is also able to ensure that it “Will” prevail over the other members. The groups are also encouraged to rotate the office bearers to avoid dominance by one /two persons to ensure free and fair governance.

This approach is found to be very effective in reducing the transaction cost of the both banks and the ultimate users of credit (the clients). In true
sense, it ensures provision of the most essential minimum financial services at door steps.

2.5. Credit Delivery Models of Microfinance

a) SHG- Bank Linkage Model

Groups under this model are formed by different agencies known as Self Help Promoting Institutions (SHPIs) such as NGOs, Voluntary Associations, Government Agencies, Panchayati Raj Institutions, Vikas Volunteer Vahini (VVV), Clubs, Banks, Co-operative Societies, etc.

Model-I: Banks promote SHGs and finance them directly: Under this model, the banks themselves take up the work of forming and nurturing the groups, opening their saving accounts and providing them bank loans. The bank here assumes to play the role of NGOs and ensures linkage with SHGs. Banks give loans directly to individual/SHG members on recommendations of the SHG and the NGO. The NGO assists the bank in monitoring, supervising and recovery of loans.

Model-II: NGOs facilitate the promotion of SHGs and Banks Finance SHGs: Under this model NGOs act as facilitators. The NGO would
organize the poor into SHGs and would under-take training for awareness building, entrepreneurship and skill based and also would help in arranging inputs, extension and marketing, introduce saving and internal lending, help in maintenance of accounts and link them with the banks for credit requirements. Banks would then directly provide loans to SHGs based on the recommendation of the NGOs.

**Model-III: NGOs borrow funds from Banks/FIs and provide services to SHGs/ Clients:** In this model, NGO forms SHGs and performs financial intermediation role as on-lender to SHGs after sourcing loan from Bank. Besides acting as facilitator, the NGO in this case also works as financial intermediary. Here, the loan is advanced to NGOs by the bank for on-lending to the SHGs/Individuals. In this linkage model, NGO would be legally responsible for repayment; and would bear the risk of non-payment. Involvement of NGOs in micro-credit system would have positive impact as they are grass-root agencies and have information about grass-roots borrowers which will prevent adverse selection and to a certain extent ease the recovery problem. The NGOs would at the same time be in a position to help rural poor, particularly women folks in raising them above the poverty line and create rural employment.
b) **Grameen Model**

Under this model, financial assistance is provided to the individual in a group by the formal institution on the strength of group’s assurance. In other words, individual loans are provided on the strength of joint liability/co-obligation. This microfinance model was initiated by Bangladesh Grameen Bank and is being used by some of Micro Finance Institutions (MFIs) in our country namely SHARE microfinance Ltd., Activities for Social Alternatives (ASA), CASHPHOR Financial and Technical Services Ltd. etc. So far, the Indian Banks have not adopted this model perhaps because of its high delivery cost.

The Grameen Model pioneered by Prof. Muhammed Yunus of Grameen Bank is perhaps the most well known, admired and practised model in the world which involves the following elements.

- Homogeneous affinity group of five
- Eight groups form a Centre
- Centre meets every week
- Regular savings by all members
- Loan proposals approved at centre meeting
- Loan disbursed directly to individual members of the group
- All loans repaid in 50 installments.

The popularity and greatness of the Grameen model is its simplicity of design of products and delivery process which is scalable and the model could be replicated widely throughout the world. The focus on the poorest, which is a value attribute of the Grameen model, has also made the model a favorite among the donor community.

c) **Individual Banking Model**

There are two sub models under the individual banking model: one where joint liability groups are formed—thereby providing social collateral to the lending institution, the other being direct lending to individual clients. Both the models are appropriate for larger clients who either carry out enterprises that hire the other poor who want to be self employed. The reason why this works with larger clients is because the transaction size is large enough to justify the transaction costs. In India BASIX offers both individual lending products in addition to group lending. MFIs offering individual loans incur high transaction costs for servicing their borrowers, particularly where they are engaged in farming, since it is difficult to locate a farmer, as compared to a weaver or a shop-keeper in a village.
d) **Hybrid or Mixed Model**

Some MFIs had started with Grameen model but converted to the SHG model at a later stage. They did not however completely do away with the Grameen type lending and smaller groups but are an equal mix of SHG and Grameen model. BASIX for example uses a number of delivery channels and methodologies (including lending to SHGs) to provide financial services.

