CHAPTER-I
INTRODUCTION

1.1 Background:

The nation has been experimenting with various alternatives to reach the banking services, primarily credit, in rural areas through several initiatives. Early initiatives in this regard were taken by building an institutional framework, beginning with the focus on the co-operative credit institutions followed by the nationalization of major domestic banks, and later the creation of the Regional Rural Banks (RRBs). Simultaneously, several measures, including establishment of the Lead Bank Scheme, directed lending for the Priority Sectors, Banking sector's linkage with the Government sponsored programmes targeted at the poor, Differential Rate of Interest Scheme, and the Service Area Approach were taken. Given the social responsibility to reach the rural areas and the poor, the Banks and co-operative institutions with guidance from the Reserve Bank of India (RBI), the National Bank for Agricultural and Rural Development (NABARD) and other apex level institutions made serious efforts in meeting the needs and demands of the rural poor. As a result, the outreach of Indian banking system has seen rapid growth in rural areas. Such an unprecedented expansion of the formal financial infrastructure has reduced the dependence of the rural populace on the informal money lending sector. (NABARD,2005)

However, there continues to be wide gaps in the availability of banking services in the rural areas as the Scheduled
Commercial Banks (SCBs) have covered only 34.4 per cent of the rural population through savings/deposit accounts and even a lower percentage of 28.2 per cent of the rural households by way of loan accounts. Though the Primary Agriculture Credit Societies (PACS) with about one lakh outlets, have a deep and wide presence in rural India, their impact in terms of extension of deposit and credit products has not only been minimal but concentrated in a few states only. The decline in productivity of the rural branches of the commercial banks, fragility of the co-operative credit structure and weakness of RRBs witnessed since early 90s, have further accentuated the problem of inaccessibility of banking services for a large part of the rural population (RBI, 2006).

The formal financial sector is also not effectively serving the rural population in the Third World countries (Bouman, 1984). In order to reach the poor, institutional innovations are needed that will enable services to be expanded, while substantially reducing transaction cost for both financial institutions and client. In many countries, small loans (micro-credit) have succeeded in generating self-employment for people living in poverty (Desai and Namboodari, 1996).

In the Indian context, the performance of formal financial institutions, particularly in their lending to the poor, has been unsatisfactory and faced with numerous difficulties in provisioning their services to the poor. A large proportion of rural poor households do not have formal access to the present banking system. Despite the rapid expansion of banking system and establishment of their branches in rural areas, the weaker sections,
especially small, marginal and landless farmers, agricultural and non-agricultural laborers and women have little or no access to formal credit (Karmakar, 1999). The poor are never regarded as credit worthy under the conventional banking system as they cannot provide collateral mortgage. The poor needs small but regular and urgent credit for consumption purposes, besides small investment. The conventional banking system does not cater to these needs of the poor (Fernandez, 1994).

In India, in the year 1992, the National Bank for Agriculture and Rural Development (NABARD) took the pioneering step to launch a pilot project to evolve a supplementary credit delivery channel for meeting the credit needs of the poor. It has since been developed, refined and implemented as a very successful programme. The NABARD's efforts at improving the access of the rural poor to formal banking services through Self-Help Groups (SHGs) is based on the experience that the poor need access to micro finance and the poor as a group are quite credit worthy. The rationale behind micro finance has its roots in the failure of formal credit institutions in effectively meeting the financial service requirements of the poor. The basic objectives of micro finance are: (a) to provide cost effective approaches to formal institutions for expanding outreach to poor and develop collateral substitutes (b) to facilitate empowerment of the rural poor, especially women and (c) to enable to produce new generation entrepreneurs.

The failure of the formal institutions to serve the rural poor effectively led to a review of the informal financial system and
lending groups. The traditional assessment of the informal sector has been that it is exploitative, usurious, and dysfunctional and the newly established institutional credit is thus often aimed at dismantling the informal sector. Such an approach may result in policies which displace informal lenders without offering alternate sources of institutional credit. In these circumstances, rather than a substitute for these informal arrangements, the need is to supplement and strengthen informal credit sources, and compete with informal lenders. Moreover, newly introduced systems could also learn from the informal sector. The informal sector as the oldest center of enterprise preceding the arrival of formal institutions, is a natural and legitimate part of rural financial markets and it is a better policy to acknowledge this fact than to deplore it. It thus seems clear that an informal financial system and an informal lender are not on the same standing. While the latter may be exploitative and charging a usurious rate of interest, the former, by minimizing the information gap and offering flexibility, may be appropriate and efficient for the rural poor (NABARD,2000).

