Informal microfinance in Assam: Empirical Evidence from Nalbari and Baksa districts

Case Study

DR DEBABRATA DAS
TEZPUR UNIVERSITY
TEZPUR: ASSAM
ddas09@tezu.ernet.in

This is a study undertaken as a part of the Microfinance Researchers Alliance Program (MRAP), a research capacity development programme run by the Centre for Micro Finance (CMF) at IFMR Research. The researcher acknowledges with deep gratitude the financial support offered by Centre for Micro Finance for carrying out the study. The researcher also acknowledges with appreciation the help received from Shri Utpal Kr. Sarma and Smti Pinky Dutta at different stages of preparing the report, as well as the help from Medha Basu and Isabelle Cohen in editing the report.

Index

List of Chapters

Chapter 1: Background

Chapter 2: Study Methodology
- 2.1: Objectives
- 2.2: Methodology
- 2.2.1: Sampling, Sample Size, Data Collection and Method of Analysis
- 2.2.2: Statistics about the Study Area
- 2.3: Limitations of the Study

Chapter 3: Findings: Informal Private Saving Societies
- 3.1: Organizational and Operational Profile of Informal PSS
- 3.1.1: Distance of Bank/Post Offices/MFI from PSS
- 3.1.2: Area of Operation
- 3.1.3: Sources of funding
- 3.1.4: Ownership of informal PSS
- 3.1.5: Decision-making Authority and Management
- 3.1.6: Staff
- 3.1.7: Clients
- 3.2: Meeting the Credit gap
- 3.3: Saving Details
- 3.4: Loan Details

Chapter 4: Semi-formal Saving Societies
- 4.1: Semi-formal micro finance providers
- 4.2: Operations
- 4.3: Loans and Savings
- 4.4: Clients
- 4.5: Business Details

Chapter 5: Summary and Conclusions

List of Tables

Tab 2.2.1: Details of Savings Societies visited
Tab 2.2.2: Nalbari and Baksa Districts
Tab 2.2.3: Comparative Financial Profile of Nalbari and Baksa Districts
Tab 2.2.4: List of villages from Nalbari and Baksa District

Tab 3.1.2: Sources of Fund
Tab 3.1.3: Ownership of the savings societies
Tab 3.1.4: Decision-making Authority
Tab 3.1.5: Day-to-day management
Tab 3.1.6: Field Staff
Tab 3.1.7: Office Staff
Tab 3.1.8: Total Number of Clients/Members
Tab 3.1.9: Type of Clients
Tab 3.1.10: Occupation of the clients
Tab 3.1.11: Gender Ratio
Tab 3.2.1: Financial Portfolio of Saving Societies
Tab 3.4.1: Number of Loan Clients

Tab 4.1.1: List of Semi-formal MFIs
Tab 4.2.1: Profile of Semi-formal MFIs of Nalbari and Baksa Districts
Tab 4.4.1: Client Profile
Tab 4.5.1: Business Details of Semi-formal MFIs of Nalbari and Baksa District

List of Figures

Fig 1.1: Structure of micro finance in Assam

Fig 3.1.1: Distance of Bank/PO/MFI from Saving Societies
Fig 3.1.2: Age group of the clients

Chapter 1

Background

Microfinance is the provision of financial services including loans, savings, insurance and remittance transfers to poor and low-income clients by microfinance institutions (MFIs), generally requiring little or no collateral. The methods used by MFIs include group lending and liability, pre-loan savings requirements, gradual increases in loan size, and an implicit guarantee of access to future loans if present loans are repaid fully and punctually (The Microfinance Gateway, n.d.).

The microfinance sector has made remarkable strides in India over the years. Microfinance has become a household name as a result of the benefits accrued by the poor from its services (Microfinance India – State of the Sector Report, 2009). It has evolved from cooperative saving societies to a rapidly growing formal sector. Just over the last year, microfinance has recorded phenomenal growth – a 19 percent increase in unique clients and a 56 percent increase in outstanding loans (Microfinance India – State of the Sector Report, 2010). India now has the largest microfinance industry in the world, with approximately 27 million borrowing accounts (M-CRIL Microfinance Review, 2010).