### 2.6. Microfinance in India

a) **Evolution of Microfinance in India**

The launch of NABARD’s pilot phase of the SHG-Bank linkage program in 1992 can be considered as the landmark development in the history of Microfinance of India. The strategy involved forming small, cohesive and participative groups of the poor, encouraging them to pool their thrift regularly and using the pooled thrift to make small interest bearing loans to members and in the process learning the nuances of financial discipline. Bank credit also becomes available to the Group subsequently to augment its resources for lending to its members. The promotion and SHG bank linkage has been viewed as a part of an overall arrangement for providing
financial services to the poor in a sustainable manner and also as an empowerment process for the SHG members.

The Reserve Bank of India has also recognized it as a part of priority sector lending and normal banking business and thus, it is synonymous with microfinance programme of the country which is also the main contributor towards the Financial Inclusion process in the country.

Microfinance in India has enabled the poor to have a greater access to financial services, particularly credit. Several social development objectives like gender sensitization, empowerment and poverty alleviation has been achieved. Microfinance has enabled the poor to accumulate assets and has contributed towards their security. Microfinance has also had a very significant social impact in the process. The quality of life of the poor has improved significantly in those areas where there are sound microfinance programme.

b) Government’s Roles and Initiatives

NABARD in 1999 formed a task force to bring out the conceptual policy framework encompassing issues in policy, regulation, financing and capacity building for the sustainable growth of microfinance in the country.
Later on in 2002, the Association of Microfinance Institutions in India, Sa-Dhan, represented the sector in the RBI informal group on funding issues and in the same year, Sa-Dhan was a part of the empowered Committee housed aspects of microfinance in India. In 2004, the Viyas Committee on “flow of credit to agriculture” formed by RBI also assessed the role of microfinance and MFI in credit delivery to the poor. This report finds that the number of new SHGs formed has been growing by nearly 20 percent annually. This raises the hope that it should be possible to achieve a compounded annual growth rate of 20 percent over the next five years in improving the outreach of microfinance initiatives, which could allow the microfinance programme to reach almost 75 percent of the total poor households (80 million or eight crore) in the next five years.

In the Union Budget for 2005-06, the Government of India had decided to re-designate the existing MFDF as Micro Finance Development and Equity Fund (MFDEF) and raised its corpus from Rs.100 crore to Rs.200 crore with the similar ratio of contributions. The MFDEF is managed and administered by NABARD. The objective of MFDEF is to facilitate and support the orderly growth of the microfinance sector through diverse modalities for enlarging the flow of financial services to the poor,
particularly for women and vulnerable sections of society consistent with sustainability.

c) Progress of SHG-Bank Linkage Programme

SHG-Bank linkage program has witnessed an exponential growth in terms of progress i.e. total number of SHGs access to bank credit have grown from 32,995 in 1992-1999 to 42,54,000 in 2011-12 covering about 9 crore poor households with the active participation of various banks, voluntary agencies and Govt. agencies under the initiatives and advocacy of NABARD and RBI. Similarly, total bank loans to SHGs have also increased from Rs.571 million in 1992-1999 to Rs. 3,63,400 million in the year 2011-12.26 About 83.80 percent of the SHGs linked were exclusively women SHGs. Various studies revealed on-time repayment of SHG loans to be over 90 per cent.

