

The Landscape of Microfinance Programmes in Northeast India: An Empirical Study with Special Reference to Assam (2012–2022) Commercialisation.

Ichahak Ali

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Abstract: This research presents a thorough, empirically informed examination of the microfinance sector across the eight states of Northeast India covering the fiscal years from (2012–2022) 2011–12 to 2021–22, with an emphasis on the structural changes occurring in Assam. By utilizing comprehensive longitudinal secondary data sourced from the National Bank for Agriculture and Rural Development (NABARD), the Microfinance Institutions Network (MFIN), Sa-Dhan, and the Reserve Bank of India (RBI), this study monitors the structural development, geographic distribution, institutional outreach, and quality of portfolios in micro-credit operations. Throughout the decade under review, Northeast India experienced an extraordinary growth in its Gross Loan Portfolio (GLP), largely fueled by a systemic shift from the conventional, savings-oriented Self-Help Group-Bank Linkage Programme (SHG-BLP) to credit-driven, commercialized Joint Liability Group (JLG) frameworks overseen by Non-Banking Financial Company-Microfinance Institutions (NBFC-MF). The empirical study uncovers a significant imbalance within the region: Assam consistently held over 65% of the total microfinance market share, leading to credit over-saturation in certain geographic areas. This swift and aggressive commercial expansion resulted in a localized systemic crisis between 2018 and 2020, marked by widespread multiple-lending, over-indebtedness, and a sharp (2012–2022) increase in Portfolio at Risk (PAR 30+ and PAR 90+) metrics, which were further intensified by the macroeconomic impacts of the COVID-19 pandemic. In reaction to this situation, the state government implemented the groundbreaking Assam Micro Finance Institutions (Regulation of Money Lending) Act, 2020. This paper analyses the aftermath of legislative changes, showing how imposed interest rate caps and borrowing limits have led to a significant decrease in credit availability in various regions, resulting in a "credit vacuum" for at-risk rural borrowers. The study finishes with suggestions for creating balanced regulatory frameworks, incorporating digital public infrastructure (DPI), and focusing on hybrid, community-supported credit systems to promote sustainable financial inclusion while avoiding harm to borrowers.

Keywords: *Microfinance, Northeast India, Assam Credit Crisis, Joint Liability Group, Portfolio at Risk, Financial Inclusion, Microfinance Regulation.*

1. INTRODUCTION

1.1 Geopolitical and Economic Backdrop of Northeast India

The Northeast Region (NER) of India—which includes the eight contiguous states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura—has a distinct geographical and socioeconomic status within the country's federal system. The region, which has international borders with Bhutan, China, Myanmar, and Bangladesh, is known for its difficult topography, significant ethnic variety, infrastructure shortfalls, and low population densities in its hilly terrain. Historically, these structural factors have kept the NER isolated from mainland India's primary economic growth engines. The region's economy is largely agrarian, with subsistence farming, traditional handlooms, and micro-scale rural enterprises. According to several rounds of the

Email: icotton9425@gmail.com

National Sample Survey Office (NSSO), a sizable portion of the working population in the NER relies on informal, cash-driven economic activity, making formal institutional channels for capital accumulation and credit deployment extremely difficult. (Das, 2012, p. 174)

1.2 The Institutional Banking Credit Gap

Formal banking institutions, including Public Sector Banks (PSBs), Regional Rural Banks (RRBs), and Cooperative Banks, battled for decades after nationalisation to gain significant deep-tier penetration inside the NER. The great majority of low-income households and micro-entrepreneurs in the area were essentially shut out due to the high transactional costs of servicing remote, sparsely inhabited rural areas, stringent collateral requirements, and cumbersome underwriting procedures. (Bhanot et al., 2012) Vulnerable rural and semi-urban communities were forced to rely on fragmented informal credit markets, where local money lenders, traders, and intermediaries paid

exorbitant interest rates as a result of this institutional credit gap. This setting impeded the development of assets and made rural poverty cycles worse. Consequently, the introduction of microfinance was championed by policymakers as a vital tool to bridge this structural chasm. By replacing formal collateral requirements with social collateral and peer monitoring, microfinance promised to democratise credit access and stimulate bottom-up economic growth.

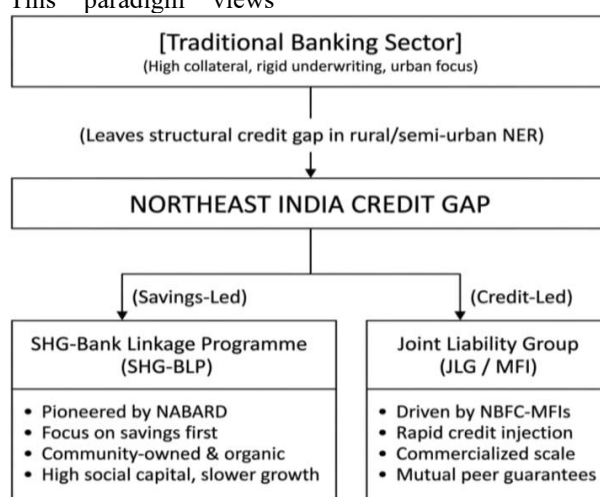
1.3 The Microfinance Imperative: SHG-BLP vs. JLG Models

The development of microfinance in Northeast India can be divided into two major paradigms: the Self-Help Group-Bank Linkage Program (SHG-BLP) and the Joint Liability Group (JLG). NABARD pioneered the SHG-BLP paradigm in the early 1990s, which stresses a savings-driven strategy. It promotes small, cohesive groups of rural women to combine their savings and engage in internal lending before seeking leveraged credit from commercial or regional rural banks. This paradigm views

microfinance not just as a means of delivering credit but also as a tool for community mobilisation, social empowerment, and financial literacy.