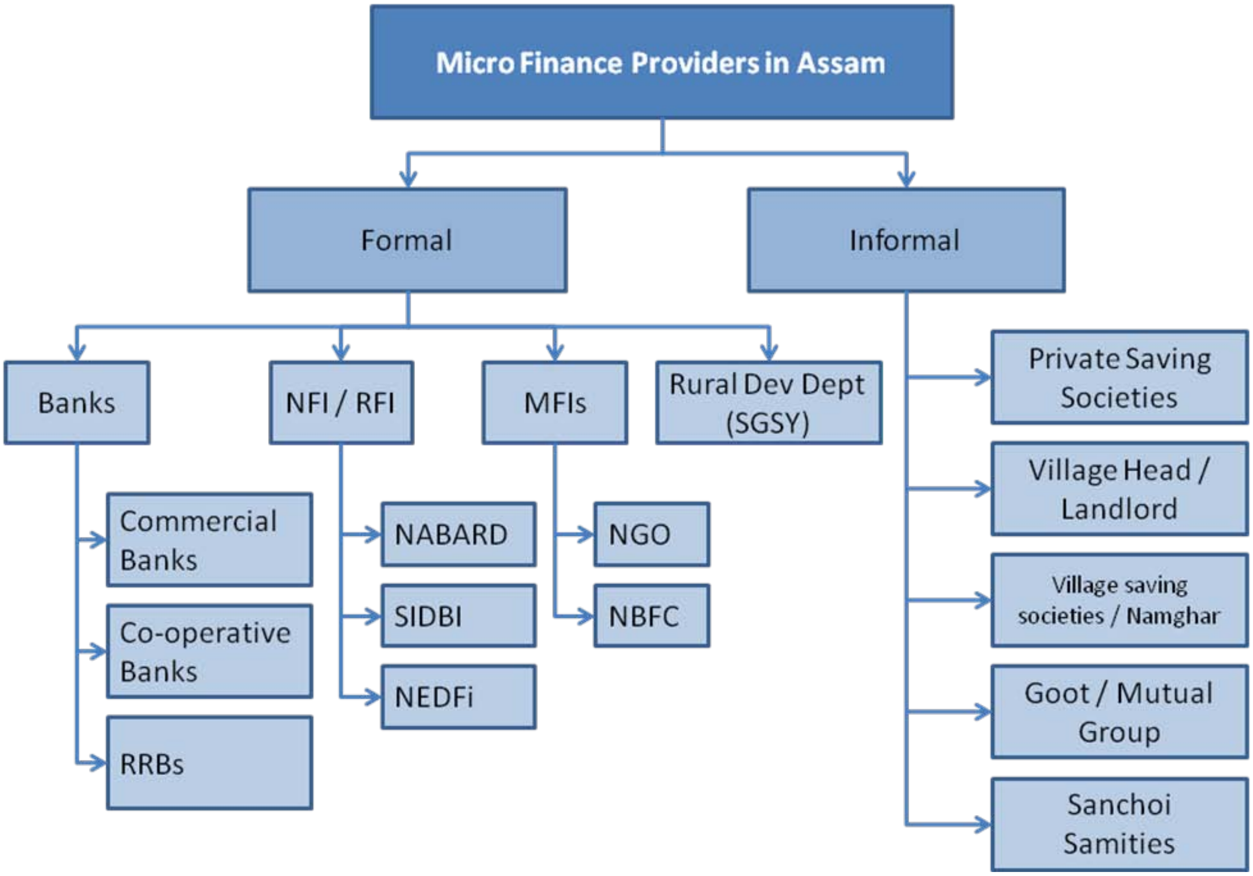
The North Eastern Region (NER) of India poses an interesting case for the study of Indian microfinance. The region's unusual topography, low population, low level of commercialization and infrastructure, transport, communication and power bottlenecks have restricted the reach and spread of financial services (Nair, 2010-11). As a result, formal microfinance initiatives began later there than the rest of the country. The loans received by the NER currently account for only 2 percent of the total amount of loans received in India. In FY 2009-10, the total loans disbursed in the NER totaled only INR 28716.99 lakh, 68 percent of which was in Assam. Tripura accounted for 22 percent, and no other state received above 5 percent (Microfinance India – State of the Sector Report, 2010).

The lack of access to formal financial institutions has led to the emergence of informal systems based on local socioeconomic structures and needs (Moulick, 2008). These includes traditional institutions, such as Marup (Manipur), Sanchoi Samities (Assam), Village Development Board (Nagaland), Village Darbar (Meghalaya) and Kebong (Arunachal Pradesh), all deeply rooted in regional culture (Nair, 2008). There are also institutions such as Namghars and Pujaghars, Singlups and Maharis in Assam, Manipur and Meghalaya, respectively. (Moulick, 2008).

Along with the institutions mentioned above, some informal Private Saving Societies (PSS) have also emerged, primarily in western Assam (lower Assam). Their evolution demonstrates the significant saving capabilities of the low-income people of Assam. Since the owners and customers reside in the same community, they have an excellent understanding of each other's needs. Subsequently, the services provided are flexible, convenient and fast, and the PSS has been extremely successful in this area of Assam.

This report documents the organizational structure, operation and functions of both informal and semi-formal Private Savings Societies, and examines how these financial providers have responded to the credit demand in two districts of lower Assam.

***Figure 1.1**: Structure of Microfinance in Assam*



Chapter 2

Study Methodology

2.1 Objectives of Study

The specific objectives of the research are:

1. To study informal saving societies in the Nalbari and Baksa districts in Assam.
2. To study the role of saving societies in meeting the credit gap.
3. To study the demand for loans and how informal financial institutions respond to it.

2.2 Methodology

2.2.1 Sampling, Sample Size, Data Collection and Method of Analysis

Purposive sampling was used to select the Nalbari and Baksa districts, which were chosen for their high concentration of informal microfinance setups. From within the districts, five blocks from Nalbari and six blocks from Baksa were selected randomly. A total of 90 saving societies were then randomly selected for data collection – 52 from Nalbari and 38 from Baksa – spread over 40 villages in Nalbari and 24 in Baksa (Table 2.2.1). Data was collected from 1st October to 31st November 2010.

Table 2.2.1: Details of saving societies visited

Societies	Nalbari	Baksa	Total
Unregistered	47	36	83
Registered (as Co-operative societies)	5	2	7
Total	52	38	90

Focused group discussions with key functionaries of both informal and semiformal microfinance providers were the primary method of data collection. Semi-structured interviews were also used, with a questionnaire consisting of open-ended and closed-ended questions (see Annexes 1and 2).

2.2.2 Statistics about the Study Area

The study was conducted in the Nalbari and Baksa districts of lower Assam. The following tables highlight some summary statistics for these districts.

