Volume: 3 Issue: 6 Pages: 43-47

Microfinance is Bridge the Gap Regional Disparities in Banking Service in North-East India

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Article Info.

E-ISSN: 2583-6528
Impact Factor (SJIF): 5.231
Peer Reviewed Journal
Available online:
www.alladvancejournal.com

Received: 19/May/2024
Accepted: 21/June/2024

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Abstract

The banking industry is very important to the development of the country. To achieve the goal of financial inclusion, organizations ranging from regional to global levels have taken steps over the years to bring unbanked populations into the banking system. Regulators regularly ask banks and financial institutions to strengthen their banking offerings. According to international statistics and country-level data, a significant portion of the population is still not eligible for banking services. This study examines geographic differences in bank performance assessments across regions in relation to increased bank coverage in this context. The northeastern and northern regions lag far behind in terms of the expansion of banking services between regions. Due to the low bank penetration, the statistics also show a stronger growth trend in the northeast region. Many advanced credit delivery technologies have been developed to provide loans to rural areas. The microfinance program has made impressive progress, but the uneven expansion of microfinance is worrisome as it appears that most of the progress has been made in the south and west of the country. According to the study, microfinance performance is essentially a seven-dimensional trait. First and foremost is related to “Microfinance spillover”, followed by “Microfinance depth”, “Saving behavior”, “SHPIs performance”, “Corporate-microfinance performance”, “Performance of financial institutions” and “SGSY financial enhancement”. It is SGSY that provides loans and grants to apply for a micro business.

Keywords: Bank Performance; Financial Inclusion; Regional Disparity; Microfinance; Principal Component Analysis.

Introduction

The northeastern region, which includes seven sister states and Sikkim, occupies 8% of the geographic area, but has a population of about 3.73%, and credit flows to the northeastern region account for the entire agricultural and related sectors. I'm here. For the period from January 2000 to May 2004, it was less than 0.5%. The low credit flow can be explained by the network of lenders operating in the region and the presence of commercial banks in the region. Financial exclusion remains a major problem in India, with 40% of the population still not using the country's public banking system. The reasons for the poor performance and regional disparities, especially from the perspective of rural and urban areas, can be explained by the commercial objectives of banks and their concentration in urban areas. Therefore, the nature of alternative ways to bridge the gap between demand and supply of credit facilities is well understood. This study explores the role of microfinance SHGs as an alternative. While the total amount of commercial bank savings accounts has increased over the years, their share of eligible households in rural areas is generally declining, and the situation is even worse in the northeastern states of India.

Indian Micro Finance

The term “microfinance” was coined in the 1970s when organizations such as Grameen Bank (Bangladesh), led by microfinance pioneer Muhammad Yunus, pioneered and shaped the modern microfinance industry. India's microfinance sector began in 1970 when the Association of Self-Employed Women of Gujarat ("SEWA") established a rural cooperative bank ("Sri Mahira Sewa Sahakali Bank") with the aim of providing banking services to poor employed women. It can be traced back to the early 1900s. In the 1980s, the microfinance sector developed around her idea of SHGs

(Small and Medium Enterprises), informal enterprises that provide savings and credit services that customers need. With a GDP of around 1 billion, India is one of her 20th largest economies in the world. Nevertheless, about 400 million people or 60 million households live below the poverty line. Only about 20% of these households are expected to have access to formal sector financial intermediation services, including savings services. Lending to the poor on reasonable terms can lead to significant reductions in poverty. This is why microcredit is important in the Indian context. With 60 million households living below or just above the poverty line and more than 80% of them without access to affordable loans, some hinder the reach of microfinance to those in need. Clearly there are some problems and challenges. Economic globalization and liberalization mean that opportunities for the uneducated and illiterate are not growing at the same pace as the economy as a whole. Institutions involved in microfinance play an important role in reducing inequality and contributing to rural development that fosters growth.

Objectives to Study

1. Inequality in distribution of banking service in the North East India.
2. Effectiveness of RRBs to reach the rural population in North East India.
3. SHG movement in generating banking habit among the people.

Methodology and Tools

The study will be based on descriptive analysis using secondary data as well as with the use of some simple statistical tools.