In order to bridge the gap between the formal and informal systems, Muhammed Yunus founded the Grameen Bank (G.B.) in Bangladesh in 1983. The lending programme of GB basically depended on external funds though the member’s saving funds have increased substantially over time (David S. Gibbon,2000). Yunus, the real pioneer of Micro Finance remarked “small amount of financial resources immediately opens up the opportunity for the poor to translate their individual unused
potential into concrete economic action to create an income flow" (Prof Yunus quoted in Das, 1999) In 1983, the SHGs were started and thereafter promoted as financial intermediaries between the rural poor and micro enterprises in the informal sectors on the one hand, and formal financial institutions on the other. These groups are voluntary associations of people formed to attain certain collective goals that could be economic, social or both. Planners of policy and development cherish the myth that poor people do not have the spirit for thrift, but recent reports from different parts of the globe challenge this (Bouman, 1984). In India, in 1996, the Reserve Bank of India (RBI) advised banks that lending to the SHGs should be considered as an additional segment under priority sector advances and integrated with the mainstream credit operation. As a result, the SHGs have become a regular component of the Indian financial system since 1996.

Against this backdrop, micro finance has been recognized as one of the most promising and effective tools of poverty alleviation in most of the developing countries of the world. "Micro finance is provision of thrifts, 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 improvising living standards". No specific limit for small amount of financial services is envisaged. The micro finance programme through SHGs has solved the problems impending the flow of credit of the formal banking system. They have proved that (a) the poor have saving potential, and (b) they are bankable and trustworthy, (c) the transaction cost for savers, borrowers and
Bankers are very low and (d) the risk involved in providing credit services to the poor is very low. The basic motto of organizing such SHGs is to make micro credit accessible to the needed people (majority women) to enable them to generate self-employment and sustainable income, as most of the SHGs are credit worthy with a loan recovery rate of 95 per cent (NIRD, 2005). Therefore, SHGs are considered as one of the most significant tools to adopt a participatory approach for social and economic empowerment of rural people.

Empowerment is a multidimensional process, which should enable the individual or a group of individuals to realize their full identity and powers in all spheres of life. It consists of greater access to knowledge and resources, greater autonomy in decision making to enable them to have greater ability to plan their lives or have greater control over the circumstances that influence their lives and free them from the shackles imposed on them by custom, belief and practice. The term: economic empowerment relate to income, expenditure, savings, investment, freedom to decide their own earnings, freedom in decision making, education and training. Thus, entitlement for education, employment, earning and empowerment are considered important to initiate weaker sections into income generating economic utilities for their overall upliftment and economic independence (Giri, 2002).

Economic empowerment of women is paid highest attention for poverty alleviation. It is anticipated that women comprise the majority of the population below the poverty line.
and are very often in situations of extreme poverty (Bakshi and Sharma 2001). Accordingly, steps have been taken for mobilization of poor women and convergence of services by offering them a range of economic and social options along with necessary support measures to enhance their capabilities. In order to enhance their access to credit for consumption and production, establishment of new and strengthening of existing micro-credit mechanism and micro-finance institutions are undertaken so that the outreach of credit is enhanced.

In Assam, the micro finance programme began only around 1998-99 and already as many as 1,10,000 SHGs have been formed out of which 30,000 SHGs have made credit linked with the banks up to December, 2006. But the performance of the SHGs is not up to the mark as compared to the other states in the country viz. Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka, West Bengal and Orrissa (nabard.org).

The people in the state of Assam are predominately agrarian, who are still in subsistence level. For trading and production purposes, the rural poor is still dependent on money lenders whose interest rates are usually very high. This is rather heavy on the borrowers who are often poor, illiterate and do not understand the intricacies involved in formal lending. Therefore, they do not approach banks despite their needs. With the help of Non-Government organizations (NGOs) individuals can be organized under SHGs for the purpose of borrowing from financial institutions. Also links can be established for networking these SHGs with the formal banking sector. If rural poor are provided credit on
reasonable terms, they can judge for themselves how best to increase the income and they need only those inputs that they can adopt themselves to. Based on these notions, the micro finance system is developed as a potent tool to increase the economic growth through increasing the profit making capacity of the borrowers.

