

Special points of interest:

- What are the profiles of informal workers in India?
- How does informal finance work in India's North East Region (NER)?
- What are considerations of GoI's farm loan waiver?

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From the Editor's desk

Dear Readers

2008 has taken off to be a year of turbulence. Macro-economic conditions are rather gloomy, and particularly the food price pressures carry risks for India's poor, who are not only the vast majority of the country, but also our Microfinance clients.

The National Commission for Enterprises in the Unorganised Sector (NCEUS) has published a detailed, 376-pages strong report on the conditions of work and promotion of livelihood in the unorganized sector. The report discusses a wide range of recommendations how to improve the lives of the poorest. Yet, at the same time it is a painful demonstration that a decade-odd of economic growth has had little impact on the scale of informality; and informality remains widely tied up with poverty. *Oliver Schmidt* has reviewed the NCEUS-report for you (*page 2*).

India Microfinance is proud to side with those who break that tie. The NCEUS-report shows that the biggest economic improvement is in two areas: On the one had, salary-income in the organized sector, even if the employment is informal in nature. On the other hand, the most successful group, self-employment outside agriculture. These entrepreneurs are our microfinance clients.

In agriculture, where employment - both self (farmers) and dependent (labourers) - practically completely falls into the unorganized sector, the perspectives are rather bleak. Microfinance may help to diversify income, but at the end of the day, the ball is in the court of government to both lead and cushion the transition of India's agricultural sector. Let us hope that the farm loan waver will be more fruitful than harmful, even if experts would have advocated rather different measures (*Sa-Dhan patrika* has summarized the arguments about the farm loan waiver *on page 10*).

Sa-Dhan is determined to spread the opportunities of Microfinance to the North East Region (NER). In April, we released a detailed study of the structure, scope and scale of the (micro)finance sector in the 8 states of NER. *Punam Gondia* gives you a highlight from that report, discussing the case of informal finance in NER (*page 11*).

Enjoy Reading

Mathew Titus
Executive Director
Sa-Dhan

India's "evil twins" informality and poverty – a review of N

By Oliver Schmidt,
Sa-Dhan Manager -
Regional Office
(oliver@sa-
dhan.org)

Introduction

1 in 6 of the world's labor force is Indian – about 460 million persons in 2004/05. 92% work informally; only 8% of India's 2004/05-workforce is formally employed.

The number of formally employed Indians has been pretty much constant since 1999/00, at 35 million. Hence, the share of formal employment in India has been shrinking over a period of peak-economic growth.

4 out of 5 informal workers are poor and vulnerable. They expend between 20 and as low as 9 rupees per day. 90% of informally employed casual workers are counted among the poor; as well as the vast majority of informal self-employed and informal regular wage workers.

The government of India has appointed a *National Commission for Enterprises in the Unorganised Sector*. It presented a report rich on data, case studies and thorough literature review on the conditions of work and promotion of livelihoods in the unorganized sector (NCEUS 2008).

This article presents a flashlight of the NCEUS-report on the four main groups in the realm of informal employment, i. e. agricultural and non-agricultural, either dependently or self-employed (section 2). It then proposes some hypothesis on the reasons for persistence of India's evil twins (section 3). The article concludes with some remarks on the role of microfinance (section 4).

2 Socio-economic profiles of the main groups of informal employment

Agricultural self-employment (farmers)

By and large, India is an agricultural country. More than half of its labor force is deployed in agriculture; most of it informally. 253 million Indians are counted in the agricultural labor force 2004/05; nearly 90% are poor and vulnerable (**table 1**).

However, India has been going through a tremendous economic transformation. Agricultural contributions to GDP and workforce have been shrinking over two decades. In 2004, agriculture only contributed slightly above 2 out of 10 rupees of the

GDP. It is expected to half by 2020. Corresponding agricultural employment is projected to contract to 40% of the labor force. Note that the economic transformation takes place to the background of a growing population (about 110 crore in 2004 to 120 crore in 2020).

Unfortunately, the contraction of GDP-contribution and employment is mirrored by stagnating or even decelerating productivity growth and hence output. In the light of the present global food crisis, this is a significant point to note. After the "Green Revolution" governments around the world diverted their attention from agricultural development – e. g. research, productivity growth, value-addition – to

More than half of India's labor force is deployed in agriculture; most of it informally. However, agricultural contributions to GDP and workforce have been shrinking over two decades.

CEUS 2008-report on work conditions in the unorganized sector

| | Non-Agricultural Sector | | | Agricultural Sector | | | Total (in million) |
|---------------------------|-------------------------|---------------|--------------|---------------------|---------------|--------------|--------------------|
| | Poor and vulnerable | Higher Income | | Poor and vulnerable | Higher Income | | |
| Dependently employed | 50.9 | 25.8 | | 77.9 | 9.1 | | 163.7 |
| Self-employed | 50.1 | 42 | | 142.9 | 23.3 | | 258.3 |
| Total (in million) | 101.0 | 67.8 | 168.8 | 220.8 | 32.4 | 253.2 | 422.0 |

Table 1:
Informal Employment in India, 2004/05

Source (all tables/figures): NCEUS (2008), own calculations.

wards other sectors. So did India.

The economic transformation is not only reflected in rural-urban migration – which is moderate in India compared to international urbanization trends – but also transformation of the rural economy itself. The share of agriculture among the rural workforce shrank from 81.6% in 1983 to 72.6% in 2004/05.

About 2 out of 3 agricultural workers are self-employed, i. e. farmers. 45.0% of farmer households command marginal and below landholdings (less than 1 hectare), 26.5% of farmer households command small landholdings (less than 2 hectare). Due to partible inheritance, the number of marginal and below landholdings has been increasing. To mitigate declining land-property, farmers attempt to lease-in land to constitute feasible farms.