Table 2.2.2: Nalbari and Baksa Districts

	Nalbari	Baksa
Area (km^2)	2275	2400
Population (2001)	1,148,824	8,62,560
Primary Occupation	Agriculture	Agriculture
Human Development Index	0.343	N/A[1]
Literacy Rate (percent)	12 (2001)	N/A[2]

Sources: Census, 2001, Assam Human Development Report, 2003

Table 2.2.3: Comparative Financial Profile of Nalbari and Baksa Districts

	Nalbari	Baksa
Sub-Division	1	1
Blocks	7	8
Scheduled commercial bank branches	28	09
Regional rural bank branches	15	08
Co-operative bank branches	02	00
Post offices	38	18
Sub post offices	204	125
Credit saving societies	138	390
GPBSS (Gaon panchayat Bahumukhi smabai Samitee)	22	28
GPMBSS (Gaon panchayat Mahila Bahumukhi smabai Samitee)	58	82
Thrift credit saving societies	09	06
Farming (KPSS) saving societies	02	54
Fishery credit saving societies	08	14
ASCARD Bank (Assam State Cooperative Agricultural and Rural Development Bank) branches	02	00
Urban Cooperative Bank branches	01	00

[1] Statistics not available since Baksa district was created in 2001, and is not reflected in the available sources.

[2] Statistics not available since Baksa district was created in 2001, and is not reflected in the available sources. However, the literacy rate in Baksa is significantly lower than in Nalbari.

Table 2.2.4: List of villages from Nalbari and Baksa Districts:

District(2)	Blocks(11)	Villages (64)
Nalbari	Pub Nalbari	Nalbari, Puspakpur, Nalbari Ward No. 10, Nalbari Old Bus stand, Nalbari Ward 4, Kala Fakirtola, Doul Gobindapur, Dhantala, Milonpur, Namati, Hajo Road, Sarihatoli, Koirara, Katlabarkuchi, Nalbari Satra, Bhuyarkuchi.
	Ghagrapar	Balitara, Dhamdhama, Pub Balitara, Sagarkuchi,Khatikuchi,Bherbheri, Bhelamari, Chataibari, Santipur, Uttar bar Siral
	Pachim Nalbari	Amoni, Chamata, GopalBazar, Bahajani, Milon Bazar, Bagrihati, Niz Bahajani,Tilana Mugkuchi.
	Tihu- Barama	Hati Namati
	Tamulpur	Tamulpur, Kumrikata, Jartaluk, Hakata, Majdia
Baksa	Baganpara/Baksa	Mohina, Tokankata, Uttar Barsiral, Polokata, Nayabasti, Baganpara, Mashalpur (Santipur), Thamna, Barbari, Chataibari.
	Gobardhana,	Gobardhana,Salbari ,Amratari, Nimua, Samuagati
	Tihu-Barama	Dedasara, Merkuchi, Murkuchiyapara, Charaimari, Pub Brahmachari, Pub Harharia,
	Nagrijuli Barama Jalah etc	Nagrijuli Bar-Simaluguri Ananda Bazar

2.3 Limitation of Study

Since the study only covered two districts of Assam, it may not be generalizable to Assam as a whole. Saving societies usually do not have a proper system of record keeping or Management Information Systems (MIS). Consequently, the data procured from the respondents consists of raw data and approximated data.

Chapter 3

Findings: Informal Private Saving Societies

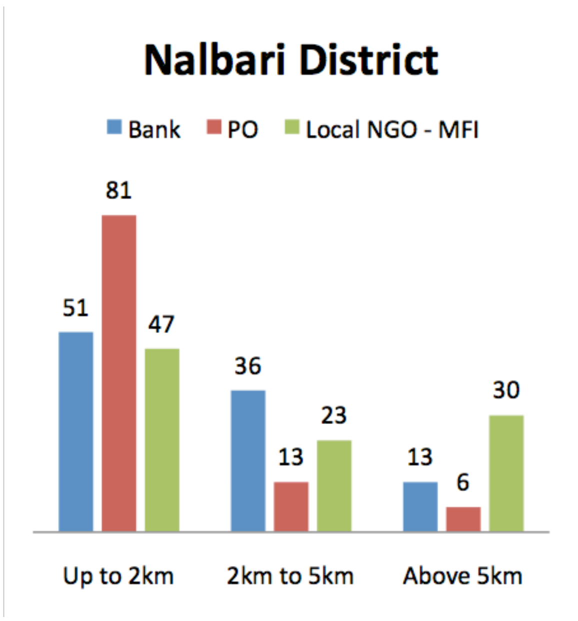
This chapter presents the results and findings on the operations of 83 informal PSS - 47 from Nalbari and 36 from Baksa districts.

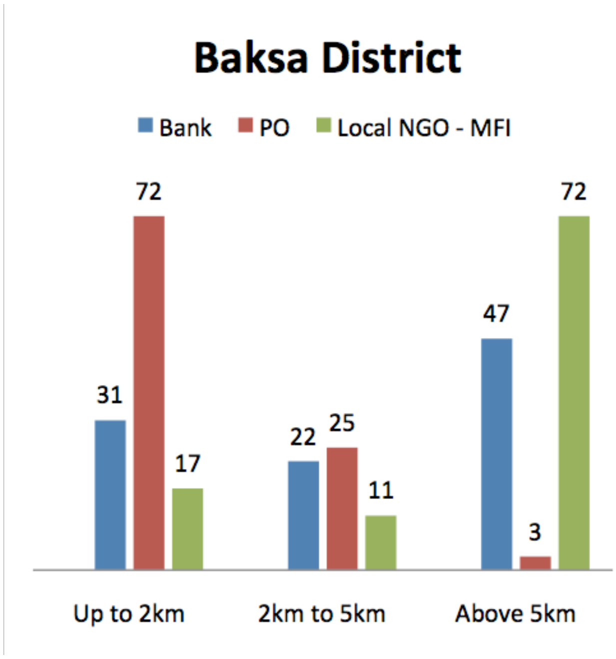
3.1 Organizational and Operational Profile of Informal PSS