1.2. Objectives of the study:

In the context of the issues mentioned above, the study addresses the following objectives:

(a) To study the growth and development of microfinance in Assam with special reference to Hajo Development Block, Kamrup District, Assam.

(b) To examine the impact of microfinance on economic empowerment of weaker sections especially Schedule Caste (SC), Schedule Tribe (ST) and Other Backward Class (OBC).

(c) To compare the working and performance of Government sponsored SHGs and Non-Government organisation (NGO) sponsored SHGs.

(d) To highlight the role of NABARD and NGOs, in the development of microfinance with special reference, to Assam.

(e) To identify the problems associated with microfinance through SHGs and to put forward a few policy suggestions for the solution of the problems.
1.3. Research Questions:

The research questions that we have encountered in our research works are:

(i) Is the average annual income of Government sponsored SHG’s member is higher than the NGO sponsored SHG’s member?

(ii) Is the average annual savings of Government sponsored SHG’s member is higher than the NGO sponsored SHG’s member?

(iii) Is the average annual employment generation of Government sponsored SHG’s member is higher than the NGO sponsored SHG’s member?

(iv) Is the average annual asset creation of Government sponsored SHG’s member is higher than the NGO sponsored SHG’s member?

1.4 Methodology:

The study is primarily based on field level data collected from the respondents. For the purpose of obtaining the required information for the study, the purposive and multistage stratified random sampling technique have been adopted. The tools for the investigation are questionnaire/schedule and the personal interview. The field survey was conducted from April 2005 to January 2006.

The criteria of the selection of the samples for the study are:
1.4.1 Selection of the Block

In the first stage sampling, out of 17 development blocks of Kamrup district, Hajo Development Block has been selected purposively for the study. The Hajo Block has been selected for the following reasons:

(a) Hajo Development Block has shown pioneer achievement in empowering of Women SHG members (DRDA, Kamrup, 2005).

(b) Among different Blocks of Kamrup district for comparative study, Hajo has sufficient number of Government and NGO sponsored SHGs.

(c) The Block has been selected purposively because, so far no study on micro finance has been found in the Block earlier.

1.4.2 Selection of Gaon Panchayat:

In the second stage sampling, among 16 Gaon Panchayats in Hajo Development Block, 12 Gaon Panchayats have been selected purposively for the study taking into consideration of predominance SC and ST community and concentration of women SHGs.

1.4.3 Selection of SHGs:

In the third stage sampling, out of 1012 SHGs, altogether 120 SHGs have been taken up; 60 from Government sponsored and 60 from NGO sponsored. In the study only the SHG-Bank linkage group with a minimum three-year-old groups have been selected.
1.4.4. Selection of SHG members:
In the fourth stage sampling; five members from each sample SHGs have been selected for detail study. A well designed schedules and questionnaire have been used to elicit the required information from the sample units. Thus in total, 600 individual members have been selected for personal interview from 120 SHGs.

1.4.5 Calculation of Income:
While taking income from the sample SHG members, we take into account the income indicators like income from agricultural activities, income from horticulture, income from dairy and poultry firm, income from daily wage labour and income from floriculture.

1.5. Sources of data:
The study is based on both primary and secondary data. The primary and secondary data are collected from the following sources;

(A) Primary data:
Keeping in view the broad objectives of the study, three types of questionnaire/schedule have been framed for eliciting information from three types of respondents-SHG profile, personal interview of SHG members and sponsoring authority/loan authority of SHG members.

The SHG questionnaire is formulated to investigate the working structure of the group. The SHG member personal profile
questionnaire is formulated to examine the economic condition of
the member and to ascertain the impact of the programme on
them. A separate questionnaire is also designed for sponsoring
authority/loan authority to know the performance of sponsoring
authority pertaining to their services, monitoring and controlling
the SHG groups/members.

(B) Secondary data:

The secondary data have been collected from the
various publications of RBI and the relevant publications of the
NABARD. The secondary sources also include Human Development
Report, 2006; Journal of Rural Development, NIRD; Journal of
the Indian Bank Association and Bulletin of Assam Institute of
Research for Tribes and Scheduled Caste, Government of Assam;
various publications of the Ministry of Information and Broad-
casting, New Delhi; Assam Economic Review, Government of Assam;
Statistical Handbook, Government of Assam; various issues of
Indian Journal of Agricultural Marketing; Indian Journal of
Agricultural Economics, Publications of SIRD, IIBM and DRDA,
Kamrup District, Assam.