The issue of land-leasing or "tenancy" is complex; leasing incentives and arrangements differ regionally along weather, soil and crop conditions. However, the bottom line is that tenancy reform, intended to provide proprietorship to erstwhile tenants, "had the perverse impact of driving tenancy underground, and making it more difficult

Note that NCEUS defined poor and vulnerable based on six categories of consumption expenditure. The lower four categories – extremely poor, poor, marginally poor and vulnerable – represent up to 75%, 75-100%, 100-125% and 125-200% respectively of the national poverty line. They correspond to 9, 12, 15 and 20 rupees average consumer expenditure per capita per day. In 2004/05, 836 million Indians were counted among the poor and vulnerable, out of which 237 million were extremely poor and poor.

for tenants to lease land on secure and reasonable conditions" (NCEUS, 2008:140).

Informal leasing increased the vulnerability of small-hold farmers, and also betrayed scholars of reliable data about the volume and effects of the phenomenon.

The lack of recognized tenancy is one of the factors driving small and marginal farmers into informal debt from money-lenders, friends and relatives and traders (**figure 1**). These are bound to become ever-pressing burdens, driving the farmers into a permanent state of over-indebtedness and prohibiting them from growing assets.

Tenancy reform "had the perverse impact of driving tenancy underground, and making it more difficult for tenants to lease land on secure and reasonable conditions" .

India's "evil twins" informality and poverty cont'd

In effect, the situation of these farmers differs but by formal status from forced labor.

Too often, it is forced labor although such is

This becomes very obvious by comparing income and consumption expenditure of farmers. Up to a landholding of 4 hectares, the latter exceeds the former, driving the farmer into debt (**figure 2**). In effect, the situation of these farmers differs but by formal status from forced labor. Too often, it is forced labor although such is illegal under the Bonded Labor System (Abolition) Act, 1976.

2 out of 5 farmers are women. We do not know the break down of land sizes by gender of proprietors, but judging by information about education and work conditions and pay of women – throughout the groups lower and worse than for men – we may assume that most female farmers are in the marginal segment.

Education of farmers is very wanting indeed. Only 13.6% of all farmers and only

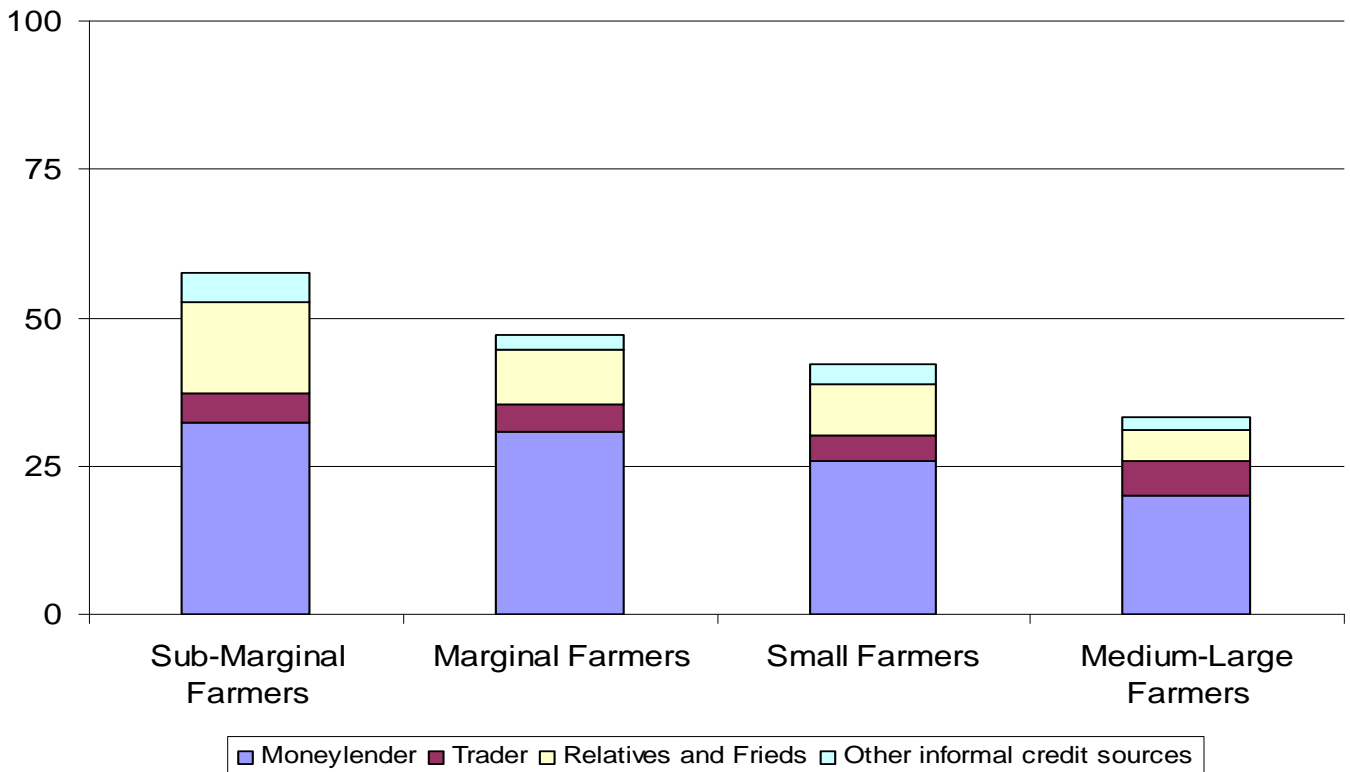
5.8% of female farmers attained secondary and above education. About half of the male and three quarter of the female farmers are illiterate and below primary education. NCEUS (2008:113-1114) notes:

"With the ongoing commercialization of agriculture, crop diversification, introducing of new technologies and the imperative for better information processing, education has to be reckoned as a key input in any attempt at overall development and modernization of agriculture and improve the welfare of the people dependent on it."