Focus Areas for Study Process

Focus has been Given Mainly on

- Status of banking service in northeast vis a vis other regions of India
- Progress of financial inclusion programme in NER
- Effectiveness of SHG movement in the region and their success in improving the credit

NER vs State of Banking Services in India

According to the 2011 and 2012 Assam Business Survey, the average number of insured persons per bank branch in the state (measured against the estimated mid-year population) was about 20,000, compared to a national average of 14,000. As of March 2011, total bank deposits and total loans to general commercial banks in the state were Rs.59.101 billion and Rs.21.053 billion respectively. The loan-to-deposit ratio was 35.6 percent for the year, compared with 37.0 percent in the 2010/11 financial year. In the Northeast, differences in banking services are not confined to the banking sector, but extend to other socioeconomic development indicators. Fiscal access issues are a concern, but can easily affect other regional characteristics such as political stability. The key banking indicators referenced in this section aim to highlight financial discrimination in the Northeast compared to the rest of the country.

Table 1: Region wise Status of Banking Services in India

Region/state	No. of Savings accounts (in million)	No. of accounts against% of population	Population per bank branch	Credit-deposit ratio
Northern	99.6	68%	11000	68.5%
NE	13.4	32%	21000	35.8%
Eastern	91.0	37%	19000	48.9%
Central	114.9	41%	19000	44.8%
Western	99.7	61%	14000	85.2%
Southern	163.1	66%	11000	88.4%
Assam	9.8	34%	22000	38.3%
India			15000	72.6%

Source: Report on Trend and Progress of Banking in India 2008-09, RBI, Northeast Microfinance Vision 2015.

Northeastern has the lowest percentage of depositors in the nation. The average number of depositors per bank branch in the Northeast is the highest in the country, 40% higher than the national average. Without some infrastructure, it is difficult to activate financial inclusion. The current banking situation in the Northeast is bad, but progress has been limited. The banking gap between the Northeast and the rest of India is widening. The loan-to-deposit ratio (C) in the Northeast is well below the national average. The overall Northeast CD rate is 35.8%, less than half the national average (72.6%). In the Northeast, the lowest CD rate is 24.6% in Arunachal and the highest is 58.7% in Mizoram. Looking at key banking indicators for the Northeast, it's clear that the region is the most financially marginalized region in the country. Whether due to uneven banking infrastructure, geopolitical risks, population density or other reasons, economic growth in the Northeast has not accelerated at all. Investment is more likely to drive growth if financial services are consistently available in all eight states. Financially, the situation has improved over the past decade, but more needs to be done to ensure that the Northeast keeps pace with India's overall growth. A country-by-country approach is needed, but only when combined with regional development strategies.

Chronologically Banking Service in NER

Prior to 1949, there were only 10 commercial banks branches in the whole North East region, 8 in Assam and 2 in present-day Meghalaya, the oldest of which were the branches of State Bank of India (SBI) located in Dabrugarh in 1922 and Shillong in 1923. SBI's 3rd branch was established after Independence at Tezpur, in 1953. Between 1949 and 1969, the number of branches in the north-eastern region rose from 10 to 94, with an annual growth rate (ARR) of 4.2%, whereas during the same period in India, the number of commercial banks increased from 2689 in 1949 to 8187 in the year 1952, with an ARR of 12.03%. Before nationalisation of banks in 1969, commercial banks served comparatively lesser populations per branch in the developed states (Gujarat, Maharashtra, and Punjab) as compared to the N.E. states (Assam, Manipur, Tripura, and Mizoram), which served 1,98,000, 4,97,000, and 2,76,000 respectively. From 94 branches in 1969 to 1867 branches in 1991, which represents an average annual growth rate (AAR) of 85.74% within the North East. Within the North East, the growth was concentrated in Assam with 65.24% (total) of all branches in that region being in Assam. In 1994, there were 825 branches in Assam and in 1997 there were 904 branches. In September 1994 the average number of bank branches serving the total population of Assam was 17,335. Total deposits, advances and total C.D. ratio of all scheduled commercial bank branches in Assam as on December 1982 was Rs.591 crores, Rs.243 crores and 17.86% respectively. In 1997, it increased to Rs. 5,100 crores and Rs. 1,726 crores respectively. The history of SBI in Assam goes back to the very beginning of banking in Assam. SBI was the first Bank to introduce modern banking in Assam and today has the biggest network of branches in Assam with 100 rural branches, 70 semi urban branches and 32 urban branches for 202 branches serving all over the State. In the context of Lead Bank Scheme in Assam, SBI also serves as the convenor of the state level bankers committee for Assam, which regularly reviews the development activities of all the Banks operating in Assam. However, the recent developments in progress of expanding the banking operations in Assam are also very disappointing for the Northeast as compared to the rest of India. The table below shows that during the financial year 2011-12, the number of new Bank branches opened in Assam was too low for the NER.

