CHAPTER - III
CHAPTER-III
THEORETICAL BACKGROUND OF MICRO FINANCE

3.1 Introduction:

The poverty is a cardinal problem, which require anti-poverty interventions. Micro credit is an important anti-poverty intervention against the problem of poverty. India has a predominant population of rural poor who are confronted with dire socio-economic problems in their struggle for survival. This large chunk of section comprises of marginal farmers, laboureres, petty traders, rural artisans belonging to the socially and economically backward classes and the scheduled caste and scheduled tribes population particularly in the resource poor areas. The Government of India has relentlessly endeavored to eradicate poverty since independence. Keeping it as top concern, the Government has always been pro-poor in framing developmental policies. Nonetheless, despite efforts made over the past few decades, rural poverty in India continues to be significant. While anti-poverty programme are strengthened in successive years in per centage terms, poverty levels have reduced considerably. Quite obviously, it is in this context that the self-employment program.nes assume significant for they alone can provide income to the rural poor on a sustainable basis.

In light of the above, an attempt has been made to discuses about the theoretical background of micro-finance with its importance in the economy. This chapter is divided into two sections. Section-I deals with the concept of micro finance, the
difference between micro finance and micro credit, it's historical perspective, importance and benefits of micro-finance in the SHG mode. Section-II deals with the micro finance and Grameen Bank, beginning of micro finance in India, beginning of micro finance in Assam and it's relevance in Assam economy.

SECTION-I

3.2 Micro finance - it’s concept:

The National Bank for Agriculture and Rural Development (NABARD) Task Force on Supportive Policy and Regulatory Framework for Micro Finance 1999, defines micro finance as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards. No specific limit for small amount of financial services in envisaged (NABARD, 1999). Micro finance is often considered one of the most effective and flexible strategies in the fight against global poverty. The idea of micro finance has emerged from the project of income generating activities/micro enterprises and in response to the failure of institutional measures of micro credit. It seems to be the most effective policy instrument towards poverty alleviation. Micro finance programmes are important institutional devices for providing small credit to the rural poor in order to alleviate poverty (RBI, 2005).

Besides it can be referred to as providing credit support usually in very small amounts along with training and other related services to people with poor resources and skills, but who are in a
position to undertake economic activities. So, the concept of micro finance it undoubtedly superior to the traditional rural credit (NABARD, 2004).

Therefore micro finance has recognized and accepted as one of the new development paradigm for poverty alleviation through social and economic empowerment of the poor, especially women. The concept of micro finance, especially rests on the Premises that (a) Self-employment/enterprise formation is a viable alternative areas of alleviating poverty, (b) credit acts as constraint to existing and potential micro enterprise and (c) the poor are able to save despite their low level of income.

3.3 Micro finance and Micro-credit:

The term 'micro finance' includes micro-credit and micro savings and it refers to small-scale services to those who are engaged in small or micro enterprises for generating income. Micro finance comprises micro credit as well as savings, products, pension, payment services, housing loan, insurance, emergency and other private loans to poor and low-income people and/or the enterprises they own. On the other hand, the term, 'micro-credit' broadly refers to (very) small loans provided to low income people and enterprises owned by them. The scope of micro finance is much broader than micro-credit in content and objectives. Thus micro finance refers to variety of services to the low income people belonging to weaker sections of the society (NEDFI, 2004). This has again being recognized by a Task Force on micro finance in 1999.
Therefore, micro implies that the size of the savings and credit is very small. Micro finance includes within its gamut entire range of financial services and non-financial services. These include, entrepreneurship development, capacity building and skill up-gradation so as to equip them with the necessary financial and marketing enterprise to tackle micro-enterprise problems.

**3.4 Micro finance and its Historical perspective:**

 Provision of institutional finance to the Weaker sections was given due importance after independence. As a matter of fact, economic empowerment of the weaker sections was one of the main reasons for nationalization of Commercial Banks in 1969 (RBI,2005). Subsequently, the Commercial and Regional Rural Banks have played an important role in implementation of various credit linkage schemes like the Integrated Rural Development Programme, the Prime Minister Rojgar Yojana, Swarnajayanti Gram Swarojgar Yojana. Notwithstanding these measures, access of the weaker sections to institutional credit continues to be much below the desired level. Therefore, the urgency comes for an innovative credit delivery system which deviate from formal collateral oriented lending institutions to informal credit structures.

 The institutional device of micro finance was introduced to overcome the existing constraints and to provide adequate credit to the poor. So micro finance through Self-Help Groups (SHG) has been recognized as one of the most promising and effective tools for empowering rural people in most of the developing countries of the world.
Linking the banking institutions with the SHGs in mobilizing and saving for meeting the credit needs of the rural areas was recommended in 1986 in the 6th General Assembly of Asia and Pacific Regional Agriculture Credit Association held in Katmandu, Nepal (2003). Subsequently in 1988-89, the National Bank for Agriculture and Rural Development (NABARD) conducted a study of Non-Government Organization (NGO) and following the findings of the survey, NABARD launched a pilot project in 1992 for assisting 500 SHGs through Commercial Banks, out of which 229 SHGs were linked with Banks during 1992-93. That was a modest beginning of micro finance in India (NABARD Annual Report, 1999-2000).

