

Original Research Article

Financial Inclusion in Microfinance- A Case of North East India

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Abstract: Microfinance has played an important role in the process of financial inclusion of the people left out by the financial system due to the unviable nature of clients and low returns for the banking industry. The present study attempts to explore the secondary data with respect to microfinance published annually by NABARD from 2008 to 2019. This study attempts to look into the trends of financial inclusion in India under the microfinance sector in North-Eastern India. The research question is "when the region has similar problems of huge infrastructure gaps, political, law and order problems, how has this sector moved over the years. This is a descriptive study on the following variables viz; bank linkage, saving, credit linkage, credit disbursement, credit outstanding, and non-performing assets of self-help groups handling microfinance.

Keywords: Financial Inclusion, Microfinance, NABARD, and North-East India.

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INTRODUCTION

After the big push for the nationalization of banks in the country, the next big reforms were in 1991, which is believed to reform both the industrial and financial sectors. These reforms removed two key safeguards in the economy, i.e. industrial licensing and full control of interest rates (Mor. *et al.*, 2006). However, both these reforms did not result in the desired 1 push for larger financial inclusion in the country. Rangarajan *et al.* define Financial Inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost". For increasing the outreach to vulnerable groups in the agriculture sector microfinance was pushed through NABARD by supporting the financial inclusion activities of Self-Help Groups. Dev states that "for improving the productivity of small and marginal farmers and improving their skills of rural non-farm workers, the banking system may have to undertake credit plus advisory services". Microfinance has made tremendous strides in India over the years and it has become a household name in view of the multi-pronged benefits reaped/receivable from microfinance services by the poor in our country. Self Help Groups (SHGs) have become the common vehicle of the development process, converging all development

programs. SHG–Bank Linkage Programme launched by NABARD way back in 1992 envisaging synthesis of the formal financial system and informal sector has become a movement throughout the country.

RESEARCH OBJECTIVES

The research paper has the following objectives:

1. To analyse the trends of Financial Inclusion with respect to Microfinance in North East India.
2. To examine Non-Performing Assets of Banks against SHGs in North East India.

RESEARCH METHODOLOGY

The present study is based on Secondary Data for understanding the trends in microfinance in North Eastern Region states of India. The source of data is the annual publication "Status of Micro Finance in India" by National Bank for Agriculture Bank and Rural Development (NABARD). The data with respect to the following variables viz; bank linkage; saving, credit linkage, credit disbursement, credit outstanding, and non-performing assets are obtained from various annexures of the report from 2008 to 2019 and arranged as panel data. The data are graphically arranged using the computer programming language R. The output

generated is arranged according to the topic under discussion.

ANALYSIS AND INTERPRETATION

Bank Linkage

The number of Self-Help Groups linked to banks among the North Eastern States over the period from 2008 to 2019 is shown in Figure No.1. The graph shows some declining trends among the states in some parts of the period under-reported. NBARD (2018) report states that the improved reporting of operating Savings accounts and gradual phasing out of the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme of Go I, has been the major reason for the decline. Only Assam has reported steady a steady growth trend of

SHGs bank linkage program during the period under report. With respect to the number of SHGs with a bank account, the least performer in terms of absolute number is Sikkim; the main reason is due to the lower population base with respect to the rest of the states in the region. The general trends seem improvement in financial inclusion in terms of opening up of bank accounts by self-help groups in the region. However, the level of base for each state is different and Nagaland has shown a downward movement in the terminal year. Overall, it can be concluded that there is an increasing chance of financial inclusion in the region due to pushes from the Government through bank linkages of the self-help groups.

