

## Prospects and Challenges in Microfinance: A Potential Key for Rural Transformation in the North-Eastern Region of India

Somrup De, Shanmugam Gokul, Lakshmi Dhar Hatai, Anju Choudhury and Singyala Chipchang<sup>1</sup>

### ABSTRACT

This study examines the pivotal role of microfinance in rural development, women's empowerment, and the improvement of the Economically Weaker Section (EWS) of the North Eastern Region (NER) of India. This NER is a largely geographically remote region characterised by financial exclusion, weak infrastructure, and high concentrations of tribal populations. Microfinance is widely regarded as instrumental in alleviating poverty, empowering women, and promoting inclusive growth. This review examines the impact of various microfinance delivery channels and government policies, highlighting regional differences in reach and impact. Microfinance is linked with the United Nations' (UN) Sustainable Development Goals (SDGs) of the NER of India in this review. The financial inclusion of the EWS and women's empowerment through microfinance is another overarching theme of this study. The study also highlights the success of the Self-Help Group (SHG) bank linkage in Assam and Tripura, as well as the contrasting progress in Arunachal Pradesh and Nagaland, which is attributed to high Non-Performing Assets (NPAs) and poor financial infrastructure. Highlighting the successful initiatives of microfinance alongside addressing the constraints and the prospects of microfinance. This paper concludes by positioning microfinance as a vital tool for the economic upliftment of the EWS, as well as a catalyst for sustainable rural transformation and women's empowerment in the NER of India.

**Keywords:** Microfinance, rural transformation, Sustainable Development Goals, women's empowerment, financial inclusion

**JEL codes:** G21, I32, O16, O18, Q13

### I

### INTRODUCTION

The North-Eastern Hill Region (NER) of India comprises eight states: Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura. This region is characterised by hilly terrain, dispersed settlements and a forested landscape, with the majority of the population engaged in agriculture and allied activities (Gokul *et al.*, 2025). More than 85 per cent of these 44 million inhabitants are rural, relying upon agriculture as a source of livelihood (Marchang, 2018). Although the literacy rate is higher, accounting for 73 per cent, the region lags economically; its per capita income is much lower compared to national and approximately 35 per cent of the regional population lives Below Poverty Line (BPL), compared to India's BPL of 21 per cent (Bandyopadhyay, 2007; Swargiary, 2024). Moreover, the remote geography and incomplete infrastructure have made NER a region that remains financially underdeveloped, with low banking penetration (Patgiri and Gogoi, 2022). For example, at project design, the rural poor accounted for only 2.5 per cent with any formal credit, and the average population served by a

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<sup>1</sup>Department of Agricultural Economics, College of Agriculture, Central Agricultural University, Imphal, Manipur-795004

North East bank branch is 40 per cent greater than that served by an average bank branch elsewhere in India (Misra and Tankha, 2018). In this regard, rural development and financial inclusion remain significant. Enhancing rural income *through* credit, savings, and entrepreneurship, particularly via microfinance, is considered a crucial tool for livelihood development (Hasan *et al.*, 2025). This paper aims to examine how microfinance in the form of Self-Help Groups (SHGs), microfinance institutions (MFIs) and other similar initiatives can be used to promote inclusive growth in NER. Its scope includes the socio-economic profile of NER, the existing microfinance delivery models such as SHG-bank linkages, as well as government livelihood schemes, and the use of microfinance to support the Sustainable Development Goals (SDGs) and empower women. The paper will also highlight inter-state disparities and obstacles, such as high NPAs, poor infrastructure, socio-cultural constraints, and the digital divide, while suggesting policy recommendations to strengthen microfinance's impact on the region's rural transformation.

## II

### SOCIO-ECONOMIC PROFILE OF THE NORTH-EASTERN REGION

This region is primarily located in the Eastern Himalaya, with forests covering more than 60 per cent of its land (Negi, 2018). In many regions, there is inadequate road connectivity and poor infrastructural facilities. For example, Mizoram has an estimated road density of just half the national average, and the standard of electrification is lower than the national average (Mishra *et al.*, 2021). This inaccessible landscape and fragmented settlements make service provision, such as banking, markets, and education, even more expensive (Krishna, 2020). This region is extremely heterogeneous due to the presence of different tribal groups, which speak hundreds of languages and dialects (Baruah, 2020). The NER is economically poorer than most regions of India (Paul *et al.*, 2020). The region also has a higher incidence of allied poverty dimensions, such as child malnutrition and unemployment rates that tend to exceed national averages (Ghosh, 2021). The North East states, such as Assam, Manipur, and Meghalaya, have a limited industrial base, underdeveloped rural markets, and inadequate irrigation, which has increased the vulnerability of farmers to rain-fed farming (Lotha *et al.*, 2024). The NER experiences structural underdevelopment, primarily due to its over-dependence on low-yielding agriculture, the lack of alternative livelihoods, and comparatively low human development indicators. There is a lack of financial inclusion in the NER of India. Banking services penetration has been very poor in the rural areas of NER (Roy, 2020). For example, during the design of a World Bank livelihood project, only 2.5 per cent of the rural poor within the area had borrowed loans from formal financial institutions (Datta and Sahu, 2023). The density of bank branches is low; the population per branch in the region is estimated to be approximately 40 per cent above the Indian average, indicating that one bank has to cover a large number of

people (Maity, 2019). This gap leads to a credit shortfall for farmers and entrepreneurs. This means that most households are dependent on informal credit markets. An analysis based on a survey revealed that the NER had remained at the bottom level of financial inclusiveness, with a significantly larger share of the poor having no bank accounts (Bora, 2020).

