CHAPTER - I

INTRODUCTION

The existence of poverty and its eradication have always been a major concern for the world’s developing regions. Poverty indicates the condition in which a person is not able to have access to the basic needs of minimum living standards, adequate for his physical and mental development. The main causes of poverty include lack of resources for the poor, extremely unequal income distribution in the world and specific countries in particular. The estimation made by the World Bank vindicates that around 25 percent of the population in developing regions lives below the poverty line with a current threshold of $1.25 a day (United Nations, 2009). Despite the progress in hunger alleviation, the year 2010 witnessed approximately 925 million people who were suffering from it which was attributed to a sudden spike in global food prices and the onset of a worldwide economic crisis. As poverty has always been a hindrance to the developmental process of a country, the governments, in the developing and underdeveloped countries have been adopting effective measures to address it. With this perspective, the government of India has implemented poverty alleviation schemes in the last two decades in order to reduce the incidence of poverty. Nehru Rojgar Yojana (NRY) and Swarna Jayanti Shahari Rojgar Yojana (SJSRY) are schemes aiming at providing employment to the urban poor through setting up of self employment ventures, employment promotional training, and removal of indebtedness through formation of Self Help Groups (SHGs) like thrift and credit societies for the development of the poor. Jawaharlal Nehru National Urban Renewal Mission (JnNURM) is yet another programme that was started by the government of India in the year 2005-06 with an overall objective of improving the quality of life and infrastructure in the cities.

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Among many other attributes in the government’s policy framework, financial inclusion of the rural poor has always been given due importance and it is felt that the mainstreaming of the rural regions with the formal financial system is the key to success for the overall development of any country. Considering the mass population living in rural areas and taking the basic care of their financial needs are always big challenges for the government and the policy makers. Shah et al. (2007) viewed rural credit as not only a commodity that is needed for the poor to make themselves free from usurious money lenders, but also to build up a good critical public for the development of the backward agrarian economy. Financial exclusion, in terms of lack of credit from formal financial institution, is high among marginal farmers in the rural part. The governments of different countries have made several efforts to intervene with many poverty-eradication programmes across the globe but the level of poverty, though reduced over the decades, has not registered a significant change. The programmes are found to attain goals in terms of outreach but not in terms of full fledged financial needs of the poor. Out of the various programmes introduced by the government to address rural poverty and to help the rural mass in their upliftment, the intervention of microfinance programmes, especially the subsidized microfinance with different models, have been found contributing the desired result. This has been witnessed through the decadal growth in loan portfolio of the MFIs and also through the increased number of formation of SHGs to avail the financial services from different financial institutions.

The concept of microfinance is not a new phenomenon. The marginal savings and credit groups that have operated for centuries include the “susus” of Ghana, “tandas” in Mexico, “arisan” in Indonesia, “cheetu” in Sri Lanka, “tontines” in West Africa, “pasanaku” in Bolivia, “chit funds” in India and many other micro-saving clubs and burial societies across the globe. All these small organizations were found working hard in delivering regular and sustainable finance to the poor, but could not succeed and often the existence of moneylenders became stronger. In the modern era, the beginning and use of microfinance was pioneered by the Grameen Bank of Bangladesh during seventies when they started to engage actively by giving microloans to some pre-qualified people under the leadership of the Nobel Prize winner Dr. Muhammad Yunus. This program had shown that the people could be relied on to repay their loans and that it was possible to provide
financial services to the poor through market based enterprises. Also, many financial institutions have been started realizing that the poor are bankable. *Shore Bank* was the first microfinance and community development bank that was founded in 1974 in Chicago. The year 1980 witnessed a turning point in the history of microfinance when microfinance institutions such as Grameen Bank (GB) and Bank Rakyat of Indonesia (BRI) had begun to show that they could provide small loans and saving services profitably on a large scale. They could attain wide outreach to clients without receiving continuing subsidies (Robinson, 2001). The success of microfinance has not only been restricted to the Grameen Bank of Bangladesh but over the decades, it has reached around 48 million clients throughout America, Africa, Europe, and Asia. Many of these institutions have attained financial viability and converted themselves into regulated banks. Many others have chosen to continue operation as NGOs, strategically using donations to grow and provide additional services to their clients. As per the estimation of World Bank, more than 16 million people have already been served by some 7000 microfinance institutions all over the world. In a gathering at a Microcredit Summit in Washington DC in February, 1997, an announcement was made to reach the global target of supporting 100 millions of the world’s poorest families, especially women, for self-employment and other financial and business services by the year 2005 (Kaladhar, 1997). The year 2005 was proclaimed as the International year of Microcredit by The Economic and Social Council of the United Nations with a call for the financial and building sector to “fuel” the strong entrepreneurial spirit of the poor people around the world.

The study of available literature on microfinance reveals that these programmes and policies, if rooted properly, can help the poor not only in supporting their livelihood but also in creating employment for them by contributing to the economic development of a country. In the development paradigm, microfinance has evolved as a need-based policy and programme to cater the neglected target groups (women, poor, rural, and deprived). Its evolution is based on the concern of all developing countries for empowerment of the poor and the alleviation of poverty. The policy makers of the different developing countries have included access of microcredit for the poor as a major poverty alleviation programme. Empirical findings are supportive of the point that the poorest can benefit from microfinance from both an economic and social
well-being, and that this can be done without jeopardizing the viability of the financial institutions (Wright, 2000; Zaman, 2000; McCulloch & Baulch, 2000).

1.1.1. A brief coverage of microcredit

Microfinance programmes started by catering small need of the poor by way of providing small loans for self-employment projects that generated income and therefore, allowing them to care for their livelihood and other activities. Slowly, the range of services in the microfinance have been extended to savings, consumption loans, transfer services and micro insurance in particular other than microcredit for micro enterprises. Today, apart from providing series of services to the underprivileged, the programmes have also been linked with the deposit mobilization and with the provision of insurance for lives and animals. So in a broader perspective, microfinance is defined as, “the 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 to improve living standards” (NABARD, 2000).

The Microcredit was defined by microcredit summit held in 1997 as “Programme that provides credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons”. It basically consists of provisioning of small credit to the low income clients and to microenterprises for income generating activities. It is visible from the world literature that microcredit plays a leading role in fighting the multi-dimensional aspects of poverty. The services provided from this poverty-fighting mechanism enhances household income of the poor which leads to attend benefits such as increased food security, the building of assets, and an increased likelihood of educating one’s children. Also, it acts as a means for self-empowerment. Poor people, especially women, become active in village affairs, stand for local election or take action to address social or community issues like abuse of women, alcohol, and the dowry system. Microfinance services are broadly provided with three major sources: (i) Formal Microfinance Institutions (FMI) such as, rural/microfinance/village banks, commercial banks, and cooperatives, (ii) Semi-formal Microfinance Institutions (SMI) such as NGOs and (iii) Informal Microfinance Sources (IMS) where money lenders and shopkeepers
play a vital role. Microcredit, apart from referring to credit, increases its area to savings and other financial services. In many cases the word ‘microfinance’, ‘microcredit’, and ‘micro lending’ are used interchangeably with the same meaning of providing small working capital loans to the self-employed poor for income generating activities and to help their families to overcome extreme poverty. In its overall perspective, microfinance has emerged as the term of choice to refer to a range of financial services to the poor, that include not only credit, but also savings and other services such as money transfers.

A number of financial institutions have been established over decades to mainstream the poor, especially the rural mass with formal financial institutions. Among the gamut of institutions, a few are strong, self sustaining with the capacity to serve large number of rural farm and non-farm clients, including the poorest of the rural economy (ADB, 2000). The provision of small finance through the intervention of microfinance has been accepted as a major tool in reducing poverty that even the World Bank and other major international institutions have increased their commitment to micro lending. Besides, the Indian experience portrays the establishment of several institutions with specific policies to help the huge population of the rural areas. In the late 1960s, the “social banking” phase has witnessed the nationalization of existing private commercial banks, massive expansion of branch network in rural areas, mandatory directed credit to priority sectors of the economy, subsidized rates of interest and creation of new set of Regional Rural Banks (RRBs) at the district level and a specialized apex bank for agricultural and rural development called National Bank for Agriculture and Rural Development (NABARD) at the national level. All these extra initiatives of the government though resulted in the impressive gains in rural outreach and volumes of credit, in reality, the number of BPL families are yet to cover fully through the provision of basic banking services. The addition of new institutional mechanism to address the issue of rural finance has not helped in improving the situation and in fact created new problems (Agarwala, et al., 1997).