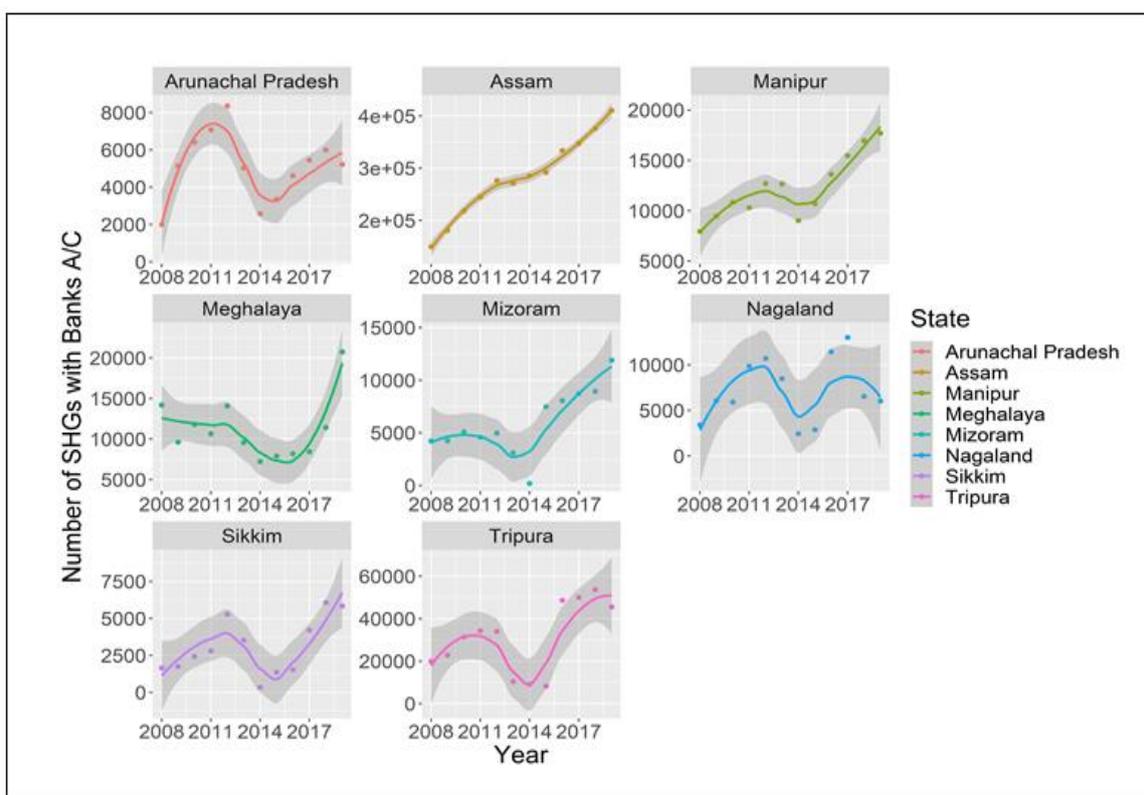


Figure 1: Bank linkage of Self-Help Group

Source: Author's compilation from various Microfinance Reports, NABARD

Saving

The saving made and accumulated in their saving accounts by the Self-Help Groups in the region over the period 2008 to 2018 is shown in Figure No.2. As stated in the para above, the decline in the accounts in the rupee is due to better reporting in terms of gradual phasing out of the SGSY scheme of Go over the years. The general trend shows a gradual increase in the trend in saving amongst the states in the region with

only the exception of Nagaland, where the trend has moved towards decreasing in the terminal year of the reporting period. Assam is the largest state in terms of population and the number of SHGs with bank accounts shows the highest level of saving over the period of time under-reported. The average growth rate of savings made by the SHGs of Manipur was reported as the lowest at 15% and the average saving by these SHGs was Rs. 0.02 lakh.