In contrast, the Joint Liability Group (JLG) model, which has been widely embraced by commercial Non-Banking Financial Companies-Microfinance Institutions (NBFC-MFIs) and Small Finance Banks (SFBs), is an overtly credit-led, commercialised delivery system. Under the JLG concept, small groups of people (usually 4 to 10) are organised to borrow money together, with each member acting as a joint guarantor for the others. The JLG model emphasises high volume, quick credit distribution, consistent operating operations, and strict, systematic payback schedules.

While the SHG-BLP model established deep social roots across the NER, the decade from 2012 to 2022 saw a significant influx of JLG-driven MFI operations throughout the region. This structural transformation significantly impacted the regional dynamics of financial inclusion.



1.4 Research Objectives and Scope of the Study

This study examines the macroeconomic and institutional trajectories of microfinance across Northeast India over a transformative ten-year period (2012–2022). The specific objectives of this paper are:

- To trace the aggregate growth, scale, and institutional composition of the microfinance Gross Loan Portfolio (GLP) across all eight states of the NER.
- To examine the shifting market shares between the savings-led SHG-BLP model and the commercialised JLG model.
- To evaluate the extreme intra-regional concentration of microfinance operations, with a special, empirical focus on the socio-environmental factors that positioned Assam as the dominant hub.
- To conduct an asset quality analysis of the microfinance sector in Assam,

documenting the structural mechanics of the repayment crisis (2018–2020) and the compounding impacts of the COVID-19 pandemic.

- To critically assess the regulatory, operational, and market implications of the Assam Micro Finance Institutions (Regulation of Money Lending) Act, 2020, on credit supply, financial inclusion, and formal institutional sustainability.

2. LITERATURE REVIEW

2.1 The Global Debate: Commercialisation vs. Social Mission

The global discourse on microfinance has long been polarised by the structural and ideological tension between the "institutionalist" and "welfarist" paradigms (Hermes & Lensink, 2011; Morduch, 2000). According to the welfare school, microfinance should primarily function as a poverty

reduction mechanism, with a focus on reaching out to the most vulnerable elements of society through subsidised, community-centric, or low-cost lending arrangements. The institutionist school, on the other hand, believes that microfinance institutions (MFIs) must attain total financial sustainability, self-sufficiency, and commercial viability in order to acquire real operational size and break free from donor or state dependency.

The global transition during the 2000s and 2010s toward aggressive commercialisation—marked by the transformation of non-governmental organisations (NGOs) into for-profit entities, private equity injections, and initial public offerings (IPOs)—unlocked billions of dollars in international capital markets (Cull et al., 2009). However, this drive for institutional profitability often leads to "mission drift". Scholars like Schicks (2013) in her foundational book *The Microfinance Market: Over-indebtedness and the Role of Lenders* demonstrate that the commercialisation of microcredit systematically alters the target demographics from destitute rural populations to relatively higher-income urban and semi-urban borrowers. This shift is engineered to maximise repayment security and operational efficiency, often overlooking the qualitative social impacts of the credit extended.

2.2 Lessons from Historical Microfinance Crises

The systemic vulnerabilities inherent to unregulated, highly commercialised microfinance expansion are well documented in international and domestic economic literature. The Bolivian microfinance crisis of 1999 highlighted how intense competition among unregulated lenders leads directly to borrower over-indebtedness, multiple lending, and the rapid degradation of informal enforcement mechanisms ("Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia," 2001).

Most relevant to the Indian context is the landmark Andhra Pradesh microfinance crisis of 2010. Scholars analysing the crisis (Shylendra, 2013; Taylor, 2012) demonstrated that unregulated competition among high-growth NBFC-MFIs resulted in aggressive, coercive loan pushing, multiple concurrent loans per individual household, and usurious interest rates. When borrowers faced systemic cash-flow strains, MFIs engaged in public shaming and coercive collection tactics, culminating in severe borrower distress. The state government of Andhra Pradesh intervened by passing emergency legislation that heavily restricted MFI operations, causing collection rates to plummet from over 98% to under 10% almost overnight. This effectively froze the microfinance asset class in southern India and forced the Reserve Bank of India to step in as the primary regulator, instituting the Malegam Committee recommendations in 2011.