Microfinance Institutions (MFIs) have made significant progress in providing credit and savings facilities to the poor. The extent to which these services are filling an important gap among the poor communities is demonstrated by high rates of repayment and rapid growth of demand for
microfinance. Experiences of these institutions show that provision of micro financial services enables the poor to build strong microenterprises that increase their income to participate in economic growth. In India, microfinance services are provided by apex development financial institutions such as National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and Rashtriya Mahila Kosh (RMK). Apart from these, Commercial Banks (CBs), Regional Rural Banks (RRBs), State Cooperative Banks (SCBs), Non Banking Financial Companies (NBFCs) and various Not-for-Profit entities are also involved in providing small financial needs to the poor. The SHG-Bank Linkage Programme that helps to promote financial transactions between the formal rural banking system in India comprising public and private sector CBs, RRBs and SCBs with the informal SHGs as clients is being initiated by NABARD.

1.1.2. The evolution of Microfinance, and subsidy and sustainability Linkage

Different types of large and formal savings and credit institutions, popularly known as ‘People’s Bank’, ‘Credit Unions’ and ‘credit Co-Operatives were found to exist in 1800s in Europe, organized primarily among the rural and urban poor. In the early 1900s, various adaptations of these models began to appear in different parts of rural Latin America. While the goal of such rural finance interventions was usually defined in terms of modernizing the agricultural sector, they usually had two specific objectives: increased commercialization of the rural sector and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. The span of two decades from 1950-1970 witnessed in providing agricultural credit to small and marginal farmers by various donor agencies and the governments with a view to increase productivity and incomes of the targeted farmers. These efforts, to expand access to agricultural credit, emphasized subsidy based government interventions in the form of targeted credit through state-owned development finance institutions, or farmers’ cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. But these subsidy-driven programmes of the government were found to be unsuccessful in their way to help marginal farmers. Subsequently
Rural Development Banks suffered from massive erosion of their capital base on account of subsidized lending rates and poor repayment discipline of the borrowers. The year 1970 again saw some more intervention in the form of programmes being experimented in Bangladesh, Brazil and a few other countries by extending tiny loans to groups of poor women to invest in micro-businesses. This type of microenterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These "microenterprise lending" programmes had an almost exclusive focus on credit for income generating activities targeting very poor borrowers. In India, the evolution and development of microfinance can be captured into four distinct phases:

**Phase 1: The cooperative movement (1900-1960)**
This phase witnessed the evolution of microfinance in the country under which various credit cooperatives were established to extend subsidized credit to villages under the sponsorship of the government.

**Phase 2: Subsidized social banking (1960 – 1990)**
The establishment of credit cooperatives could not prove its sustainability and the government started focusing on other measures such as nationalization of existing private banks, expansion of rural branch networks, establishment of RRBs and the setting up of apex institutions such as the NABARD and SIDBI and also the government sponsored Integrated Rural Development Programme (IRDP). Though this phase succeeded in achieving the government’s objective of ‘outreach’ in terms of reaching huge number of population, the period was characterized by large-scale misuse of credit, creating a negative perception about the credibility of micro borrowers among bankers. All these hindered the access to banking services for the low-income people.

The failure of subsidized social banking in phase 2 gave birth to a new strategy of delivering credit to the rural poor known as Self Help Group (SHG) Bank Linkage Programme (SBLP). The programme was initiated by NABARD, where a number of informal groups, especially the group
of women were linked to formal banks for the proper delivery of credit. This programme, thus, helped in increasing the banking system on the one hand and reducing the financial exclusion of the poor from the formal financial institutions on the other. This model generated a lot of interest among newly emerging Microfinance Institutions (MFIs), largely of non-profit origin, to collaborate with NABARD under this program. The macroeconomic crisis in the early 1990s that led to the introduction of the Economic Reforms of 1991 resulted in greater autonomy to the financial sector. This led to the emergence of new private sector banks that would become important players in the microfinance sector a decade later.

**Phase 4: Commercialization of Microfinance: The first decade of the new millennium**

Post reforms, rural markets emerged as the new growth drivers for MFIs and banks, the latter took interest in the sector not only as part of their corporate social responsibility but also as a new business line. On the demand side, NGO-MFIs increasingly began transforming themselves into more regulated legal entities such as NBFCs to attract commercial investment. MFIs set up after the year 2000 saw themselves less in the developmental mould and more as businesses in the financial services space, catering an untapped market segment while creating value for their shareholders. This overriding shift brought about changes in institutions' legal forms, capital structures, sources of funds, growth strategies and strategic alliances.

The SHG-Bank Linkage Programme (SBLP) of NABARD is the most prevalent model of microfinance delivery in India recently. Presently, both SGSY (Swarnajayanti Gram Swarozgar Yojana) and Non-SGSY SHGs are availing finance from this model. A few MFIs are also playing as intermediaries in providing finance to SHGs under this model. Among all, the SGSY is a very recent intervention in the field of subsidized microfinance. This programme has come into effect from 1st April 1999 by replacing the erstwhile programmes of IRDP (Integrated Rural Development Programme); TRYSEM (Training of Rural Youth for Self-Employment); SITRA (Supply of Improved Toolkits to Rural Artisans); DWCRA (Development of Women and Children in Rural Areas); GKY (Ganga Kalyan Yojana) and MWS (Million Wells Scheme). This SGSY programme is basically a subsidy-driven programme, which at the first place, has attracted many to form SHGs. With the implementation of this scheme, now, many of the SHGs
which were formed under the SBLP of NABARD have switched over to it, basically to avail subsidy. This trend is visible in almost all the states in India.

Along with the subsidized programme of SGSY, some other government sponsored schemes are also found to exist in India in which Rastriya Gramin Vikash Nidhi (RGVN), Prime Minister Rozgar Yojana (PMRY), Khadi and Village Industries Commission (KVIC), Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and National Minorities Development and Finance Corporation (NMDFC) are prominent. In the North Eastern Region (NER) of the country, North Eastern Development Finance Corporation (NEDFC) is taking part in providing microcredit through District Rural Development Agency (DRDA) or through Commercial Banks (CBs) as directed by the schemes authorities. Among the prominent banks that give small loans to the poor in this region are NABARD, SIDBI, RRBs, SCBs and CBs. They give direct credit or through some intermediaries like NGOs and MFIs. International donors and NGOs are also providing credit with their own outlined plan and policies in the selected areas for alleviation of poverty and income generation activities. Lastly, small loans are also given to the poor by usury money lenders and local shopkeepers but these channels are considered as most expensive flow of microcredit to the poor due to exorbitant interest rate charged by them.

Microcredit activities in Meghalaya started in early eighties. But the pace of formation of SHGs picked up only after 2000 that is after the implementation of SGSY programme. Thousands of SHGs are formed under this scheme to avail the subsidized microfinance, where the first loan advanced to SHGs is ₹ 25,000 out of which ₹ 10,000 comes in the form of subsidy, and subsequently, the successful repayment of the first loan makes them eligible to avail other loan which is basically a project based where 50 percent of the project cost or ₹ 1, 25,000 whichever is lower is given to SHGs as subsidy.

The earlier interventions of subsidized microfinance programmes in India have not produced the desired result in terms of fighting against the poverty and upliftment of the underprivileged section of the society. The IRDP was one such programmes which was introduced in early eighties to help the poor through subsidized microcredit but the scheme, instead of bringing
positive reward, turned out to be a fizzle as the disbursed loan was misused through the subsidy component such that cash was diverted to local elites who did not feel obligated to repay the loans (Adams, 1984). Since subsidy was the main attraction, the scheme failed in its objective as many borrowers became defaulters. Despite positive outcomes on many developmental aspects, the performances of the various government-run institutions were disappointing (Holf & Stiglitz, 1990). Most of the programmes were unsustainable because of their heavy dependency on donors’ fund, and an inability of running in profit continuously. Also, it was observed that the targeted funds were not always reached to the needy poor and often ended up, concentrated in the hands of better-off farmers. Even worse, the substantial portion of the subsidies that were channelized through various institutions were captured by the people who were not poor. (Adam & Pischke, 1992).

The performance of many government’s run sponsored schemes was disappointing as they suffered from poor loan recovery, high administrative costs, high operating cost and large number of non-loan payers. Though, all the programmes were designed and launched to achieve proper credit delivery service to the poor, the success obtained from the those poverty alleviation programmes such as TRYSEM and SITRA were not up to the mark due to various shortcomings in the design and delivery of the project (Sheik Mohammad, 2006). Also, there was an apprehension that the launching of various Government programmes, under which the SHGs were to be promoted as well as subsidized by DRDA, might hamper the development of microcredit system as it promoted a subsidy culture, which went against the philosophy of microcredit. A study conducted on 10 important MFIs (NGOs) in India (Quinones, 1997) revealed that several of these were not sustainable. It was also felt that there was a need to emphasize on the organizational efforts of microcredit institutions to improve their outreach and sustainability (Fisher et al., 2002). All these findings, therefore, have raised questions about the long term sustainability of microfinance institutions in different countries.