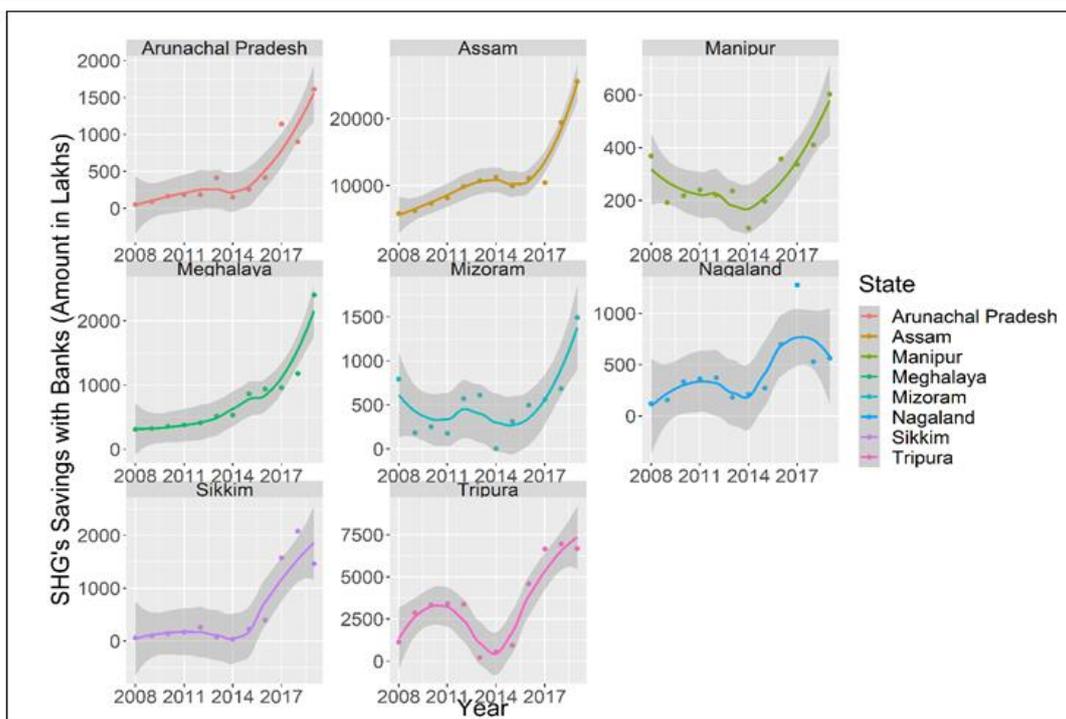


Figure 2: Saving by Self Help Group

Source: Author's compilation from various Microfinance Reports, NABARD

The highest average growth rate of savings was reported in the state of Mizoram at 653%. This outlier is due to low reporting made against the state in a couple of years. SHGs of Sikkim made an average saving of Rs. 0.16 lakhs during the period which is the highest among the states in the region. The growth in the savings among the self-help groups is not constant in nature. This may be attributed to the heavy dependency of these self-help groups on the government schemes and their support. It is seen that there is a need to give importance to the self-sustainability of these self-help groups rather than providing constant subsidies. However, due to better learning outcomes, even the governments have changed their strategies in supporting the self-help groups. This is reflected through better savings by the self-help groups in these regions.

▪ **Credit Linkage**

The number of bank loans disbursed to SHG in the region from 2008 to 2019 is shown in Figure No.3. Overall, the graph shows a downward trend, this leads to the question of whether banks are getting more cautious to lend to SHGs. When further probed, it is surprising to find that 90% of the savings accounts opened by SHGs across the region could not manage to get credit from the financial institutions during the period. Only an average of 16% of the account holders

could manage to get credit in the state of Sikkim, which represents the best performer in the region. Next to being the state of Tripura with only 13% managing to get credit. The state of Mizoram has shown an average growth rate of 467% which seems to be an outlier on account of low reporting during some phases, further the State of Nagaland has shown an average growth rate of 179%, whereas the state of Meghalaya has shown a negative growth rate of negative 3%. Arunachal Pradesh showed an average growth of 4% with a maximum of 1,459 nos of SHGs getting the credit in the initial period of the reporting period. The trend has been decreasing in nature and 95% of account holders do not get credit over the period. In the terminal year of the reporting period, only 40 SHGs functioning in the State could get credit from the financial institutions. From this, the inference can be made that credit linkage in microfinance in the region and state, in particular, has not picked up as desired by the policymakers. The main reasons for low credit linkage among the SHGs are due to lack of continuity in record keeping, and frequent change of members among the SHGs, and in many cases, these groups were formed to meet up the target set by the government in the implementation of livelihood. Hence, the majority of the self-help groups are not creditworthy in terms of banking norms. Banks don't want to take risks on these groups which are very popular in other parts of the nation.