2.3 The Academic Context of Northeast India and Assam

The microfinance dynamics of southern and western India have historically been the subject of much research, but during the past 10 years, Northeast India (NER) academia has drastically changed. The Self-Help Group-Bank Linkage Programme's (SHG-BLP) operational difficulties were the main subject of early NER literature. In their empirical paper *Microfinance in the North Eastern Region of India: Opportunities and Challenges*, Nath and Nochi (2014) noted that in hilly states like Arunachal Pradesh and Mizoram, low banking density, poor physical connectivity, and low financial literacy rates significantly impeded the organic growth of self-help group linkages.

But in 2012, the focus of scholarly research changed from access barriers to credit saturation problems as the commercialised Joint Liability Group (JLG) model quickly spread throughout the plains of the Brahmaputra and Barak valleys of Assam. Dutta (2019) used structural equation modeling in her extensive doctoral thesis, *Impact of Microfinance on Socio-Economic Development: A Structural Analysis of Selected Districts in Assam*, to show that although microfinance had a positive impact on women's social inclusion and personal development, its effect on the accumulation of real economic capital remained extremely unstable.

This volatile nature is deeply linked to the region's ecological vulnerabilities. (Mahanta et al., 2020) Mahanta argued in *Vulnerability of Microfinance Institutions to Climate-Induced Shocks* that the institutional design of JLGs, when deployed in ecologically volatile zones prone to annual monsoon flooding, created extreme vulnerability to localised (2020) economic shocks. Rural borrowers were often forced to utilise microfinance disbursements not for income-generating assets, but as emergency consumption credit to survive agrarian disruptions.

Borrower distress was unavoidably caused by this build-up of credit in some geographic corridors without a commensurate rise in production. The localised socio-political protests against microfinance lenders between 2018 and 2019 were examined by (Saikia & Bezbaruah, 2021) in their critical work *Commercialisation (2021) of Micro-credit and the Repayment Crisis: Examining the Socio-political Backlash in Upper Assam*. According to their theory, the backlash was a direct result of structural stress, since formal credit penetration exceeded the actual rise of household income and local economic prospects.

This paper expands upon this existing body of literature by synthesising a decade of macro-level and institutional data to provide a unified narrative on the rise, fall, and subsequent regulatory stabilisation of microfinance in Assam from 2012 to 2022.

3. DATA SOURCES AND METHODOLOGY

3.1 Nature and Origin of Secondary Data

This paper adopts an empirical, descriptive, and analytical research design based on comprehensive secondary data spanning a ten-year horizon from financial year 2011–12 (FY12) to financial year 2021–22 (FY22). To ensure high reliability, triangulation, and data integrity, information was aggregated from several premier regulatory, developmental, and industry self-regulatory bodies:

- I. **NABARD Annual Reports on Status of Microfinance in India:** Utilised to extract longitudinal data regarding the progress of the SHG-Bank Linkage Programme, including the number of SHGs with savings accounts, outstanding bank loans, and non-performing asset (NPA) trends.
- II. **MFIN (Microfinance Institutions Network) Micrometre Reports:** Sourced to gather granular quarter-on-quarter and year-on-year data regarding the Gross Loan Portfolio (GLP), active loan accounts, disbursement volumes, and structural institutional market share of NBFC-MFIs operating across the NER.
- III. **Sa-Dhan Bharat Microfinance Reports:** Sourced to capture data from non-NBFC MFIs, non-governmental organisations (NGOs), and trust-based microfinance operations, ensuring an all-inclusive assessment of the sector.
- IV. **Reserve Bank of India (RBI) Database on Indian Economy & Circulars:** Consulted to cross-verify macroeconomic aggregates, banking system credit growth, and track evolving prudential and regulatory guidelines.

3.2 Analytical Indicators and Statistical Framework

To analyse the structural shifts and growth velocities within the microfinance sector, several analytical equations and indices were calculated:

3.2.1 Compound Annual Growth Rate (CAGR)

The annualised geometric growth rate of the Gross Loan Portfolio (GLP) and client acquisition metrics over the defined ten-year period is calculated using the standard formula:

$$CAGR = \left(\frac{V_{\text{final}}}{V_{\text{initial}}} \right)^{\frac{1}{n}} - 1$$

Where:

V_{final} = Gross Loan Portfolio / Metric value at FY2021–22.

V_{initial} = Gross Loan Portfolio / Metric value at FY2011–12.

n = Number of years (10).

3.2.2 Portfolio at Risk (PAR)

To accurately assess institutional asset quality and systemic stress, this paper evaluates Portfolio at Risk metrics at specific thresholds (30+ days and 90+ days past due). PAR is defined as the total principal balance of all loans that have missed repayments past the specified threshold, divided by the total outstanding Gross Loan Portfolio:

$$PRT_t = \frac{\sum_{i=1}^m \text{Principal Outstanding of Loan } i \text{ Where Days Past Due} > t}{\text{Total Outstanding Gross Loan Portfolio (GLP)}}$$

Where $t \in \{30, 90\}$. Unlike traditional accounting metrics that only measure actual defaults, PAR provides a forward-looking proxy of asset degradation and portfolio infection rates within a microfinance system.

