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These days, microfinance has become an important institution and mechanism of credit delivery, particularly for the poor and the deprived. There have been a number of studies undertaken in India and other developing countries that have brought out the success of various microfinance programmes in alleviating rural poverty, promoting holistic development of individuals, communities and developing small enterprises. The ultimate recognition of the viability, suitability and efficiency of microfinance as an agent and institution of development has recently come about, because of the pioneering work undertaken by Prof. Yunus of Bangladesh.

Microfinance and more specifically the credit element in it, is basically undertaken and promoted by various Microfinance Promoting Institutions (MFPIs). These institutions can be Non Govt. organizations (NGOs), Self Help Group (SHGs) and other social groups. The importance of the microfinance programmes and the success of the MFPIs in various developing countries, get prominence, because of persistent market and government failures in the sphere of rural development in general and rural credit in particular. This very success also negates the age-old perception and belief of most of the formal sector financial institutions that the “poor are not bankable”.

There are different organizations engaged in programmes of microfinance. In India this programme is predominantly undertaken and has been made successful by
another institution popularly known as SHGs. P Satish (2005), has defined SHG as a voluntary group valuing personal interactions and mutual aid as a means of altering the problems perceived as alterable, pressing and personal by most of its participants. These groups are voluntary associations of people formed to attain certain collective goals that could be economic, social or both. These days it is being increasingly realized that, the best strategy of ensuring simultaneously growth and human development, is by promoting the growth of SHGs. Hence both in development theory and development practice, microfinance and SHGs have become important institutions.

Microfinance has become one of the most discussed subjects in the last two decades all over the world. While one group advocates that it has significant impacts in reducing poverty (Prof Yunus Mohammed of Grameen Bank is an ardent promoter of this idea and has recently been awarded Nobel Peace prize for this endeavour); others caution against such optimism and point to negative impacts. There are still others who follow the middle path and argue that while microfinance does increase access of capital for the poor, in order to reduce poverty other non financial services must be added on. Whatever may be the case, today microfinance programmes and institutions have become increasingly important components of strategies to reduce poverty or promote micro and small enterprise development in many of the developing countries.

Microfinance means 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 improve their living standards. Usually, the loan size would be below Rs 50,000 or so. Thus microfinance does not mean only the size. It means a change in the approach and philosophy to a demand led financial services and products for all of those who have been left out of the formal banking sector.
1.2 Background of the Study

In the 70s, the approach towards rural finance was based on the assumption that directed credit from outside would remove poverty. The trick was to select the right type of activities which would be upgraded to increase incomes for the households. The emphasis was on the individual units. Based on these premises, nationalization of banks took place in large number of developing countries including India. This led to massive expansion of banks in the rural areas of our country. But, despite the massive physical expansion, the outcome in terms of credit delivery to the poor people in rural areas has still not been proportionate. As on 2001 only 35.5 % of rural population households availed of banking services. And more importantly, there are serious regional differences. In the North East Region (NER), this figure was only 20.4% in 2005-06. Thus, despite every effort, the banking services have still not really been accessible to the majority of the population primarily because of high transaction cost, both for the bank and the borrower, amongst other things. And the poor has been left out of the system.

On the other hand, microfinance emphasizes on efficient financial intermediation and focuses on the entire system as a whole and not on individual units. The key imperative of micro finance therefore is that it responds effectively to demand and design products which are simple and easily understood by the clients as well as easily managed by Microfinance Promoting Institutions (MFPIs).

Based on such philosophy and approach, a set of institutions have spread across diverse geographical space like Bangladesh, Bolivia, Indonesia, and India. These institutions, united under the banner of microfinance, share commitment to serve clients left off formal banking sector. Today, it has been estimated that there are 13 million micro credit borrowers being served by around 7,000 MFPIs across the world, with USD 7 billion in outstanding loans, and generating repayment rates of
97% and above and has seen a phenomenal 30 percent annual growth rate. The microcredit summit 2005 estimates that USD21.6 billion is further needed to provide microfinance to 100 million world’s poorest families.

The basic delivery methodology for microcredit is either through groups or individuals. Within the groups there is a variety of mechanisms like Self Help Groups (SHGs), Credit Unions, Joint – Liability Groups etc. Different regions follow different mechanisms but the objective is same i.e. providing the financial services on a sustainable basis and doing it by taking very little physical collateral. Learning from the experiences, India took first initiative in the early 90s with the help of National Bank for Agriculture and Rural Development (NABARD). NABARD promoted microfinance industry by innovating SHGs and leveraging the vast network spread across the country. They tried out a pilot project which was a success. This led to the implementation of SHG- Bank Linkage Programme (SBLP) on a full fledge basis in 1996. Here SHG was envisaged as a micro bank, meeting both the saving and credit needs of the poor and needy members.

In this study we have tried to analyze the progress of various SHG-Microfinance linkage programmes in the North Eastern Region of India in general and Assam in particular. Besides we have also explained some of the determinants of the expansion of credit linked SHGs.

1.3 Objectives of the Study

The spread of the SHG-microfinance linkage programme in the North East India as well as in Assam is recent. In this study we want to explain the expansion of this programme in the North East and analyze how it compares with the All India situation. Further, in addition to Government initiative, the growth of this programme might have been possible because of certain determining factors. All these issues are
going to be studied in this study. To put it straight, the specific objectives of the study are:

1. To assess the progress of various SHG-Microfinance linkage programmes in the NER and in Assam.
2. To have inter-state comparison in the progress of this linkage programme.
3. To account for the various factors responsible for the growth of this linkage programme.

1.4 Hypotheses

The following hypotheses have been formulated to be tested in course of the study:

1. The magnitude of the progress of the SHG- Microfinance linkage programmes in the North East as a whole as well as in Assam is much less compared to the all India position.

2. There exist considerable inter-state differences in the progress of SHG – Microfinance linkage programmes in NER.

3. Rural employment diversification, growth of NGOs, growth of banking infrastructure are the important factors contributing to the growth of the SHGs credit linked.

1.5 An Outline of the Study

In this section we provide the structure of the dissertation which is organized in six chapters starting with the present chapter which introduces the problem and the objectives of the study.
Chapter 2 gives a detailed account of existing literature related to the origin, concept, approaches to microfinance and definition of SHGs as well as some other aspects of SHG movement.

Chapter 3 explains the sources of data methodology to be followed. It also gives an outline of the profile of the study area including both demographic and economic characteristics.

Chapter 4 demonstrates the progress of SBLP in North East Region (NER) and Assam and also analyses the performance of Swarnajoyanti Gram Swarajgar Yojona (SGSY) in Assam.

Chapter 5 explains the possible factors that are responsible in the growth of these programmes in Assam.

Chapter 6 highlights the conclusion and policy implications of the entire exercise. It also mentions the limitations of the present study as well as the scope for further study.