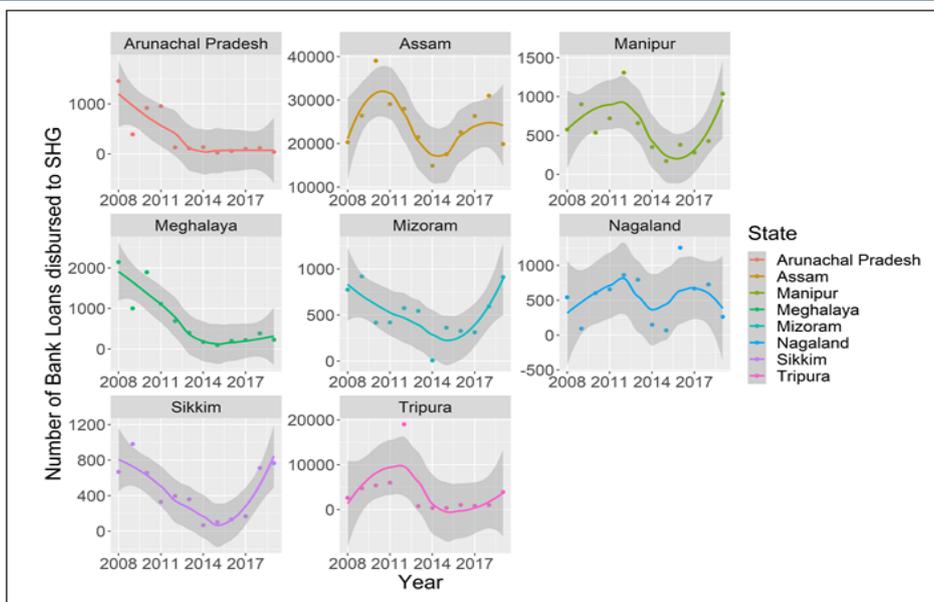


Figure 3: Bank Loans disbursed during the year
 Source: Author's compilation from various Microfinance Reports, NABARD

▪ **Credit Disbursement**

The loan amount disbursed to SHGs over the period 2008 to 2019 in the North Eastern Region is shown in the Figure No.3.24. Overall, the trend showed an upward trend over the period of time under-reported except for the state of Arunachal Pradesh and Meghalaya. Mizoram and Tripura showed an average growth of more than 100% loan amount disbursed during the period. The lowest growth was reflected in Arunachal Pradesh at a negative growth rate of 11% during the period. The loan size shows an average of Rs. 1.02 lakhs in the region during the period of reporting. Nagaland showed an average of Rs. 1.46

lakhs to SHGs which is highest in the region, followed by Mizoram with Rs. 1.45 lakhs. The lowest loan size in the region is in Manipur with Rs.0.68 lakhs. Arunachal Pradesh showed a negative growth rate of 11% over the period. There is a continuous fall in the loan amount sanctioned over the period in the state. During the period, the year 2015, the average loan size was highest at Rs.1.97 lakhs and the lowest during the year 2010 was Rs.0.35 lakhs against each account. The decreasing trend can be inferred that financial institutions have become conservative in advancing the loan to the SHG in the state.