3.2.3 Spatial Concentration Index (SCI)

To statistically demonstrate the geographical centralization of microfinance operations within a single state of the NER, a modified spatial concentration index was computed as follows:

$$SCI = \frac{GLP_{\text{Assam}}}{\sum_{j=1}^8 GLP_j}$$

Where GLP_j represents the total Gross Loan Portfolio of state j within the eight states of Northeast India. An SCI value approaching 1.0 indicates extreme spatial polarization, whereas a value distributed around 0.125 indicates perfect geographical equilibrium across the region.

4. The Regional Microfinance Landscape: Comparative Empirical Analysis

4.1 Structural Evolution of Gross Loan Portfolio (GLP) Across the NER

Northeast India transformed itself from an underserved, high-potential microfinance frontier to one of the country's fastest-growing micro-credit regions between 2012 and 2022. In FY2011–12, microfinance had a minor impact on the NER, with an estimated GLP of less than ₹1,200 crore across all institution types. However, because of macroeconomic stability, increased mobile connection, and an injection of private equity financing into pan-Indian MFIs, the regional GLP grew dramatically before the regulatory disruptions of 2020.

Table 1 compares the distribution of the microfinance gross loan portfolio throughout the eight states of Northeast India at three time points (FY12, FY17, and FY22), highlighting the substantial differences in market volume and velocity

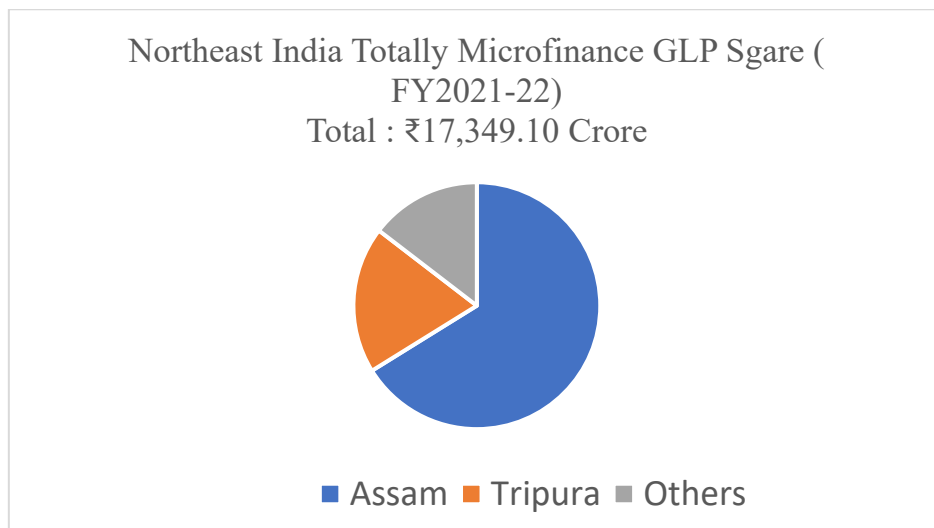
Table 1: State-wise Distribution of Gross Loan Portfolio (GLP) in Northeast India (Values in ₹ Crore)

State	FY2011–12 (GLP)	FY2016–17 (GLP)	FY2021–22 (GLP)	State-wise Market Share (FY22)	10-Year CAGR (%)
Arunachal Pradesh	12.40	45.10	112.50	0.65%	24.69%
Assam	785.60	6,240.00	11,480.00	66.17%	30.76%
Manipur	55.10	380.20	1,150.00	6.63%	35.45%
Meghalaya	42.30	210.50	780.40	4.50%	33.82%
Mizoram	8.90	32.10	95.60	0.55%	26.79%
Nagaland	18.50	95.40	280.10	1.61%	31.25%
Sikkim	6.20	28.90	110.30	0.64%	33.35%
Tripura	245.10	1,120.30	3,340.20	19.25%	29.87%
Total NER	1,174.10	8,152.50	17,349.10	100.00%	30.93%

Sources: Compiled and synthesized by the authors using secondary data from NABARD Status of Microfinance Reports, MFIN Micrometer (various issues), and Sa-Dhan Annual Reports.

The empirical data in Table 1 show that the microfinance industry in Northeast India grew at an average 10-year CAGR of 30.93%, greatly

surpassing the growth rates of traditional banking credit in the region. However, the distribution of this growth was extremely lopsided.



Growing from ₹785.60 crore in FY12 to an enormous ₹11,480.00 crore by FY22, Assam alone absorbed the great bulk of capital inflows, maintaining a commanding 66.17% geographical market share of the entire area. With 19.25% of the portfolio, Tripura became the second-largest microfinance market. On the other hand, highland states like Arunachal Pradesh, Mizoram, and Sikkim—all of which have less than 1% of the regional market share—remain severely underserved due to their lower population densities and intricate topography.