3.1.1 Distance of Bank/Post Offices/MFI from PSS

The accessibility of informal financial services relative to formal services was evaluated by examining the distances from the informal PSS to bank branches, post offices and MFI offices. Bank branches tended to be located more than 2 km away from 49 percent of PSS in Nalbari district, and 69 percent in Baksa district. In the remote areas of Baksa and Nalbari districts, the presence of formal MFIs was negligible. Only 47 percent of PSS in Nalbari district and 17 percent of PSS in Baksa district were located within 2 km of the NGOs registered under Co-operative Societies Act. The majority of PSS included in this study are located more than 2 km away from the operating area of these NGOs, as can be seen in Figure 3.1.1. This study argues that the absence of formal MFIs and banks in this area has paved the way for clients to use informal saving societies for financial services.

Figure 3.1.1: *Distance of Bank/PO/MFI from saving societies*





Most PSS included in this study were located closer to post offices. The data shows that 81 percent of PSS in Nalbari and 72 percent of PSS in Baksa were located within 2 km of a post office. A focus group discussion with PSS clients indicates that although post offices are nearby, people prefer informal PSS. Focus group discussions also suggested that people in these areas tend not to be familiar with banks, or the complicated procedures necessary to open accounts and make transactions in nationalized banks. On the other hand, the clients personally knew the proprietors of informal MFIs, and found them to be helpful, trustworthy and customer-friendly. These factors have further contributed to the patronization of informal saving societies.

3.1.2 Area of Operation

Savings societies operate in areas as small as 1 village or as large as more than 15. Most small and new societies have extended their operations to 4-5 villages, while some older societies have spread their operations to 10-12 villages. The majority of the societies operate in at least 5 villages. In both Baksa and Nalbari districts, the average PSS operates in 5-14 villages (Table 3.1.1). This demonstrates how well the societies have well accepted by the people of these districts.

Table 3.1.1: Number of Villages Covered

Villages covered	Number of saving societies	
	Nalbari	**Baksa**
Upto 4	11	2
5 – 9	19	21
10 – 14	14	11
15 – 19	2	2
Above 20	1	0

3.1.3 Sources of funding

The study found that promoters used their own funds to start 47 percent of PSS in Nalbari and 50 percent of PSS in Baksa. Saving societies initially require only nominal funds, because the savings mobilized from the account holders are the main source of funds for on-lending. During the initial period, promoters' funds are also used to lend to account holders whose deposit amount is less than the required loan. Only 5 percent of PSS in Nalbari and 0 percent of PSS in Baksa received bank loans for on-lending at a higher interest rate. After financial operations had begun, 48 percent of PSS in Nalbari and 50 percent of PSS in Baksa used the deposit amount to provide loans to clients, increasing their turnover. Such deposits regulate the process of expansion of saving societies – an increase in the amount of savings indicates growth in business.

Table 3.1.2: Sources of fund

Sources of fund (multiple responses)	Number of saving societies	
	Nalbari	Baksa
Own	45 (47%)	36 (50%)
Bank	5 (5%)	0 (0%)
Client's deposit	46 (48%)	36 (50%)

3.1.4 Ownership of informal PSS

Committees with 5 or more members, headed by a President and Secretary, run 79 percent of PSS in Nalbari and 80 percent of PSS in Baksa. In some cases, PSS were managed and owned by 1 or 2 members, as can be seen in Table 3.1.3.

Table 3.1.3: Ownership of the saving societies

Number of promoters	Number of saving societies	
	Nalbari	Baksa
Single member	2 (4%)	1 (3%)
Two members	8 (17%)	6 (17%)
Committee with 5 or more members	37 (79%)	29 (80%)

3.1.5 Decision-making Authority and Management

Either committee members or the president and secretary made decisions regarding fund mobilization, resource allocation, fixing of the interest rate, the amount of disbursement and the like. In 72 percent of PSS in Nalbari and 75 percent in Baksa, two or more members of the committee were involved in decision-making and management. There are also some societies that are run by a sole promoter (Table 3.1.4). Generally, however, the president and secretary are the key decision-makers.

Table 3.1.4 Decision-making authority

Persons involved in decision making	Number of saving societies	
	Nalbari	Baksa
One	13 (28%)	9 (25%)
Two	30 (64%)	27 (75%)
Others	4 (8%)	0 (0%)

In a majority of the cases, the secretary handles the day-to-day management of the societies Quite a few also delegate management to the staff, who are then monitored by promoters (Table

3.1.5). The secretary is also responsible for accounting and the official proceedings of the saving societies, with the assistance of the staff.