### *2.1 Overview of Microfinance in the NER of India*

Microfinance broadly refers to the provision of very small loans, savings, insurance and other basic financial services to low-income and rural poor households (Cull and Hartarska, 2023). These are collateral-free services tailored to the credit and entrepreneurial needs of the poor. Practically, microfinance involves microcredit, micro-savings, and micro-insurance (Gavhumende, 2024). Its goal is to develop financial integration, ensure the poor stabilise their source of income and invest in productive activities. Microfinance institutions focus on alleviating poverty (Chikwira *et al.*, 2022) and stimulating livelihoods by addressing the needs of underserved populations, particularly women (Ukanwa *et al.*, 2018). These studies (Imran *et al.*, 2022; Than, 2019), indicate that microcredit has the potential to increase the quality of life among the most Economically Weakest Section (EWS).

The microfinance movement in India gained momentum with the introduction of the SHG-Bank Linkage Programme (SBLP) by NABARD in 1992 (Khemnar, 2021). Since then, millions of rural SHGs have been organised, mainly comprising women groups, connected to banks for credit. Alongside SHGs, several microfinance institutions operated by NGOs and private companies emerged in the 2000s to further expand the outreach of microfinance (Sangwan and Nayak, 2019). In 2011, the National Rural Livelihood Mission (NRLM) was launched to promote the SHG approach further, utilising the brand name “*Aajeevika*” to develop rural structures and ensure sustainable livelihoods (Maity, 2024). NRLM specifically involved NBFC-MFIs as partners in a shift towards integrating microfinance into the mainstream government poverty-reducing program (Kulkarni and Joshi, 2021). Today, India’s SHG programme is massive: NABARD reports that over 16.2 crore rural households are linked to 1.34 crore SHGs, with collective savings of roughly ₹58,893 crore as of the Financial Year 2022–23 (Leivang, 2024). However, the benefits are not evenly spread across the regions.

Microfinance has been credited with creating assets and generating income in rural populations (Abera *et al.*, 2019). SHGs and MFIs enable poor households to invest in small businesses, such as animal husbandry, handicrafts, and agricultural inputs, by offering capital (Devi *et al.*, 2018). In NER, which has low formal work opportunities, microloans to the self-employed and agrarian communities have the potential to bring economic transformation (Biswal and Narzary, 2019). There is empirical evidence that robust SHG networks may be able to enhance savings culture, decrease reliance on informal credit, and even stabilise consumption during economic

crises (Wangsa and Kumar, 2023). To illustrate this, a project conducted by the World Bank in the NER of India revealed that 80 per cent of new members of SHGs who joined group savings schemes had improved their saving levels by 50 per cent (Kumawat and Bansal, 2018; Pathak *et al.*, 2024). Additionally, microfinance tends to concentrate on women, which is associated with gender empowerment. In conclusion, the SHG-bank linkage-based microfinance model is perceived to catalyse rural transformation in NER by creating financial inclusion along with livelihood diversification.

## 2.2 Microfinance Delivery Models and Government Schemes

Natural calamities, remoteness, limited market access, and poor infrastructure in the North Eastern Region (NER) of India frequently disrupt the economic activities of rural livelihoods (Information System for Developing Countries, 2023). In these cases, microfinance is necessary to stabilise consumption patterns. The availability of microcredits and group savings, offered through Self-Help Groups (SHGs) and Microfinance Institutions (MFIs), helps vulnerable groups, particularly in Assam, Meghalaya, and Tripura, to cover essential expenditures during times of duress (Bhattacharya *et al.*, 2023). This financial cushion enables families to prevent the distress sale of assets and to avoid debt and NPAs (Joseph *et al.*, 2024). In this way, microfinance not only promotes the resilience of livelihoods but also the socio-economic stability of rural families in the NER, particularly during times of stress.