Regional Rural Banks

Rural Regional Bank (RRB) is a financial institution serving the needs of Assam's rural credit system. Assam is served by his five Rural Rural Banks (RURBs) namely Lampide Hangi Rural Bank, Kachar Grameen Bank, Rakimigaon RIA Bank, Phragyotish Gaon RIA Bank and Subang Sirigaon Ria Bank. In 1989, the total number of regional banks in Assam was 372. Rural Rural Banks (RRLs) were established under the Rural Rural Banks Act 1976. The RRL was conceived and established in 1975 on the recommendation of the 'Narasimhan Commission'. (1975) the country's banking policy focused on expanding the branch banking infrastructure, encouraging targeted lending, and encouraging subsidized lending. RRL was therefore conceived as a local lending institution with a combination of commercial focus and local flair. Based on a "multi-agency approach", 196 regional banks were established between 1975 and 1988 under the Regional Banking Ordinance (enacted in 1975) and the RRB Act (enacted in 1976) passed by Congress. Most of the top 98 RRBs are facing profitability challenges and have not fully delivered on their promises in terms of market share, new banking products and services, and the rollout of new banking technologies in rural areas. Rural commercial banks have a low narrative Commercial banks, and the source of cheap and targeted lending to small marginal producers and other rural producers, have undergone policy reforms

Table 2: RRBs in Northeast India

NE State/ India	No. of total public sector bank branches	RRBs	PC RRBs based on population 2011
Assam	1012	399	
Arunachal Pradesh	65	17	
Meghalaya	147	51	
Manipur	52	29	
Mizoram	35	54	
Nagaland	76	8	
Tripura	117	87	
India	62607	16941	

Source: Basic Statistical Returns of Scheduled Commercial Banks, 2008, RBI and Census 2001, Report on Trend and Progress of Banking in India 2008-09, RBI, Northeast Microfinance Vision 2015

Cooperatives and the Regional Banking Institutions (RBIs) are the only locally-based credit agencies. In the region, the cooperatives are mostly two-tier and suffer from serious impairment and are practically non-existent. There are 8 Regional Banking Institutes (RBIs), 2 in Assam State and 1 each in the other 6 States. No Regional Banking Institutes in Sikkim State. Five Regional Banking Institutes (RRBs) sponsored by State Bank of India (SBI) are located in Assam State, Assam Pradesh, Assam East, Assam West, Assam East and Mizoram State. Three Regional Banking Institutes (RBIs) sponsored by Union for Reconstruction and Development (UBI) in Assam State. There were 11 Regional Banking Institutes in the region before amalgamation on 12 January 2006. The largest North East 94 Regional Bank (RBI) was established in Assam State on 12 January 2006 through the amalgamation of 4 RRBs in Assam State with 354 branches. The 4 banks in Assam State are: Assam Gramin Bank (Gramin Gramin) Cachari Gramin Bank (UBI) Lakhimi GaoLia Bank Prag. There are 19 districts in the region which are not under the jurisdiction of any Regional Redevelopment Banks (RRBs). Of these, 10 are in the state of Arunachal, 6 in the state of Nagaland, 3 in the state of Meghalaya, and 4 in the state of Sikkim. Therefore, it is necessary to allocate the districts to the relevant RRBs in the State as soon as possible.

SHG Movement in Assam

As is the Case with Micro Finance in General, there are two Types of Microfinance in Assam

formal and informal. In the informal type of microfinance, the main players are commercial banks in association with government schemes such as NABARD, cooperative societies or banks, regional rural banks, national development finance institutions (NEDI), non-banking financial institutions (NBFIs), and non-governmental organizations (NGOs). On the other hand, money lenders such as Mahajans, kabliwalas, sanchay samittees, land lords, etc., engage in informal microfinance activities. While the formal sector of microfinance is well planned and regulated, the informal ones are non-regulated and have exploitative rates of interest, mortgage practices, etc. The purpose of lending is also different in the two microfinance systems. The formal system is mainly used for productive activities and investments, while the informal system is used for the urgent needs of the needy. Currently, 306 non-governmental organizations (NGOs), two Reserve Banks of India (RBI), several farmers' clubs and hundreds of volunteers are involved in promoting his SHG. In the 1990s, his two modern models of microfinance, his SHG and MFI, were introduced, both started by non-governmental organizations (NGOs). As of