Microfinance services to the poor have been accepted as the effective mechanism to fight against poverty. These are considered as the authoritative means of providing regular income to the poor. However, very often, questions have been raised for the subsidy component of the subsidized
programmes. The findings of the various studies reveal the negative impact of subsidy on the long term sustainability of the beneficiaries. Even the subsidized microfinance programmes/institutions need continuous injection of subsidies from the donor agencies to sustain themselves for long. The sustainability of organizations can well be judged through their financial performance. Many agencies such as microfinance professionals, bankers, governments and donor agencies consider sustainability as the benchmark in evaluating the performance of microfinance institutions (Brau & Woller, 2004; Baumann, 2004). The full cost recovery or profit making without the support of subsidies is yet another factor taken to define sustainability (Conning, 1998) along with the right organizational structure (Hollis & Sweetman, 1998).

An organisation is said to be sustainable if its interest and other earnings are sufficient to cover transaction costs, loan losses, and cost of capital without any subsidies. Based on these criteria, none of the rural financial institutions are sustainable in India. Loan losses and transaction costs of these institutions are higher than their earnings. (ADB, 2000). Many subsidised MFIs are not fully but operationally sustainable which means that their interest income is just sufficient to cover operating costs (Quinones, 1997) but not the other costs such as loan losses and imputed costs. Taking into account all these phenomena, a question is always raised about the effect of subsidy on the long term sustainability of the subsidised institutions. It is also pointed out that if subsidies are withdrawn and costs cannot be reduced, 95 percent of the current programmes will have to be close down (Morduch, 1999). Therefore, very often, subsidized programmes because of their subsidy component, faces serious issue of sustainability. The estimation of CGAP reveals the fact that around 5 percent of MFIs worldwide were financially sustainable till 2002 whereas the IMF in 2005 put this figure at 1 percent. Many of the subsidized programmes across the globe were found not sustainable as they have earned very little revenue and often suffered from serious default problem. In India, the failure of IRDP and other subsidized programmes in the past reveal the fact that they have failed in their way to provide sustainable services to the beneficiaries.
1.1.3. An overview of SHG-Bank Linkage Programme

The Self-Help group (SHG) by definition 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. These homogenous groups are basically formed to pool financial resources within the group to make small interest bearing loans to their members. The setting up of terms and conditions and accounting of loans are done within the group by designated members. The process helps them imbibe the essentials of financial intermediation, setting terms and conditions, and accounts keeping. This gradually builds financial discipline among all of them. They also learn to handle resources of a size that is much beyond individual capacities of any of them. After forming themselves into a group, the SHGs channelized the pooled resources of the group in the form of advancing loans within the group by prioritizing the need of the members. The successful channelization of fund and mature financial behavior of the SHGs make them eligible to link with the bank to obtain further loan which are in the form of revolving fund and project based. The bank loans are given against group dynamics without any collateral and at market interest rates. The group continues to decide the terms of loans to their own members. Since the groups’ own accumulated savings are part of the aggregate loans made by the groups to their members, peer pressure ensures timely repayments. Apart from financial help at the time of need, the group provides social security to its members.

Access to finance is an important incentive for new ideas and technologies (King & Levine, 1993) and the small groups can prove themselves handy in empowering themselves with the help of micro finance. The lending institutions to the SHGs are also in the opinion that financing through a group is cost effective and peer monitoring act as intangible collateral. Group lending serves four main purposes: (a) avoidance of high cost intermediation between bankers and credit brokers, (b) reduction in individual borrowing transaction costs, (c) ensuring proper utilization of credit and prompt repayment of loans, and (d) provision for flexible loan terms and conditions, and market interest rates. In recent trend, the SHGs have also federated into larger organizations. In Figure 1.1, a graphic illustration is shown of a SHG Federation. Typically, about 15 to 50 SHGs make a Cluster / Village Organization (VO) with
either one or two representatives from each SHG. Depending on geography, several clusters or VOIs come together to form an apex body or an SHG Federation. At the cluster and federation level, there are inter-group borrowings, exchange of ideas, sharing of costs and discussion of common interests. There are typically various subcommittees that deal with a variety of issues including loan collections, accounting and social issues.

A most notable milestone in the SHG movement was traced to the pilot project of NABARD. This pilot project of linking 500 SHGs to banks known as SHG-Bank Linkage Programme (SBLP) was started in 1992 with the objective of linking and financing existing SHGs as grass root intermediaries to banks across the country for both savings mobilization and credit delivery. This was the first instance of matured SHGs that were directly financed by commercial banks. The informal thrift and credit groups of the poor were recognized as bankable clients. Soon after, the RBI advised commercial banks to consider lending to SHGs as part of their rural credit
operations thus creating SHG Bank Linkage. Later on, this microfinance initiative of NABARD has emerged as the largest Micro-finance Programme in the world and has been operating at present as a major microfinance programme since 1992-93 (NABARD, 2003).

Today, the SBLP is providing finance to both SGSY and Non-SGSY SHGs. It enables about 97 million poor household’s access to sustainable financial services from the banking sectors. The institutional credit outstanding against the SHGs as at the end of March, 2011 exceeded ₹ 31200 crore recording thereby the highest figure in the world (NABARD, 2011). The number of SHGs those linked to different banks in the last two decades has increased to 74.62 lakh of which over 47.8 lakh SHGs have accessed to direct credit from the banks. The total loan outstanding of credit linked SHGs as on 31st March, 2011 stood at ₹ 31221 crore. Out of the total number of SHGs, about 27 percent have been linked through Swarnajayanti Swarozgar Yojana (SGSY). All these facts delineate towards rapid growth of SBLP as a whole and increased growth momentum of SGSY in recent years in particular. Recently, the SBLP model of NABARD is also found to provide direct loans to MFIs for on-lending to SHGs. In the year 2011, a total of ₹ 8449 crores were sanctioned by different banks to 471 MFIs. The position of loan outstanding against all 2315 MFIs of all the banks, as on 31st March, 2011, stood at ₹ 13731 crores. Apart from SBLP model, a few independent MFIs are also in existence that provides direct finance to SHGs across the states.

1.1.4. Socio-economic profile of Meghalaya

Meghalaya is one of the eight sister states in the North Eastern Region (NER) of India. The word ‘Meghalaya’ as named by Dr. Suniti Kumar Chatterjee, Professor Emeritus, Calcutta University, derived from two words: ‘Megh’ and ‘alay’, which means “abode of cloud”. The state emerged as the 21st state of Indian Republic in January 21, 1972, inaugurated by the then Prime Minister of India, Indira Gandhi. It is the third largest State in the North East in terms of geographical area. As per the State Forest Report 2003, published by the Forest Survey of India, Meghalaya has a forest cover of 9,496 sq. km, which is 42.34% of the total geographical area of the state. The hilly area of this beautiful land is full of valleys, plateaus and rivers and lies between
20°1′ N to 20°5′ N latitude and 85°49′ E to 92°52′ E longitude. The state is bounded in the north by Goalpara, Kamrup, Nagaon and Karbi Anglong districts of Assam. On the eastern part Cachar and north Cachar districts of Assam share the boundary and on the South and West, it shares the international border with Bangladesh. It has altogether seven districts: East Khasi Hills, West Khasi Hills, RI-Bhoi, Jaintia Hills, East Garo Hills, West Garo Hills and South Garo Hills. The Khasis, the Jaintias and the Garos are the three main tribes of Meghalaya followed by Koch, Hajong, Dimasa, Hmar, Kulki, Lakhar, Mikir and Rabha which constitute of about 86 percent of the total population of the state. Among many, one of the key elements of these tribal population is that majority of them follow a matrilineal system where lineage and inheritance are traced through women. Like most of the other states in India, Meghalaya has a unicameral legislature and is one of the three states in India having a Christian majority followed by Nagaland and Mizoram. Different languages spoken by the tribes of this state are Khasi, Garo and Jaintia with the official language as English. The NER in general and Meghalaya in particular consist of around 8 percent and 0.7 percent of the total area of the nation (Table 1.1). The total population of the entire NER comprises around 4 percent of the nation in which the state of Meghalaya has a little more than 23 lakhs representing 0.23 percent of the national population from which 80 percent resides in rural areas and the remaining 20 percent in urban areas. As per 2001 census, the number of population per sq. km. in the state is 103 as against 313 persons per sq. km. of the nation, comprising about one-third of the national figure and ranks 24th in India in terms of population density. Meghalaya ranks 24th in the human resource development index and 28th in the poverty index. The literacy rate of the state is 63.61

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<tr>
<td>Meghalaya</td>
<td>22429(0.68)</td>
<td>23.19(0.23)</td>
<td>103</td>
</tr>
<tr>
<td>NER Total</td>
<td>262179(7.98)</td>
<td>388.59(3.78)</td>
<td></td>
</tr>
<tr>
<td>All India</td>
<td>3287240(100.00)</td>
<td>10286.1(100.00)</td>
<td>313</td>
</tr>
</tbody>
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Table-1.1: Population Distribution in Meghalaya Vis-a-Vis NER and India

Source: Census 2001
Note: Figures in parentheses indicate percentage to total.
per cent, as against the national figure of around 65 percent. A detail picture of general profile of Meghalaya is given in Chapter-III.