NABARD has been effective and instrumental in facilitating various activities under microfinance sector and has been encouraging the voluntary agencies, bankers, and socially spirited individuals, other formal and informal entities and also government functionaries to promote and nurture SHGs. One such focus in this direction has been on training and

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capacity building of partners, promotional grant assistance to Self Help Promoting Institutions (SHPIs), Revolving Fund Assistance (RFA) to MFIs, equity/capital support to MFIs to supplement their financial resources and provision of 100 per cent refinance against bank loans provided by various banks for microfinance activities.

### Table 2.1: Physical Progress of SHG-Bank-Cumulative (1992-2012)

<table>
<thead>
<tr>
<th>Upto end March</th>
<th>SHGs financed</th>
<th>Bank Loan (Rs. million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-99</td>
<td>32,995</td>
<td>571</td>
</tr>
<tr>
<td>1999-00</td>
<td>1,14,775</td>
<td>1,930</td>
</tr>
<tr>
<td>2000-01</td>
<td>2,63,825</td>
<td>48,09</td>
</tr>
<tr>
<td>2001-02</td>
<td>4,61,478</td>
<td>10,263</td>
</tr>
<tr>
<td>2002-03</td>
<td>7,17,360</td>
<td>20,487</td>
</tr>
<tr>
<td>2003-04</td>
<td>10,79,091</td>
<td>39,042</td>
</tr>
<tr>
<td>2004-05</td>
<td>16,18,456</td>
<td>68,985</td>
</tr>
<tr>
<td>2005-06</td>
<td>22,38,565</td>
<td>1,13,975</td>
</tr>
<tr>
<td>2006-07</td>
<td>29,24,973</td>
<td>1,23,665</td>
</tr>
<tr>
<td>2007-08</td>
<td>36,25,941</td>
<td>1,69,999</td>
</tr>
<tr>
<td>2008-09</td>
<td>42,24,338</td>
<td>2,26,798</td>
</tr>
<tr>
<td>2009-10</td>
<td>48,51,000</td>
<td>2,80,383</td>
</tr>
<tr>
<td>2010-11</td>
<td>47,87,000</td>
<td>3,12,212</td>
</tr>
<tr>
<td>2011-12</td>
<td>43,54,000</td>
<td>3,63,400</td>
</tr>
</tbody>
</table>

*Source: NABARD, “Status of Microfinance in India 2011-12”*

From the above table 2.1, it has been identified that as on 31st March 2012, total number of 43,54,000 SHGs were having outstanding bank loans of Rs. 3,63,400 million as against 47,87,000 SHGs with bank loans of Rs. 3,12,212 million as on 31 March 2011 with 9.0 per cent decrease in SHGs and growth rate of 16.4 per cent (Bank Loan outstanding with SHGs). The share of SHGs under SGSY was 12,16,000 SHGs (27.9 per cent) with outstanding bank loans of Rs. 8054.83 crore (22.16 per cent) as against
12,86,000 groups (26.86 percent) with outstanding bank loans of Rs. 7829.39 crore (25.08 per cent) as on 31 March 2011.

As on 31 March 2012, a total of 79,60,000 SHGs were having savings bank accounts with the banking sector with outstanding savings of Rs. 6551.41 crore as against 74,62,000 SHGs having savings of Rs. 7016.30 crore as on 31 March 2011, thereby having growth rate of 6.7 per cent and (-6.7) per cent respectively. Thus, more than 8.6 crore poor households were associated with banking agencies under SHG-Bank Linkage Programme.

As on 31 March 2012, the Commercial Banks had the maximum share of SHGs’ savings of 46,18,086 SHGs (58.01 per cent) with savings amount of Rs. 4152.98 crore (63.4 per cent) followed by Regional Rural Banks having savings bank accounts of 21,27,368 SHGs (26.7 per cent) with savings amount of Rs. 1300.14 crore (19.85 per cent) and Cooperative Banks having savings bank accounts of 12,14,895 SHGs (15.3 per cent) with savings amount of Rs. 1098.29 crore (16.76 per cent). The share under SGSY in the total savings was 21,23,020 SHGs with savings of Rs. 1,395.24 crore forming 26.67 per cent of the total SHGs having savings accounts with the banks and 21.30 per cent of total savings amount.\(^\text{27}\)

As has been explained in table 2.1, there has been significant progress in recent years in the spread of SHG-bank linkage and states such as Andhra Pradesh, Tamil Nadu, Karnataka, Uttar Pradesh, Maharashtra and Kerala maintained high growth trends with highest concentration in southern region with 22,80,911 SHGs (54 per cent) followed by eastern region with 9,33,489 SHGs (22 per cent).