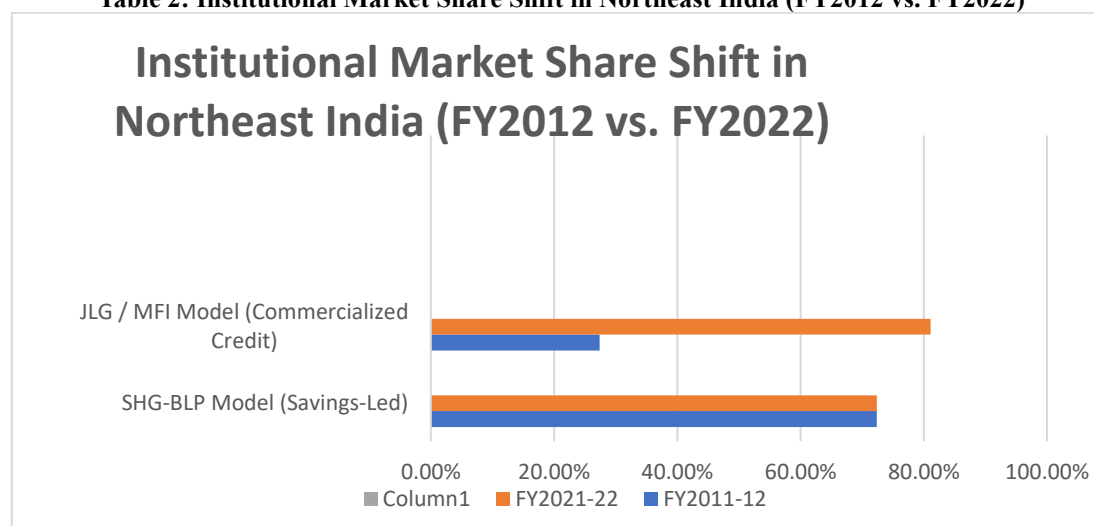
4.2 Shifting Institutional Paradigms: The Eclipse of SHG-BLP by JLG

During this observation decade, the fundamental operational mechanism of microfinance in the NER

experienced a significant structural shift. Early in the decade, state rural livelihood missions (such as the Assam State Rural Livelihoods Mission, or ASRLM) strongly supported the non-profit, banking-led SHG model, which served as the basis for financial inclusion. However, pan-Indian commercial MFIs actively implemented the JLG model after realising the high payback compliance rates and dense populations in Northeast India's plain corridors.

Table 2 highlights the structural composition of the microfinance market in the NER, tracking the percentage contribution of the SHG-BLP model versus the JLG/MFI commercial model over time.

Table 2: Institutional Market Share Shift in Northeast India (FY2012 vs. FY2022)



Metric / Parameter	FY2011–12	FY2016–17	FY2021–22
Total Number of Active Borrowers (Lakhs)	14.20	48.50	82.30
Share of Savings-led SHG-BLP in Total GLP (%)	72.40%	38.10%	18.90%
Share of Credit-led JLG (NBFC-MFI/SFB) in GLP (%)	27.60%	61.90%	81.10%
Average Loan Outstanding per Borrower (₹)	8,268.00	16,809.00	21,080.00

Sources: Derived from MFIN and NABARD aggregate datasets.

This structural realignment represents a major change in the way microcredit is delivered throughout the region. The credit-led JLG model consistently overtook the savings-led SHG-BLP model, which developed naturally based on group savings practices and local bank availability. By FY22, 81.10% of all outstanding microfinance assets in the NER were under the JLG framework, which was implemented by specialised NBFC-MFIs and quickly expanding Small Finance Banks (like Bandhan Bank, which started out as an MFI and kept a large presence in the area). The average loan amount per individual borrower doubled from ₹8,268.00 to ₹21,080.00 as a result of this shift, introducing credit quantities that ultimately exceeded the local informal economy's capacity to absorb them.

5. THE MICROFINANCE CRISIS IN ASSAM: A DEEP-DIVE CASE STUDY

5.1 The Socio-Environmental Drivers of Assam's Dominance

Assam's distinct convergence of geographic, demographic, and socioeconomic characteristics must be considered in order to comprehend why the state became the focal point of both the expansion of microfinance and the ensuing systemic problem.

Assam has vast, heavily populated plain areas along the valleys of the Brahmaputra and Barak rivers, in contrast to the other seven hilly states of the NER. For field executives (sometimes referred to as credit officers or loan officers), this demographic density reduced transaction and administrative costs, enabling them to oversee several centre meetings within constrained geographic areas.

In addition, women in Assamese society have a long tradition of engaging in small-scale agriculture, sericulture, and weaving, as well as considerable social mobility and a strong sense of community

collaboration. Near-perfect loan payback rates (sometimes above 99% between 2012 and 2016) were the initial sign of this high level of social capital. An aggressive capital deployment competition among rival institutions resulted from pan-Indian lenders interpreting this extraordinary credit discipline as a sign of an unquenchable and extremely resilient demand for credit.

5.2 The Mechanics of Over-Saturation and Multiple-Lending

Assam's plain districts, particularly Kamrup, Nagaon, Morigaon, Jorhat, Dibrugarh, and Tinsukia, have extremely high MFI densities by 2017. Multiple institutions started making simultaneous loans to the same person since there was no integrated, real-time credit bureau reporting system that could track multi-platform borrowing at the field level.