The state of Meghalaya is basically characterized as an agrarian economy and allied activities engage nearly two-thirds of the total work force in the state. However, the contribution of this sector to the state’s NSDP is only about 20 percent as against 68 percent contribution from services (Table 1.2). The per-capita income is one of the important economic indicators of overall development of the State. The figure as reflected in the above table that is ₹ 31853 at constant price for 2009-10 is still less than the all-India figure of ₹ 33731 (CSO, 2010). This indicates the overall backwardness as well as low level of standard of living of the people in the state. Nearly 10 percent of the total geographical area of the state is under cultivation from which a substantial portion of the cultivated area is under traditional ‘shifting agriculture’, locally known as “Jhum” cultivation. As agriculture in the state is characterized by limited use of modern techniques, unsustainable farm practices and low productivity, the incidence of rural poverty has gone high. Consequently, the mass population, engaged in agriculture sector,
remains poor and the state is still dependent upon the imports from other states for most food items such as meat, eggs, and food grains. The apex planning body under the Government of India estimated in 2000 that nearly one-third of the total population of the state of Meghalaya is below poverty line. The incidence of poverty in rural areas at about 55% is almost double the percentage of poverty in the urban areas. Apart from low level of productivity and insignificant contribution from agriculture in the state’s Net Domestic Product, the underdevelopment of transport and communication add to the state backwardness and high incidence of poverty.

Meghalaya has a rich base of minerals like coal, limestone, silimanite, uranium and granite, which can be of great help in increasing the trade and industries of the state. However, the growth of industries in the state is still in the rudimentary stage. The state is far behind in the field of industrialization and banking services as compared to other states of the country. The total number of banks in the state is only 251 (Table 1.3) of which Commercial Banks consist of more than 60 percent followed by Regional Rural Banks (22 percent) and District Cooperative Banks (DCBs) (17 percent). The branches of RRB (known as Meghalaya Rural Bank in Meghalaya) which basically caters the need of the rural mass are found to be very less in terms of its number. Out of total bank branches in rural areas, RRBs represent only 30 percent which looks very scanty to serve more than 4/5th of the total population that resides in rural areas. Similarly, the presence of DCBs (known as MCABs or Meghalaya Cooperative Apex Banks in Meghalaya) in the rural segment is found to be insufficient (11.43 percent) to cater the larger financial need of the rural folk.

Table 1.3: Region-Wise bank branches network in Meghalaya as on March, 2010

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<tr>
<th>Sl. No.</th>
<th>Banks</th>
<th>Regions/ population group</th>
<th>Total</th>
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<tr>
<td></td>
<td></td>
<td>Rural</td>
<td>Semi-urban</td>
</tr>
<tr>
<td>1</td>
<td>Commercial banks</td>
<td>82 (58.57)</td>
<td>24 (55.81)</td>
</tr>
<tr>
<td>2</td>
<td>Regional Rural Banks (MRBs)</td>
<td>42 (30.00)</td>
<td>11 (25.58)</td>
</tr>
<tr>
<td>3</td>
<td>District Co-operative banks (MCAB)</td>
<td>16 (11.43)</td>
<td>8 (18.60)</td>
</tr>
<tr>
<td></td>
<td>Grand total</td>
<td>140 (100.00)</td>
<td>43 (100.00)</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are percentage to grand total.
The district-wise dispersion of bank branches shows that banks are highly skewed towards East Khasi Hills (EKH) (43 percent) followed by West Garo Hills (WGH) (16 percent), Jaintia Hills (JH) (14 percent), and other districts (Table 1.4). The EKH not only enjoys the presence of more number of total banks but also shares the maximum presence of CBs (48 percent), MRBs (42 percent), and MCABs (29 percent). The presence of sufficient number of bank branches as an indicator of economic development of a district suffices the fact that EKH district is comparatively better than the other districts. On the other hand, very less number of total bank branches in South Garo Hills (SHG) (6 numbers) and also a very wide dispersion of bank branches across the districts indicate an uneven banking services for the poor in the state.

Table 1.4: District-wise bank branch network in Meghalaya as on 31st March, 2010

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Districts</th>
<th>Branch network</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CBs</td>
<td>MRBs</td>
</tr>
<tr>
<td>1</td>
<td>East Khasi Hills</td>
<td>74 (48.05)</td>
<td>23 (41.82)</td>
</tr>
<tr>
<td>2</td>
<td>West Khasi Hills</td>
<td>5 (3.25)</td>
<td>14 (25.45)</td>
</tr>
<tr>
<td>3</td>
<td>Ri – Bhoi</td>
<td>13 (8.44)</td>
<td>3 (5.45)</td>
</tr>
<tr>
<td>4</td>
<td>Jaintia Hills</td>
<td>15 (9.74)</td>
<td>13 (23.64)</td>
</tr>
<tr>
<td>5</td>
<td>East Garo Hills</td>
<td>14 (9.09)</td>
<td>1 (1.82)</td>
</tr>
<tr>
<td>6</td>
<td>West Garo Hills</td>
<td>29 (18.83)</td>
<td>1 (1.82)</td>
</tr>
<tr>
<td>7</td>
<td>South Garo Hills</td>
<td>4 (2.60)</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Grand total</td>
<td>154 (100.00)</td>
<td>55 (100.00)</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are percentage to grand total.

As per the study of NABARD in 2008, a total of 60 percent of India’s population is deprived of access to financial institutions in which the share of Meghalaya is more than 75 percent whereas the scenario of financial exclusion of most of the developed countries is less than 15 percent. In addition, it is noticed that there is a huge deviation in the establishment of bank branches in Meghalaya as compared to the nation as a whole (Table 1.5). The North Eastern Region including Sikkim account for only 3 percent of the total bank branch networking of the country, whereas the state of Meghalaya has only 0.30 percent. The region wise presence of bank branches also demands more number of bank branches to be opened and operationalised in the state. Less than one percent share of the nation in terms of bank branches in rural (0.35),
Table-1.5: Region-Wise bank branch network in Meghalaya Vis-a-Vis NER and India as on March, 2010

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Rural</th>
<th>Semi-urban</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Meghalaya</td>
<td>140 (0.35)</td>
<td>43 (0.18)</td>
<td>68 (0.33)</td>
<td>251 (0.30)</td>
</tr>
<tr>
<td>2</td>
<td>NER</td>
<td>1368 (3.43)</td>
<td>684 (2.82)</td>
<td>564 (2.77)</td>
<td>2616 (3.10)</td>
</tr>
<tr>
<td>3</td>
<td>All India</td>
<td>39840 (100.00)</td>
<td>24236 (100.00)</td>
<td>20357 (100.00)</td>
<td>84433 (100.00)</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses are percentage to all India figure.

semi-urban (0.18), and urban (0.33) suffices this fact. The state of Meghalaya is characterized by numerous traditionally managed farm and non-farm micro-enterprises. Because of this fact, the demand and access to small finance is more in the state. In this regard, the provision of microcredit through microfinance services plays a pivotal role in enhancing the production capacity of the present microenterprises and contributes significant share to the state NDP (Net Domestic Product). As it has been already stated, two kinds of microfinance models are very much prevalent in the state that is, SHG-bank linkage of NABARD and MFI model. The former model includes SHG finance through SGSY and Non-SGSY route whereas in the latter case, MFIs give direct finance to SHGs. Because of subsidy component, the SGSY scheme is gaining more momentum in the state in recent time. More than 4000 SHGs are credit linked to different branches of CBs, RRBs and MCABs through SGSY route in the state.

1.2. Synopsis of literature review

The review of literature in the field of general and subsidized microfinance (detailed in chapter II) gives an idea of origin and movement of microfinance across the globe. The inception of microfinance is traced with the establishment and operation of marginal savings and credit groups in different corners of the world where moneylenders gain their position over financial institutions in provisioning of credit to the poor. The poor strata of the nation are always excluded from the formal financial system on account of the inability from their part of providing mortgage. Also, the financial institutions are of the opinion that the poor are not
bankable and therefore reluctant to give credit to them. But the issue of poverty and streamlining of the poor with the formal financial system slowly gained momentum in the policy framework of the government and with the initiation of Grameen Bank in Bangladesh in seventies. This provision of credit through microfinance has not only showed that the poor are bankable but also they can be used as an effective mechanism to fight against poverty.