Agricultural dependent employment (laborers)

Agricultural laborers take up manual activities in agriculture in return for wages. Agricultural laborers can be characterized as small-hold farmers, just much worse off.

Figure 1:
Informal Credit for Farmers



Agricultural laborers are the most vulnerable - NCEUS review cont'd

Their landholdings are smaller; over 7 out of 10 agricultural laborer households own marginal and sub-marginal farms; compared to about 4 out of 10 farmers. 2 out of 10 agricultural laborers are landless; they are the worst off because their fall-back position is but starvation and suffering.

Educational status of agricultural laborers is even worse than that of farmers. Three quarter are illiterate and below primary (and over four fifth of the women); only 3.6% attained secondary and above education.

Thus, agricultural laborers persist to be most vulnerable to poor working conditions and economic exploitation. 98% of agricultural laborers survive on casual labor. Men can expect to secure 227 wage employment days over the year, compared to 184 for women. Along with the decline of India's agricultural sector that figure has been shrinking, down from 244 and 196 respectively in 1993/4. The trend for women has been less pronounced, probably because their pay for the same kind of work is only 70% that of males'.

Their desperate situation forces agricultural laborers into migration, looking for work either in agriculture (seasonal migration) or in other areas. Whereas the majority of ru-

ral migrants become self-employed, most urban migrants enter regular employment. Women are more often bound to casual labor.

"Migration often involves longer working hours, poor living conditions, social isolation and inadequate access to basic amenities [...] The poor migrant workers are extremely vulnerable and often resort to employment through exploitative contractors and middlemen [...] This greatly increases the dependency of the group on these middlemen and accentuates risks and uncertainty. In the rural agricultural sector employment is mainly through such middlemen who recruit at entry points such as railway stations and bus stands, while in the urban informal sector friends and relatives also act as the link between the employer and the migrant worker. [...] Migrant wage workers often face economic exploitation when they are paid wages which are lower than what are received by local counterparts. [...] Wages for women migrant workers are lower than the male mi-

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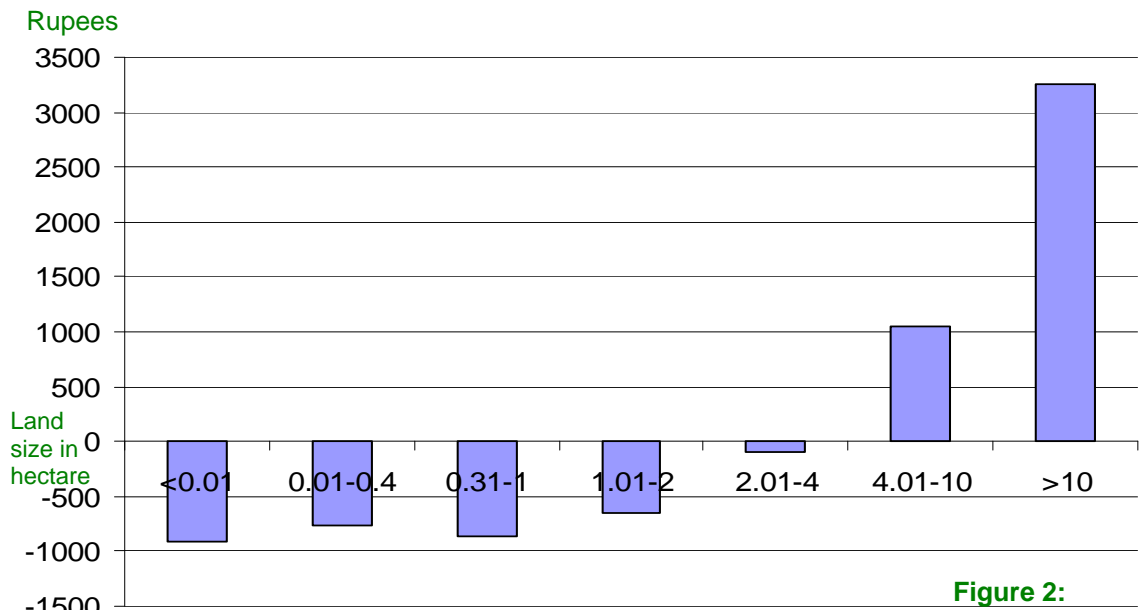


Figure 2:
Difference between average monthly income and consumption

Non-agricultural employment - cont'd from previous pages

Education of urban laborers is better than that of rural laborers, with the wedge widening towards more regular employment

grant workers. [...] Further, payments are irregular and, sometimes, are not made in time.” (NCEUS, 2008:97-98)

Non-agricultural dependent employment

About three quarter of all non-agricultural laborers are engaged in manufacturing and construction; additionally, trading or transport features high among male; domestic services among female laborers.