Table 3.1.5 Day-to-day management

Option	Number of saving societies	
	Nalbari	Baksa
Secretary	37 (55%)	26 (45%)
Staff	24 (35%)	23 (40%)
Promoter	4 (6%)	6 (10%)
President and Secretary	3 (4%)	3 (5%)

3.1.6 Staff

The staff of a PSS is divided into field staff and office staff. The field staff, or collectors, are employed for the daily or monthly collection of deposits and loan repayments from the clients. They also provide loan details and other information to the clients. 62 percent of PSS in Nalbari and 58 percent of PSS in Baksa have 1-4 field staff while 2 percent and 6 percent, respectively, have 5 or more (Table 3.1.6). In small saving societies, the promoter typically collects the deposits and loan repayments himself. As the scale of the society grows, more field staff are employed to help facilitate transactions. Most of the field staff work on commission, and only few are given a regular salary as employees. Office staff process loans and handle the society's account work. Unlike field staff, office staff are salaried employees (Table 3.1.7).

Table 3.1.6 Field Staff

Number of Field Staff	Number of saving societies	
	Nalbari	Baksa
Nil	17 (36%)	13 (36%)
1 – 4	29 (62%)	21 (58%)
5 – 10	1 (2%)	2 (6%)

Table3.1.7 Office Staff

Number of Office Staff	Number of saving societies	
	Nalbari	Baksa
0	8 (17%)	3 (6%)
1 – 4	38 (81%)	30 (56%)
5 – 10	1 (2%)	20 (38%)

3.1.7 Clients

The clients, or account holders, are usually individuals – 98 percent in Nalbari and 91 percent in Baksa. These societies cater to the needs of both Below Poverty Line (BPL) and Above Poverty Line (APL) clients. 68 percent of the clients in Nalbari and 56 percent in Baksa are APL clients. Generally, those who are BPL are not as interested in saving, because most of their income is spent on consumption. These statistics also change by district; more clients are below the poverty line in Baksa than in Nalbari (Table 3.1.9). Overall, saving societies do cover many BPL people in these two districts (Table 3.1.8).

Table 3.1.8 Total number of clients/members

Options	Percentage of clients	
	Nalbari	Baksa
Individual	98	91
SHG	2	9
JLG	0	0

Table 3.1.9 Type of clients

Option	Percentage of clients	
	Nalbari	Baksa
BPL	32	44
APL	68	56

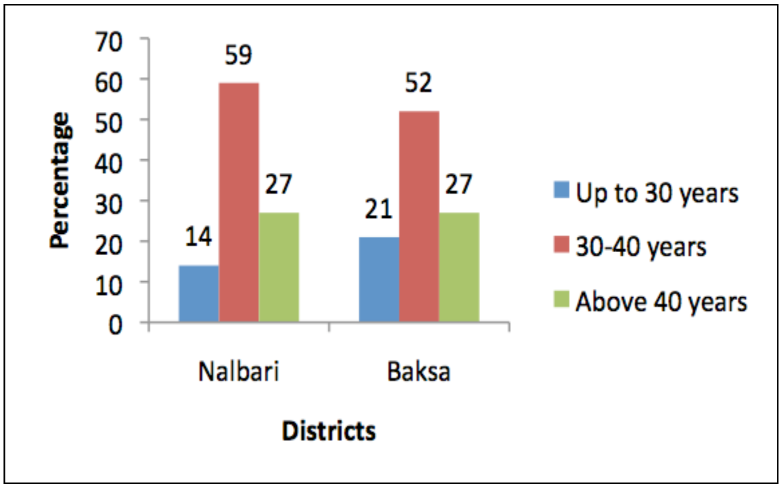
Table 3.1.10 Occupation of the Clients

Option	Percentage of client	
	Nalbari	Baksa
Farmer/Agricultural workers	15	29
Daily wages labourers	13	15
Small Traders	60	46
Others (service men)	12	10
Source: Field Survey		

Account holders include farmers, labourers, traders and people of other occupations (Table 3.1.10). However, the majority of the clients (60 percent in Nalbari and 46 percent in Baksa) are small traders and vendors who want immediate and hassle-free loans. By gathering savings from them at their shops on a daily basis, the collectors make saving more convenient for them. Apart from small traders, farmers, agricultural workers, daily wage labourers and servicemen also save money in the societies. A reasonable number of servicemen choose these societies for their higher rates of interest.

The data reveals that in both of the districts the majority of the clients are between 31 and 40 years old, with the second largest group of clients above 41 years old (Figure 3.1.2).

***Figure 3.1.2**: Age groups of the clients*



In Nalbari, 87 percent of account holders are male while in Baksa only 44 percent of account holders are male (Table 3.1.11).

Table 3.1.11 Gender ratio

Option (in percentage)	Gender ratio	
	Nalbari	Baksa
Male	87	44
Female	13	56
Source: Field Survey		

3.2 Meeting the Credit Gap

The following loan details were collected from 83 PSS. Due to the very low number of formal financial institutions, saving societies have expanded their operations and created a substantial client base and portfolio size. A total of nearly 40,000 savings clients are served by these societies with an almost equal number of clients as borrowers. A total amount of INR 10 crore is mobilized as savings, with an outstanding loan of over INR 9 crore (Table 3.2.1). These societies have played an active and significant role in extending basic financial services to rural clients.