The term micro finance actually received recognition and generated awareness in the mid of 1990's after the World Summit for Social Development was held in Copenhagen in 1995. This summit underscored the significant of access of credit to low income women and vulnerable groups. The issue received a major thrust again in the World Micro Credit Summit of Washington D.C in February’ 1997 where more than 2500 people from 100 countries assembled. The major goal of the summit was to bring about 100 million poor families around the world under the micro credit schemes and other financial services within the year 2007. If there are at least six people in a family, as many as 600 million people would be benefited from the scheme. This mean that at least half of the extreme poverty ridden people of globe would come out from the misery of poverty (MDG,2002).
By learning the experiences of Grameen Bank of Bangladesh, many NGOs also came forward to provide financial services to the poor. In early 1990, NABARD started an experiment with Mysore Resettlement and Development Agency (MYRADA) an NGO in Karnataka by promoting groups, mobilizing their savings and linking them with Banks for credit support. Later on, NABARD replicated this project all over India under the SHGs Bank Linkage Programme and many NGOs came forward to implement this project with the co-operation of Banks. In 1994, following the success of NABARD, Small Industries Development Bank of India (SIDBI) also came forward to provide bulk lending to NGOs for on lending to groups/individuals. Ministry of Human Resource Development, Government of India established Rashtriya Mahila Kosh (RMK) for providing loans to poor women through NGO. Other National and State Financial Corporations also have entered into the micro-finance sector. International funding agencies also started micro-finance services in India through their projects. There are about 1000 NGOs, providing micro-finance services in India through different delivery mechanism (Kanta, 2004).

3.5 Importance of Micro-finance:

Micro-finance is expected to play a significant role in poverty alleviation and development. The need, therefore, is to share experiences and materials which help not only in understanding successes and failures but also provide knowledge and guidelines to strengthen and expand micro-finance
programmes. It can increase the level of income and the poor are able to access financial services which were previously exclusively available to the upper and middle income population. It is one of the most promising grassroot innovations in developing economies because what it does is just gets capital directly to individuals who are ready to turn good ideas into real value. Just as important, it gets real world business knowledge and wisdom to people who can use it to succeed. Therefore, micro-finance as a tool of poverty alleviation is of much interest, especially in the context of reaching the world’s poorest families. It is referred to as small scale financial services (including savings, credit, insurance, business services and technical assistance) provided to people engaged in agriculture, fishing, herding and other small and retail business operators (RBI, 2004).

The Weaker sections of the society are always deprived of their economic status, especially in rural areas and a large majority of the rural poor in the country do not have access to formal banking. Even though a series of measures have been initiated after independence to ameliorate their condition, the degree of exploitation, instead of declining, is on the rise. Moreover, women constitute a large number of the poor, who remain unemployed and are a socially and economically disadvantaged groups in our society. Only few of them work as employees, very few are self-employed or is an employers which means an overall representation of women in the labour market still remains low.
An effort has been made to solve the problem of microfinance by providing an alternative system of banking for the poor. Therefore, there must be a system that can provide solution to credit problem of the weaker section. It is in this context that micro-finance or alternatively micro-credit has assumed great importance. The weaker sections can form SHG by which they are able to mobilize savings from their members and can avail of financial services from formal institutional agencies. Therefore, micro-finance is expected to be a better access to credit which would being economic benefits of the member of SHGs in terms of increased income, higher employment, and better living conditions including enhanced consumption levels. To eradicate the problem of rural credit, there is an urgent need to strengthen micro-credit system so as to enable the members of SHGs to eradicate poverty and sustain income growth (RBI, 2003).

In various parts of the world, micro-credit programmes have succeeded in generating productive self-employment by providing access to small loans to poor people. Such programmes have freed people from the bondage of poverty and have led to their increasing participation in the mainstream economic and political process of society. Further, micro-credit programmes have specially benefited women and resulted in their empowerment in a world where more women than men live in absolute poverty. In addition to their role in the eradication of poverty, micro-credit programmes have also been a contributing factor to the social and human development process. Micro-credit has recently assumed a certain degree of prominence in promoting growth with greater
equity. It is making a significant contribution to both the savings and borrowings of the poor in the country. A systematic and effective micro-credit system (MCS) can address two burning issues confronted by different countries, particularly the developing countries—eradicating poverty at the national level and removing unemployment at the individual level. Considering the importance of micro-credit, the United Nations has declared the year 2005 as the International Year of Micro-credit and appeals to the Governments, Newspapers and Journals to extend their full cooperation to fulfill its mission.