1.6 Analysis of data:

After collection of the required data, detailed analysis
has been made through computer using SPSS Package, keeping
in view the objectives of the study in mind. Data so collected have
been tabulated to analyse the economic variables like income,
saving, employment and asset of the sample SHG members, and
also examined the impact of micro-finance on economic empowerment of weaker sections, especially SC, ST and OBC groups.

Further t-test has been used to measure the income level of Government and NGO sponsored SHGs.

1.7 Justification of the present study:

Despite the vast expansion of the formal credit system in the country, such facilities have not been able to adequately cover the need of small loan requirements. Banks have not been actively involved in such lending, as this involves high risks and transaction cost, and too many small borrowers. There is a need to target small and medium farmers, self-employed people and entrepreneurs, not so much as a measure of poverty alleviation but also as an exercise in setting up a productivity efficiency building mechanism that would support the overall development of the country. The unreached small borrowers can benefit from the small loans (microfinance) through intermediaries. This will encourage the practice of informal savings and help in inculcation of the habit of borrowing and repayment.

Although several studies relating to microfinance have been conducted by different scholars in different parts of the country, a very limited indepth study of microfinance has been conducted in Assam, especially in a particular Block level. Secondly, no other comparative studies of microfinance have been found about the working and performance of Government sponsored and NGO sponsored SHGs in Assam. The studies completed so far lack comprehensiveness and exactitude.
Therefore, this study will fill up the gap. In the present study, an attempt has been made to undertake an indepth study about the working and performance of Government sponsored SHGs and NGO sponsored SHGs in economic empowerment of the rural poor. The study is further directed towards examining the impact of microfinance on the weaker sections especially SC, ST and OBC in mobilizing savings, generating income and employment, uplifting standard of living and acquiring assets of the group members. Furthermore, considering the importance of microfinance in Assam, the present study has been analyzed critically the institutional framework of microfinance approach and it's credit delivery mechanism to SHGs in Hajo Development Block of Kamrup District, Assam. Besides, the study also attempts to suggest modification, if any, of the existing framework of micro-finance, keeping in view of socio-economic milieu of the people in the Block.

1.8 Description of the Study area:

Hajo Development Block is accessible by pacca road from Gauwahati city, which is 33 k.m. from the city area and is under the Kamrup district of Assam. According to 2001 census, there are 16 Gaon Panchayats in Hajo Development Block. Within this block, there are 137 villages with a total population of 2,24,263. Hajo is popularly known as Pancha Tirtha, and amalgam of five religious shrines. It occupies a unique place in the history of Assam. The Block is mostly inhabited by farmers. Small businessman, retail traders and floriculturists. *(A map of Hajo Development Block is enclosed).*
1.8.1 Occupational Pattern:

Agriculture is the primary occupation of the people of Hajo Development Block. The occupational pattern of the workers may be classified under primary, secondary and territory sectors. Primary sector includes agriculture and allied activities, livestock and forestry. Secondary sector includes manufacturing and construction which transforms the product of the primary sector into finished goods. Territory sector includes all services activities like trade and commerce, banking, transport and storage. In the villages under the block, majority of the workers (C1 per cent) belong to the primary sector, 20 per cent belong to secondary sector and 19 per cent belong to tertiary sector according to 2001 census report.

In the villages mainly agricultural products like rice, wheat, sugarcane, cereals, betel-nut and co-conut are available. Besides agricultural products, it's allied activities like piggery, poultry, farming and fisheries have also been taken up by the villagers for commercial purposes. Weaving is a common feature among the women in the sample villages. If assistance is given in the form of input materials, weaving could become a Potential economic activity in the block. The brass metal industry is also famous in the block due to availability of raw materials. Unfortunately, this industry is decaying due to increase of input prices, poor technology and non-availability of cheap products in the market.

1.8.2 Housing condition and Water supply:

The standard of residential accommodation indicates the standard of living of the people. In the study area, houses may be divided into three types, namely kachaa, Pucca and half Pucca.
Among the villagers, 30 per cent of the village people are still living in Kuchaa houses without proper sanitation and other modern amenities. It is disheartening to see that even in this modern era, some of the rural poor donot have proper sanitation facilities. In this block, 50 per cent of the people have sanitary latrines, 30 per cent have non-sanitary latrines and 20 per cent of the village people have to go to the open space or to the forest.