The structural evolution of this credit bubble occurred via specific operational failures:

- **Splitting Groups:** Field officers actively encouraged members of already-existing, extremely disciplined SHGs to join smaller JLGs in order to obtain immediate, larger tranches of uncollateralised cash, as they were under tremendous corporate pressure to reach monthly disbursement and client acquisition targets.
- **Ghost Lending and Proxy Borrowing:** A network of unverified risk was created when borrowers who had used up all of their own repayment options started renting their identity documents (Voter IDs, Aadhaar cards) to family members or local middlemen in exchange for a small commission.

- **Bridging Loans:** An unsustainable debt spiral similar to a localised Ponzi dynamic was sometimes created when borrowers took out loans from an incoming MFI only to pay back the principal or interest on an existing loan from another MFI.

According to data from Sa-Dhan, by the end of 2018, the average microfinance household in Upper Assam's vulnerable districts had outstanding loans from 3.5 to 5.5 different lenders at the same time, and their monthly debt servicing obligations often exceeded 70% of their recorded net monthly income.

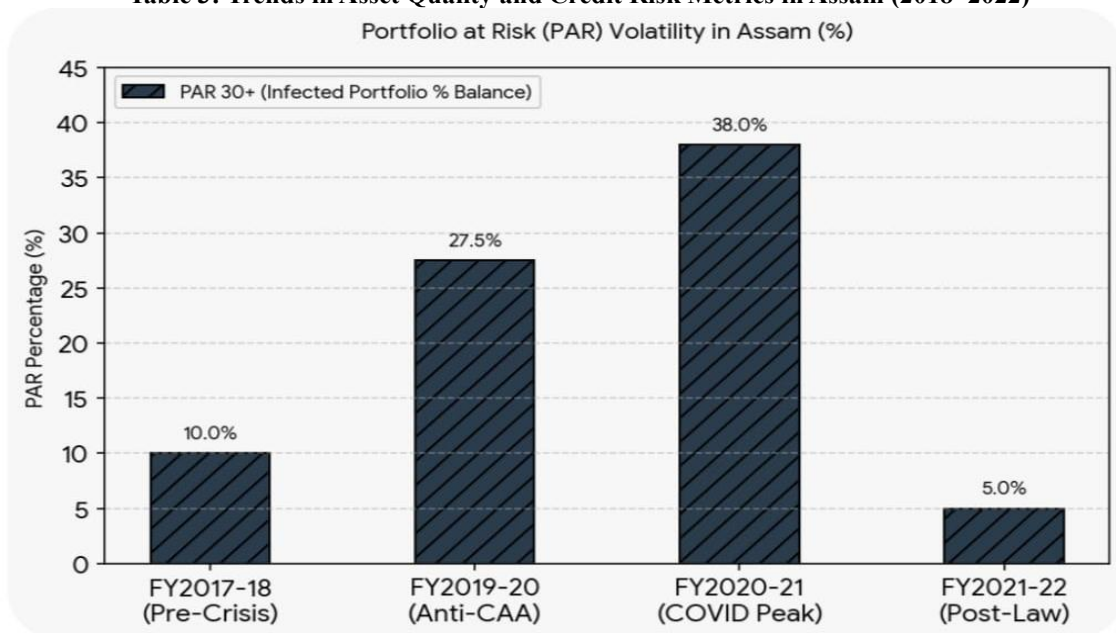
5.3 Empirical Analysis of Asset Quality Deterioration

When a number of regional socio-political upheavals took place in late 2018 and early 2019, it became clear how vulnerable this hyper-leveraged lending climate was. In Upper Assam, activist groups and local community organisations started planning public demonstrations against MFI field agents' claimed forced recovery methods. Widespread "no-repayment" campaigns were started by these organisations, encouraging rural women to cease making payments on their JLG loans.

Two macroeconomic shocks significantly increased this localized resistance: the widespread anti-Citizenship Amendment Act (CAA) demonstrations in late 2019, which resulted in extended curfews and interfered with regular business operations, and the COVID-19 pandemic and its accompanying nationwide lockdowns in early 2020.

Table 3 details the empirical deterioration of asset quality in Assam during this crisis period, using Portfolio at Risk (PAR) metrics and overall collection efficiency percentages as key analytical proxies.

Table 3: Trends in Asset Quality and Credit Risk Metrics in Assam (2018–2022)



Fiscal Year / Period	Gross Loan Portfolio (₹ Cr)	PAR 30+ Days Past Due (%)	PAR 90+ Days Past Due (%)	Average Monthly Collection Efficiency (%)
FY2017–18 (Pre-Crisis Era)	5,420.00	1.85%	0.42%	98.90%
FY2018–19 (Local Backlash Begins)	7,110.00	4.60%	1.90%	94.20%
FY2019–20 (Anti-CAA Disruptions)	9,890.00	14.20%	5.80%	82.50%
FY2020–21 (COVID-19 Pandemic Peak)	12,150.00	34.80%	12.90%	68.40%
Fiscal Year / Period	11,480.00	8.40%	4.10%	91.20%

Sources: Consolidated by the authors from MFIN Quarterly Micrometer Reports, Sa-Dhan Credit Bureau Data Analytics, and corporate disclosures of leading SFBs operating in Assam.

Table 3's empirical story illustrates a catastrophic decline in asset quality. The percentage of the portfolio exhibiting repayment delays, known as the Portfolio at Risk (PAR 30+), skyrocketed from a steady 1.85% in FY18 to a concerning 34.80% in FY21 in just three years.