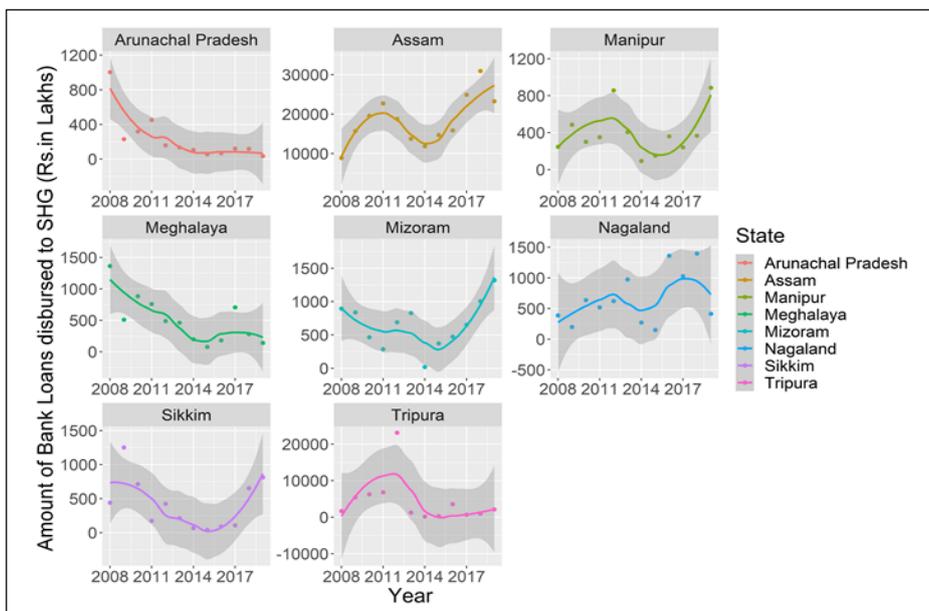


Figure 4: Loan amount disbursed during the year
 Source: Author's compilation from various Microfinance Reports, NABARD

CREDIT OUTSTANDING

A number of microfinance loans outstanding against the Self-Help Group over the years 2008 to 2019 among the North Eastern States is shown in Figure No.6. The trend seems similar over all the states in the region. The outstanding loan against the SHGs has been increasing over the years with some corrections in the middle part of the period reported. Assam reported the highest number of loans outstanding against the SHGs and the lowest number of loans outstanding was reported from Arunachal Pradesh. The loan amount outstanding against the SHGs among the North Eastern States is shown in Figure

No.6. The trend shows similar to Figure No.5 as discussed above. The average amount of loan outstanding for the region is Rs.0.89 lakhs. Mizoram and Nagaland showed a higher level of loan outstanding at Rs.1.33 lakh and Rs.1.27 lakh respectively. The region shows an average growth of 158% amount of loans over the period. The correction in the middle part of the period in Figure No.6 shows that change is due to change in the implementation of livelihood from livelihood Swarnjayanti Gram Swarozgar Yojana (SGSY) to the National Rural Livelihood Mission (NRLM).