Micro-credit received an increased impetus in the mid 1990s, after the World Summit for Social Development held in Copenhagen in 1995. The Copenhagen Summit underscored the importance of improving access to credit for small producers, landless farmers and other low-income individuals, particularly women and disadvantaged/vulnerable groups (Micro-credit Intervention, 2005). Besides, it helps to reduce the unemployment problem, create new employment opportunities and also divert surplus population from agriculture and thus reduce the pressure of rural unemployment, thereby relieving the pressure of indebtedness. It is estimated that more than 500 million people world-wide need access to financial services. However, formal financial intermediaries such as Commercial Banks, Co-operative Banks and rural banks have not lived up to its social responsibility of meeting the financial needs of the poor due to various reasons such as (a) lack of adequate branch network in the rural areas, (b) the inability of poor to offer satisfactory collaterals for the loans
(c) lack of education and awareness among the poor. Therefore, linked with micro finance, the SHG movement has now been accepted as an effective intervention strategy for poverty alleviation for reasons that include the lack of traditional collateral, high costs of small transactions and geographical isolation. Therefore, microfinance through SHGs is the only way to solve their problems (RBI, 2005).

A study conducted in 1997 by NEIBM (Now IIBM) in Assam, revealed that about 72 per cent of rural loans were small loans i.e. below Rs. 10,000/- and another 22 per cent of loans were in the range between Rs. 10,000 to 25,000/-. Thus, about 94 per cent of rural loans were below Rs. 25,000/-. Therefore, most of the demand for credit in rural areas is micro in nature and most of the loans extended by the banking institutions in the rural areas are also small (less than Rs. 25,000/-). Given the emphasis in profitability, the Banks under the present scenario would find it very difficult to increase their credit exposure because of several factors. The high cost of operation of banks, coupled with cumbersome procedure makes the transaction cost very high both for the borrower and the Bank. The information collection and supervision of loans by the Banks is also very costly. All these factors have resulted in financially unviable situation for the Banks in providing micro-credit in the rural areas. Under such a situation Bank can provide loan to rural people only through SHGs. Therefore, micro-credit would help in enabling the poor to come out of the bonds of poverty.
The United Nations had set Millennium Development Goals (MDGs) in 2000 and one of goals of development was to halve the proportion of people suffering from poverty and hunger by 2015. Under this context, the micro-finance has emerged as a most potent tool of poverty reduction and women empowerment. Besides, micro-finance is also a viable means for poverty amelioration through creation of self-employment programmes or projects (MDGs, 2005).

Therefore, the poor, especially the poor women have the innate capacity to save and mobilize their savings and turn them into productive economic activities. It is necessary to an alternative credit delivery mechanism which is found to be workable and where the needs of the poor are also adhered to. One such alternative can be the micro-credit institutions. Micro-credit programmes have proved to be an effective tool in freeing people from the clutches of poverty and to increased their participation in the economic process of society and in promoting growth with greater equity. The formal banking sector demands a high degree of discipline in procedure and repayment and hence they fail to address the credit requirements of the poor. Further, the commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs. The failure of formal financial institutions to promote access to loans for rural people led to the formation of micro-credit groups.
3.6 Benefits of Micro-finance in the SHG mode:

The benefits of micro-finance through SHG mode can be stated as follows: (NEDFI, Project Report, 2004):

(a) According to a study conducted by NABARD, there has been a 40 per cent reduction in transaction cost for Banks due to externalizing Bank's responsibilities in identification of clients, assessment of risk profile, loan monitoring and recovery.

(b) Likewise, the borrower's transaction cost also declined by 85 per cent by doing away of complex documentation and procedures and cost of wage loss due to repeated visits to Banks.

(c) Easy accessibility due to door step delivery of the credit.

(d) Credit is long-term and continuing in nature.

(e) Avoidance of high cost intermediaries between bankers and client by credit brokers.

(f) The sense of ownership of the programme due to community involvement. The people themselves take their credit decisions.

(g) Positive impact on the qualitative dimensions through empowerment. Therefore, micro-finance though SHG mode is the most effective instrument for eradication of poverty.
3.7 Micro-finance and Grameen Bank:

Mohammed Yunus, a Professor of Economics of Chittagong University who founded the Grameen Bank in Bangladesh can be considered to be the real pioneer of micro-finance. He has shown that poverty can be effectively eliminated by the poor themselves in a self-sustaining way through a massive micro-finance programme. He felt that exploited landless women labourers could generate more income through specially designed micro-finance programmes so as to reduce male domination conservative society and for improving their economic condition.

The idea of Grameen Bank was first introduced as a Pilot Project in a village called Jobra near the Chittagong University Campus in 1976. In 1983, the Project was converted into a full fledged Bank to provide loans to the poor mostly women. Grameen Bank started its life by lending US $27 to 42 poor people to help them get out of the clutches of money lenders. Thus, Prof. Yunus was trying to make a link between the Bank and the poor people with no collateral security by offering himself as guarantor of the poor and taking a loan of $ 300. He then put forward a proposal to the Central Bank of Bangladesh and obtained permission to open a Bank.

The success story of Grameen Bank of Bangladesh has been an eye opener to many countries of the world and proved that the traditional banking system of poor being non-bankable
and non-credit worthy is false. They are bankable, trustworthy and have saving potential (Yunus, 2005).

3.8 The Key Elements of Grameen Bank:

Prof. Yunus strongly believes that credit is a fundamental human right. The Grameen Bank approach basically evolved out of this fundamental belief and has its origin in the search for alternatives to the mainstream commercial banking system. The following are the key elements of Grameen Bank (David, 2003).