Table 3.2.1: Financial portfolio of saving societies

	District	
Total number of saving clients	Nalbari District	21329
	Baksa District	17950
	Total	**39279**
Total number of loan clients	Nalbari District	18170
	Baksa District	14625
	Total	**32795**
Total Saving Deposited (Rs)	Nalbari District	5.702 crore
	Baksa District	4.391 crore
	Total	**10.093 crore**
Total Loan Outstanding (Rs)	Nalbari District	5.331 crore
	Baksa District	3.971 crore
	Total	**9.303 crore**
Total number of village Covered	Nalbari District	359
	Baksa District	295
	Total	**654**
Total number of blocks covered	Nalbari District	66
	Baksa District	57
	Total	**123**

Source: Field Survey

3.3 Saving Details

The PSS offer a variety of saving schemes with flexible periods and amounts ranging from Rs 5 to Rs 100 or more in some cases. They offer daily, weekly and monthly deposit schemes and others such as 1 year, 2 years or 3 years saving schemes. Some also offer fixed deposit schemes, where double the principal amount is returned in 4-5 years. The general rate of interest on savings varies from 1.5 to 3 percent per month. In most of the PSS, the minimum amount deposited per day is INR 5, with no limit on the maximum that can be deposited. Although the saving products offered by these societies are similar to a bank's recurring accounts, the amount and frequency of deposits is more flexible.

The PSS also offer a few special savings products. One such product is 'Sonali Balika' (Golden Girl), wherein parents of a female child deposit a specific amount of money, and double the amount is returned when the child reaches puberty. This scheme helps the parents to observe certain social rituals. Another special savings product is 'Accidental Benefit Scheme', where on the event of the death of a recurring account holder, his remaining deposit is waived and the matured money is paid to a nominee of his choice.

3.4 Loan Details

Saving societies also play a significant role in fulfilling the credit requirements of the rural masses. 85 percent of PSS in Nalbari and 72 percent of PSS in Baksa serve up to 500 clients, with a few serving more than 500 or more than 1000 (Table 3.4.1). One society in Nalbari district has a client base of over 2000.

Table 3.4.1 Number of loan clients

Number of Loan Clients	Number of societies	
	Nalbari	Baksa
Up to 500	40 (85%)	26 (72%)
501 – 1000	3 (6%)	7 (19%)
Above 1000	4 (9%)	3 (8%)
Source: Field Survey		

The saving societies provide loans to the clients for various purposes. Loans are granted based on the client's deposit, and range from 75 percent to 90 percent of the deposit. In emergencies, though, loans greater than the client's deposit have been granted. Applying for a loan requires only an application addressed to the management. In some cases, however, they do demand a signature on revenue or stamp paper. Although the processing time generally varies between societies, it ranges from 1 day to a maximum of 15 days. In most cases, there is no collateral requirement or a pre-sanctioned inspection, but previous repayment records are thoroughly verified. Occasionally, a pre-sanctioned inspection is conducted, particularly when the loan amount is higher than the deposit amount.

The time frame for loan repayment is 1-3 years. The rate of interest on the loan tends to be 3 percent monthly, but if the client has no deposit account, then the rate varies between 4-5 percent. The loan and interest amounts are calculated on a daily or monthly basis, and in most cases, loan repayment is also made on a daily or monthly basis. For clients who are traders, the repayment amount is collected on a daily basis – generally by the collector, or repaid by the borrower himself in some cases. In case of a default, the loan amount is adjusted from the client's deposit. If the sanction is greater than the deposit amount, the society will try to recover it by persuasion, and in the worst scenario, will declare it a bad debt. The data shows that the percentage of loan repayment is very high, nearly 100 percent. This is likely because defaulting affects the future availability of loans to the defaulter.

The amount of outstanding loans varies widely between societies. While the majority have outstanding loan below INR 10 lakhs in Nalbari, a large number have outstanding loans of INR 10-20 lakhs in Baksa. There are societies that have outstanding loans of above INR 70 lakhs. These figures suggest that these societies have been able to meet the credit gap in rural areas.

Chapter 4

Semi-formal Saving Societies

This chapter deals with the organization and workings of semi-formal saving societies.

4.1 Semi-formal microfinance providers

There are some semi-formal savings societies that work with the informal PSS mentioned in the previous chapter. Their functions and operations are similar to those of the informal PSS, but they are much larger in size. These semi-formal MFIs are private ventures registered under the Co-operative Societies Act. In Nalbari district, Five semi-formal MFIs were studied in Nalbari, and two branches of semi-formal MFIs were studied in Baksa. All are listed in Table 4.1.1. These MFIs cover a good number of villages in both districts, and extend into the remote parts of the districts. Although these MFIs are located near banks and post offices, they generate a moderate amount of business in both districts.

Table 4.1.1 List of Semi-formal MFIs

District	Name of Semi-formal MFIs
Nalbari district	AASHA (All Assam Socio Economic Health Association)
	PITCCOSS (Pioneer Thrift & Credit Co-operative Service Society Ltd., Govt. Regd. No. N-503 of 2001-2002 dtd.14-12-2001)
	Jivan-Jyoti Silpa Samabay Samiti Ltd. (Govt. Regd. No. N-84/2009-2010)
	Pragjyotika (Regd. No. Rs/NAL/246/B/86-2002-2003)
	Ma Laxmi Economic Dev. Society.
Baksa District	VITAL, Socio-Eco-Development Organization, (Regd. No. RS/BAG/260/A/63/2006)
	ORAITHA Economic Development Fund (Regd. No. Rs. /NAL/246/11 of 2001-02

4.2 Operations

Like the informal PSS, these savings societies also have field and office staff to maintain records and day-to-day operations. The majority of semi-formal MFIs hire 1-5 field and office staff, although this number rises as the scale of the MFIs' operation increases. Field staff are either salaried or commission agents, while the office staff are usually salaried employees. The responsibilities of the field and office staff are similar to those in the informal societies – collecting deposits or loan repayments and accounts work, respectively. Since most of their clients are businessmen, they tend to pay in the evening after their daytime business concludes.