## 2.3 Self-Help Groups (SHGs), Microfinance Institutions (MFIs), Non-Banking Financial Companies (NBFCs)

In NER, microfinance is provided through various channels. The SHG-bank linkage model is prevalent: rural women usually constitute SHGs comprising 10-20 members, saving in a common fund and rotating to borrow for income-exhibiting activities (Barman and Sutradhar, 2019). These groups usually have NGOs and local federations as enablers and are supported by social collateral rather than formal guarantees. Regional Rural Banks (RRBs) and cooperative banks collaborate with these SHGs by providing bulk loan amounts under the Self-Help Group (SHG) Bank Linkage Program (SBLP) framework, allowing the group to administer member loans (Kundu, 2024). NABARD indicates that more than 112 lakh SHGs, which comprise 84 per cent of women-only and have savings accounts nationwide as of 2023 (Serto *et al.*, 2024). Among the NER of India, Assam and Tripura have the largest SHG networks. Other microfinance outlets, such as cooperatives and Non-Banking Financial Companies (NBFC-MFIs), provide microloans outside the SHG framework. NBFC-MFIs, in particular, have evolved since the 2000s to serve rural entrepreneurs. Considering regional constraints, the RBI permits NBFC-MFIs in the North East to maintain a lower net-owned fund of ₹2 crore, compared to ₹5 crore elsewhere (RBI, 2012). Overall, these varied models aim to reach poor borrowers who lack collateral, but their trade-offs are associated with costs, reach, and stability.

#### 2.4 SHG-Bank Linkage Program (SBLP)

The SHG-Bank Linkage Program is India's flagship microcredit scheme, initiated by NABARD in 1992. In this model, thousands of grassroots SHGs of NER have been connected with banks for loans and savings (Rehman, 2024). The initial development in Northeast India was slow due to low literacy and a dispersed topography. A report (Serto *et al.*, 2024) identified that Assam holds more than 75 per cent of all SHGs with bank savings in the North East of India. The strength of SBLP is peer monitoring and group collateral, which mitigate default risk. Until mid-2023, the SBLP had provided credit to approximately 42.8 lakh SHGs in India. The 2022–23 data for NER indicate that around ₹1.24 lakh SHGs in NER accessed ₹3,13,764 lakhs worth of loans, which is an average of ₹2.54 lakh per SHG (Leivang, 2024). Such linkages have facilitated investments in farm machinery, livestock, handloom, and small businesses by a large number of women-led SHGs.

#### 2.5 Key Government Initiatives in the NER

Central programs have complemented microfinance initiatives in NER. The National Rural Livelihood Mission (NRLM), renamed DAY-NRLM, was introduced in 2011 as a consolidation of the Swarnjayanti Gram Swarozgar Yojana (SGSY), which has been operational in all North Eastern states (Landi, 2023). Its objectives are to constitute and enhance SHG federations, extend bank credit and interest subventions, and provide skill training for livelihood. For instance, the Assam Rural Livelihoods Project (ARLP) under the NRLM is focused explicitly on agro-based businesses (Mishra *et al.*, 2025). Similarly, states such as Meghalaya and Manipur operate schemes to group tribal women into SHGs. In NER urban locations, the Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (DAY-NULM) was introduced in 2013, which engages with the urban poor and street vendors through SHGs, providing subsidised credit and skill training. Under NULM's Self-Employment Programme (SEP), urban SHGs are provided with bank credit along with interest subsidies (Renati and Solomon, 2022). Other schemes include the Swabhimaan campaign for opening bank accounts, the Pradhan Mantri Jan Dhan Yojana for bank accounts in rural areas, and the Pradhan Mantri Mudra Yojana for loans of up to ₹10 lakh for micro-units, which indirectly benefit micro-entrepreneurs (Salasty and Kanagavalli, 2024). Special focus programs such as the World Bank-funded North East Rural Livelihood Project have also established regional rural development banks and large federations to provide credit channelling. Overall, these government schemes emphasise group lending by SHGs and their federations, capacity building, and convergence with other welfare schemes. For example, a recent article mentioned that NABARD is launching training in marketing and e-commerce for SHGs, as well as facilitating new enterprise development schemes to enable SHGs to become sustainable microenterprises (Leivang, 2024).

## 2.6 Microfinance and the Sustainable Development Goals (SDGs)

Microfinance in NER is directly associated with a range of SDGs. Most directly, it addresses SDG 1 (No Poverty) by providing poor households with capital to invest in income-generating assets, thereby bringing them above the poverty line. Microcredit and savings access are also linked to SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure) by promoting rural entrepreneurship and local small industries (for example, agro-processing, weaving, etc.). Importantly, NE microfinance targets women's groups in particular, addressing SDG 5 (Gender Equality). Financial empowerment of women through SHGs can enhance gender parity, as more women join the workforce and become decision-makers within their households (Mallik, 2025). In fact, the UN and development agencies understand that financial inclusion and microfinance are central ways to achieve the SDGs: the UN's 2030 Agenda stresses clearly that widespread access to financial services (particularly by women) is essential to reduce poverty and injustice. Microfinance programs, by providing marginalised communities access to formal finance, stimulate SDG 10 (Reduced Inequalities) and support SDG 2 (Zero Hunger) and SDG 7 (Affordable and Clean Energy) indirectly, as credit allows investment in agriculture and clean energy technologies. In the regional context of NER, appropriately designed microfinance facilitates inclusive rural development by supplementing credit with training, social capital, and market linkages. For instance, as one microfinance foundation highlights, inclusive access to financial services throughout society, particularly by women, is key to reducing poverty and in economic and social development (Fundación Microfinanzas BBVA, 2025). Therefore, microfinance in the NER is a driver of several SDG targets, including poverty reduction, growth in rural income, women's empowerment, and sustainable local economies, as shown in Table 1.