(i) Exclusives targeting: An unambiguous eligibility criteria is set down which ensured that only the poor could participate. In order to be eligible to borrow from Grameen Bank, it was stipulated that borrower's land assets must not exceed 0.05 acre and the annual income must be less than the market value of one acre of arable land.

(ii) Emphasis on landing to poor women: The reason for targeting women has its basis on two premises. Firstly, since women have much stronger commitment to the well-being and betterment of their family, specially their children, women borrowers tend to have long-term goals in mind and therefore, remain committed to the Bank. Secondly and more importantly, women have much higher repayment rates. The better repayment rate of women vis-à-vis men was attributed to the fact that women have much lesser access to alternative credit sources than their male counterparts and hence value greatly the availability of credit.
(iii) **Grassroots-based organization:** The Grameen Bank system, prior to opening a new branch at any centre, a campaign is conducted by the Bank staff to inform and educate the potential borrowers about the programme and the Bank's activities. They also motivate the villagers to organize themselves into groups of five like-minded members. The groups are advised to elect one group leader. Six such groups form a Centre which serves as the basic operating unit of the Grameen Bank. The center conducts weekly meetings to discuss loan applications and collect the weekly repayments and also the compulsory weekly savings.

While loans are granted to an individual, the repayment is a collective responsibility. This serve the dual purpose of promoting group solidarity as also ensures peer pressure for timely repayment.

(iv) **Favourable loan conditions:** Under the Grameen Bank system, for obtaining a loan, the loanees are not required to offer collateral security, nor is there any requirement for a guarantor.

(v) **Simple loan procedures:** The simple loan application and processing procedure are the greatest attraction of the Grameen Bank. Once the loan application is endorsed at the Center, the borrower is required to merely write her name on the receipt by way of an acknowledgement. Thus, even the illiterates are not excluded from participating in the credit programme.

(vi) **Small loans with weekly repayments:** Under Grameen Bank system, the initial loan amount is quite small and the repayment
is phased out over a one-year period, to be paid on weekly basis. Bigger loans are given only after the settlement of the earlier loan.

(vii) **Staggered loan disbursements:** The Grameen Bank disburses loans in different stages. Firstly, the most needy and the poorest two members of the groups are allowed to avail loans. After they successfully pay the first 6 weekly installments, the next two members are allowed to avail themselves of a loan and the same sequence is followed in the succeeding disbursement cycles.

(viii) **Purpose of loan:** Grameen Bank initially encouraged its borrowers to take loans chiefly for micro-businesses, for which they had skills. Such a strategy eliminated the need for providing training, market information and other extension services in the initial years, thus allowing the Bank to concentrate only on credit operations. This also facilitated in keeping down the cost of the operations.

(ix) **Requirement of compulsory savings:** Under Grameen Bank system an automatic deduction of 5 per cent of the loan amount is made at the very outset, which goes into the group fund. Members can draw from the fund for any sudden cash requirement with the approval of the group. The fund amount can also be utilized for investing in the shares of the Grameen Bank. By becoming stake-holders, the sense of ownership is further strengthened.

(x) **Practical staff training:** The training system is rigorous but totally oriented to providing practical on-the-job training. The new
recruit is sent to an older branch, which has certain problems, so that the trainees learn by observing others and performing the task themselves.

### 3.9 Reasons behind Grameen Bank's success:

The success of Grameen Bank is based on the following factors (ibid, 2003):

1) **People's participation**: Prof. Yunus, the pioneer of Grameen Bank in Bangladesh believes that socio-economic liberty for the poor can be achieved through the development of new organizations based on people's participation in place of the prevailing oppressive structure. An organization will fail if there is lack of respect for the dignity of people and also if it lacks full confidence in the ability of the people to improve their lot. The Grameen Bank movement is based on the participation of the people. Yunus has developed an organization which is responsible to the needs of the people and capable of sustaining their responsiveness. The structure, programmes and operation of Grameen Bank is based on this fundamental paradigm.

2) **Peer pressure, and peer support**: Peer pressure and peer support is given to the members of Grameen Bank at the right time when a member willfully tries to violate Grameen Bank's rules and when a member falls into any difficulty in pursuing his or her economic activity.

3) **Stress to Reach the Poorest**: Another reason for the success of Grameen Bank is that under this system, assetless people have higher priority to get a loan while the conventional Banks
follow the opposite principal of Grameen Bank's. Because the Grameen Bank is committed to serve the poor and the assetless people.

iv) **Process of Group Formation** : The Grameen Bank has focused on group lending system. A person has to form a group of five self selected people belonging to the same socio-economic status for getting a loan from the Bank. Each group elects its Chairman and Secretary. The group acts as a loan committee and as a monitoring, supervising and problem-solving body. Members of a group find comfort, support, encouragement and strength in the group. The group system is based on the relationship among people, among group members and between the Bank staff and group members. Conventional Banks rely on their lawyers and the courts to protect their money. In Grameen Bank, there is no legal instruments between the lender and the borrower.