The services rendered from microfinance have helped the poor in accessing with the small collateral free loan which not only has helped them in meeting their day to day needs but also has allowed them to go with the small enterprise set up for income generating activities. In India, the effort of NABARD through its SHG bank linkage programme since 1992 has transformed the scenario of provision of microfinance services and has helped millions of people in accessing small finance to be used for the consumption or for income generation activities. Recently, the government has been providing subsidized finance to the poor/swarozgaries through SGSY to sustain their livelihood. However, on account of its recent intervention, the impact of subsidy on the sustainability of swarozgaries has yet to be established in the state of Meghalaya. To provide better access of small finance, many NGOs and MFIs are playing as active intermediaries in forming, nurturing, promoting and providing micro loans and other micro financial services to the poor in Meghalaya along with other states in India.

The provision of micro financial services to the poor by formal financial institutions through NGOs and MFIs as intermediary is found to be benefited in dual ways. First, it reduces transaction costs for the lending institutions and second, the recovery rate from the borrowers is found to be increased when they are used as intermediaries. Many studies have revealed that the small loan to the poor, especially, to the poor women have helped in many fold. Women are empowered after availing micro- financial services and start gaining position in taking decision in family matters. Likewise, they can take good care of their children by providing good food and sending them to school.

The impact assessment of subsidized microfinance programme across the globe reveals the fact that the subsidized institutions are sustainable because of continuous injection of subsidy to them.
and once subsidy is withdrawn; their sustainability raises lots of questions. Subsidy tends to
understates the real cost of operation as it reduces the cost of funding. Also, it overstates the
income and distorts any ratios which may be computed from such data. The subsidy impact on
the microfinance programmes have been measured by taking into account the important financial
variables namely change in personal, economic and social well being of the clients’ position in
pre and post period of intervention of microfinance services, patterns of expenditure,
consumption and creation of assets. Other than financial indicators, the social indicators that
became popular in early eighties such as education, access to health, and nutritional levels have
also been extended recently to examine whether microfinance can promote women
empowerment. The most commonly used parameters in the measurement of sustainability of
microfinance programmes are full cost recovery and profit making which is associated with the
aim of building microfinance institutions that can last into the future without continued reliance
on government subsidies or donor funds. From the perspective of banking companies, a
microfinance institution is said to have reached sustainability when the operating income from
the loan is sufficient to cover all the operating costs. From the perspective of lending institutions,
the high transaction cost in lending small capital, poor recovery of loan and improper utilization
of subsidized finance by the borrowers are some of the key variables that discourage the lenders
in providing microfinance to the poor.

The findings from the review of literatures of microfinance, especially the subsidized
microfinance delineates the deleterious effect of subsidy on the long term sustainability of SHGs.
The subsidy based government runs programmes are often found showing negative impact on the
financial health of the beneficiaries. Also, on numerous occasions, the subsidy is found reaching
in the hands of local elites instead of the poor. The experience of subsidized microfinance in
India also depicts unsound result. The failure of a few subsidized programmes and the
recapitalization of the RRBs in the past are some of the instances in this regard. However, the
sustainability impact of SHGs that falls under SGSY is yet to establish in Meghalaya. The
research problem is therefore, designed to address the impact of subsidy on the sustainability of
SHGs that falls within the subsidized programmes of SGSY in the state of Meghalaya. Apart
from SGSY-SHGs, the SHGs of IFAD (International Fund for Agricultural Development) programme are also given prime importance for the sustainability study.

1.3. Research problem

Financing rural financial institutions and supporting income generating activities with concessional funds are common approaches in many developing countries including India. Over the last five decades, on numerous occasions, government has supported many credit disbursing institutions that have eroded their capital base to a great extent. The erosion of capital base is basically because of non recovery of credit and high transaction costs. Concessional or subsidized finance though has some salubrious effect on the functioning of these institutions in the initial years, has proved to be deleterious in the long run. The less significant impact of many government sponsored income and employment generating schemes on the eradication of poverty and rural industrialization in the past are some of the evidences. Though off late MFIs and SHGs are added to this channel of micro credit disbursement with an objective of increasing economic accessibility for the poor, the infusion of subsidy in their capital structure has the similar potential of bringing the entire exercise into jeopardy. The impact of subsidy on the financial performance and on the long term sustainability of SHGs is an important aspect which has been addressed in research findings. The working of such small groups having a membership of 10-15 and the crude nature of their activities do not qualify them as a full-fledged financial entity. But the working of these informal intermediaries, which are mainly confined to saving mobilization and loan disbursement, conveys the idea of their activities of finance and to some extent the rudimentary form of banking.

With the majority of population living in rural areas, micro-finance, especially the subsidized micro-finance programmes, operating in different parts of the country has transformed the lives of the poor. In India, at the national level, the success rate of micro-finance and various micro-finance poverty alleviation programmes is quite impressive. However, at the regional level, the success story is much uneven. In North-Eastern Region there is no comprehensive study on SHGs’ finance. This is because of the obvious reason that micro-finance activities undertaken in various states including Meghalaya of this region is at nascent stage. The latest
position of the linkage programme in Meghalaya reveals that most of the SHGs are financed through the Government sponsored SGSY scheme, though many non-SGSY SHGs are also in existence. Most of these SHGs are promoted by the Government agencies like DRDA and BDO (Block Development Office) at block level. The NGOs in the state also contribute in promoting and nurturing of the SHGs. As it has been already mentioned, many of the SHGs are found to be formed under SGSY; their financial performances are understated because of the concessional rate of financing. Also, on account of the non-maintenance of proper records by the groups, it is very difficult to find the actual default rate by the members. Because of subsidy component, the SGSY scheme is gaining more acceptance as many groups are availing the loan for subsidy but the poor recovery rate of this scheme that is, only 57.70 percent (SLBC, 2010) has a potential of putting a question mark on the long term sustainability of SHGs. Along with this important issue of poor recovery of loan, many other questions arise about the workings and sustainability of SHGs like: are the SHGs formed to avail only the subsidized finance in the state?, are they efficient enough to run their businesses?, are they running their businesses effectively and covering their operating costs?, are they capable to run their businesses without receiving support from the donors?, what is the impact of subsidy on the workings and sustainability of SHGs?, can they run their business profitably and sustain for long in the future without receiving continuous subsidies?, and is the government by providing subsidized finance to SHGs really helping them in taking income generating activities and alleviates their poverty? The research is therefore, thought appropriate as it concerns with the impact of subsidized micro-finance on the performance of SHGs/beneficiaries. All these facts have created a keen interest to take up the issue and address them in the research study.

1.4 Significance of the study

The studies on subsidized finance are not many in the entire NER. A few studies on the social impact of microfinance are available in the region but the impact of subsidy on the long term sustainability of SHGs is scanty in the region including Meghalaya. The study, therefore, thought appropriate to fill this particular gap of impact study of subsidy on the sustainability of SHGs. While focusing on the main issue of subsidy impact, it also aims at emphasizing other financial
aspects of micro-finance like mobilization of savings, delivery of credit and repayment of loan. Presently, there are not enough objective evidences available which can be used to know the present and future scenario of subsidized micro-finance of the state as a whole. The sustainability study on the working of SHGs is also not visible in the state. In this regard, the conclusive results of the study will certainly act as a guideline for future course of action regarding subsidized micro-finance in general and micro-finance of the state as a whole. The inferences drawn from here are expected to help those people who are associated in the field of microfinance in and outside the state. Also, the conclusions drawn from the study are expected to give benefit in terms of a good reference for the future research in the area of microfinance and also provide some input for decision making at various level.

1.5. Objectives

The objectives of the research work are the following:

I. To review the subsidized micro finance interventions in the North-Eastern Region with special focus on Meghalaya.

II. To assess the financial sustainability of SHGs operating in Meghalaya.

III. To study the impact of subsidy on the performance of SHGs.

IV. To make a comparative analysis of the subsidized SHGs with those of non-subsidized SHGs in terms of their working and sustainability.

1.6. Hypotheses

The following are the hypotheses of the present research:

I. Financial sustainability of SHGs in Meghalaya has not been satisfactory.

II. Subsidized micro finance has a negative impact on the financial performance of SHGs.

III. Non-subsidized SHGs are financially better entity than subsidized SHGs.
1.7. Methodology

1.7.1. Scope and coverage

As the study is mainly concentrating on subsidised finance, the SHGs of SGSY scheme and IFAD (International Fund for Agricultural Development) programme forms the source of population and drawing of sizeable samples from the population. To draw accurate inferences of financial performance and overall sustainability of these experimental groups, those SHGs that are at least five years old in terms of obtaining microcredit from the formal financial institutions are considered. A period of five years plus for the study is considered to be appropriate as the scheme (SGSY) has come into effect from 1st April 1999 in the national level and started working effectively only after 2000-2001 in the state of Meghalaya. Similarly, the first phase of the IFAD programme has commissioned in the state in the year 2001-2002 through the intervention of North Eastern Region Community Resource Management Project (NERCORMP). Apart from concentrating on subsidised SHGs, the non-subsidised SGHs are also incorporated as a control group to fulfil an ancillary objective of the research that is, comparative study of financial performance of subsidised and non-subsidised SHGs in the state. To find out a better entity between subsidised and non-subsidised SHGs, the important financial variables such as profitability, loan repayment either by members to SHG or by SHG to financial institutions, savings, sustainability and self-sufficiency have been given prime importance.