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern region</td>
<td>86,018</td>
<td>1,33,097</td>
<td>1,82,018</td>
<td>1,34,783</td>
<td>1,66,511</td>
</tr>
<tr>
<td>North Eastern</td>
<td>34,238</td>
<td>62,517</td>
<td>91,754</td>
<td>1,03,424</td>
<td>1,17,812</td>
</tr>
<tr>
<td>Eastern Region</td>
<td>2,65,628</td>
<td>3,94,351</td>
<td>5,25,881</td>
<td>7,53,048</td>
<td>9,33,489</td>
</tr>
<tr>
<td>Central Region</td>
<td>1,97,365</td>
<td>2,67,915</td>
<td>3,32,729</td>
<td>3,26,763</td>
<td>3,32,116</td>
</tr>
<tr>
<td>Western region</td>
<td>96,266</td>
<td>1,66,254</td>
<td>2,70,447</td>
<td>4,46,550</td>
<td>3,93,499</td>
</tr>
<tr>
<td>Southern Region</td>
<td>9,38,941</td>
<td>12,14,431</td>
<td>15,22,144</td>
<td>18,61,373</td>
<td>22,80,911</td>
</tr>
<tr>
<td>All India</td>
<td>16,18,456</td>
<td>22,38,565</td>
<td>29,24,973</td>
<td>36,25,941</td>
<td>42,24,338</td>
</tr>
</tbody>
</table>

*Source: NABARD website*

It is found that the outreach of microfinance in the country is insufficient, geographically skewed and not formally organized. Geographic wise, 70 percent of the Indian microfinance sector is skewed towards the southern states of Andhra Pradesh, Karnataka, Tamil Nadu and Kerela.

d) **Problems and Issues of SHG-Bank Linkage programme**

Some problems which hinder the progress of SHGs are factors like lack of awareness, lack of commitment, lack of efforts on the part of
implementing agencies, lack of good and viable NGOs, lack of motivation for women in forming SHG, lack of nursing and management, lack of proper training to banks, NGOs and government officials, lack of coordination between bank and block officials, non-delegation of adequate powers to branch managers, weak credit structure of banks and no effective follow up after sanction of loan.  

2.7. Microfinance in North East India

a) Socio-economic profile of North East India

The North East India expands over an area of 2.62 lakh sq.km and accounts for 7.9 per cent of total geographical area of the country. The 45 million people of Northeast India constitute only about 3.7 per cent of the total population of the country (2011 census). The region has about 4500 kms of International Border with Bhutan, China, Tibet, Myanmar and Bangladesh. Most of the land has difficult terrain and mountainous periphery. North Eastern Region as a whole is placed among the poorest regions in the country.

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Fig 2.1: Political Map of North East India

![Political Map of North East India](image)

*Source: North Eastern Region Vision 2020*

The per capita income in NER as at 2010-2011 on an average is Rs. 49,228 as compared with the national average of Rs. 53,331 at current prices of 2004-05. The economy of the region continues to remain primarily agrarian in character, with 75 percent of the workforce engaged in the agriculture sector. Some socio-economic and demographic indicators have been presented below:

**Table 2.3: Basic Indicators of NE India**

<table>
<thead>
<tr>
<th>Particular</th>
<th>Unit</th>
<th>NER</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>Lakh sq.km</td>
<td>2.62</td>
<td>33.16</td>
</tr>
<tr>
<td>Population (2011)</td>
<td>Lakh</td>
<td>454.87</td>
<td>12,101.93</td>
</tr>
<tr>
<td>Decadal growth rate (2001-2011)</td>
<td>%</td>
<td>15.38</td>
<td>17.64</td>
</tr>
<tr>
<td>Density of population</td>
<td>Per sq.km</td>
<td>158</td>
<td>382</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>%</td>
<td>78.84</td>
<td>74.04</td>
</tr>
<tr>
<td>Per Capita Income (at price level of 2004-05)</td>
<td>In Rs.</td>
<td>49,228</td>
<td>53,331</td>
</tr>
</tbody>
</table>

*Data Source: NEDFi Data Bank Quarterly, pib.nic.in*

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30 Directorate of Economics & statistics of all NE states.
The region has low population density of 158 persons per square km as against population of the national average of 382 persons per square km. The literacy rate (2011) census varies from 65.38 per cent in Arunachal Pradesh to 91.33 per cent in Mizoram and rural literacy rate from 59.94 per cent in Arunachal Pradesh to 84.10 per cent in Mizoram.\(^{31}\)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arunachal</td>
<td>83743</td>
<td>1097968</td>
<td>1383727</td>
<td>26.03</td>
<td>17</td>
</tr>
<tr>
<td>Assam</td>
<td>78438</td>
<td>26655528</td>
<td>31205576</td>
<td>17.07</td>
<td>398</td>
</tr>
<tr>
<td>Manipur</td>
<td>22327</td>
<td>2166788</td>
<td>2570390</td>
<td>12.05</td>
<td>115</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>22429</td>
<td>2318822</td>
<td>2966889</td>
<td>27.95</td>
<td>132</td>
</tr>
<tr>
<td>Mizoram</td>
<td>22081</td>
<td>888573</td>
<td>1097206</td>
<td>23.48</td>
<td>52</td>
</tr>
<tr>
<td>Nagaland</td>
<td>16579</td>
<td>1990036</td>
<td>1978502</td>
<td>-0.58</td>
<td>119</td>
</tr>
<tr>
<td>Sikkim</td>
<td>7096</td>
<td>540851</td>
<td>5607577</td>
<td>12.89</td>
<td>86</td>
</tr>
<tr>
<td>Tripura</td>
<td>10486</td>
<td>3199203</td>
<td>3673917</td>
<td>14.84</td>
<td>350</td>
</tr>
<tr>
<td>NER</td>
<td>263179</td>
<td>38857769</td>
<td>45486784</td>
<td>16.71</td>
<td>158</td>
</tr>
<tr>
<td><strong>All India</strong></td>
<td><strong>3287263</strong></td>
<td><strong>1028610328</strong></td>
<td><strong>1210193422</strong></td>
<td><strong>17.64</strong></td>
<td><strong>382</strong></td>
</tr>
</tbody>
</table>

Source: NEDFi data bank – General Information (databank.nedfi.com)

Despite its rich natural resources, the North Eastern region lagged behind in development as compared to the rest of the country. The economic growth rate has increased only marginally from 4.1 percent in 1992-93 to 5.4 percent in 1994-05. The CMIE (Center for Monitoring Indian Economy) index of relative development infrastructure (1966-67 to 1992-93) shows that with the exception of Assam (ranked 13), the remaining

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\(^{31}\) “Rural Development Activities in the North Eastern Region”, website of Ministry of Rural Development, Govt., of India; NEDFi databank quarterly
states rank below 15 among the 25 states of the country. Low per capita income, low capital formation, inadequate exploitation of natural resources like mineral resources, hydro power potential, forests etc. low progress in industrial field, lack of private and foreign direct investment and high unemployment rate among the relatively high literate people generally characterize the region’s economy.