v) **Grameen Bank takes its time** : It takes a considerable time for opening a new branch of Grameen Bank, because the Associate Manager has to arrive in a village where the Grameen Bank has decided to set up a branch. He talks to the local people, explaining the rules, procedures and objectives of the Bank. About four weeks later, he organizes a public meeting to give maximum exposure, particularly by including the village leaders, religious leaders, teachers and Government officials. All this means time passes in a slow manner and ultimately everything works out in their favour.

vi) **Credit as a Fundamental Right** : The Grameen Bank believes that credit is a fundamental human right. Given credit,
the poor can overcome poverty. The Bank trusts people and believes in the enormous potential of each and every human being. The Grameen Bank believes that every human being is a potential entrepreneur, so everybody should be given a change through credit to materialize his/her potential.

3.10 Beginning of Micro-finance in India:

The Government of India has initiated a number of anti-poverty programmes over the past few decades such as the Integrated Rural Development Programme (IRDP), the Training of Rural Youth for Self Employment (TRYSEM), the Development of Women and Children in Rural Areas (DWCRA), the Supply of Improved Toolkits to Rural Artisans (SITRA), the Ganga Kalyan Yojana (GKY). The Jawahar Rojgar Yojana (JRY) with a view to enabling the poor to cross the poverty line.

Besides, these programmes, financial institutions have also been extending credit facilities to the poor under priority sector leading and the Government has been providing subsidies on many credit linked schemes for generating additional employment and creating productive assets, imparting technical and entrepreneurial skills and raising the income level of the poor in the rural system. However, until today the problem of poverty remains unabated. It has been found from various studies that there are different types of institutional and administrative deficiencies, which hinder the process of effective implementation of rural development programme. But owing to various institutional and administrative
constraints and political intervention, many genuine poor were not identified as poor. Even those who are selected as beneficiaries, schemes had been imposed upon them without considering their skill and aptitude. Therefore, the poor remains poor and the dimension of the problem becomes more acute. The plans are formulated at the top and imposed on the beneficiaries. In a country like India, where the socio-economic structure of each and every community is different, we can hardly expect successful implementation of a programme in every state, districts, block and village without the involvement of local institutions.

In most of the earlier schemes like the IRDP and the DWCRA, the beneficiaries received the loan as a grant and, therefore, they did not feel the responsibility of repaying it. Bankers too concentrated on disbursing the loan to fulfill the targets without considering the utilization of the loan. This has led to poor loan recovery and resulted in the scheme becoming non-viable. During the early eighties it became clear that the existing credit delivery system in the rural areas (including co-operative) could not cope with the existing demand (Kaladhar, 1997).

Keeping in view the limitations of the earlier schemes, as mentioned a new thrust has been placed on the self-employment programmes, because these can also provide income to the rural poor on a sustainable basis. Thus micro credit is the product of the failure of earlier schemes. A series of NABARD studies demonstrate that despite a wide network of rural branches participating in poverty alleviation programmes, a large number of
the poor continues to remain outside the purview of the formal system.

In India, the launching of the Co-operative Credit Societies Act of 1904 can be considered to be the first effort of introducing micro finance in India (Dhar, 2005). The idea of micro finance has emerged from the projects of income generating activities/micro enterprises and in response to the failure of institutional measures of micro credit. The pioneer of India's micro finance was Ela Bhatt, who founded the Self-Employed Women's Association (SEWA) Bank in 1974 in Ahmedabad, Gujarat for empowerment of women slum dwellers. SEWA is an organization of poor self-employed women workers earning a living through their own labour and small business. Unlike the employees in the organized sector, these women had no regular salaried employment with welfare benefits. The founder of SEWA strongly felt the need to organize the women workers in the unorganized sector, as of the female labour force in India, more than 94 per cent is in the unorganized sector.

Banking with the poor particularly with women through SHG has been a major concern for many Non-Government organizations (NGO's) in some parts of India since the 1980's. The NGO's play an important role in forming SHG and the members of the group can easily take loan from the Banks through the NGO's. More than 90 per cent of the groups are women's groups and NGO's can build confidence and empower the rural women. Therefore, development of efficient and informative NGO's in a country like
India is very essential. The Seventh Five Year Plan (1985-90) had emphasized the need to closely associate NGO's with rural development programmes, particularly poverty alleviation programmes. In India, micro credit programmes are mostly organized by NGOs. Organizations like the (MYRADA) and the Shantidan and Rural Development Trust (RTD) have been providing credit and thrift services to the poor especially women(Karmakar, 1999).

In India, group-lending activities were started first in southern states like Andhra Pradesh, Kerala, Karnataka and Tamil Nadu. Though in India micro credit programmes are mostly organized by NGO's, in February, 1992, NABARD took the pioneering step in launching a pilot project to evolve a supplementary credit delivery channel for meeting the credit needs of the poor. It has since successfully developed and operationalised the concept of linking SHGs with the Banks by combining the flexibility, sensitivity and responsiveness of the informal credit delivery system with the strength of technical and administrative capacities and financial resources of the formal credit institutions.