TABLE 1. MICROFINANCE AND SDG ALIGNMENT IN NER OF INDIA

NER	Microfinance Relevance to NER	Transformation Outcome	Aligning with SDG	Reference
Assam	SHG-bank linkage microcredit connects rural women to affordable loans for income-generating activities, reducing poverty and improving education (households use credit for children's education).	Women's entrepreneurship, poverty reduction	SDG 1: No Poverty;  SDG 4: Quality Education	(T. Das, 2023)
Arunachal Pradesh	Self-Help Groups (SHGs) and microfinance empower rural women, enhancing their income, social status and agency, and driving socio-economic development in the state.	Strengthened climate-resilient rural economy	SDG 5: Gender Equality	(Roley <i>et al.</i> , 2024)

Table 1 (Contd.)

TABLE 1 (CONLD.)

NER	Microfinance Relevance to NER	Transformation Outcome	Aligning with SDG	Reference
Manipur	State Rural Livelihood initiatives (SRLM/NRLM) mobilise SHGs and NGOs to finance rural livelihood projects (farm, handloom, handicrafts), increasing women's income and community welfare.	Local employment generation and cultural revival	SDG 8: Decent Work and Economic Growth (rural livelihood)	(Dhaneshwar and Ramananda, 2012)
Meghalaya	The SHG-bank linkage model (supported by NABARD/NRLM) focuses on the socio-economic inclusion of the rural poor. Microfinance thus underpins many rural projects in Meghalaya, advancing poverty eradication and social inclusion.	Improved income and nutrition; preservation of indigenous livelihoods	SDG 1: No Poverty; SDG 10: Reduced Inequalities	(Maity, 2023)
Mizoram	Microfinance institutions (commercial banks and SHGs) have extended credit for agriculture and microenterprises in rural Mizoram, linking poor households to formal finance and boosting incomes.	Increased agro-based entrepreneurship	SDG 1: No Poverty; SDG 5: Gender Equality	(Lalzuiliana, 2021)
Nagaland	Nagaland's State Livelihood Mission (NSRLM) has formed women's SHGs and promoted financial inclusion (JLGs, skill training), significantly strengthening women's economic agency and community leadership.	Enhanced rural productivity and reduced out-migration	SDG 1: No Poverty SDG 5: Gender Equality;	(Jamir and Srivastava, 2025)
Tripura	SHG microfinance in Tripura has linked thousands of rural households to bank credit, particularly for agriculture and fisheries, which has raised incomes and empowered women entrepreneurs in villages.	Digital inclusion and economic empowerment	SDG 1: No Poverty; SDG 5: Gender Equality	(Kadir <i>et al.</i> , 2024)
Sikkim	Microfinance (especially women's SHGs) has been used to extend credit in remote areas of Sikkim, reducing rural poverty and enabling women's micro-enterprises; it empowers women socially and economically.	Sustainable agriculture and ecological conservation	SDG 1: No Poverty SDG 5: Gender Equality;	(Tamang and Lama 2020)

### 2.7 Regional Disparities in Microfinance Outreach and Impact

The microfinance outreach in NER is highly diversified by state. As depicted in Figure 1, compared to the other states in the region, the performance of Microfinance in Assam and Tripura is more satisfactory. Thus, SHG networks are significantly larger in Assam and Tripura, whereas the remaining hilly states are lagging. The existence of these gaps is caused by inefficient banking coverage, as the average North Eastern population per bank branch remains far above the standard norms. Although a breakthrough has been achieved in Assam and Tripura, rural borrowers in the remaining NER states continue to have limited access to formal microcredit. Adding to the outreach gap, recent evidence indicates a high proportion of non-performing assets (NPAs) in the portfolios of certain SHGs in NER states.