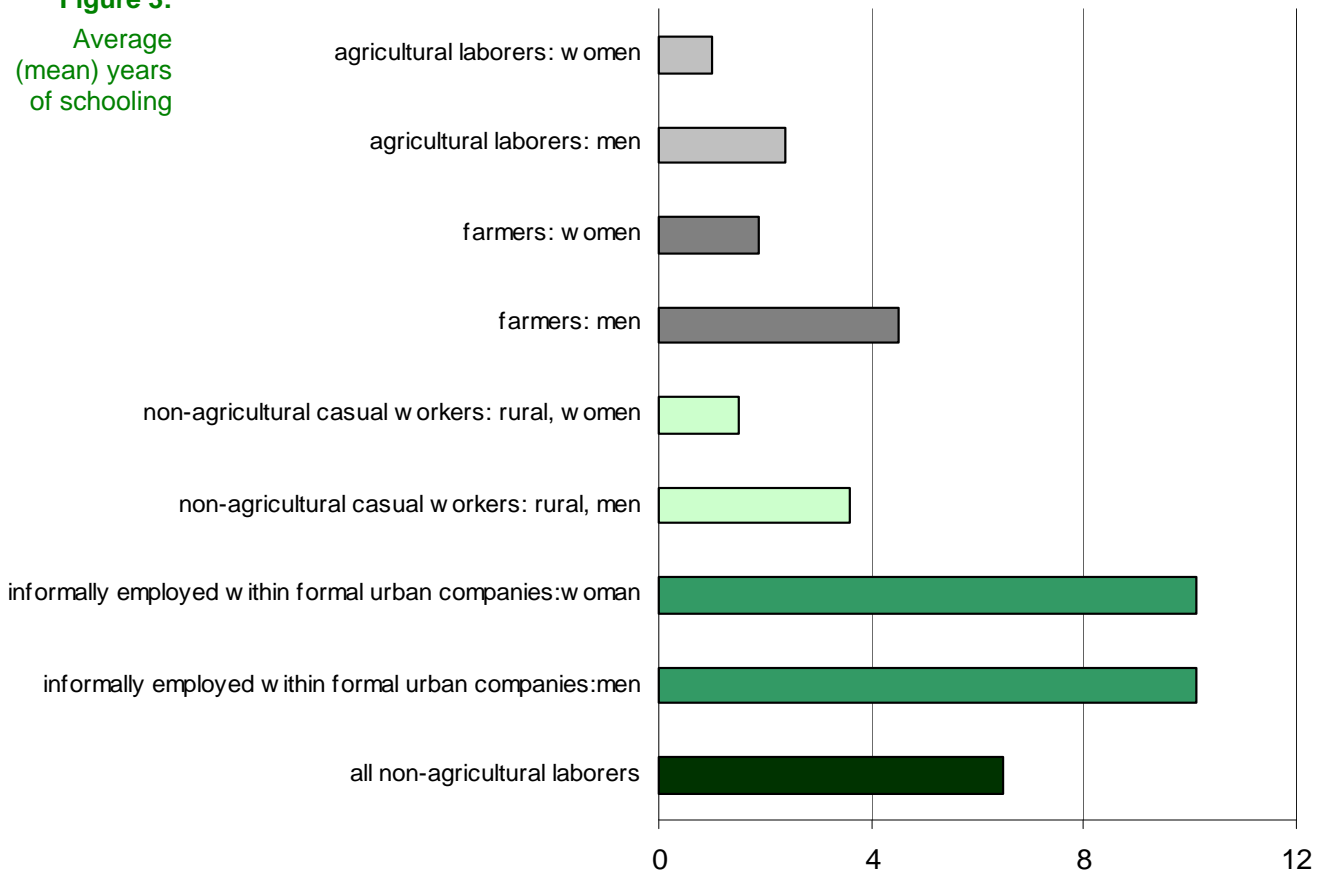
In manufacturing, textiles, wood and its products and non-metallic mineral are predominant for male, textile and non-metallic mineral products for female laborers.

“Numerous studies have pointed out the poor working conditions in the unorganized sector in India. In survey after survey and industry after industry, researchers have noted that physical

conditions of workers are inhuman. [...] Studies have noted that large numbers of workers were cramped in a tiny room, or that the roof of work shed was very low making the workplace hot, humid and stifling. [...] Studies also found that the workspace was same as the living space for the worker and her family and the result was the highly inadequate working space as was the living quarters.” (NCEUS, 2008:30-31)

Education measured in average years of schooling is significantly higher among workers with more regular employment as compared to casual workers. Interestingly, it is also higher among more regularly employed workers – informal employment within formal companies – than among the self-employed. Among the

Figure 3:
Average (mean) years of schooling



Non-agricultural self-employment offers the best perspectives—NCEUS review cont'd

urban who are more regular employed, educational status of men and women is roughly equal. Otherwise, women's schooling is 2 and more years less than that of men. Education of urban laborers is better than that of rural laborers, with the wedge widening towards more regular employment. Thus, schooling difference between urban rural casual laborers is less than a year, but 2.5 years for men informally employed within rural companies versus urban companies; and 4.4 years for women.

Most striking is the difference between non-agricultural and agricultural employment. For all of the latter, both dependently and self-employed, the average

years of schooling are less than for the lowest educational status of non-agricultural employed, those are rural casual laborers (with the slight exception of male farmers; **figure 3**).

Non-agricultural self-employment

Non-agricultural self-employment comprises of "own-account-work", unpaid family work (also known as "contributing family member) and employing (non-family) others. Non-agricultural self-

employment, usually in an urban setting, is less prone to poverty and vulnerability than all other segments of informal labor. Near to half of the non-agricultural self-employed manage to escape the lowest-income-categories (**table 1**).

2 out of 3 self-employed work on their own-account, i. e. a "one-person-enterprise". Only about 2% (only 0.4% women) employ others beyond their family members. Their main areas of deployment

are construction, manufacturing and transport. In 1999/2000, 12.6 million self-employed worked in the manufacturing sector, 20.1% of them were home workers. Main segments of manufacturing regarded were food products and beverages, wood and its products, textiles and wearing apparel.