Through its micro finance programmes, the NABARD is committed to provide institutional banking services to one hundred million poor through one million SHGs by 2008. In order to examine the issues related to the growth of micro finance in the country, a high level Task Force was set up by NABARD in 1999. The Task Force on Supportive Policy and Regulatory Framework for Micro Finance recommended that the policy and regulatory framework should give a fillip to the SHG or NGOs engaged in micro financing activities (NABARD,2000).
In February 1998, Banks were advised by the Reserve Bank of India (RBI) to open savings bank accounts of registered or unregistered SHGs which were engaged in promoting savings habit amongst their members. These SHGs need not necessarily have availed of credit facilities from the banks before opening of savings bank account. Further, the RBI set up a micro finance special cell in 1999 to look into the entire gamut issues relating to micro finance (RBI, 2003). Besides, considering the importance of micro finance, the Government of India has launched the Swarna Jayanti Swarojgar Yojana (SGSY) on 1st April, 1999. This is a holistic-programme covering all aspects of self-employment such as organization of the poor into SHGs, training, credit, technology, infrastructure and marketing. The SGSY was funded by the centre and the state in the ratio of 75:25 (Guidelines, SGSY).

In 2001, NABARD, the RBI and 11 Commercial Banks as co-contributors, set up a Micro Finance Development Fund to take a more holistic view by facilitating the shift from a minimalist approach to a credit plus approach offering financial intermediation. In October 2003, all scheduled Commercial Banks were advised to introduce a model scheme, Swarojgar Credit Card (SCC), prepared by the NABARD. Under SCC, SHGs can also issue credit cards in its name. It is only recently that micro finance has become part of NABARD’s thrust area and 60 per cent of NABARD’s refinance under Bank credit for priority sector has gone to micro enterprises (RBI, 2006).

Therefore, the earliest from of SHG was the co-operative credit society which aimed at bringing the poor together by
promoting small savings and mutual self held concepts. Further, the idea of micro-finance was endorsed in the declaration of Microcredit summit held at Washington DC in February, 1997.

3.11 Beginning of Micro finance in Assam:

In the case of Assam, it is only in 1997-98, that the micro-finance programme really began and has been rapidly picking up since then. The Government of Assam has given primary importance to the upliftment of the poor thereby facilitating the formation of SHGs throughout the state. The Banks are extending credit to SHGs that have opened Savings Accounts with them. The Government of Assam is helping the Angangwadi workers by involving them in the promotion of SHGs for availing bank loans. The growth rate of both the number of SHGs linked to the Bank and the credit disbursed has been increasing. Although the Commercial Banks have a larger outreach than the RRBs, the former have hardly been active in this area (Sharma, 2004).

The growth of population and stagnation in agricultural productivity coupled with limited employment opportunities are sure to lead to greater indebtedness. The only factor which has a limiting influence is the non-availability of credit in rural areas. The State's economy is characterized by long-standing poverty. With the increase in population, growing inequality of income and increased price level, the degree of poverty in Assam started to increase. In case of Assam, which is the largest state of the north-east in terms of population, economic base and banking business,
the low credit flow to the rural areas and virtual absence of consumption loans have forced the rural households to turn to the village money lenders in times of emergencies. The rural sector of Assam is faced with many problems bearing on the supply of credit. After nationalization of Banks, more and more banking branches have been opened in rural areas giving more thrust for the development of the rural economy.

Due to high growth of population per capita resource holding has been decreasing rapidly on the one hand and globalization of Indian economy on the other hand has brought a major change in debt position of rural Assam since 1990. In the 1990's the Government agencies like the Small Industries Development Bank of India (SIDBI), and the North-East Development Finance Corporation (NEDFi) were set up in order to taken the problem of rural credit of Assam. Similarly during 1990's in Assam, many national, state and local NGOs took up micro finance programmes in their effort to empower the poor both socially and economically. In most of the cases, NGOs in Assam not only promote, guide and nurture the SHGs but also take the role of financial intermediaries. The NABARD is empowered to sanction grants and Revolving Fund Assistance (RFA) to the NGOs of Assam. The grants are given to the NGOs for promoting, monitoring and nurturing or to meet a part of administrative cost. On the other hand, the RFA is used for providing credit facilities to the SHGs. Besides providing re-finance to the NGOs, the NABARD also provides awareness training programmes at block and district levels in collaboration with Banks or local NGOs (NABARD, 2005).
Moreover, the State Bank of India has introduced Sahayog Niwas loan which is exclusively meant for SHGs for the purchase or construction of houses, work space or shed, renovation or repairs of the house, purchase of land for house or work shed. The SHGs with a good track record, are eligible to get loans from the Bank under the scheme (SBI, 2004). The NEDFi also launched the micro credit programme in 1999. Till November 2006, the NEDFi sanctioned an amount of Rs 54.09 lakh to the four NGOs of Assam. Further, micro credit seminars are also being organized and sponsored at different places of Assam by the financial organizations to increase awareness and acceptability of the programme (NEDFi, 2004). In Assam another national NGO support agency was established in 1990 at Guwahati named as Rashtriya Gramin Vikas Nidhi (RGVN). The credit and saving programme (CSP) introduced by RGVN is basically a micro credit programme which was launched in 1995 as a pilot project of the organization. Its main objective is to institutionalize a non-formal banking system in rural areas which would provide credit facilities to the poor under special terms and conditions so as to facilitate them to start income generating economic activities (RGVN, 2006). The Assam Science Society, a voluntary organization, is one among the 26 science organizations in India formed by the Gyan Vigyan Samity in Assam (GVSA) on 18th July, 1990. The GVSA launched a SHG programme called ‘praschesta’ meant only for women. The prachesta is a thrift programme in which the groups are encouraged to save so that in the long run the members can avail loan facilities from the group fund. It believes in self-help without any external assistance
The Nanda Talukdar Foundation (an NGO) conducted a field survey in 2007 covering 200 villages, spreading across 11 districts of Brahmaputra Valley, taking 250 SHGs as sample units. It was found that SHGs movement has not been uniform among different districts of Assam, with Upper Brahmaputra Valley 23 launching the movement more vigorously than the Lower Brahmaputra valley. The study discovered that in most of the cases, the so-called public leaders are nothing more than mere suppliers or contractors of the scheme under implementation. At least 60-65 per cent of SHGs, mainly promoted by State Institute of Rural Development (SIRD), is doing reasonably well. The SHGs promoted by others like DRDA, NABARD have lost momentum and have become directionless. The study suggested that for the real implementation of any scheme, the subsidy culture should be eliminated. The practice of accepting bribes by officials has become a routine affair. Except a few honest Bank executives, demanding a bribe has become a norm rather than an exception to get an SHG loan released. In many cases, Banks have arbitrarily manipulated interest rates to their advantage.