Table 2.5: Poverty Ratio of different states in North East India\textsuperscript{32}

<table>
<thead>
<tr>
<th>States</th>
<th>2004-05</th>
<th>2009-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arunachal Pradesh</td>
<td>31.4</td>
<td>25.9</td>
</tr>
<tr>
<td>Assam</td>
<td>34.4</td>
<td>37.9</td>
</tr>
<tr>
<td>Manipur</td>
<td>37.9</td>
<td>47.1</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>16.1</td>
<td>17.1</td>
</tr>
<tr>
<td>Mizoram</td>
<td>15.4</td>
<td>21.1</td>
</tr>
<tr>
<td>Nagaland</td>
<td>8.8</td>
<td>20.9</td>
</tr>
<tr>
<td>Sikkim</td>
<td>30.9</td>
<td>13.1</td>
</tr>
<tr>
<td>Tripura</td>
<td>40</td>
<td>17.4</td>
</tr>
<tr>
<td><strong>North East</strong></td>
<td><strong>26.86</strong></td>
<td><strong>25.06</strong></td>
</tr>
<tr>
<td><strong>All India</strong></td>
<td><strong>37.20</strong></td>
<td><strong>29.80</strong></td>
</tr>
</tbody>
</table>

*Source: Planning commission, Govt. of India.*

It is evident from the above table that though region has declined in poverty ratio from 2004-05 and is less than the all India average of 29.80 per cent in 2009-10, it is observed that Poverty has increased in Assam, Manipur, Meghalaya, Mizoram and Nagaland in 2009-10.

\textsuperscript{32} Ministry of Development of North Eastern Region, NEI
The poverty ratio is found to be the highest in Manipur with 47.71 per cent in 2009-2010 and lowest in Sikkim with poverty ratio of 13.10 per cent.

The North Eastern Region (NER) is far behind in Banking network and infrastructure as compared to other region with negligible spread of bank branches yet to cover large area. As on March 31, 2005 the number of branches of scheduled commercial banks in NER is 1952 having very low credit flow by formal sector. The CD ratio in all the states of NER is 35 per cent against the national average at 66 per cent in 2004-05. The reasons for such low CD ratio in the region are mainly due to lower level of utilization and miss-utilization of advances, improper identification of borrowers, lack of monitoring, poor recovery and writing off bad loans by banks, lengthy legal system to recover/settle loan rather than persuasion, indifferent/non-co-operative attitude and reluctant mind set of the bank officials for undertaking the responsibility to sanction loans, drawing unrealistic repayment schedule, delay in release of loans as well as subsidy in case of government sponsored schemes, poor infrastructure facilities like road, communication, power and marketing, etc. The overall economic development of the north-east states is found to be very low by any set of indicators as compared to other states of India.
b) SHG-Bank linkage Progress in North East region

The NABARD championed SHG –bank linkage program in the North Eastern Region (NER) has grown in the last five years exponentially. As per Sa-Dhan’s study, the demand for microfinance services for the NE region is estimated at Rs.26 billion. As per Indian Institute of Bank Management (IIBM) survey, there are more than 360 MFIs in the NER serving more than 110 thousand individuals clients and 60,000 SHGs. Majority of MFIs are located in Assam (63 percent) followed by Manipur. Arunachal and Sikkim has lowest numbers.

Number of SHGs under the NABARD’s scheme of SHG-Bank Linkage programme accessing bank credit rose from 32,995 in 1992-99 to 43,54,442 numbers of SHGs in 2011-12 indicating exponential growth over the last seven years. Progress of SHG-Bank linkage programme in the region is recorded comparatively higher in terms of growth rate i.e. about 30 per cent per year. However, 1.59 lakh SHGs in the North East Region is about 3.65 per cent only as compared to 43.54 lakh SHGs in all over India. Assam recorded the highest nos. of SHG-Bank linkage with 1,17,809 SHGs among the north eastern states followed by Tripura with 25,174 SHGs and Manipur with 5807 SHGs, Nagaland with 2752 SHGs.
Arunachal recorded least numbers of SHG-Bank linkage with only 361 SHGs.  

