



# CHALLENGES AND ISSUES OF MICROFINANCE IN ARUNACHAL PRADESH

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Article DOI: <https://doi.org/10.36713/epra15528>

DOI No: 10.36713/epra15528

## ABSTRACT

India is one of the fastest developing countries in the world, yet unemployment and poverty run deeply all over the country. In addition, the Northeastern States of India is considered the most economically backward region of the country, which lack basic banking outreach with low investment prospect. Likewise, despite the rich natural resources and diverse socio-culture, Arunachal Pradesh has failed to grow on par with the other states of the country in terms of education, infrastructure, financial services, and other overall development. The present study attempts to analyze the challenges and issues of microfinance in Arunachal Pradesh and examine the existing scenario of microfinance in the state. The study focuses on the various problems faced by poor individuals and the authorities, which restrict the growth of the microfinance sector. The paper concludes that, despite the slow growth it is an undeniable fact that microfinance has been acknowledged as an effective measure to overcome poverty and attain balanced regional development. Further, the government can add a new dimension to the fight against underdevelopment in rural Arunachal Pradesh by implementing adequate measures to overcome several challenges.

**KEYWORDS:** Poverty, Unemployment, Microfinance, Self Help Group-Bank Linkage Programme (SHG-BLP)

## INTRODUCTION

Combating unemployment and poverty has been the main challenge of successive Governments in India, and the major causes have been the unavailability and inaccessibility of adequate credit facilities. To overcome these challenges and achieve sustainable development among the deprived population, the microfinance approach was introduced. The microfinance system facilitated poor households with various financial services to enhance their living standard by investing in small businesses and meeting their financial needs in times of emergencies (Dey, 2015). In a developing country like India, the importance of the microfinance system cannot be undermined as it plays a vital role in the socio-economic development of the rural population and low-income individuals. Microfinance is considered an effective tool for mitigating poverty by providing a broad range of financial services such as micro deposits, microloans, money transfers, micro-insurance, micro-savings, etc. (Shareef, 2022).

According to CGAP “ Microfinance is providing credit, savings, and other financial services to the poor, which includes working capital credit, and supplementary fundamental financial services like consumer loans, pension, insurance, and cash transfer services (N, K, & R, 2018). Microfinance can be defined as a provision of thrift, credit, and other financial services of a small amount to the poor in rural, semi-urban, or urban areas to enable them to raise their income level and improve living standards. Therefore, it is considered one of the most successful innovations in the fight against poverty and unemployment.

## OBJECTIVE OF THE STUDY

The key objective of the study is to analyze the challenges and issues of microfinance in Arunachal Pradesh and examine the existing scenario of microfinance in the state. The article attempts to understand the various problems faced by poor individuals and the authorities, which restrict the growth of the microfinance sector.

## RESEARCH METHODOLOGY

The present study is based on both primary and secondary data. Primary data were collected through personal interviews with the microfinance beneficiaries whereas the secondary data was gathered from several sources like journals, articles, government reports & websites, etc.

## MICROFINANCE IN INDIA

The microfinance industry has covered a long journey from micro credit to micro-insurance, micro-enterprise, micro remittance, and micro livelihood. The gradual development process has boosted the rural population in India to attain reasonable socio-economic growth and cultural empowerment. The government-led contemporary microfinance movement started through the NABARD-sponsored pilot project of the SHGs bank linkage program in 1992. It circulated guidelines to banks for financing self-help groups by targeting to finance 500 SHGs across the country through the banking system (Amarnani, Amarnani, & Achuthan, 2010). This encouraged the Reserve Bank of India to include SHG financing as a major activity of the banks under the priority sector lending in 1996. As per NABARD microfinance operations are spread across 641 districts in 36 states and union territory. Further, the Self



Help Group Bank Linkage Programme (SHG-BLP), is the largest microfinance program in the world, in terms of client base and outreach.

Some of the common ways of delivering microfinance to the poor population in India are as follows:

- Self Help Group Bank Linkage Program
- Individual Banking Program
- The Grameen Model
- Mixed Model

## CHALLENGES OF MICROFINANCE IN ARUNACHAL PRADESH

India is one of the fastest developing countries in the world, yet unemployment and poverty run deeply all over the country. As most of the population resides in rural regions, the need for microfinance policies in India cannot be ignored. Therefore, the government has created an environment to promote the activities of microfinance. To do so, the government and the financial institutions must recognize and accept microfinance as a genuine financial activity instead of looking at it as a secondary segment within the financial system (Wangsa, 2021). In addition, the Northeastern States of India is considered the most economically backward region of the country, which lack basic banking outreach with unpleasantly low investment prospect. Likewise, despite the rich natural resources and diverse socio-culture, the state of Arunachal Pradesh has failed to grow on par with the other states of the country in terms of education, infrastructure, financial services & schemes, and other overall development.

According to the official website of NABARD, the microfinance savings and loans outstanding among the eight northeastern states shows that Arunachal Pradesh has the least number of Self-help groups and the highest percentage of Non-Performing Assets towards outstanding loans. To improve the microfinance activities in the state, several banks and financial institutions have initiated ways to guide the underprivileged region to overcome poverty and transform society with further access to financial activities. Among the northeastern states, Assam has the maximum number of Self-help groups and saving amounts with banks, as it constitutes more than eighty percent of the total SHGs in the region. On the other hand, Arunachal Pradesh constitutes only 1.08 percent of the total SHGs and it recorded the lowest amount disbursed with just ₹202.98 lakhs. Similarly, in the case of Non-Performing Assets over the total loan outstanding with the banks, Arunachal Pradesh recorded 24.27 percent, whereas Shikim has only 1.81 percent.