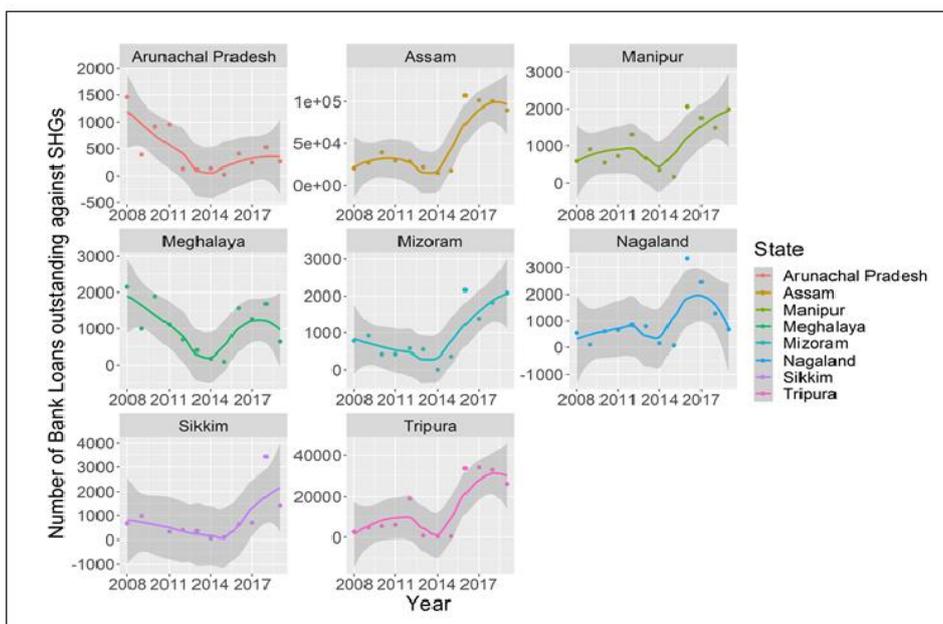


Figure 5: Loans outstanding during the year

Source: Author's compilation from various Microfinance Reports, NABARD

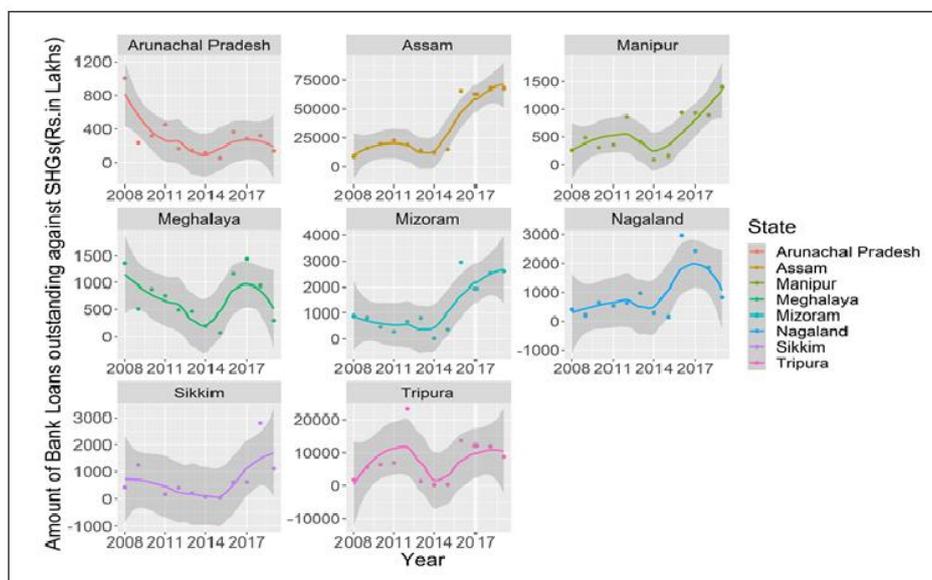


Figure 6: Loans amount outstanding during the year

Source: Author's compilation from various Microfinance Reports, NABARD

Arunachal Pradesh showed a downward trend under loan outstanding against the SHGs. It showed an average growth of loan outstanding at 32%. The outstanding average loan was at Rs.0.90 lakhs and ranged from Rs.0.34 lakh to Rs.1.96 lakhs over the period. In the year 2008, the loan outstanding was Rs.1004.00 lakhs which was the highest over the period. Since the number of credits sanctioned is increasing in order, the credit outstanding will also show an increasing trend. The figure shows similar trends. From this, it can be inferred that the level of repayment is low, as the trends are not constant in nature but stiff rise and fall over the years. This is due

to the heavy write-off by the banks over the periods. Many times it is also observed that new Self-Help Groups are formed by the existing members through additions of new members joining the new groups.

▪ **Non-Performing Assets of Banks against Shgs**

Non-performing assets of the bank against Self Help Groups are shown in Figure No.7. The graph shows the peak point in the later stage of the reporting period. The general direction of the graph shows an upward movement indicating the growing number of accounts becoming non-performing assets.