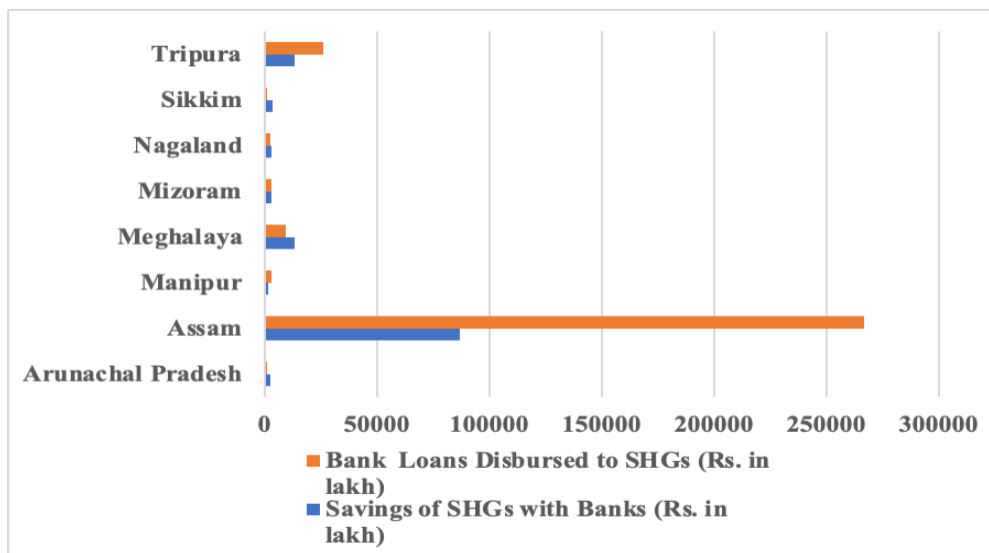


FIGURE 1. SAVINGS OF SHGS WITH BANKS AND LOAN DISBURSED TO SHGS IN THE NER OF INDIA

Source: Status of Microfinance in India 2022-23, NABARD

In Figure 2, it can be observed that the NPA ratio of Nagaland under SHG loans was 13.65 per cent, followed by Arunachal with 8.50 per cent, but Assam presented only 5.62 per cent. These high NPA levels in the more remote states discourage banks from further lending. The NER portrays sub-regional differences, whereas Assam and Tripura demonstrate robust SHG activity and satisfactory credit flow, in contrast to Arunachal, Nagaland, Manipur, and Meghalaya, which exhibit lower coverage and higher NPAs, along with poor bank penetration, which collectively contributes to a decline in the prospect of microfinance in the NER. Closing this gap is critical for equitable development across the region.



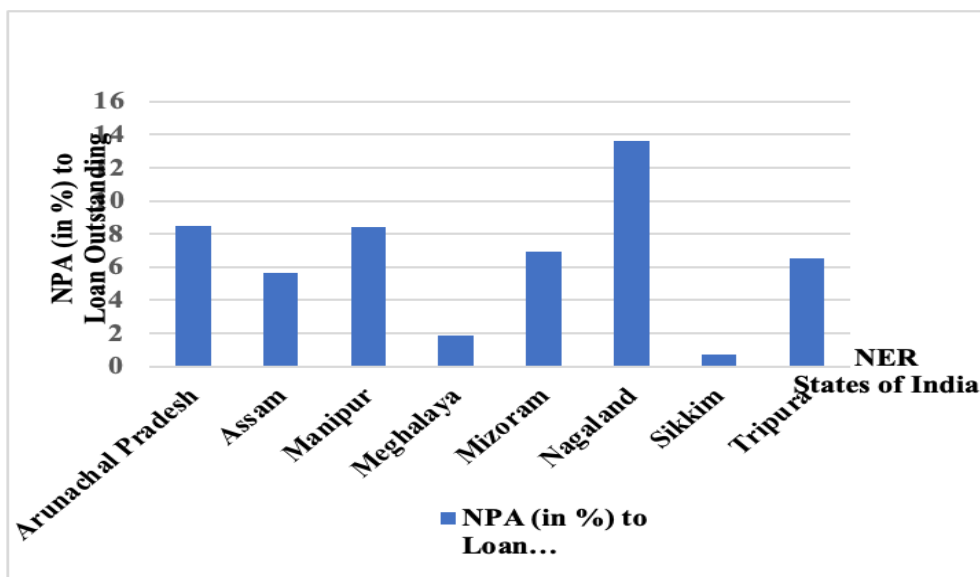


FIGURE 2. BANK LOANS OUTSTANDING AND NON-PERFORMING ASSETS AGAINST SHGS IN THE NER OF INDIA

Source: Status of Microfinance in India 2022-23, NABARD

### 2.8 Women's Empowerment through Microfinance

In the North Eastern Region (NER) of India, microfinance, particularly through Self-Help Groups (SHGs) under the SHG-Bank Linkage Programme (SBLP), has become a potential tool in women's empowerment (Matern, 2019). By extending bulk credit to SHGs, banks facilitate group borrowing, which women members use for micro-enterprises, agriculture, and consumption needs. This process of group lending provides financial inclusion in remote villages where access to formal credit is limited (Jain *et al.*, 2024). Women, moreover, by becoming economically independent, gain self-confidence, leadership qualities, and decision-making authority within families and communities. Microfinance, therefore, immensely enhances the socio-economic status of women in NER's rural and tribal areas. In NER, microfinance has been a strategic instrument for advancing women's empowerment and socio-economic inclusion. The vast majority of SHG members in the region are rural women, often from tribal backgrounds, who invest the microloans in family businesses, farms, and enterprises (Prasad, 2024). Participation in SHGs provides women with autonomy over savings and credit, fosters financial discipline, and builds their confidence. Studies report that women organised in SHGs experience enhanced income, greater decision-making within households, and social recognition. By pooling resources and receiving training on financial management, SHG women in NER often improve their literacy and social networks (Amritha *et al.*, 2024). For example, an impact assessment in rural Assam found that SHG participation raised women's ability to start small ventures and manage finances, thereby improving their

social status (Das and Guha, 2019). Importantly, Microfinance interventions in activities such as farming ventures, poultry, weaving and small trades have been instrumental in promoting household welfare in the North Eastern Region by inducing greater expenditure on nutritionally rich food, facilitating education, and enhancing access to basic health care, thereby promoting multidimensional welfare and human development (Kasambala and Jianhua, 2020). In many NER communities with conservative norms, belonging to an SHG also legitimises women's work outside the home (Devi, 2024). A review focused on NER noted that participation of women in SHGs made a significant impact on their empowerment, both in social and economic aspects.