1.7.2. Sources of data

The study is based on primary as well as secondary data collected from the various sources. The secondary sources such as NABARD, RBI, Government of Meghalaya, State Level Bankers’ Committee Report (SLBC) and other published studies are significantly used based on the need and requirements of the study. The primary data have been collected from the subsidised as well as non-subsidised SHGs through structured schedule with the help of personal interview. This has resulted in obtaining reliable information from the SHGs interviewed and simultaneously reduced the incidence of subjectivity. Apart from schedule, data have also been collected from the subsidised SHGs in the form of audited financial statements. The different financial variables
such as loan taken by SHGs, deployment of acquired loan in micro business as well as disbursement as loan to members, repayment of loan either by members to SHGs or by SHGs to linked banks, Net surplus, savings, and other financial parameters are considered to be the core financial variables for data collection.

1.7.3. Population, Sample, and Sample classification

Table 1.6 portrays the district-wise population details of subsidised and non-subsidised SHGs in the state of Meghalaya. A total of 3712 credit linked SGSY-SHG and 3708 non-SGSY credit linked SHGs are found to exist in the state. Apart from this, 1077 SHGs, those sponsored by IFAD through NERCORMP exist in West Garo Hills (WGH) and West Khasi (WKH) Hills districts of the state. To sum-up, a total of 4789 subsidised SHGs are found to exist in the state as against 3708 non-subsidised SHGs when SGSY and Non-SGSY Schemes and IFAD programme are considered. Out of total subsidised SHGs, the WGH (1736) district is found to be the most SHG concentrated area followed by WKH (705) and other districts. Similarly, the WGH is found to lead other districts in terms of existence of non-subsidised SHGs. Out of seven districts of the

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Districts</th>
<th>No. of SGSY SHGs (Subsidized)</th>
<th>No. of IFAD sponsored SHGs (subsidized)</th>
<th>No. of Non-SGSY SHGs (Non-subsidized)</th>
<th>Total (Subsidized)</th>
<th>Total (Non-subsidized)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EKH</td>
<td>638</td>
<td>-</td>
<td>637</td>
<td>638</td>
<td>637</td>
</tr>
<tr>
<td>2</td>
<td>WKH</td>
<td>455</td>
<td>250</td>
<td>455</td>
<td>705</td>
<td>455</td>
</tr>
<tr>
<td>3</td>
<td>JH</td>
<td>221</td>
<td>-</td>
<td>221</td>
<td>221</td>
<td>221</td>
</tr>
<tr>
<td>4</td>
<td>EGH</td>
<td>657</td>
<td>-</td>
<td>656</td>
<td>657</td>
<td>656</td>
</tr>
<tr>
<td>5</td>
<td>WGH</td>
<td>909</td>
<td>827</td>
<td>908</td>
<td>1736</td>
<td>908</td>
</tr>
<tr>
<td>6</td>
<td>SGH</td>
<td>359</td>
<td>-</td>
<td>358</td>
<td>359</td>
<td>358</td>
</tr>
<tr>
<td>7</td>
<td>RB</td>
<td>473</td>
<td>-</td>
<td>473</td>
<td>473</td>
<td>473</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3712</strong></td>
<td><strong>1077</strong></td>
<td><strong>3708</strong></td>
<td><strong>4789</strong></td>
<td><strong>3708</strong></td>
<td><strong>4789</strong></td>
</tr>
</tbody>
</table>

Source: Annual Report, 2009-10 of (i) SLBC and (ii) NERCORMP
state, the three districts namely, South Garo Hills (SGH), Jaintia Hills (JH) and Ri-Bhoi (RB) are dropped from our study. This is mainly done because of two fold reasons: First, as visible from the table, these districts are found to associate with very less number of SHGs and second, the existence of more than five years old SHGs in terms of availing micro credit from formal financial institutions are very less in these districts. Again when we consider the characteristics of SHGs in terms of their workings, we find that the SHGs of SGH district are similar with those of East Garo Hills (EGH) district and WGH district and similarly the SHGs of JH district and RB district are similar with East Khasi Hills (EKH) and WKH districts. Therefore, we find that the SHGs of these three dropped districts are well represented by the SHGs of rest of the districts that we have taken into our study. Altogether, the four districts such as EKH, WKH, EGH and WGH are undertaken for the study. Table 1.7 indicates the fact that out of the four districts, WGH consist of maximum of subsidised SHGs (47 percent) followed by almost similar distribution in rest of the districts. Similarly, the existence of Non-Subsidised SHGs is more (34 percent) in WGH district followed by other districts.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Districts</th>
<th>No. of SGSY SHGs (Subsidized)</th>
<th>No. of IFAD sponsored SHGs (subsidized)</th>
<th>No. of Non-SGSY SHGs (Non-subsidized)</th>
<th>Total (Subsidized)</th>
<th>Total (Non-subsidized)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>EKH</td>
<td>638</td>
<td>-</td>
<td>637</td>
<td>638 (17.08)</td>
<td>637 (23.98)</td>
</tr>
<tr>
<td>2</td>
<td>WKH</td>
<td>455</td>
<td>250</td>
<td>455</td>
<td>705 (18.87)</td>
<td>455 (17.13)</td>
</tr>
<tr>
<td>3</td>
<td>EGH</td>
<td>657</td>
<td>-</td>
<td>656</td>
<td>657 (17.58)</td>
<td>656 (24.70)</td>
</tr>
<tr>
<td>4</td>
<td>WGH</td>
<td>909</td>
<td>827</td>
<td>908</td>
<td>1736 (46.47)</td>
<td>908 (34.19)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2659</td>
<td>1077</td>
<td>2656</td>
<td>3736 (100.00)</td>
<td>2656(100.00)</td>
</tr>
</tbody>
</table>

Source: Annual Report, 2009-10 of (i) SLBC and (ii) NERCORMP
Note: Figures in parentheses are percentage to total.

At the initial phase, a total of 410 sample SHGs (320 numbers of subsidized SHGs and 90 numbers of non-subsidized SHGs) have been collected from the different blocks of EKH, WKH, EGH and WGH districts. Data have been collected from those SHGs which we have been met first in the respective blocks of each district. Because of uneven distribution of five years old SHGs in terms of availing micro loans from formal financial institutions, we could not follow the
exact proportionate sampling method for each of the districts but we tried to do the same to its best possible extent. After doing a close scrutiny of these 410 randomly collected SHGs through convenience sampling method, we have arrived at the final set of 200 sample SHGs (150 numbers of subsidized SHGs and 50 numbers of non-subsidized SHGs) that constitutes final samples for our analysis. All the data of non-subsidized SHGs that is, 50 in numbers are collected in the form of structured schedule (Table 1.8) whereas the data of 150 numbers of subsidized SHGs (84 from SGSY and 66 from IFAD) are collected from structured schedule as well as in the form of audited financial statements\(^2\). Out of 66 samples of IFAD, 27 numbers are found to be fully subsidised SHGs. The financial data from the SHGs have been collected, covering the financial period of five years that is, from 2005-06 to 2009-10.

<table>
<thead>
<tr>
<th>Types of SHGs</th>
<th>Total samples</th>
<th>Data collection</th>
<th>Types of SHGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Schedule</td>
<td>Audited Financial statements</td>
</tr>
<tr>
<td>Subsidized</td>
<td>150</td>
<td>84</td>
<td>66</td>
</tr>
<tr>
<td>Non-subsidized</td>
<td>50</td>
<td>50</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Field survey

Table 1.9 portrays district-wise details of sample classifications. Out of the total subsidized samples, the WGH being the most SHG concentrated area in the state constitutes 37 percent of the total subsidized samples followed by WKH (31 percent) and other districts. The reason of sharing maximum number of samples by these two districts each from two hilly regions can well be judged with two specific reasons. First, both the districts are found to be SHG prone area and second, the NERCORMP from where the audited financial statements are collected for the study, operates in these two districts. The sample size of non-subsidized SHGs is also found to be the highest in WGH (36 percent) followed by other districts. The SHGs those are sponsored through

\(^2\) The audited financial statements are collected from the office of three renowned Chartered Accountants namely; (1) Mr. Kiran Joshi (G.S. Road), (2) Mr. Randall Kharsyntiew (Fire Brigade), and (3) Mr. Ajit Paul (G.S. Road).
IFAD in WKH and WGH districts of the state share 39 percent and 61 percent of the total sample size of IFAD SHGs (66 nos.). From the IFAD samples, a total of 27 SHGs have availed fully subsidized finance. Out of the total partly subsidized SHGs (123 nos.), West Garo Hills constitutes the highest that is, 45 percent. The collected data are classified under ‘Type’ (Female, Male and Mixed) and ‘Education’ (All SHG members with below metric status and Mixed that is, SHG members with below and above metric status) (Table 1.10). The WGH district which constitutes only female groups bears the highest share of 44 percent of female subsidized SHGs followed by WKH (27 percent), EGH (26 percent) and EKH (3 percent). The EGH district shares the highest of subsidized male groups (50 percent) whereas the WKH district shares the highest of subsidized mixed groups (65 percent).