March 2007, the National Bank for Reconstruction and Development (NABARD) has provided his SHG promotion support to 73 non-governmental organizations (NGOs), equivalent to a total of 9,520 of his SHGs. However, the NGO was able to advertise a total of 8,171 SHGs, store a total of 7,692 SHG savings links and obtain a total of 3,032 SHG credit links. NABARD has also provided promotional support to two Indian Reserve Research Councils (RRBI) and is in the process of providing promotional support to many more NGOs, bank branches, farmers clubs, etc. As DRDA joined his SHG funding campaign, the number of his SHGs funded by DRDA increased from 177 SHGs in 2001/02 to a total of 1,39,295 SHGs in August 2007. In contrast to most other states, SHG resides within the state. Mainly male members, male groups, mixed groups. In recent years, the number of male and mixed groups has increased. Many SHG funders claim that DRDA has taken over many SHGs funded by NGOs and communities. DRDA's SHG is not NABARD's traditional SHG model. As of November 30, 2007, DRDA had 1,44,042 savings accounts in bank accounts. This figure clearly shows the dominance of DRDA and SGSY in the state's SHG movement.

Table 3: SHGs promoted by Rural Development Department, Assam as on August 2007

Category	1999 to 2007	2007 -08	Total
SHG Formed	135662	3673	139295
SHG passed grade-I	86877	5574	92451
SHG passed grade-II	34919	2505	37424
SHGs taken up economic activities	25797	1547	27344
Women SHGs formed	82123	1959	84082
Women SHGs taken up economic activities		912	

Source: NABARD APMAS Collaboration: Quality & Sustainability of SHGs in Assam, 2009

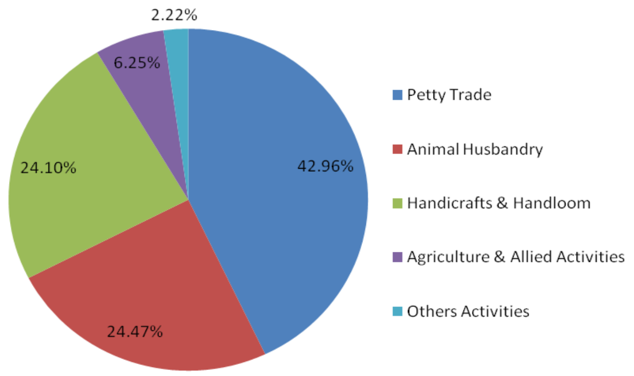
Massive support by DRDA to the SHG sector through the SGSY program has led almost all NGO promoters to switch to commercial microfinance models, leading not only NEDFi but also other wholesale microfinance institutions such as RGVN, FWWB and ASOMEE. is also the same. We actively promote this model. There are approximately 300 grassroots microfinance organizations (GMEs) in the state. NABARD supports Microfinance Institutions (MFIs) as SGSY poaching makes the SHG model problematic. In addition to providing funding for capacity building and on-lending of microfinance institutions, NABARD is also prepared to provide equity. However, the track record of government efforts to promote SHG has been far from satisfactory for a variety of reasons. In particular, you can see the operational difference between NABARD's SHG promotion and SGSY's SHG promotion. A major reason for the current SHG movement problems in the state is the "merging" of two incompatible programs. The SHG banking program aims at financial inclusion. This means providing financial services to inaccessible and unbanked areas. The SGSY program, on the other hand, aims to alleviate poverty by promoting entrepreneurship and self-employment through capital subsidies under government subsidies. Pervasive corruption in SGSY affects bank repayments, which in turn affects his SHG banking program which runs on state subsidies. The widespread corruption in the SGSY is affecting the repayment to banks, which is in turn affecting the SHG- banking program. Thus, the integration of two incompatible programs has damaged the movement of SHG in the state. Therefore, the Govt initiatives were not able to lead to the formation of SHGs and microfinance as a handy tool for the livelihood promotion for poor and the women. Private ventured MFI initiatives led by RGVN, ASOMEE, Bandhan etc. with lending support by NABARD, SIDBI, NEDFi etc. are gaining momentum with their situation-based operational strategies. 5 – 10 member JLGs instead of 10 – 20 member SHGs proved to be very useful for delivery mechanism. Small size group and 'cluster' bringing together groups belonging to the same location proved to be very convenient for field operation. Weekly repayment collection could increase the loan recovery performance of the MFI and reduce the outstanding due risk of the service providers. The most significant achievement of the microfinance institutions is the conversion of thrift (consumption on compulsion) by rural women into savings as a habit. The microfinance institutions have contributed immensely to the financial inclusion of poor women. Of course, the practice of microfinance in the hands of the National Bank of Canada (NBFC) increased the facility of credit to poor women; however, this also had some consequences which need to be taken into account before categorizing microfinance as an easy way to earn money for poor women.