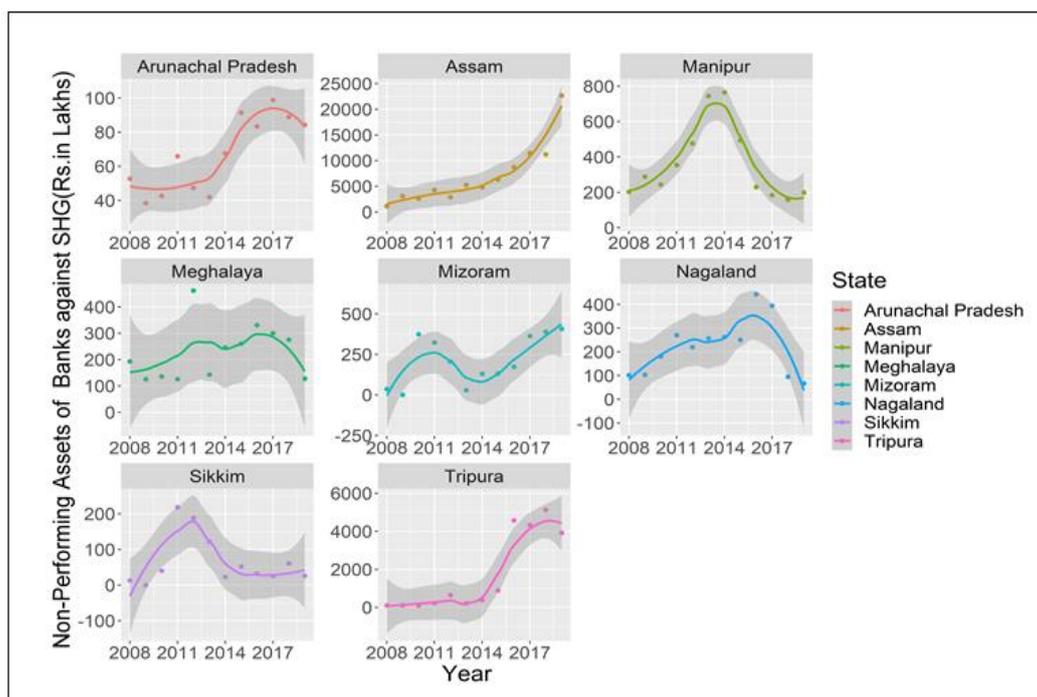


Figure 7: Non-Performing Assets of Banks against SHGs
Source: Author’s compilation from various Microfinance Reports, NABARD

The main results were due to the non-performance of accounts registered against the SGSY government scheme and the financial institution may have felt to provision it under NPA as the case in most of the government schemes launched earlier. The region showed an average growth of 39% in NPA over the period, which was mainly contributed by the states of Assam and Tripura registering the rate of 42% and 78% respectively. The lowest growth rate of NPA was registered by Manipur and Nagaland with 6% & 7% respectively over the period. Arunachal Pradesh showed the lowest level of NPA in terms of monetary value among the states in the region. The range of NPA values showed was from Rs. 38.50 lakhs to Rs. 98.81 lakhs over the period with an overall growth rate of 8% which is not very bad in terms of livelihood activities carried out by the Self-Help Groups. The change of NPA showed a slow rate of the increasing trend from 2008 to 2013, from the year 2014 to 2017, the rate of change showed a steep rise in NPA, which showed a

decreasing trend in the terminal year of the report. From the graph, it can be seen that heavy write-off was carried out in the state of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Sikkim. Assam and Tripura have shown increasing trends but no visible curve, thereby implying that not much write-off has been carried out.

SUMMARY

From the above discussion, it can be concluded that financial inclusion has shown increasing trends through microfinance activities in the region despite the infrastructural challenges and political stability. There is a need to constantly handhold and improve the financial literacy among the Self-Help Groups for better management of their funds as savings among the groups are not constant. Too much reliance on government schemes has to be avoided and people have to be encouraged to take up activities that supplement their

natural living conditions. Increasing trends of credit outstanding and gross NPAs need to be controlled through a better system of reporting and early detection of NPAs for timely course corrections.

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