Semiformal MFIs also contribute significantly to savings mobilization and credit dispersion. AASHA has branches that cover a wide area of operation, and employs about 300 staff. PITCOSS, VITAL and ORITHA also have many offices, with a combined total of over 5000 clients (Table 4.1.1, 4.2.1 and 4.5.1).

Table 4.2.1 Profile of Semi-formal MFIs of Nalbari and Baksa districts

District	Semi-formal MFIs	Branches	Source of fund	Field Staff	office staff
Nalbari	AASHA	25	Bank loan	160	125
	Pragjyotika	1	Own	6	6
	Jivan-Jyoti Silpa Samabay Samiti Ltd	1	Bank loan	4	4
	PITCCOSS	1	Own	15	7
	Ma-Laxmi Economic Development Society	1	Bank loan	3	3
Baksa	VITAL	7	Own	44	7
	ORITHA	9	Own	10	5
Source: Field Survey					

4.3 Loans and Savings

The study's findings suggest that semi-formal MFIs occupy a large role in accumulating savings and granting loans to poor villagers. Clients can save from INR 5 to INR 150 per day, and receive loans of up to INR 30,000. The repayment amount is collected on a daily or monthly basis, and both schemes are very popular in the area.

The semi-formal microfinance providers lend money to individuals as well as SHGs. The process of having a loan approved in the semi-formal MFIs is similar to the process in the private saving societies. Semi-formal providers give loans of up to 75-90 percent of the client's deposit. The loan repayment tenure ranges from 1-3 years. The rate of interest on a loan varies from 3-5 percent, and payment is collected on a daily, weekly or monthly basis. These organizations also have a high repayment percentage.

Most of the SHGs use their loan to purchase weaving products. Most of the clients (56 percent. in Nalbari and 65 percent in Baksa) are traders and use their loan to expand their business (Table 4.4.1). The easy procedure, hassle-free transaction, reduced documentation, and speed of the process attracts people to save with and take loans from semi-formal MFIs.

4.4 Clients

It was found that most (78 percent) of the semi-formal societies' clients in Baksa were BPL, while most (64 percent) in Nalbari were APL. While the MFIs generally serve both individuals and groups, in Nalbari, 95 percent were individual customers and only 5 percent were SHGs. Although a considerable number of SHGs (43 percent) were found in Baksa, the number of individual clients (57 percent) was still greater. Occupation-wise, clients were primarily traders, and some were engaged in agriculture or daily wage labour. However, in both districts, most of the customers were traders, probably because that business lends itself to saving more easily. The gender ratio of clients was consistent with the ratios for informal saving societies – more males participated in Nalbari, while more females particiapted in Baksa. The gender-wise saving ratios was almost the same in Baksa between the semi-formal and informal savings societies.

Table 4.4.1: Client Profile

(percentage of clients)	Nalbari	Baksa
APL – BPL	64 – 36	22 – 78
Individual - SHG	95 – 5	57 – 43
Main Occupation	Traders (56)	Traders (65)
Male - Female	71 – 29	45 – 55

4.5 Business Details

The study found that AASHA and PITCOSS of the Nalbari district are thriving. AASHA has expanded its business to various districts of Assam with its head office in Tilana Mugkuchi in Nalbari. The total number of saving clients through semi-formal PSS in Nalbari is 29,244, and the total number of loan clients is 32,150. The amount of savings deposited exceeded INR 10.05 crore, and the total amount of outstanding loan was approximately INR 7.9 crore. The MFIs have also accumulated various moveable and immoveable properties.

VITAL and ORITHA in Baksa have also expanded their businesses. ORITHA serves mostly SHGs from remote rural areas, and has mostly female clients. Since its clients are generally poor and have little in the way of savings, it has not been able to raise a large amount of capital. It charges a shareholder a 3 percent interest rate, and a 2 percent rate of interest to the BPL clients for a loan. In Baksa, the total number of savings clients is 3900 and the total number of loan clients is 2500. 200 SHGs are also served by these organizations. The total amount of savings that have been deposited is over INR 1.12 crore and outstanding loans total more than INR 86 lakh (Table 4.5.1).

Table 4.5.1 Business details of Semi-formal MFIs of Nalbari and Baksa districts

District	Semi-formal MFIs	Saving clients	saving deposited	Loan clients	loan outstanding	Lending model
Nalbari	AASHA	24,294	4 crore	28,000	2 crore	Individual/SHG
	Pragjyotika	1300	40 lakh	1200	35 lakh	Individual
	Jivan-Jyoti Silpa Samabay Samiti Ltd	1200	60 lakh	800	50 lakh	Individual/SHG
	PITCCOSS	2150	5 crore	2000	5 crore	Individual
	Ma-Laxmi Economic Development Society	300	5 lakh	150	5 lakh	Individual
Baksa	VITAL	3300	1crore	2000	80 lakh	
	ORITHA	600	12 lakh	500	6 lakh	
Source: Field Survey						

The business procedures of semi-formal MFIs are similar those of the informal MFIs, except that the semi-formal MFIs require more documentation from a loan applicant. They require items like blank cheques, photos, bank account details, KVP, LIC Policy, MSC, PRC, proof of identity, BPL Card, etc. They also sanction loans to clients other than those that deposit with them. Most of these MFIs include microfinance plus activities, including health awareness camps on tuberculosis, HIVAIDS, anemia, drugs, cancer, as well as health check-up camps, child health and women's health awareness camps and sanitation programs. They provide training in vermicomposting, fishery cultivation, driving, computers, food processing, as well as other industries. This type of training helps clients to generate income in industries like the cane and bamboo industry, the Japi industry, tent houses, hardware shops, the transport business, etc. MFIs also provide education to needy children, support flood victims and help poor girls to marry. VITAL has also worked with LIC to provide a micro insurance program.