<table>
<thead>
<tr>
<th>State</th>
<th>Nos. of SHGs</th>
<th>Loan Amount (Rs. in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assam</td>
<td>117809</td>
<td>63021.64</td>
</tr>
<tr>
<td>Manipur</td>
<td>5807</td>
<td>2300.18</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>2569</td>
<td>1394.64</td>
</tr>
<tr>
<td>Sikkim</td>
<td>2561</td>
<td>1208.27</td>
</tr>
<tr>
<td>Tripura</td>
<td>25174</td>
<td>25317.81</td>
</tr>
<tr>
<td>Nagaland</td>
<td>2752</td>
<td>1789.79</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>361</td>
<td>291.13</td>
</tr>
<tr>
<td>Mizoram</td>
<td>2383</td>
<td>4003.37</td>
</tr>
<tr>
<td><strong>Total NE Region</strong></td>
<td><strong>1,59,416</strong></td>
<td><strong>99326.83</strong></td>
</tr>
<tr>
<td><strong>Total All India</strong></td>
<td><strong>43,54,442</strong></td>
<td><strong>3634000.18</strong></td>
</tr>
</tbody>
</table>


Programmes in terms of reaching physical targets have been successful and there is a positive impact being experienced by the poor in terms of getting easy access to formal saving and credit facilities leading to improvements in their socio-economic conditions. However, some problems such as lack of commitment, lack of efforts on the part of implementing agencies, lack of good and viable NGOs, lack of motivation for women in forming SHG, lack of nursing and management, lack of proper training to banks, NGOs and government officials, lack of coordination between bank and

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block officials, non-delegation of adequate powers to branch managers, weak credit structure of banks and no effective follow up after sanction of loan hinders the progress of SHGs.\(^{35}\) Regional and state imbalances in the growth of micro-finance have raised many questions about its model and strategies of the programmes.

### 2.8. Microfinance movement in Manipur

As indicated by various socio-economic parameters, Manipur is one of the most economically backward states and is remotely located from mainland India. It has a geographical area of 22,327 sq. km sheltering about 27.21 lakh people as per 2011 census\(^{36}\). Manipur is a predominantly hilly state with the Imphal Valley in the middle wherein 90 per cent of the populations live in the Imphal valley which constitutes 10 per cent of the state area. The state is known for its scenic beauty and a rich cultural heritage. The border trade with Myanmar and beyond to South East Asia through Moreh located in the border has the development potential for the state among others. The state is divided into 9 districts for administrative


\(^{36}\) Ministry of Development of North Eastern Region, NEI (www.mdoner.gov.in)
convenience viz, Bishenpur, Chandel, Churachanpur, Porompat, Lamphelpat, Senapati, Tamenglong, Thoubal and Ukhrul.

As per report of Ministry of Development of North Eastern region, the literacy rate of Manipur is 79.85 per cent which is higher than all India average of 74.04 per cent. The per capita income of the state is Rs. 32,284/- as compared to all India average of Rs. 60,972 in 2011-2012. Poverty ratio of the Manipur state stood at 47.10 per cent in 2009-2010 as against the all India average of 29.80 per cent. There are diverse ethnic groups with different dialects and traditions in the state with poor infrastructure such as power, road communication, etc. The state had witnessed a slow pace of progress and development in the last two decades due to poor governance, insurgency problems and fluid law and order situation.

The number of scheduled commercial bank branches as on 31st March 2009 in Manipur is 80 as compared to all India bank branches of 79735. Average population per branch is 33000 as compared to all India average of 15000 populations per branch indicating poor banking facilities in the state. CD ratio for the state is also low at about 30.1 as compared to the national

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37 Source: RBI statistics on Branch Banking 2009.
average of 78.1 as on March 31, 2012. \(^3\) Therefore, many people are still outside the banking system.

![Fig 2.2: Political Map of Manipur](image)

The absence of well established NGO or NBFC hamper the take off of microfinance with most of the organizations (NGOs) involved in the microfinance activities relatively new and small with few staffs. They generally depend on grant or subsidy from Donors or funding agencies for taking up various activities. Microfinance movement however is becoming increasingly popular in the rural areas of Manipur as it is in the other parts of country though the same is comparatively new in the state of Manipur.