But in spite of reported attempts made by institutions like NABARD, SIDBI, RGVN, NEDFi, Bosco Reach Out, and World Vision, the flow of institutional credit made either directly or
through refinance during the post liberalization period is far from adequate. Lack of awareness among farmers, the uncertain law and order situation and the apprehension of bankers, regarding recovery of loans have hampered the progress of the SHGs– bank linkage programme in Assam.

But in the absence of any employment avenue in Assam and formal bank loans, micro credit schemes can do a lot. On the other hand, while ordinary loans from the Banks may not give much confidence, the way micro credit system operates is to build peer groups and make them realize the potential associated with peer groups given the policies in a democratic country.

Nobel laureate Prof. Muhammad Yunus has agreed to extend his help to the Government of Assam for introducing a micro-credit scheme for upliftment of the standard of living of the people living in rural areas.

Meanwhile, the State Government has prepared a draft note of the project, which will been implemented during a period of three years in two phases and an amount of Rs. 835 lakh would be disbursed as loans in three years. In the first year, the beneficiaries would get loans amounting to maximum of Rs. 5000, while the loan amount would be Rs. 7,000 and Rs. 10,000 in the second and third years.

As per the proposal of the State Government at the initial stage, the project would be implemented in the district of Sonitpur. The district has been selected to launch the project as, according to a study by the district, it has the largest population outside the ambit of the formal banking system.
In the first phase, three Grameen Bank branches would be opened in the block of Tezpur, Balipara and Biswanath Chariali while, in the second phase, another three branches would be opened in Rangapara, Chariduar and Dhekiajuli. The aim is to provide loans to approximately 18,000 beneficiaries.

The report indicated that only the people living below the poverty line would be selected as beneficiaries under the scheme. The field officers of the branch of the micro-credit would visit the houses of the applicants and impart training on various aspects of loan disbursement and only after the completion of the training, the Branch Manager would make the concerned person the member of the “Grameen Bank”.

The borrowers would not have to provide any collateral security, mortgage or recommendations to receive credit under the scheme, further it is stated in the report that the officials of the Grameen Bank, Bangladesh would work in implementation of the project on deputation.

Infact, in the year 1997-98, micro-finance had really begin in Assam. Although the performance of the micro-finance is not satisfactory as compared to some of the states in the country like Andhra Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka and West Bengal which recorded significant increase in micro-finance assistance during the last few years, the growth rate of both the member of SHG linked to Bank and also the credit disbursed has been quite impressive in Assam (Govt. of Assam,2007).
3.12 Relevance of Micro-finance in Assam Economy:

Assam is an agricultural state of which 51.65 per cent of population is engaged in agriculture as a source of livelihood and it is the largest state in North East region in terms of population (266.55 lakh) and accounts for 68 per cent of total North East population. In Assam 36 per cent of the population is under below poverty line and 88.9 per cent of the population lives in rural areas. Growth of population and stagnation in rural productivity with limitation of employment opportunities are sure to lead to greater indebtedness. The state’s economy is characterized by long standing poverty. With the increase of population, growing inequality of income and increased price level, the degree of poverty in Assam started to increase as the number of occupation could not grow satisfactorily (Dhar, 2006).