Non-agricultural Self-employment among women is considerably higher in rural than in urban areas. In urban areas, it is approximately equal among men and women. However, the share of women working as unpaid family members is more than double (urban) and more than trice (rural) as high as that of men.

The challenges of informally self-employed and their enterprises are securing, maintaining and growing assets, in-

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It has become custom in India to term "unorganized" what is internationally known as "informal" sector or employment. The rationale is not quite obvious. On the one hand, the term "organized" seems to stand for "in the realm of government bureaucracy". However, apparently there are a lot of "unorganized" occurrences in that realm such as corruption and sadly low quality of public services. On the other hand, the "unorganized" workers are likely to be the most organized ones – otherwise how would they survive at all, not least the "unorganized" inflictions from the realm of government bureaucracy? Therefore, this article chooses to apply the international notion of "informal" versus "formal".

The challenges of informally self-employed and their enterprises are securing, maintaining and growing assets, including the use of credit, and accessing information and technology.

Why do poverty and informality persist in India?

"[T]here is an old mindset that refuses to face up to [our key problems today] and is still fighting yesterday's battles. Our biggest single problem is the lack of jobs for ordinary people."

cluding the use of credit, and accessing information and technology. They have to master these with a comparatively poor endowment of formal education; as is apparent from their success compared to other informal workers, the blend of non-agricultural opportunity, entrepreneurship and family network, these can be substituted for to a great degree. They become more pressing liabilities when it comes to expanding the company to hiring stuff and larger scale operations.

3 Why do poverty and informality persist in India?

"[T]here is an old mindset that refuses to face up to [our key problems today] and is still fighting yesterday's battles. Our biggest single problem is the lack of jobs for ordinary people. We need employment for the semi-skilled on a large scale [...] We need to industrialize to provide jobs for people with fewer skills. Why is it not happening on the scale we would hope?"

(Manmohan Singh [quoted by Luce, 2006])

From the impressive set of data and information arises ultimately the question: Why has the informal sector refused to shrink under the surge of one and a half decades of ever-peaking economic growth? Why has less than 1 out of 4 informal workers been able to escape poverty and vulnerability? Why do 2 out of 3 of those who succeeded fall into the non-agricultural realm?

The commission notes that India has largely failed to set up a system of social security – a "social floor". Whereas the concrete features differ from country to country and are at times disputed, it is undeniable that it is the role of government to set the framework, hopefully fairly

comprehensive. This rather big job is still waiting to be tackled by GoI; experience suggests that the best time to do so is a time of expanding scope of re-distribution.

A closer look at the more successful informal workers points at three variations of the same driver. The driver is accumulation of assets, and the variations are (1) entrepreneurial opportunity, (2) regular wage income and (3) feasible farm sizes.

Two out of these success factors have materialized exclusively in the non-agricultural realm. Moreover, most of the material presented in the commission's report suggests that they have come to be not because but despite government intervention. It is breath taking, and for the outsider surprising, to see the large number of laws that regulate the workplace and the relations manifest at it. Yet, most of these are hardly worthy the ink. Rather, they appear to be suffocating entrepreneurial opportunity, such that the overwhelming majority of enterprises remains in the realm of informality, one-person-show and family, and the creation of regularly paying jobs is painfully below demand.

At the same time, shrinking employment opportunities in the agricultural sector drive the majority of Indians into misery. Not only is the transformation from agricultural to non-agricultural labor congested. Also, the development of robust, high-productivity agricultural businesses is crippled. For sure, such a transformed agricultural sector will not accommodate the number of workers as was formerly the case. But it will ensure that Indians and others are fed at reasonable prices, and the income of the new agro-entrepreneurs will

Why has less than 1 out of 4 informal workers been able to escape poverty and vulnerability? Why do 2 out of 3 of those who succeeded fall into the non-agricultural realm?

2008-NCEUS-report - relevance for Microfinance

create demand in other areas, thus facilitating the emergence of the non-agricultural sector.

The single factor to smoothen and accelerate the transformation process would be education. However, despite a nominally free education system for everybody, India has bitterly failed its people on this account. Lack of education, lack of capability to access information is the biggest and most painfully shoot-down factor for India's poor. Economically, accumulating education and information is another variation of accumulating assets.

4 Concluding Remarks

The *National Commission for Enterprises in the Unorganised Sector* has presented an tremendous collection of data and information. The sketch presented here is but scratching the surface. Naturally, the subject of the NCEUS-report is identical with the subject of microfinance. The informal worker is the microfinance client; seeking micro-credit for her enterprise, seeking savings to mitigate the risks of life – which more often than not materialize in the ability to pay school fees – seeking remittance services to send money to the relatives left behind by the migrant worker.

MFIs may pride themselves that they are part and parcel of the transformation outlined above. In India, their main focus has been the creation of non-agricultural income in rural areas, as well as smoothening of agricultural income. Indian MFIs

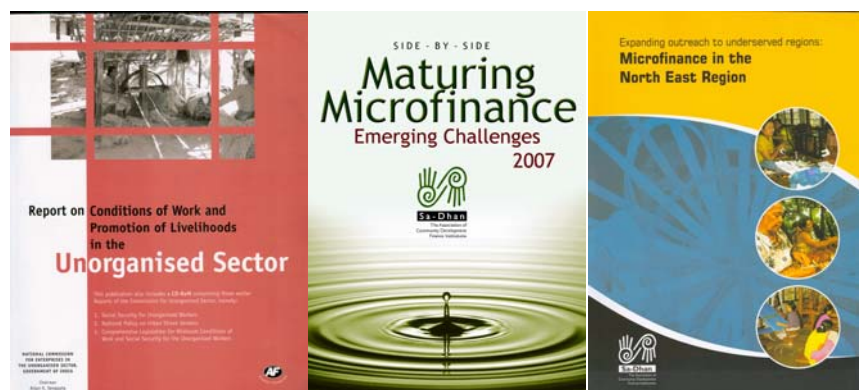
are now increasingly serving the urban informal workers as well (Sa-Dhan 2008). The most important "service" of microfinance is empowerment of its clients to wield their own faith, without tampering by bureaucrats (Fernandez 2008).

