

# A STUDY OF THE CONCENTRATION AND IMBALANCE OF MICROFINANCE INSTITUTIONS IN NORTH-EAST INDIA

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**Abstract-** This paper discusses the presence of microfinance institutions in various parts of India, with special reference to Northeast India which suffers from financial exclusion the most, and South India, which enjoys the largest concentration and distribution of MFIs. The paper examines the factors responsible for the success of MFIs in South India, namely, higher women literacy rates and better local economic development, and compares the factors with the data from the North-East India. Through an extensive literature review, empirical data obtained from primary sources and secondary data obtained from the Census of India 2011, it is determined that in spite of the presence of factors responsible for the prosperity of MFIs in similar capacity in both South India and North-East India, both regions do not attract MFIs in the same way. This paper acknowledges the anomaly observed in the concentration of MFI in North East India despite the presence of conditions conducive to its growth.

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**Keywords-** Microfinance, North-East India, Microcredit, MFIs, Financial Inclusion, women literacy rate

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## I. INTRODUCTION

Prior to the development of formal banking systems and capital markets, poor households that roughly comprised of 500 million economically active people in the world (Women's World Banking, 1996), did not have access to adequate and reliable financial services. They tended to rely extensively on informal credit markets for their financial needs, that typically operated unregulated and unmonitored by government agencies and beyond the purview of codes of law, which made them highly risky (Sundaresan, 2008) Therefore to meet the substantial demand created by low-income micro-entrepreneurs for formal and dependable financial institutions, the first seeds of microfinance was sowed (Ledgerwood, 1999) during the period between 1950-1980 (Sundaresan, 2008), with the purpose of alleviating poverty in regions where there is an "absurd gap" in the demand and supply of institutional financial services (Robinson, 2001) by extending small loans to local villagers who did not possess meaningful collateral (tangible or intangible collateral such as real estate or stocks). It was first developed by organizations such as the Grameen Bank in Bangladesh, Self Employed Women's Association (SEWA) Bank in India, and ACCION International in Latin America. (Sundaresan, 2008) The proponents of microfinance envisioned the Microfinance Industry to be functioning smoothly across all developing and underdeveloped countries where the poor do not have access to formal credit. East Asia, with countries like Indonesia, Bangladesh, Thailand, Vietnam, Sri Lanka, and India, is considered an MFI grand success in terms of the absolute number of members reached. (Lapenu & Zeller, 2001) Particularly, microfinance in India had a humble beginning initiated by the organization Self Employed Women's Association ("SEWA") that formed an urban cooperative bank, called the *Shri Mahila SEWA Sahakari Bank*, with

the objective of providing banking services to poor women entrepreneurs employed in the unorganised sector in Ahmadabad City, Gujarat. The microfinance sector in India went on to evolve in the 1980s around the concept of Self Help groups (SHGs) - informal bodies that would provide their clients with much-needed savings and credit services. Currently, the sector has grown significantly to become a multi-billion dollar industry, with bodies such as the Small Industries Development Bank of India and the National Bank for Agriculture and Rural Development that devote significant financial resources to microfinance. As of 2011, the top five private sector MFIs reach more than 20 million clients in nearly every state in India and many Indian MFIs have been recognized as global leaders in the industry. (Devaraja, 2011) As of December 2014, the Microfinance Industry in India provided microcredit to over 28.7 million clients. (MFIN India, 2014) Such rapid growth of the MFI sector in India in the past decade has led to the creation of a huge regional skew, with almost two thirds of the sector being concentrated in three southern states (Sharma V. , 2015); South India with 20% of India's total population accounts for 52% of all Microfinance clients and 54% of all Microfinance loan portfolios. In comparison, the Western, Eastern, North-eastern, Northern and Central regions with 20%, 22%, 4%, 25% and 8% of India's total population (respectively) have extremely underdeveloped microfinance sectors, accounting for 10%, 23%, 3%, 6%, and 6% of client outreach respectively. (Census of India, 2011) There are thirteen priority states in India, which account for 67% of the poor, who remain fairly underserved in microfinance services. Among the regions that remain highly underserved, the Northeast region has one of the least evolved microfinance markets. (Sharma V. , 2015) There exists an abundance of literature on the impact of the Microfinance Industry has on various regions of India; yet there is limited