The micro-finance can play a key role in an economically backward state like Assam, where more than one third of the population is living below the poverty line and where more than 21 lakhs people are unemployed. More significantly, micro-finance approach can give financial autonomy to the womenfolk and given them the much needed self-confidence to venture into different kinds of entrepreneurial activities. Micro-finance is relevant to our economy because a large portion of the state is rural where Bank branches are sparse and are not flexible enough to cater in a timely manner and with adequate credit.

Despite vast expansion of the formal credit system in India, dependence of the rural poor on money lenders continues
in some areas especially for meeting their emergent credit requirement. Such dependence is more prominent in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to the socially and economically backward classes and the tribal population, particularly in the resource poor areas. For various reasons the credit flow to these sections of the population for meeting their full credit requirements has not come to be institutionalized. Some of the major causes are the difficulties in dealing effectively and economically with a large number of small borrowers who require credit frequently and in small quantities, limitations imposed by the legal framework on Banks' operations and also due to their perception of the risk and credit worthiness of these borrowers.

The credit needs of the rural poor are determined in a complex socio-economic milieu, where it is difficult to gauge the project lending approach as followed by Banks and where the dividing line between credit for "consumption" and "productive" purposes is blurred. Under the circumstances, a non-formal agency for credit supply to the poor in the form of "SHGs have come into existence spontaneously or with the active involvement of voluntary agencies or development agencies. Such SHGs have been formed generally to address specific issues confronting the poor or to take up specific production activities and often they have mobilized savings among their members, who would normally not expect to have any savings and used such resources to meet the emergent credit needs of the members of the group. The democratic
functioning of the successful SHGs, their adroitness in assessing and appraising the credit needs of members, their business-like functioning and efficiency in recycling the funds and with repayment rates nearing cent per cent, are additional welcome features that the bankers may like to utilize for serving the credit needs of the poor.

The rationale behind micro-finance has its roots in the failure of formal credit institutions in effectively dealing with the financial service requirements of the poor. The poor people and especially the poor women have traditionally not been recognized as credit worthy or able to save and thus they are not perceived to be a profitable market for credit. This has pushed them to fall in the vicious circle of everlasting high interest and high collateral loan from money lenders. Therefore, the need comes for an innovative credit delivery system which deviate from formal collateral oriented lending institutions and formal structure. In a state like Assam with vast magnitude of unemployment and high level of poverty, only the micro-finance programme is expected to mitigate the problem of the state. Further study on micro-finance in Assam made by IIBM found that most of the loans in the rural areas are micro in nature and most of the demand for credit in the rural areas is small (less than Rs. 25,000/-). Under such a situation, Banks can provide loans to rural poor through SHG by which the poor people can mobilize savings and can take loans from the banking system.
Micro-finance in the state of Assam has tremendous scope, where its economy is developed and the population is dense and concentrated. Several studies have indicated that micro-enterprises are vibrant in these areas and the major portion of the required funds are presently accessed from informal sources. Crude estimates indicate that there is a requirement of more than Rs. 1500 crores to Assam alone, whereas only around Rs. 40 crores has been cumulatively disbursed by Banks and other financial institutions.

The Micro-finance sector is mostly catered to by the SHG model, which picked up only by late 1990s. Again it is confined mainly to Assam amongst the banks, the RRBs are most aggressive with SBI showing some interest for the last couple of years. In fact, there has been a jump of almost 10 times (from 350 groups to 3500 groups) in a single year for the State Bank of India in the year 2004-05. This shows the immense potential possibilities of this sector.

The developmental approach for the rural poor to develop themselves economically was launched by NABARD in the years 1991-92 through SHG Bank linkage programme as a pilot project to reach the banking services to the unreached rural poor through the medium of SHGs, in its cost effective credit delivery mechanism. The SHG Bank linkage programme has now become hugely popular all over India, particularly in the south. Since its inception, the linkage programme has been increasingly accepted by the various partners of the programmes viz. Banks NGOs and
other Self-Help promoting institutions (SHPIs) and people. It has been proved to be a very good tool for providing micro finance to the rural poor in the country (NABARD, 2005).

From the foregoing discussion it is proved that, in Assam, there is no other alternative method other than the microfinance scheme which can reduce poverty, increases income and savings and provide employment to the rural masses.

Therefore, micro-finance as an institutional arrangement can positively contribute to the economic and social empowerment of the rural poor. Micro-finance has immense impact on the lives of the borrower of SHG, in terms of their standard of living and economic development. Micro-finance provides credit access to poor with no collateral obligation. It encourages savings and promotes income-generating activities. Loans are provided at the market driven rate of interest and peer pressure is used in repayment. Micro-finance is carried out through SHGs where poor can come together in groups ranging from 10-20 in weekly, fortnightly and monthly meetings for their savings and loan facilities. It is hoped that through such intervention hitherto uncovered with credit and in the process get empowered. In this new approach, if people are really educated, encourage and trained, they will understand and learn how to manage the programme in a better way. Moreover, the social environment is to be changed and saving habit is to be formed among those poor, they have to be communicated in their language, become very close and friendly to them, which is an important part of the linkage programme.
The infrastructure facilities in Assam are to be improved, projects are to be chosen judiciously and finally terrorist activities are to be restrained to make people free from fear and work for development.
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