1. Microfinance Institutions (MFI) have turned the market economy into a supply-driven system, rather than a demand-driven system.
2. The beneficiary's economic growth is often overlooked in favour of the supplier of the loan.
3. The loans are not based on the demand, rather the adequacy of the amount based on the activity.
4. The pre-determined amount of the loan has simplified the business plan of the beneficiary. This can easily be interpreted as a simulated business plan. A properly planned and executed business plan is necessary for the successful investment of the loan amount.
5. The excessive emphasis on profitability and minimizing risk is leading to the neglect of the fundamental philosophy of the microfinance institutions.
6. The underlying reason behind the judgement of the eligibility of a group is not based on the viability of the activity, but rather on the trust on the borrower's ability to pay back the money.

Activity-Wise Loaning Pattern of MFIs

There is little innovation in the undertaking activities. The common activities are the focus, but there is scope for innovation at the grass roots level. There are fund provisions for innovation, but it is rare in practice. We can break down the core activities that are normally funded by the microfinance institutions (MFI's) into 5 categories: Petty trades Handloom and handicrafts Animal Husbandry Agriculture & Allied Other Activities Almost 50% of the funding goes to Petty trades, followed by handloom & handicrafts (with a marginal difference between them). Agriculture and allied activities have a very low share in MFI (around 6%). Petty trade is more prevalent in urban areas than Handicraft. In urban areas where there is more opportunity for petty trade, the second largest activity has a larger proportion of finance and the second largest activity is animal husbandry. Animal husbandry is closing the gap with handicrafts. In 2009-10, other activities overtook Agricultural activities.

Pie Diagram



However, when we combine Handicraft with Agriculture and consider all three to be rural farmers, we will see that a large part of the credit needs of rural farmers are being tried to meet by microfinance institutions which could have easily been met by banks. Therefore, it seems that the lacuna left by the official bakers is being filled by private or the informal small microfinance institutions through SHG or JLG. However, since the small lenders have a lesser impact on the economic growth of the targeted group, the Government has scope to launch formal credit service by banks or by other innovative schemes which may be easier than SGSRY or NABARD's SHG Bank Linkage Programme or

Suggestions

Based on the results of the study, and also taking into account the quality of SHGs or other types of groups, the financial service provided by banks may be enhanced by launching some innovative and challenging schemes to target the rural poor of backward regions.

Poor farmers need to be trained in financial and legal literacy so that they can take advantage of the microcredit schemes. SHG members need to be more energetic, motivated and dynamic so that they can mobilize their savings through group actions. The government and banks should provide adequate credit to SHGs according to their business plan. There should be uniformity in the formation and provision of financial support to SHGs across all blocks. Banks should make the process of granting credit to SHGs easy, transparent and fast. Access to banking credit should be improved by taking simple operational decisions, such as standardising a set of documents that SHGs need to provide for opening their bank accounts or for access to credit. There should be active involvement of district administration, professionals and voluntary organisations in the creation of micro enterprises, such as skill training, product design, new technology and market access. Finally, there should be facilitation for marketing products and products as per the market demand condition.

Conclusion

Microfinance institutions have expanded the reach of institutional finance, included the poor, especially poor women, in the formal financial system, provided them with credit, and reduced poverty. However, microfinance growth is uneven across the country, with different interest rates charged to members, which is a concern. As microfinance is an important part of poverty reduction programs, it has the potential to address the problem of poor housing and urban services. The challenge, however, is to ensure the flexibility of financing instruments to meet the diverse financing needs of low-income individuals without imposing undue costs on lenders to supervise their end-use. Consumer loans are especially important during the period between starting a new business and generating positive income. Experienced microfinance companies have shown that the poor are willing to repay their loans and pay high interest rates if they have credit. Poor people also save, so microfinance should provide them with savings opportunities.

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