research on the conditions that lead to heterogeneous rates of diffusion of Microfinance to different locations. Through this paper, I seek to display that this imbalance is caused by factors other than the ones that are considered primary reasons for the spread of MFI in a particular region. The paper concentrates on Northeast India which suffers from financial exclusion the most, and South India, which has the largest concentration and distribution of MFIs in India- in order to find what common factors may be the cause such disparity. One of the main consideration for this paper will test whether female education is a strong predictor for the extensive presence of MFIs in a particular region. There has been a lot of debate about the impact and benefits of microfinance on gender empowerment and improving the wealth of districts. Further, I will consider the correlation between local economic development and the presence of MFIs. This relationship is less evident than the one between female literacy rates and MFIs, since many MFIs declare their purpose is to serve the poor, and thus they desire to work in areas that house this demographic.

## II. METHODOLOGY

For this research, district level data for 15 states from the Census of India 2011 and IFMR LEAD was collected. Therefore, this research mainly depends on secondary data sources. Through the Census of India, 2011, information on female literacy, male literacy, female population, male population, sex ratio, asset use, access to water and lighting sources were gathered. Data for the penetration of Microfinance at the district level for the year 2010 was collected through IFMR LEAD. This includes information on 103 MFIs across India, belonging to the 4 different categories (NGO-MFIs, non-profit Section 25 NBFC-MFIs, cooperative MFIs and for profit MBFC-MFIs). IFMR LEAD categorizes the different regions as: East region consisting of Bihar, Jharkhand, Orissa, West Bengal and Andaman and Nicobar Islands; West region consists of Goa, Gujarat, Maharashtra and Rajasthan; Central region consisting of Chhattisgarh and Madhya Pradesh; Northern region consisting of Chandigarh, Jammu and Kashmir, Delhi, Punjab, Uttar Pradesh, Uttarakhand, Haryana and Himachal Pradesh; Northeast region consisting of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura; and the Southern region consisting of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. (Champatiray, Agarwal, & Sadhu., 2010) In the data set that was collected, information on all states in the Southern Region, 2 states in the Eastern region (Bihar and Orissa), one state in the Western region (Rajasthan), all states except for the union territory of Chandigarh for the Northern region, all states of the North East region, and Madhya Pradesh for the Central region is

available for analysis. In total data from 420 districts across the states mentioned above were examined.

## III. LIMITATIONS

One of the limitations of this research is the exclusion of Jammu and Kashmir from the analysis, mainly because there are no records of any Microfinance Institutes in Jammu and Kashmir. One reason for this is the underdeveloped nature of the State, largely attributed to the political upheaval and unusual demographics. (Khaki & Sangmi, 2012) Additionally, this paper only deems to find out whether certain factors that lead to the prosperity of MFI in the South India, hold true for the North-East India as well. The paper acknowledges whether the factors are consistent. However, if not, this research paper does not discover alternative factors that may be responsible for the imbalance of MFIs in India and find answers to the question as to why the factors are not homogenous in this case. This leaves room for further research into this topic.

## IV. RESULTS AND DISCUSSION

The data from the Census of India 2011 show that Female Literacy rate, which, though debated, is one of the primary reasons for the prosperity of MFIs in the South, is as high, in fact, higher in North –East India. However, there is no definite correlation between the Female Literacy rates and MFIs in the region, as was the case in South India.

Similarly, the variable of local economic development or “Wealth Index” that was ascertained using the Filmer-Prichett proxy using ownership of assets, access to water and electricity, went on to show no correlation with the MFI presence.

## CONCLUSIONS

The paper establishes that though Female literacy rates and local economic development have shown to improve the presence of MFI in South India, these factors do not hold true and fail to be homogenous for North-east India, speculatively due to different political, socio-cultural, historical background of the region.

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