### Table-1.9: District-wise Sample classifications and Data source

<table>
<thead>
<tr>
<th>Districts</th>
<th>Types of SHGs</th>
<th>Total Samples</th>
<th>Data collection</th>
<th>Types of SHGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Schedule</td>
<td>Partly subsidized</td>
</tr>
<tr>
<td>EKH</td>
<td>Subsidized.</td>
<td>11(7.33)</td>
<td>11(13.10)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized.</td>
<td>6(12.00)</td>
<td>6(12.00)</td>
<td>-</td>
</tr>
<tr>
<td>WKH</td>
<td>Subsidized.</td>
<td>46(30.67)</td>
<td>20(23.80)</td>
<td>26(39.39)</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized.</td>
<td>14(28.00)</td>
<td>12(24.00)</td>
<td>-</td>
</tr>
<tr>
<td>EGH</td>
<td>Subsidized.</td>
<td>37(24.67)</td>
<td>37(44.05)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized.</td>
<td>12(24.00)</td>
<td>12(24.00)</td>
<td>-</td>
</tr>
<tr>
<td>WGH</td>
<td>Subsidized.</td>
<td>56(37.33)</td>
<td>16(19.05)</td>
<td>40(60.61)</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized.</td>
<td>18(36.00)</td>
<td>18(36.00)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>Subsidized.</td>
<td>150(100.00)</td>
<td>84(100.00)</td>
<td>66(100.00)</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized.</td>
<td>50(100.00)</td>
<td>50(100.00)</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Field survey
Note: Figures in parentheses are percentage to total.
In case of non-subsidized SHGs, the WGH district shares the maximum of female groups (38 percent) followed by WKH district (31 percent), EGH district (19 percent) and EKH district (12 percent). The EGH district constitutes maximum of male non-subsidized SHGs (47 percent) followed by WGH district (40 percent) and WKH district (13 percent). In case of non-subsidized mixed groups, WKH district shares the maximum of 44 percent followed by EKH district (33 percent). The education-wise classification reveals the fact that both subsidized and non-subsidized SHGs constitute maximum of below metric members. The WGH shares the

<table>
<thead>
<tr>
<th>Districts</th>
<th>Types of SHGs</th>
<th>Type-wise</th>
<th>Education-wise</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>EKH</td>
<td>Subsidized</td>
<td>4(3.15)</td>
<td>2(33.33)</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized</td>
<td>3(11.54)</td>
<td>-</td>
</tr>
<tr>
<td>WKH</td>
<td>Subsidized</td>
<td>34(26.77)</td>
<td>1(16.67)</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized</td>
<td>8(30.77)</td>
<td>2(13.33)</td>
</tr>
<tr>
<td>EGH</td>
<td>Subsidized</td>
<td>33(25.98)</td>
<td>3(50.00)</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized</td>
<td>5(19.23)</td>
<td>7(46.67)</td>
</tr>
<tr>
<td>WGH</td>
<td>Subsidized</td>
<td>56(44.10)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized</td>
<td>10(38.46)</td>
<td>6(40.00)</td>
</tr>
<tr>
<td>Total</td>
<td>Subsidized</td>
<td>127(100.00)</td>
<td>6(100.00)</td>
</tr>
<tr>
<td></td>
<td>Non-Subsidized</td>
<td>26(100.00)</td>
<td>15(100.00)</td>
</tr>
</tbody>
</table>

Source: Field survey
Note: Figures in parentheses indicate percentage to total.

maximum of 39 percent of subsidized and 34 percent of non-subsidized SHGs that consist below metric members. On the other hand, WKH and WGH (32 percent each) and WGH (40 percent) constitute a maximum of mixed members with below and above metric status in subsidized and non-subsidized section.
1.7.4. Tools of data analyses

The collected data have been tabulated, analysed, and interpreted with the help of ratio analysis, Coefficient of Variation (CV), Subsidy Dependence Index (SDI) and Regression analysis. All the absolute values of different variables are calculated on per SHG per year basis. To examine the overall sustainability of SHGs, the Operating Cost Ratio (OCR), Return on Asset (ROA), Operating Self Sufficiency Ratio (OSSR) and Financial Self Sufficiency Ratio (FSSR) (SEEP, 1995) are given due importance. The SDI (Yaron, 1992) which is one of the most accepted techniques to assess the dependence of financial institutions on government supported funds is also extended to SHGs as a tool of analysis for the study. The ratios and SDI model as advocated by SEEP and Yaron respectively have been used in the context of MFIs and they are borrowed to SHGs in the present research. As a standard norms, less than 1 ratio of OSSR and FSSR indicates that SHGs are not sustainable whereas, an SDI of 100 percent delineates that a doubling of the average on-lending interest rate by SHG to its members to become viable without the support of subsidy. The other statistical techniques such as mean, standard deviation, correlation analysis and factor analysis have been used extensively as per their requirements in the research. MS Excel of Microsoft Office and SPSS software have also been used to get authentic and reliable results.

(i) Ratio Analysis: To analyze the financial performance and to check the overall sustainability of the selected sample SHGs, following ratios are used:

(A) Business Performance Ratios

1. Interest Earned to total Income Ratio (IIR) = (Interest Earned/ Total Income)*100
2. Interest Expenses to total Income Ratio (IEIR) = (Interest Expenses/ Total Income)*100
3. Operating Expenses to total Income Ratio (OEIR) = (Operating Expenses/Total Income)*100
4. Interest Expenses to Interest Earned Ratio (IEIER) = Interest Expenses/Interest Earned)*100

5. Interest Spread Ratio (ISR) = (Interest Spread/ Total Income)*100

Where; Interest Earned = Interest earned from loan given to members; Interest Expenses = Interest on loan paid to financial institutions; Operating Expenses = Office and administrative expenses excluding that of interest expenses; Total Income = Business income + Interest income; Total Expenses = Business purchase + Operating expenses + Interest paid and Interest Spread = Interest received from loan given to members – Interest paid on loan taken from financial institutions).

(B) Loan Performance Ratios

1. Loan Paid to Loan Outstanding Ratio (LPLOR) = (Loan Paid during the year/ Average Loan Outstanding)* 100.

2. Loan Outstanding per SHG (₹) = Total Loan Outstanding at the end of the year/Number of SHGs.

Where, Loan Paid during the year = Actual (principal) amount of Loan Paid during the year; Loan Outstanding = Opening balance of Loan + Loan taken during the year; Loan Outstanding at the end of the year = Opening balance of Loan + Loan taken during the year – Loan repaid during the year.

Note: Average balance of Loan Outstanding = (Opening balance of Loan Outstanding + Closing balance of Loan Outstanding)/2

(C) Profitability Ratios

1. Net Surplus to total Revenue Ratio (NSTR) = (Net Surplus /Total Revenue)*100

2. Return on Capital Employed (ROC) = (Net Surplus/ Capital Employed)*100

3. Operating Expenses to total Loan Portfolio (OETLPL) = Operating Expenses during the year/ Average Loan Outstanding at the end from financial institutions)*100

Where, Net Surplus = Total Income – Total Expenses; Total Revenue = Total Income; Capital Employed = Average Capital Fund + Average Loan Outstanding at the end with financial institutions;

NOTE: Capital Fund = Sum total of each year’s accumulated profit/loss of SHG; Average Capital Fund = (Opening Capital Fund + Closing Capital Fund)/2 and Average Loan Outstanding = (Opening balance of Loan Outstanding + Closing balance of Loan Outstanding)/2.
(D) Sustainability and self sufficiency Ratios

1. Operating Cost Ratio (OCR) = (Operating Costs/Average Loan Outstanding at the end)\*100
2. Return on Asset (ROA) = (Net Surplus/Average Loan Outstanding at the end)*100
3. Operating Self Sufficiency Ratio (OSSR) = Financial Income/(Financial Costs + Operating Costs)
4. Financial Self Sufficiency Ratio (FSSR) = Financial Income/{Financial Costs + Operating costs + Loan Loss Provision(LLP) + Imputed Cost of Capital (ICC)}

Where, Operating Costs = Office and Administrative Expenses other than Interest Expenditure; Average Loan Outstanding at the end = Average amount of Loan Outstanding with members; [Note: Avg. Loan Outstanding = (Opening balance of Loan + Closing balance of Loan)/2]; Net Surplus = Total Income – Total Expenses; Financial Income = Net Income from business (that is, Business Income – Purchase Expenses) + Interest Income; Financial Costs = Interest Expenditure in the form of interest paid on loan to linked banks, LLP\(^3\) = 20 percent of Loan Outstanding with SHG members and ICC\(^4\) = 20.5 percent of Closing Bank Balance of SHG.