## 2.9 Transformation of Swapna Sinha as a Women Entrepreneur-A Case Study

Swapna Sinha, a rural woman from Tripura, exemplifies the transformative potential of microfinance through Self-Help Groups (SHGs). Through successive credits, she not only built a regular income stream but also made a remarkable contribution to raising her household status above the Below Poverty Line (BPL). Her case illustrates the role of SHG-based microfinance in promoting economic growth, livelihood sustainability, and gender-inclusive development in marginalised communities of the North Eastern Region (NER). She started relying on odd jobs and first took a loan to purchase a traditional weaving machine, followed by a second loan to fund her husband's auto-rickshaw taxi. A third loan was used to buy a photocopier for a village shop. Now, Swapna earns an approximate income of ₹10,000/month from weaving and photocopying services, and the family's income averages ₹35,000/month. This led to a feat from erstwhile poverty. Her story is featured by Tripura state as a model: Tripura's SHG movement expanded from a mere 4,061 SHGs (40,135 women) in 2018 to 23,705 SHGs (220,885 women) by 2021 (PTI, 2021). This rapid scaling reflects the collective growth of women's entrepreneurship. Several similar success stories in NER have been mentioned in Table 2.

TABLE 2. SUCCESSFUL INITIATIVES OF MICROFINANCE AS A TOOL FOR RURAL TRANSFORMATION IN NER OF INDIA

NER States of India	Successful Initiatives	Key Enablers	Key Beneficiaries	Outcomes	Reference
Assam	Expansion of NABARD-backed SHG-Bank Linkage programme	NABARD SHG-Bank Linkage, DAY-NRLM support, bank credit	Rural poor women (Self-Help Groups)	Largest microfinance outreach in NE (Assam has >80% of NE's SHGs) and highest loan disbursements, enabling many women to start small businesses.	(Wangsa and Kumar, 2021)

Table 2 (Contd.)

TABLE 2 (CONTD.)

Arunachal Pradesh	Jasmine SHG Federation (floriculture enterprise under NERCORMP, Changlang)	NERCORMP/DAY-NRLM funding, government skills training (floriculture, forestry), low-interest loans	Rural women across 16 SHGs	Federation launched floriculture and areca-nut nursery businesses; exhibited products at state fairs; reinvested profits to diversify species, improving incomes and empowerment. SHG members produce Muga-silk hair ornaments; at the 2017 Sangai Festival, "Nachom" sales exceeded ₹300,000. The enterprise grew (workshop set up with donated land), and women's income and confidence increased.	(Mygov, 2022)
Manipur	<i>Kangelsili Muga gi Nachom</i> (Shanti Devi's Muga silk enterprise)	MSRLM (NRLM) SHG formation, financial literacy workshops, startup grants/loans (PMEGP)	Women of Panthoibi SHG	Microfinance has reached several thousand women via SHGs. Meghalaya accounts for 3.8% of NE's SHGs. Loans to these SHGs boosted small enterprises (e.g. weaving, farming), gradually raising household incomes. SHG members trained in soap/candle making, utilising Aloe vera, achieve a group production yield of ₹35,000/month. Incomes rose substantially, and members report greater confidence.	(Manipur govt, 2024)
Meghalaya	<i>Meghalaya State Rural Livelihoods Society (MSRLS)</i> helped create piggery-based SHGs across the Garo Hills.	State Rural Livelihoods Society (MSRLS) support, training under DAY-NRLM/BIHAN, bank linkages	Rural women (tribal communities)		(Ashok <i>et al.</i> , 2019; Sangma <i>et al.</i> , 2019)
Mizoram	Dawntliang SHG (soap and candle enterprise, Mamit)	MzSRLM-SLMM (NRLM) support, CIF seed fund (₹80,000), convergence with KVK for skill training	8 rural women SHG members		(Mizoram Gov., 2025)

Table 2 (Contd.)

TABLE 2 (CONLD.)