Therefore, the NCEUS-report makes valuable reading for every microfinance practitioner; Sa-Dhan regional office Hyderabad has been equipped with a copy (including a CD-Rom with three earlier NCEUS-reports as well), accessible for its members and other stakeholders.

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Wait a moment: Farm loan Waiver

In his budget speech on 29th Feb. 2008, Finance Minister Chidambaram announced a waiver for farmers' loans of a volume of about Rs. 60,000 crore (US\$ 15b). The scheme covers all agricultural loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions up to March 31, 2007 and overdue as on December 31, 2007 and which remained unpaid until February 29, 2008. For marginal farmers (i.e., holding up to 1 hectare) and small farmers (1-2 hectare) complete loan amounts are waived; for other farmers an one time settlement (OTS) scheme offers a rebate of 25% against payment of the balance of 75%.

It is the biggest such cut since 1990. The Union Government expects this waiver to relief both banks and farmers from non performing loans provide them with fresh liquidity. This shall eventually expand rural investment and production. Agricultural Gross Capital Formation as a proportion of GDP was 12.5% in 2006-07. Mr. Chidambaram says it needs to be raised to 16% to achieve the target growth rate of 4 per cent. In combination with rising food prices – incentive for investment – the strategy might work with regard to the banking system. RBI is reported to back the scheme, most commentators do not expect any distorting effects as occurred in 1990 when many cooperative banks when bankrupt.

However, many question still the accuracy of the scheme with regard to the root problems of Indian farmers. On the one hand, it is doubtful if the waiver will reach the target group. Many argued like agro-economist M S Swaminathan that it was difficult to compare farmers owning two hectares in Punjab with those with holdings of similar size in Rajasthan or Vidarbha. They hold that the size of holdings in distressed areas should be much bigger. Also, those on the verge of desperation might well be bigger farmers who took risks on cotton crops. On the other hand, it is rather unlikely that the waiver will translate into reduced distress and improved investment among the target group. About 1 out of 2 marginal and small-hold farmers does not access credit from the formal banking system to which the waiver refers exclusively. Private moneylenders account for Rs 40,000-crore debt, carrying an interest rate greater than 30%. Even if marginal and small-hold farmers accessed credit from the formal banking system (on average Rs. 8,870), it is mostly for livestock, implements and even marriages, while the waiver refers to crop loans exclusively.

Indeed, the committee to examine agricultural indebtedness said that those who repaid their dues promptly must be rewarded. It suggested among others a rescheduling of loans and interest (sic!) waiver for two years as well as fresh loans to farmers affected by natural calamities and a Moneylenders Debt Redemption Fund with a corpus of Rs. 100 crore to operationalise the scheme. Above all, the committee emphasized the need for timely and adequate credit by toning up rural financial architecture. To that end, it proposed among others Self-help Groups to help small and marginal farmers and steps to reduce production and marketing risks.

Sadly, instead of systematically reducing vulnerability, politics opted for punishing those who are too much in awe of the system to abuse it or who depended on their own savings to run their farm, while defaulters are rewarded for their laxity – among them numerous well-off agriculturalists in areas of the “green revolution”.

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Informal Finance Sector in India's North East Region (NER) - How Viable?

Outline

In April 2008, Sa-Dhan released a study about the status of microfinance in North Eastern region, undertaken in association with Indian Institute of Banking Management (IIBM), Gawhati. "**Expanding Outreach to Underserved Regions: Micro Finance in the North East Region**" unveiled the role and evolution of the region's informal sector in delivering financial services. The study is available at Sa-Dhan.

The North East Region (NER) is one of the poorest regions of India. Each of the eight NER-states differs widely in terms of political and socio-economic environment. Almost 98% of the land area in the NER runs along international borders with Bhutan, Bangladesh Myanmar and China.

This article attempts to highlight the various traditional informal systems of savings and lending in the north eastern region based on the study and to identify the role played by informal financial institutions in financial development. The article is organized in the following manner. The next section introduces the scope of informal sector, with particular regard to finance. Section 2 provides a brief profile of North east region in India. The third section provides an overview of distribution of informal credit within the region. This is done by taking into account NSSO survey (2003), North East Region Community and Resource Management for Upland Areas (NERCMP) survey and data from Sa-Dhan's report. The fourth section discusses the various informal sources for the credit and the final section concludes with a generalizing outlook at the findings from the study.

1 Introduction

The Indian banking system, which is among the largest banking networks in the world, does not reach most of the rural poor in India. E. g. about 70% of the Indian population from rural areas accounts for only 30% of bank deposits. Banks do not meet the credit requirements of the poor; hence people are forced to go to the moneylenders for credit. Though the banks have been nationalized, they perceive rural credit to be a high risk and high cost proposition. For obtaining loans from the banks the poor people have to follow procedures which are time consuming and difficult to understand.

In many developing countries, and lately increasingly so in many industrialized countries, the vast scale and rate of growth of the informal sector presents a dilemma and a challenge for governments, social partners and the civil society alike. A dilemma, as the informal sector provides credit to the poor which does not only differ qualitatively from those in the formal sector, but also infringe upon established rules and laws. A challenge, as it absorbs a large and growing fraction of the informal activities and engagement of people from various professional background like teachers, small business owners etc., finding themselves excluded from formal bank linkage and income opportunities.