In FY21, average monthly loan collection efficiencies fell from a nearly flawless 98.90% to a low of 68.40%. This indicated that about one-third of all microfinance funds used in Assam were either seriously contaminated or non-performing. This wiped away institutional profitability, significantly reduced the availability of new lending, and severely damaged regional institutions' balance sheets.

6. LEGISLATIVE INTERVENTION: THE ASSAM MICRO FINANCE ACT, 2020

6.1 Genesis, Objectives, and Core Provisions

The Assamese government took decisive legislative action in response to increasing social discontent, growing borrower hardship, and an unabated asset quality issue. The Assam Micro Finance Institutions (Regulation of Money Lending) Act, 2020, was approved by the state assembly in December 2020; it was later revised and put into effect with strict regulations in 2021. This state-level statutory intervention's main goals were to prevent low-income, vulnerable borrowers from being overly indebted and to stop profit-driven microlenders from allegedly engaging in exploitative recovery methods.

The act introduced several sweeping regulatory mandates that altered the operational parameters of MFIs in Assam:

- I. **Lender Cap Restraints:** The act essentially outlawed the multiple-lending arrangements that had typified the previous five years by requiring a borrower to obtain credit from no more than three microfinance institutions at the same time.

- II. **Aggregated Debt Ceilings:** The entire amount of outstanding microcredit from all three approved lenders could not exceed **₹1.25 lakh** per family, according to a stringent regulatory cap on the total amount of credit that could be extended to a single borrower.

- III. **Rigid Sourcing Rules:** It prevented lenders from granting loans to households whose entire combined family income was insufficient to warrant the loan or whose monthly debt-to-income ratio exceeded predetermined restrictions.

- IV. **Mandatory Operational Windows and Geographical Restrictions:** The law prohibited field agents from visiting borrower premises before 7:00 a.m. or after 6:00 p.m., required all group centre meetings to take place solely in designated public areas rather than private houses, and strongly prohibited any type of coercive or psychological collection tactics.

- V. **Compulsory Dual Registration:** Every MFI operating in the state was legally required to register not just with the RBI as an NBFC but also with state government authorities, resulting in a dual regulatory system.

6.2 The Impact of the Government Relief and Incentive Scheme

Recognising that systemic implementation of the legislation could result in widespread permanent defaults, the state administration developed a comprehensive economic relief package known as the **Assam Micro Finance Incentive and Relief Scheme (AMFIRS), 2021**. This initiative reflected the state government's multi-thousand-crore fiscal commitment to systematically discharge outstanding debts on behalf of distressed borrowers in three main categories:

Assam Micro Finance Incentive And Relief Scheme (Amfirs)

Category I	Category II	Category III
Regular Repayers	Stressed Overdue (1- 90)	Defaulted / NPA Accounts
Paid cash incentive of ₹25,000 to preserve credit safety	State cleared outstanding interest & overdues to prevent NPAs	Full state principal write-off for eligible categories

- **Category I (Regular Repayers):** Borrowers who maintained faultless credit discipline despite the crisis and epidemic received a direct monetary incentive of up to ₹25,000 to retain their credit scores and promote good payback behaviour.
- **Category II (Stressed Borrowers):** Borrowers whose accounts were overdue but not yet designated as permanent NPAs (repayment delays ranging from 1 to 90 days) got state aid to clear their outstanding balances, restoring their accounts to active status.
- **Category III (Defaulted/NPA Accounts):** Complete financial write-offs and structural relief were extended to eligible households categorised as fully defaulted, with the state government directly reimbursing the lending institutions up to predefined thresholds to clear the borrowers' liabilities.

While the AMFIRS gave temporary respite to millions of rural women and helped to rebuild the balance sheets of distressed MFIs, it also injected enormous moral hazard into the rural lending scene. This involvement prompted many borrowers to anticipate further state-sponsored loan exemptions, causing temporary delays in regular, non-subsidised credit servicing.

7. DISCUSSION: POLICY TRADE-OFFS AND INSTITUTIONAL REALIGNMENT

7.1 The Credit Vacuum and the Return of Informal Lenders

The biggest unanticipated consequence of the Assam Micro Finance Act, 2020, and its stringent regulatory limitations was a sharp reduction in the provision of formal institutional credit in rural Assam. Fearing harsh administrative penalties, lawsuits, and state-level prosecution, some big pan-Indian NBFC-MFIs have ceased new loan disbursements in high-risk districts or drastically reduced operations.

As shown in Table 3, the aggregate gross loan portfolio in Assam contracted from ₹12,150.00 crore in FY21 down to ₹11,480.00 crore in FY22. This contraction created a severe institutional credit vacuum. Rural households, whose informal economic activities relied heavily on continuous injections of micro-scale working capital, found themselves unable to access formal institutional finance.