Nagaland	Keyima SHG (Integrated Watershed project, Peren)	IWDP watershed funds, NABARD/Bank loans, govt. vocational training (e.g. aloe-soap workshop)	10 women villagers (Heningkunglwa)	Purchased 25-acre land for bamboo; expanded into aloe-vera soap, detergents, pickles, pineapple, and silkworm rearing. Best SHG award in the district; group income: ₹1.62 million; women are now economically self-reliant.	(Nagaland Gov., 2024)
Tripura	<i>TRLM-SHG clusters in Gomati district</i> promoted integrated farming (pisciculture, poultry) through microfinance.	Tripura Rural Livelihoods Mission (TRLM), local NGOs, micro-credit facilitation	Rural poor (women artisans)	Under TRLM, women's SHGs (e.g. <i>Radha Krishna Bamboo Craft</i> ) have received loans and training. Members now craft bamboo household items and exhibit at fairs, with annual incomes of ₹250,000 (as reported), and "Bank Sakhi" micro-entrepreneurs have emerged.	(S. S. Das and Chakma, 2024; Wangsa and Kumar, 2021)
Sikkim	<i>Organic farmers SHG in South Sikkim</i> received loans for vermicompost units and organic certification.	Sikkim Rural Livelihood Mission, state subsidies, bank linkages	Rural families (often women-led)	Microfinance penetration is growing (banks report active SHGs). Sikkim's SHGs show high repayment discipline (only 1.8% NPA). This reflects well-run SHGs in the tea, handicraft and horticulture sectors that are slowly transforming livelihoods.	(Abdullah and Parvin, 2024; Prasad and Choubey, 2025)

### 2.10 Challenges in Microfinance Implementation in NER

Despite notable successes, the implementation of microfinance in the North-Eastern Region continues to have critical structural and functional problems. These include a high rate of non-performing assets (NPAs), poor financial infrastructure,

socio-cultural limitations, remoteness, and low financial literacy, which hinder inclusive and sustainable financial integration.

**High Rates of NPAs:** The loan default rates in some North-Eastern states of India are very high. As mentioned, Nagaland's SHG portfolio NPA is 13.65 per cent; Manipur's is 8.39 per cent; Arunachal's is 8.50 per cent. These high NPAs are typically caused by crop failure, making banks and NBFCs risk-averse. High NPAs increase the cost of borrowing and may discourage further lending.

**Poor Financial Infrastructure:** The banking facilities and infrastructure in the NER remain weak. There is not even a single bank branch or ATM in most villages, which compels the use of high-cost local moneylenders. In 2021, the NER population per commercial bank branch was about 1.5 times the national average (Singha, 2023). Harsh terrain and poor road connectivity also increase the transaction costs of financial service providers. In addition, internet and mobile connectivity, which are vital for modern fintech solutions, are patchy in hilly districts, constraining digitisation.

**Socio-Cultural and Logistical Barriers:** The NER's cultural diversity presents challenges, as linguistic differences may hinder the communication of financial products, and some tribes have social norms that limit women's mobility and their property rights. The prevailing lack of awareness and mistrust of formal institutions. To cite an example, early SHG schemes failed in Assam and other NER due to poor communication, literacy and geographic isolation (Maity, 2019). These observations imply the need for guidance, training, and customisation to the unique socio-cultural and geographical context of each community in NER. Also, the logistic costs associated are exorbitant.

**Limited Financial Literacy and Digital Divide:** Potential clients have limited access to banking and formal credit. Due to financial illiteracy, households may use loans in an unproductive manner that might lead to NPAs. Although mobile banking and mobile-based payment apps, such as UPI, have the potential to increase access, a large proportion of the rural poor in NER do not have access to smartphones and lack the expertise to use them. A recent review noted that effective microfinance implementation in NER requires sustained institutional support. Due to the socio-cultural diversity of the region, the lack of financial infrastructure, and the prevalence of financial illiteracy, this results in both unsystematic saving habits and reliance on government programs (Linggi *et al.*, 2022). This emphasises the need for participatory approaches, culturally attuned facilitation, and consistent mentoring to ensure long-term impact and inclusion of the most marginalised.

## III

## FUTURE PROSPECTS AND POLICY RECOMMENDATIONS

The prospects of microfinance within the North Eastern Region (NER) of India involve intensifying institutional frameworks, enhancing financial literacy, and leveraging technology to drive growth. Structural barriers should be removed through policy reforms and decentralised delivery mechanisms that can foster sustainable inclusion and leverage the potential of microfinance in rural transformation and poverty alleviation.

### 3.1 *Strengthening SHG Networks and MFIs*

Deepen and federate existing SHGs into clusters and higher-tier federations. Capitalised SHG federations will be in a position to negotiate better credit terms and peer support. The government and NGOs need to continuously encourage village-level federations, such as cluster-level and district-level SHG bodies, which are capable of interfacing with banks and markets (Singh, 2019). At the same time, support NBFC-MFIs and cooperatives to ensure their sustainability. For example, regulators may ease capital and interest-rate norms for micro-lenders in backwards districts, and integrate NBFC-MFIs into state livelihood programs, as done by NRLM (Shastri, 2018). Capacity building is necessary by extending training in bookkeeping, business planning, and group governance, as well as enhancing the repayment discipline and productivity of SHG members.