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\(^3\) Reserve Bank of India; www.rbi.gov.in
SHGs formation has become a movement in rural areas of Manipur and as on 31-March-2012, 5807 nos. of SHGs have been provided credit link with banks with loan of about Rs. 2300.18 lakhs under SHGs-Bank linkage programme\textsuperscript{39}.

As per primary source of information there are about 900 NGOs in Manipur out of which about 75 NGOs are directly involved in microfinance activities. Many funding agencies, banks and financial institutions such as SIDBI, RMK, RGVN, NEDFi, etc. of late have also started funding NGOs in Manipur for on lending to SHGs. Actual performance of these NGOs is yet to be seen in the days to come.

2.9. Impact Assessment Methodology for microfinance

According to Hulme (2002)\textsuperscript{40}, Impact Assessment Methodologies for microfinance can be classified into three types of methods i.e. simple method, moderate method and complex method. These three methods are briefly discussed below:


\textsuperscript{40} Hulme, D. (2002). “Impact Assessment Methodologies For Microfinance: Theory, experience and better practice”, AIMS, University of Manchester
**Simple Method:** It is the most common method to test the existing understanding of impacts and contribute to improvements in program operation. It is quite commonly used for small scale client survey cross-checked by rapid or participatory appraisal methods. In absence of baseline study, recall method is used. Advantage of this method is that it does not take much time and is relative cost effective. Reliability of this method is moderate.

**Moderate Approach:** Survey of stratified clients and comparing them with a carefully matched control group. The survey would involve at least two visits with a minimum of 12 months between them and recall techniques would not be used. It is cross checked by rapid appraisal techniques and carefully planned participant observation and case studies. It takes longer time of two or three years. It is substantially more costly than the simple method. However, reliability of the study under this method is higher than simple method.

**Complex Method:** A large scale sample survey which is very carefully constructed to represent all key features of the client population. This is compared against a carefully selected control group, so that the number of households surveyed is likely to be between 750 and 1500. Atleast three
interviews will be conducted with each household over a period of two to three years. Advantage of this method is high levels of reliability. However, disadvantages of this method are high cost of survey, complex in data processing and analysis and longer time period of study.

2.10. Summary and Conclusion

Microfinance refers basically to providing wide range of financial services to the rural resource poor. Originated in Bangladesh, it has now spread across the world. The concept of Self Help Group (SHG) is based on group dynamics and is considered the building block of microfinance. The SHG is a group of 10-20 people from same social and economic background for mobilizing savings and credits. Some of innovative and widely practised credit delivery models of microfinance in India are SHG-Bank linkage model, Grameen model, Individual banking Model, Hybrid or mixed model.

The landmark development in the microfinance history of India is the NABARD’s pilot project of SHG-Bank linkage programme launched in 1992 which has witnessed an exponential growth from merely 32,995 SHGs in 1992-1999 to 43.54 lakh SHGs as on 31-March-2012. Around 83.98 per cent were exclusive women SHGs with over 90 per cent
repayment record. SHG-Bank linkage programme is considered successful in reaching physical targets and its socio-economic impact on SHG members. Programme however is faced with problems like uneven spread across and within different states, lack of commitment on part of implementing agencies, lack of good and viable NGOs, lack of co-ordination with banks and agencies, etc. Microfinance movement in North Eastern region of late has started gaining momentum. As on 31st March 2012, total nos. of SHGs linked with banks is 1.59 lakh SHG with the exponential growth rate over the last five years. In Manipur, the microfinance movement is comparatively new and is becoming increasingly popular. As on 31-March-2012, 5807 number of SHGs in Manipur have been provided credit link.

Impact assessment of SHG members can be done by simple method or complex method depending on the scope, objectives and the budget of the study.