Self-Help Groups (SHGs) have quietly mushroomed in most of the region in eastern India. Millions of poor, predominantly women, are now members of thousands of SHGs. Microfinance caters to commercial needs of poor for enabling them to raise their income levels and improve standard

*By Punam Gondia,
Sa-Dhan Senior Programme Executive
(punam@sa-dhan.org)*

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Informal Finance Sector is the main provider of financial

It is not the lack of skills that makes poverty persist. It is lack of opportunity and lack of reliable credit.

of living. It also includes support services such as thrift, market assistance, technical assistance, capacity building, insurance and social programmes. It is not the lack of skills that makes poverty persist. It is lack of opportunity and lack of reliable credit. Microfinance institutions are making differences in the characteristic of the distribution of credit behavior of the poor.

2. A snapshot of India's North Eastern Region

North-East India refers to the easternmost region of India consisting of the contiguous Seven Sister States (Arunachal Pradesh, Assam, Nagaland, Manipur, Meghalaya, Mizoram, Tripura) and Sikkim. North-East India is linguistically and culturally very distinct from the other states of India. A large number of the inhabitants speak Tibeto-Burman languages and have cultural similarities with South-East Asia and Tibet.



However, though similar in some ways, each state possesses a distinct physical, cultural and socio-economic identity. The political environment is different – and so are the problems. The ways of life differ – and along with it the attitudes, the work culture and the thought processes.

Hill area constitutes 70% of NER. Population, except in the valleys and in Assam, is sparsely distributed. The en-

tire region has roughly a population of 3.88 crore, of which 3 crore is concentrated in Assam. The rail network is poor and also concentrated in Assam. Compared to the national average of 73 km of road per 100 square km, the average road length in the region 53 km only, with Arunachal Pradesh having the least length of roads - 12.20 km per 100 sq km. Access to markets in the region is difficult because of the poor infrastructure.

Agriculture remains the main economy of the region engaging almost 75% of the workforce. Most other economic activities are of small scale, mostly deploying traditional skills of weaving and handicrafts.

People lack access to basic education and health facilities and have small land holdings. People lack market opportunities and communication facilities.

Last but not the least, people lack access to financial services. Pro-

viding access to micro-finance is considered not only a precondition for poverty alleviation, but also for empowerment (Fernandez 2008).

The data collected for the study is based on individual case studies and some secondary data. The surveys took place to have a broader perspective of the region. IIBM carried out the study by taking larger sample sizes in the smaller areas.

3. Regional distribution of infor-

Most non-farming activities are of small scale, mostly deploying traditional skills of weaving and handicrafts. People lack access to basic education, health facilities, market opportunities, communication facilities and last but not the least financial services.

services in the North East Region—cont'd

mal credit

As the topography of NER is uneven most of the informal financial sector is concentrated in the plain region. However due to rapid urbanization, the informal sector is growing at a slow pace in the undulating terrain.

In the states Meghalaya, Mizoram, Tripura and Sikkim the percentage of loan from government agencies (formal) is high whereas in the states of Arunachal Pradesh, Assam, Manipur and Nagaland the percentage loan from informal institutions is high. The reason appears to be the topography. The plain area has an easy access to government institutions and banks whereas the hilly terrain is difficult for the banks and govt. institutions to access.

It is quite evident from the data that most of the loans are availed for household expenditure and unspecified purposes. Productive loan use (Farm and non-farm activities) is minimum (highest in Meghalaya with 26.3%, followed by Sikkim with 15.7% and Mizoram with 14.6%) as compared to household expenditure. Whereas as people's important urgent need is farming expenses, they consume loans in various household expenditure. There is a need to look into the data in more depth. The percentage of unspecified loan is highest in the state of Meghalaya, followed by Arunachal Pradesh and Tripura respectively.

According to the 2003-Farmers Household Survey by NSSO Meghalaya has almost 94% Households borrowing from informal sources followed by Assam

with 68% and Arunachal Pradesh with 67%. While the percentage share of total amount of loans from banks is high in the states of Mizoram, Nagaland, Sikkim and Tripura, in almost all districts the percentage is quite high for borrowing from friends and relatives. By and large, the informal sector is dominant over the formal sector. The percentage of loan availed for non-farm activities is higher than that for farm activities .

If the money-lending sources are studied on the basis of sensitivity index, it is found that the money lenders, relatives and friends are easy to access but in case of cost and reliability these types of institutions are not reliable.

State-wise it is interesting to note that the percentage of formal linkage is high in Meghalaya followed by Assam and Manipur. Around 80% of the loans availed are from formal institutions followed by friends and relatives (13.6%) money lenders and other sources (1.2% and 5.2% respectively).

4 Informal Sourcing of Credit

Informal financial transactions can be defined as financial activities that are not regulated by any government authority. Unlike formal, such transactions rarely use legal documentation or the legal system to enforce contracts. The most common source of informal finance (usually interest-free) is from relatives and friends.

As informal sources of finance are relatively easy to access, people rely on moneylenders and pawnbrokers, Marups, rotating savings and credit associations (ROSCA), friends, relatives, sup-

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Informal Finance in NER - Cont'd from previous page



pliers and shopkeepers. These sources are providing the bulk of financial resources for poor people and offer a number of potential advantages like

- proximity between borrower and lender,
- immediacy of loan disbursement,
- small loan size,
- flexible repayment schedules and
- minimal collateral requirements

but they have disadvantage with them, and they can be costly. E. g. the informal financial market in large parts of Assam has voluntarily scaled down the loan amounts because of defaults.

One category of informal agents specializes for either the credit or the savings side of the market. Another bases the financial transaction on personal or business relationships. A third category provides full financial intermediation between savers and borrowers.