### 3.2 *Enhancing Digital and Financial Literacy*

Microfinance operations must include basic banking, digital payments and budgeting training. For example, mobile banking and digital wallets, such as UPI and E-RUPI, should be introduced through Village Knowledge Centres and SHG meetings (Kadaba *et al.*, 2023). Government missions can organise digital literacy camps alongside NRLM operations, which scale up financial education. The objective is to enable borrowers to utilise formal financial products productively by avoiding predatory moneylenders and using digital channels (Boermans and Willebrands, 2018). Observation suggests that public financial inclusion initiatives, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), aim to integrate unbanked populations by providing access to formal banking services and basic financial infrastructure. Microfinance schemes must leverage this by connecting SHG loans to Aadhaar-enabled accounts and financial counselling.

### 3.3 *Improving Credit Delivery Mechanisms*

Eliminate bottlenecks that hinder loans from reaching the poor. These are simplifying documentation like e-KYC, adding banking correspondents (BCs) in NER, and reducing loan processing times (Jindal *et al.*, 2022). Microfinance products can be diversified, for example, providing short-term crop loans, livestock loans, and micro-savings schemes tied to seasonal rural incomes. Incentivise banks to lend in

hill districts by providing credit guarantees and interest subsidies schemes for micro-loans in NER. Enhancing rural infrastructure, such as roads, electricity, and internet, will also improve the delivery of last-mile credit. Policymakers may incentivise state co-operative banks to integrate SHG lending to schemes like MGNREGA and Kisan Credit Cards for SHG members, providing an inclusive financial framework.

### *3.4 Role of Technology and Fintech*

The use of fintech can help NER to overcome logistics challenges. Local languages in mobile banking apps, offline digital wallets, and Interactive Voice Response (IVR) banking services can facilitate transactions when bank branches are inaccessible. Deploying micro-ATMs and point-of-sale terminals in rural villages would allow SHG members to withdraw loans and collect savings (Das and Das, 2024). The Jan-Dhan-Aadhaar-Mobile (JAM) scheme provides a foundation for microfinance schemes that can utilise this platform for direct benefit and subsidy transfers (Goel, 2020). Additionally, digital platforms can potentially expand SHG-produced goods to broader markets through e-commerce, thereby enhancing income through handicraft portals. Empirical evidence from pilot projects in other regions suggests that integrating biometric identification systems with mobile money platforms reduces transaction costs and the incidence of loan defaults. This practice presents a replicable model that can be adopted in the NER of India, where geographic isolation and poor financial infrastructure continue to pose challenges to effective microfinance delivery. Second, the deployment of fintech can significantly enhance data-driven decision-making. By using mobile apps to monitor Self-Help Group (SHG) transactions electronically, lenders are better equipped to evaluate creditworthiness, track financial behaviour, and manage non-performing assets (NPAs) with greater determination and efficiency.

Collectively, these would facilitate financial inclusion. As recommended in NABARD's recent strategy report, investing in enterprise development, e-commerce training, and skill training for SHG members can potentially transform SHGs into micro-enterprises. With persistent policy attention, technology penetration, and community-driven SHG federations, microfinance can be a vital pillar of rural transformation in the NER.

## IV

### CONCLUSION

This review observes that the Self-Help Group (SHG)-bank linkage model of microfinance holds tremendous potential for initiating change in the rural economies of India's North-Eastern Hill Region. The region's largely agricultural, tribal, and hilly landscape makes inclusive financial services a priority. Microfinance activities have already enabled millions of poor and tribal women to save, borrow, and invest in productive activities, thereby lifting their incomes and enhancing their financial independence (Lamichhane, 2020). For example, widely documented success stories,

such as that of a member of a Tripura SHG, who, with three small loans, built a successful weaving and photocopy business enterprise, demonstrate how microcredit can help families escape poverty. Meanwhile, the special set of challenges to NER, such as poor banking infrastructure, difficult geography, cultural heterogeneity, and a high rural poverty gap, slows progress. Evidence from NABARD and other research reveals striking disparities between NER states in India, such as Assam and Tripura, which have hindered significant integration of SHGs, while states like Nagaland and Arunachal Pradesh lag behind. Furthermore, high NPA ratios in some hill states indicate that economic shocks and capacity constraints hinder loan performance.

Still, the overall situation is optimistic, where microfinance, with proper support, can be a major driver of inclusive growth and reinforce the Sustainable Development Goals (SDGs) in NER. Financial inclusion experts affirm that focused SHG programs and microfinance institutions (MFIs) are a vital key for poverty alleviation in NER. As NABARD acknowledges, achieving equitable and inclusive economic growth hinges on addressing existing microfinance vulnerabilities. In practice, this involves deepening more effective SHG networks, strengthening rural credit channels, and empowering borrowers with skill-oriented information and technology. Microfinance can enable a sustainable rural transformation for policy-makers and development agencies by fine-tuning microfinance models to India's NER situation, leveraging electronic banking, and consolidating local SHG federations. Thus, microfinance serves as a crucial catalyst, complemented by supporting infrastructure and capacity-building, and can help the North-Eastern Hill Region achieve economic development.

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