Water supply is an essential item of public utility services. In the surveyed area, the main sources of water are Tube well, Government water supply and river. The recent development of water supply has made tap water easily available. It has also been found that as high as 60 per cent of the households have their own sources of water supply, 30 per cent depend on the water supply provided by the Government and 10 per cent depend on river water.

1.8.3 Banking and health facilities:
There is one Nationalized Bank (Allahabad Bank) and four Assam Grameen Vikash Banks in the block. The Allahabad Bank is located in the proper town area and the remaining four banks are situated at Kulhati, Bamundi, Ramdia and Baramboi villages respectively. There is one 30 bedded hospital which is located in the heart of the town. Besides, two mini Primary Health Centres are working, one at Kalitakuchi and the other at Bamundi.

1.8.4 Education and Electrification:
Educational status of the surveyed block is not very encouraging. Male literary rate of this block is found to be 42 per cent only, while the female literary rate is much lower at 37 per cent. During the time of survey, it has been found that there are
45 High Schools, 133 lower primary schools, 11 Madrassa, 10 ME Madrassa, 2 Provincialised and 3 Non-Provincialised Colleges in the block. In the surveyed block, poor people living in the villages like Satdala, Chapri and Bakata are far behind in availing themselves of the advantage of electrification. Although the block falls under the rural electrification scheme, all the households of the surveyed area have not been able to get the electricity services out of 600 sample households, only 294 poor households have been found to have benefited from the rural electrification scheme.

1.8.5 Transport/Communication and Marketing facilities:

In the interior villages of the study area viz. Dehnia, Bakata, Satdala, Dakshin Shingra, Bala Karpur, Chaporri and Chakantali villages are deprived of improved communication facilities. The people of these villages narrow Kachna road to reach another villages. These roads become muddy and slippery in the rainy season. There are three types of roads in the surveyed villages viz. Kachaa road, graveled road and pucca road. The length of Kachaa road is the highest and the length of pucca road is the lowest. Besides, in the study area, marketing facilities stands traditionally in the village or in the nearest haat or shandy, where goods are exchange into cash. The village people in the remote areas have bound to sell their surplus produce in the hands of the middlemen at very cheap rates due to lack of transport and communication facilities and prevalence of defective traditional market. Further, there is no regulated market in the block. Therefore the farmers/producers have been deprived of getting remunerative prices of their produce.
1.9 Limitations of the study:

The main limitations of the study are as follows:

1) Due to limitations posed by time and resource constraints, the study is based only on a particular Block of Kamrup District, Assam and as such this study does not focus on the macro scenario of the growth and development of microfinance in Assam.

2) In this study, the sample SHG members are personally contacted and required information were collected. But the primary data are based on subjective responses, which are not always possible to verify. However, the data collected through personal investigation from the respondents have been duly scrutinized, processed and cross-checked before arriving at any conclusion.

3) It is further to be admitted that there is a dearth of secondary information about microfinance in Assam as very few studies have been done so far. Hence, there is more scope for future research in Assam with more emphasis on the scheme by other researchers in the near future.

1.10 Layout of the Thesis:

The present study consists of six chapters: Chapter I includes background of micro-finance, objectives, research questions, methodology, sources and analysis of data, justification of the present study and description of the study area. The limitation of the study and layout of the thesis are included in the last part of chapter one.
Chapter-II gives a brief review of the existing literature and the studies directly or indirectly related to micro finance at the International, National, Regional and State level with a view to guide and enrich the present study and eventually points out the contribution of the study.

Chapter-III is confined to the study of micro finance concept and it's historical perspective, special feature and relevance of micro finance in the economy of Assam.

Chapter-IV highlight the profile of the Government and NGO sponsored SHGs, SHG-Bank Linkage programme and the role of NABARD and NGO's in the development of micro finance with special reference to Assam.

Chapter-V describes the findings of the field survey in regard to economic empowerment of weaker sections especially SC, ST and OBC. The Socio-economic profile of the sample SHG members and impact analysis of the selected individual SHG members also been highlighted in this chapter.

Chapter-VI, is divided into two sections. Section I deals with the summary of the study and some observations from the field survey. Section-II deals with major problem of SHGs, solution of the problems and conclusion. In this chapter, we discuss about the summary of the study, characteristics of the SHG members, loan of the SHGs, group meetings, benefits perceived from SHGs, Problem of the SHG members, entrepreneurial possibility, monitoring of the SHGs, nature of training which we observed in the field survey.

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