Chapter 5

Summary & Conclusions

Since banks and other formal financial institutions tend to concentrate their operations in urban centers, the extent of banking penetration in rural areas is extremely limited. These institutions also often do not cater to the specific needs of rural society. This gap has resulted in the rise of informal and semi-formal saving societies in these areas, societies that are run by local people and are better able to understand the needs of their clients and provide basic banking services to them.

The following is a summary of this study's findings about informal saving societies:

- Saving societies tend to be formed by 4-5 members and headed by a president and secretary. These two key members make the majority of the important decisions regarding fund mobilization, loan disbursements and day-to-day operations. In some cases, the owner is the only member of the society, who undertakes daily collection, disbursement and account maintenance, as well as any other tasks required.
- Most of these saving societies are not legally registered.
- These saving societies function thanks to the efforts of their members. The members often pool their savings to initiate the operations of the society. Sometimes, they take loans from banks and relatives, since the societies are frequently started by unemployed youth.
- These societies also provide loans to members who have a savings account. However, loans are also given to non-members, at a higher rate of interest. The monthly interest rate on loans ranges from 3-5 percent. Loans are generally provided to the clients to initiate various livelihood projects, which can generate income and self-employment. .
- Most of the clients are vendors, shopkeepers and small businessmen, and loans from saving societies help them to expand their business.
- Account-holders are granted loans without additional requirements, like collateral, security or guarantees.
- The procedure of receiving a loan is quick and easy. In most cases signing a single form is all that is necessary to get a loan. Typically, loans are disbursed within 1-2 days.
- Societies also take deposits from clients on a daily, weekly or monthly basis and offer 12-24 percent deposit interest rates on savings. Saving societies provide a variety of flexible savings products (such as monthly, daily and fixed deposit schemes) with easy credit accessibility.
- Clients take out loans against their deposits in the society. The amount of a loan ranges from 75-90 percent of the amount the client has saved. It may exceed 100 percent of savings in some emergency situations.

- These saving societies function like a formal bank or microfinance institution in that they have their own name and brand with a logo, and offices in different places. They also issue printed passbooks to the clients and record every transaction.
- The saving societies also form their own code of conduct. They independently create rules and regulations for their organizational operation.

This study concludes that these saving societies perform a necessary and useful role in areas where banking facilities are not available. In fact, these societies have become part of villagers' lives, creating a place that is convenient and safe to keep their money. These saving societies have achieved a very high growth rate, in terms of deposit mobilization and loan disbursements. Their client base has also multiplied repeatedly over a very short time span.

In the Nalbari and Baksa districts, banking infrastructure is particularly poor compared to the rest of the districts in Assam. There are about 100 MFIs in North Eastern Region, but very few branches of MFIs operate in Nalbari and Baksa. The development of formal rural financial institutions like co-operative banks, RRBs, etc. is impeded by many constrains, like the difficult terrain, high risk perception and small transaction amounts, resulting in a high cost for formal institutions. Informal saving societies (Private Saving societies) have emerged in these districts as a new avenue of opportunity in the field of financial services.

These societies allow convenient and easy access to financial services. They allow clients to save small amounts of money on a daily basis and repay in small installments without requiring complicated procedures that clients may be unfamiliar with. These features and the high illiteracy rates in these areas that prevent access to more formal institutions have led to the rise of the informal private saving societies.

However, there are certain risks associated with transactions with savings societies. There is the risk that the promoter of the society may die or the society will break up, and the deposits will not be returned to the clients. However, despite these risks, savings societies have gained popularity in the Nalbari and Baksa districts. They enable clients to expand their businesses and improve their economic situation.

Nevertheless, there is still a significant credit gap in rural lower Assam and substantial potential for the expansion of formal microfinance institutions in these areas, as shown by the huge client base and loan portfolios of the informal institutions. The absence of MFIs in these areas is surprising, given the large number of MFIs competing for clients in upper Assam. The results of this study suggest that there is strong reason for MFIs to enter the market in lower Assam as well. Another area of concerns about the saving societies centers around legal issues. If legal requirements are imposed on these societies, they may have to close, making accessibility to credit for the poor once again a distant dream. It may be necessary to develop a legal framework that suits the pre-existing saving societies, and allows them to continue to provide easy access to credit for the rural masses.

References

M-CRIL. (2010). *M-CRIL microfinance review 2010: Microfinance contributes to financial inclusion*. Retrieved from http://m-cril.com/BackEnd/ModulesFiles/Publication/M-CRIL-Microfinance-Review-Nov2010.pdf

Moulick, M. (2008). *Understanding and responding to the savings behaviour of the low income people in the north east region of India.* Retrieved from http://www.microfinancegateway.org/gm/document-1.9.30446/33.pdf

Srinivasan, N. (2009). *Microfinance India: State of the sector report 2009*. Delhi: ACCESS; Sage.

Srinivasan, N. (2010). *Microfinance India: State of the sector report 2010*. Delhi: ACCESS; Sage.

The Microfinance Gateway. (n.d.). *What is microfinance?*. Retrieved from http://www.microfinancegateway.org/p/site/m/template.rc/1.26.9183/