(ii) The Subsidy Dependence Index (SDI) Model

The Subsidy Dependence Index (SDI) as advocated by Yaron, 1992, has been found as one of the most reliable techniques to assess the dependence of financial institutions on government supported funds. This technique has been used in the context of MFIs and has been borrowed to the present research to study the dependence of SHGs on the subsidy.

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\(^3\) On account of improper maintenance of accounts by SHGs, it is very difficult to get exact information about LLP on the amount lent to their members and also the ICC. Therefore, 20 percent of loan outstanding with SHG members, considering the recovery rate at 57.70 percent of the major subsidized programme of SGSY in the state of Meghalaya, 2009-10(SLBC, 2009-10) is thought appropriate and has been taken as a proxy for LLP and;

\(^4\) For ICC 20.5 percent of saving account balances with linked banks [(which indicates the loss of interest of holding cash balance with the linked banks, that is, the rate charged on loan to group members (24 percent) minus an interest of 3.5 percent earned on closing amount of savings account balances)] is assumed as proxy.
\[
SDI = \frac{\text{Total Annual Subsidy Received (S)}}{\text{Average annual interest income } (LP \times i)} \\
= \frac{A (m - c) + [(E \times m) - p] + K}{(LP \times i)}
\]

Where, 
- \(A\) = MFI concessional borrowed funds outstanding (annual average).
- \(m\) = Interest rate that the MFI would be assumed to pay for borrowed funds if access to borrowed concessional funds were eliminated.
- \(c\) = Weighted average annual concessional rate of interest actually paid by the MFI on its average annual concessional borrowed funds outstanding.
- \(E\) = Average annual equity.
- \(P\) = Reported annual profit (before tax and adjusted, when necessary, for loan loss provision, inflation and so on).
- \(K\) = The sum of all other subsidies received by the MFI (such as partial or complete coverage of the MFIs operational costs by the state).
- \(LP\) = Average annual outstanding loan portfolio of the MFI.
- \(i\) = Weighted average on-lending interest rate earned on the MFI loan portfolio.

\[
i = \frac{\text{Annual interest earned}}{\text{Average annual loan portfolio}}
\]


On account of the unavailability of a few variables from SHGs books of account, the above formula cannot be used in the same fashion as has been used in the context of MFIs. The formula is therefore, simplified and is used as follows:

\[
SDI = \frac{A}{LP \times M}
\]

Where \(SDI\) = Subsidy Dependence Index; \(A\) = Average subsidy per SHG per year; \(LP\) = Average loan disbursed to members (per SHG per year); and \(M\) = Lending rate of SHG to its members per annum.
(iii) **Statistical analysis:** The growth of the SHG business/activities can well be captured through the behaviour of data over the study period. The growth may be annual and compounded. The Linear Growth Rate (LGR) which is based on the natural logarithms and is one of the widely accepted techniques in time series data is applied in the present study to find out the growth of SHGs financial activities.

\[
\text{Linear Growth Rate (LGR)} \rightarrow = \exp(\text{LINEST (LN (Variables))})-1) \times 100
\]

Apart from the stated tools, multiple regression model is used extensively to assess the impact of selected independent variables on dependent variable. This is basically done to assess the impact of micro financing in general and subsidized microfinance in particular on the different growth parameters of SHGs. The multiple regression equation in the form of model is used to know the impact of subsidized micro finance on SHGs. The equation such as ‘\(Y = \alpha + \beta X_1 + \gamma X_2 + \delta X_3 + e\)’ has been used where \(Y\) is the dependent variable, \(\alpha\) is the constant, \(\beta\), \(\gamma\) and \(\delta\) are the slopes of the independent variables \(X_1\), \(X_2\) and \(X_3\) respectively and ‘\(e\)’ represents the stochastic or randomness errors with zero expectations, equal variances and uncorrelated with each other. In total, one number of Ordinary Least Square (OLS) equation model which is based on multiple regression equation has been used and the detail of this equation is given in chapter-V.

**The Model**

\[
NS_i = \beta_0 + \beta_1(\text{TWC}_i) + \beta_2(\text{OE}_i) + \beta_3(\text{AS}_i) + \beta_4(\text{TWC1}_i) + \beta_5(\text{TWC2}_i) + \beta_6(\text{EDU}_i) + e_i
\]

1.7.5. **Drawbacks of Data**

The present study deals with the financial data of SHGs falling under three categories: (i) SGSY-SHG, (ii) Non SGSY-SHG, and (iii) SHGs availing partly as well as fully subsidized loans from NERCORMP through IFAD. As maximum number SHGs’ members are illiterate or less literate without possessing much knowledge of book keeping, lots of mistakes and variation are found in their accounts. Again, being not mandatory on the part of SHGs to maintain their business accounts, adds more difficulties to know the actual state of financial position of their
business. Moreover, the study deals with financial data of only those SHGs which have maintained their accounts in the form of cash book, loan register, minute’s book, bank pass book and other necessary ledger accounts, at least for the period of five years, ignoring thereby the other SHGs that have not maintained their accounts. This has led the sample size to be small. In case of a few SHGs, the method of extrapolation is used to find their statement of affairs for one future financial year and the result obtained from such calculations may not authenticate the trueness of state of affairs for that particular year. All the required ratios are calculated based on the available data obtained from these SHGs which may not be correct and may not be stating their true financial statements of affairs because of their unscientific system of maintaining accounts. The SDI model, as stated, is also used in the present study by taking a few assumptions wherever necessary. Therefore, in case of lack of required information, appropriate assumptions had been made to obtain the results which might not match with actual results if true data of SHGs were available.

The study is almost depending on primary data obtained from subsidized (partly and fully) and non-subsidized SHGs. Therefore, SHGs members’ perception and living may be changed in future. With regard to secondary data obtained from different sources, a huge amount of inconsistencies have been noticed against a common parameter. A huge gap is found to appear in the annual statistics published by an apex institution like NABARD against the state level data published by State Level Bankers’ Committee, Lead Bank, SBI Meghalaya. Because of lack of updating data by the former, it is very difficult to arrive at the actual state of affairs of SHG formation in the state, their linkage with the banks, actual amount of loan disbursed to them, amount of subsidy provided and repayment status of the SHGs. Even the data obtained from other government departments’ sources are not found in line with NABARD and SLBC. The non-availability of required data with regard to subsidized finance and financial performance of SHGs both in the country and at the state level, leads to absence of a few variables which are very much necessary to arrive at proper conclusion. Therefore, some assumptions as per the demand and requirement of study have been made within the data constrain to analyze the data and to draw the valid conclusions from the study. In the future research work, these assumptions need to be tested and corrected.
1.8. Presentation of the Research work

In the present chapter, the undertaking of the research work is outlined by giving due importance to the variables like introduction of the topic, microfinance with special reference to subsidized microfinance, evolution of microfinance and subsidy and sustainability linkage, exposure to the state of Meghalaya in terms of microfinance and other activities, objectives of the study and, methodologies used to arrive at proper conclusions which are organized in total seven chapters including the present chapter for the dissertation.

Chapter-II
This chapter deals with the overall scenario of microfinance and subsidized microfinance abroad as well as in India with the help of available literatures and tries to find out the working of MFIs/SHGs and the impact of subsidy on the overall performance and also on their long term sustainability.

Chapter-III
Chapter III deals with the subsidized microfinance and financial performance of SHGs in North Eastern Region (NER) in general and the state of Meghalaya in particular and tries to establish the facts and figures of SHGs of the States/state in terms of their working and financial performance.

Chapter-IV
This chapter deals with the financial performances of SHGs in the state of Meghalaya. The various tools such as Ratio Analysis (RA), Coefficient of Variation (CV), and Linear Growth Rate (LGR) have been used extensively to find out the growth and sustainability of SHGs in Meghalaya.

Chapter-V
Chapter V deals with the sustainability issue of sample SHGs in Meghalaya. The various statistical tools such as Correlation, Factor Analysis, and Multiple Regression have been used
accordingly to find out the appropriate results from the study. Two specific sustainability ratios such as, OSSR and FSSR along with SDI model are given due importance to study the impact of subsidy on the sustainability of SHGs.

Chapter-VI
Comparative performance of subsidized SHGs with those of Non-subsidized SHGs in terms of their financial performance has been dealt in chapter VI. Financial variables like loan taken and repayment of loan, savings, and profit or loss are used as important indicators to arrive at proper conclusions. Comparative analyses with the help of ratio analysis is given due importance in this segment.

Chapter-VII
The last chapter highlights on some of the main findings of the study. It also emphasizes on capturing the main issues of microfinance with special reference to subsidized microfinance and ends with giving appropriate suggestions and remedies.

1.9. References


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