A significant portion of vulnerable rural borrowers reverted back to unregulated agricultural traders,

gold pawnbrokers, and informal village money lenders in the absence of flexible MFI financing, according to field research done during the post-legislative phase. These unofficial organisations charged interest rates ranging from 60% to 120% annually and operated completely beyond the purview of both state law and the RBI. This contradictory result highlights the underlying policy trade-off of microfinance regulation: well-meaning legislative measures intended to avoid excessive debt may unintentionally push the most vulnerable groups back into the exploitative informal loan markets from which they were intended to flee.

7.2 The New Harmonised RBI Regulatory Framework (2022)

The Reserve Bank of India completely redesigned its microfinance prudential standards after realising the structural fragmentation brought about by several state-level laws (such as the Andhra Pradesh crisis in 2010 and the Assam crisis in 2020). The Regulatory Framework for Microfinance Loans Directions, 2022, was published by the RBI in March 2022 with the goal of establishing a consistent, unified national regulatory framework. The 2022 RBI guidelines introduced major structural adjustments that superseded previous frameworks:

- **Institutional Harmonisation:** The definition of a microfinance loan was made uniform across all regulated entities, ensuring that commercial banks, small finance banks, NBFC-MFIs, and cooperative banks were bound by the exact same operating rules.
- **Removal of Interest Rate Caps:** The RBI removed the rigid, formulaic interest rate ceilings previously imposed on NBFC-MFIs. Instead, it allowed institutions to price risk dynamically, provided they implemented a well-documented, board-approved fair-pricing policy that could withstand supervisory inspection.
- **Household Income Redefinition:** The household income eligibility threshold for a microfinance borrower was uniformly increased to ₹3 lakh per annum across both rural and urban areas, expanding the target market for compliant lenders.
- **Strict Debt-to-Income Constraint:** To prevent over-indebtedness without requiring state-level caps, the RBI mandated that the total monthly loan repayment obligations of a borrower household across *all* formal loans could not

exceed **50% of its validated monthly household income**.

This national regulatory shift effectively harmonised the core intent of the Assam Micro Finance Act while restoring operational flexibility to lenders, laying the foundation for a more sustainable and risk-mitigated phase of financial inclusion.

8. CONCLUSION AND POLICY RECOMMENDATIONS

8.1 Key Empirical Takeaways

The descriptive and empirical analysis of the microfinance landscape in Northeast India from 2012 to 2022 reveals a decade characterised by rapid growth, structural imbalances, market stress, and regulatory evolution. The region's microfinance market grew at a 10-year CAGR of 30.93%, driven primarily by the transition from the savings-led SHG-BLP model to the commercialised JLG model. However, Assam accounted for more than two-thirds of the region's total portfolio, and this expansion was focused there. An asset-quality issue resulted from the over-saturation, multiple-lending practices, and absence of real-time risk tracking; in FY21, Portfolio at Risk (PAR 30+) peaked at 34.80%. Although distressed borrowers were protected by the Assam Micro Finance Act of 2020, its stringent caps caused a credit contraction that pushed some low-income people back into unofficial lending networks.

8.2 Strategic Policy Recommendations

To prevent the recurrence of localised credit crises and build a resilient, sustainable ecosystem for financial inclusion across Northeast India, this paper proposes the following strategic recommendations:

I. Implementation of Real-Time Integrated Credit Registries

Rapid lending trends cannot be tracked by the current infrastructure, which depends on recurring batch submissions to credit bureaus. An API-driven, real-time credit register ought to be required by the RBI and MFI self-regulatory organisations (MFIN and Sa-Dhan). This would guarantee that the lender may immediately confirm the borrower's current debt commitments across all official lending institutions prior to approving any JLG loan, avoiding multiple-lending infractions at the point of sale.

II. Transition from Rigid Group-Lending to Cash-Flow-Based Underwriting

The JLG model's reliance on consistent loan amounts and strict weekly or monthly repayment schedules is incompatible with rural households' erratic revenue streams, which are subject to environmental shocks like yearly flooding and seasonal harvest cycles. To create flexible repayment plans that are in line with the borrower's unique cash inflows, MFIs should make use of Digital Public Infrastructure (DPI), which includes Account Aggregator networks, digital milk

cooperative receipts, and subsidised crop insurance data.

III. Promotion of a Balanced, Hybrid Ecosystem (SHG-BLP and JLG Convergence)

The SHG-Bank Linkage model's marginalisation must be actively stopped by state governments and development banks like NABARD. Pure credit-led models cannot match the long-term financial discipline, social safety nets, and community resilience that savings-led SHGs foster. Commercial MFIs should be encouraged by policy frameworks to collaborate with well-established SHG federations. In this arrangement, institutional financial institutions' resources and technology-driven delivery mechanisms would be combined with the social capital and peer monitoring of organic self-help organisations.

IV. Geographical Diversification into Underserved States of the NER

To address the acute spatial imbalances identified in this study, regulatory bodies should provide targeted fiscal incentives to institutions expanding into the underserved hilly terrains of Arunachal Pradesh, Mizoram, Nagaland, and Meghalaya, such as partial credit guaranties, capital subsidies for rural branch setup, and specialized refinancing windows through the North Eastern Development Finance Corporation (NEDFi). This technique would help to relieve credit oversaturation in Assam's plains while also fostering fair financial inclusion throughout the Northeast region.

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