The first category consists of moneylenders that cover a wide range of financial arrangements with interest rates varying from Rs. 0 to Rs. 5 a month.

The second category is relationship based like Self Help groups and Marup, where the members define the norms and do regular savings (monthly, weekly or daily). Marup, literally meaning 'friendship', is a small group of friends and family who collect money from the group and either lends it on interest, or buy in bulk gadgets and materials required for any enterprise and distribute them to members of the group. The members then pay back the credit amount in installments. By

definition, therefore, Marups are formed of people belonging to the same or similar income group and profession.

The third category refers to Non banking financial companies (NBFC). These companies function as a part of the financial system within the policy framework. The companies mobilize the funds and lends it.

NER is home to traditional community based institutions. Some of them are into informal financial transactions. Several people like teachers, Public sector employees and churches are the major sources of money lending. As the interest rate is high, people are adopting it as a source of income generation.

Apart from this, in Manipur where the demand is high and formal suppliers are almost non-existent, the informal market has become more institutionalized. Thus, the norms associated with 'Marups' are known to everyone. Manipur has a wide network of Marups started by the Metei community. It is so popular that almost 90% of the population of Manipur is involved in Marups. There are small Marups of only five members and there are moderately large groups of fifty members. Since they operate mainly on trust, Marups are not very large. The contribution of members to Marups and the interest rates charged also reflect the wide range of needs and the members' capacity to save and repay. Contributions range from Rs 10 to Rs 30,000 a month and the interest rates charged vary from 5-20 % annually.

In the NER the informal market is quite vibrant. The study estimates the demand for microfinance services to be Rs. 2,600

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NER-study review—cont'd from previous page

crore for the region. Consequently, informal financial intermediation has acquired the status of banks. This process of institutionalization has led to a growth of these entities which govern everyday life in Manipur.

5 Conclusion

The informal financial sector is growing at a very fast pace as the demand is quite high. Although the informal sector (Money-lender, relatives, friends or Churches) is easy to access, it is not cost effective and not a reliable source as high interest rate is an obstacle. The government, NGOs and Private agencies should take some measures to strengthen the informal sector, like easy access to credit for poor, financial literacy etc. Apart from this, the community groups should be given preferences as in terms of accessibility, interest rates, as they are easy to access and are more reliable than the other informal means of finances. The informal sector has been providing significant contribution to the economy and has tremendous potential for economic growth of the region. There should be some policy recommendations on how this sector could be harnessed for economic growth. There is a need to deliberate a policy that will recognize the sector's role but it should be in link with the formal sector so that both can provide impetus for accelerated economic growth.

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Phone: 011-65650787
Fax: 011-26518276
E-mail: info@sa-dhan.org

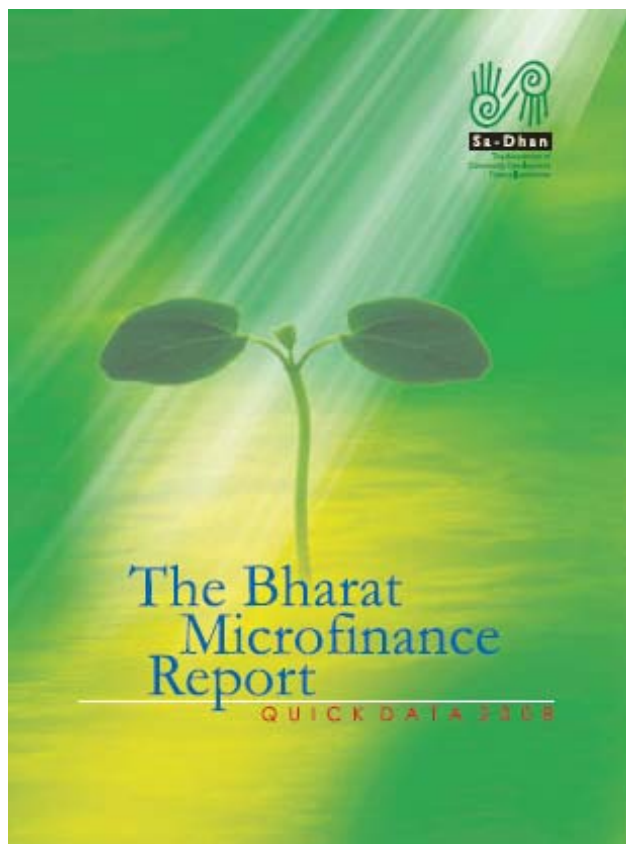
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3rd Sa-Dhan Stancon September 2008

Sa-Dhan, the association of community development financial institutions, strives to provide a facilitative environment for the microfinance sector in India.

The microfinance sector has gained attention among the policy directives in the last few years. The passing year has witnessed vital decisions from the policy making bodies like the Ministries of Finance, Rural Development, Urban Poverty Alleviation, Planning Commission, RBI, NABARD for the growth and development of microfinance in India so as to enhance financial inclusion. Simultaneously, it has also observed concerns from various quarters on legal and operational issues related to delivering microfinance services through institutional mechanisms especially in some regions.

Sa-Dhan is working with three in-house thematic Sub-groups like a) Policy b) Capacity Building and c) Standards. We had our Annual Conferences in the past led by the three thematic groups and this time, the Stancon will be led by the Sa-Dhan Standard Sub group.

The conference will witness the sectoral initiatives in defining the financial standards, governance, ethical norms and transparency and accountability mechanisms in order to help the microfinance sector in becoming a part of the formal financial sector in reaching out to the un-reached population.

It is decided to organize Stancon 2008 in September. The exact dates and venue would be intimated shortly)