Some of the common problems and challenges encountered by the stakeholders of the microfinance industry in Arunachal Pradesh are as follows-

- **Geographical factors:** The low infrastructure development such as the lack of proper concrete roads, and far-off locations of the villages from the capital regions acts as a disadvantage to the microfinance beneficiaries as well as the authorities in communicating and implementing various schemes.
- **Low education level:** Most of the microfinance beneficiaries reside in a rural region and the majority of

them lack basic education, which prevents them from acquiring knowledge on projects that would uplift their livelihood.

- **Lack of financial literacy:** The microfinance authorities fail to provide training and development opportunities to every rural village due to limited resources. Thus, the lack of adequate financial literacy becomes a major challenge in the development of microfinance activities.
- **Language barriers:** The microfinance beneficiaries are mostly underprivileged individuals, who lack basic access to education and are confined to their community. Therefore, most of them have limited fluency in the official languages, and hence it creates a breach in communication between the microfinance participants.
- **Psychological factor:** The poor individual lacks self-confidence in taking financial risks and due to lack of banking experience, it becomes difficult for them to trust the authorities and invest their time and money in the various financial schemes. Such psychological factors also lead to several issues which hinder the growth of microfinance.
- **Negligence of urban poor:** The various initiatives and schemes introduced by the government and the Non-Governmental Organisations mainly focus on uplifting the living standard of the poor households in the rural region by neglecting the poor individuals in the urban society. Such negligences further lead to unequal distributions of wealth among the urban poor population.
- **Political interference:** In most cases, the government schemes and projects are directed or distributed through the panchayat leaders at the grassroots level. This political interference leads to biases while distributing the benefits of the project.
- **Lack of proper management:** One of the major challenges encountered by the microfinance industry is the absence of appropriate management by the authority. Their lack of proper research and dedication creates a serious issue in the smooth operations and outreach.
- **High interest rate:** Another factor that hinders the growth of microfinance is the non-uniform rate of interest charged by the SHGs and the MFIs. They charge interest at their discretion which discourages poor individuals from borrowing microcredit.
- **Problems of different income levels:** Generally the Self Help groups are formed by the people with homogeneous socio-economic status and level of income. However, in some cases, the goals and objectives of the members may differ due to their different income levels. Such differences create issues in the decision-making of the SHGs.
- **Limited economic opportunities:** As mentioned earlier there are very few income-generating opportunities in the state of Arunachal Pradesh. Some SHGs earn their additional income only through daily wages. These limited economic opportunities restrict the growth of financial services as well as the development of the state on par with other regions.



## MEASURES TO OVERCOME CHALLENGES

To achieve sustainable development, some of the measures to overcome the challenges encountered by the microfinance sector are:

- **Infrastructure development:** Most of the rural population fails to seize the opportunities of various government schemes due to poor infrastructure such as bad road connectivity, inadequate internet connection, etc. Such problems can be addressed by developing the basic infrastructure among the deprived community, to facilitate them with proper access to financial services.
- **Organise seminars and workshops program:** To promote the marketing habits among the marginal farmers periodical seminars and workshops may be conducted to encourage income-generating activities and micro-entrepreneurial skills
- **Encourage NGOs:** Through its innovative projects the government may encourage Non-Governmental Organisation to undertake microfinance activities as one of their main objectives.
- **Digitalization of record books:** Computerisation of the book of accounts maintained by the Self Help Groups can improve the financial transactions within the group. Therefore the microfinance authorities may promote digitalization of record books for smooth functioning and monitoring.
- **Extensive financial literacy program:** To educate deprived households about systematic microfinance services saving habits and other business activities, extensive financial literacy may be conducted at regular intervals.
- **Transparent interest rate:** The rate of interest on microfinance differs from one microfinance agency to another. This pricing policy confuses the borrower and makes them feel incompetent in terms of bargaining power. Therefore a uniform practice of interest rate may be followed by all microfinance institutions.
- **Focus on other non-financial aspects:** Microfinance should not be confined only to financial activities. The authorities may concentrate on other non-financial aspects such as abolishing socially evil practices such as child labor, opium cultivation, women's harassment, etc.

## CONCLUSION

The needs and wants of poor households are diverse and their credit requirements are unlimited as they need credit for different purposes such as consumption, working capital, fixed capital, etc. Thus, the existence of several problems and challenges are unavoidable. However, the emerging microfinance evolution has designed financial products and services that enable the poor to expand and diversify their economic activities, increase their income level, and improve their social connections, especially among the women groups. The concept of microfinance is relatively new to the people in Arunachal Pradesh and to obtain sustainable development there must be continuous growth in all segments of the poor population i.e., marginal farmers, microfinance beneficiaries, and micro-entrepreneurs. Hence, despite the slow growth it is an undeniable fact that microfinance has been acknowledged as

an effective measure to overcome poverty and attain balanced regional development. Likewise, with the implementation of adequate measures to overcome the challenges the government can add a new dimension to the fight against underdevelopment in rural Arunachal Pradesh.

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