

Services sector in mizoram analysis economics essay



**ASSIGN
BUSTER**

Services sector or service industry is one of the three economic sector of an economy, collectively known as the tertiary sector which produces a service or nontangible items as its output rather than goods or just an end product. This sector of the economy provides services, employment and contributions to the Gross Domestic Product (GDP) and is an increasing part of total activity in almost all economies across the globe.

Service sector is the lifeline for the social economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. Availability of quality services is vital for the well being of the economy. In advanced economies the growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment etc.

The tremendous growth rate has coincided with better macroeconomic stability. India has made remarkable progress in information technology, high end services and knowledge process services. Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service sector are quite diverse. Trading, transportation and communication, financial, real estate and business services, community, social and personal services come within the gambit of the service industry. Service Sector in India today accounts for more than half of India's GDP.

From a mere 41% during 1990-91, the contribution of service sector in Indias

<https://assignbuster.com/services-sector-in-mizoram-analysis-economics-essay/>

GDP has grown to 55 percent during the financial year 2007-08. The fact that the service sector now accounts for more than half the GDP which marks a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy.

There was marked acceleration in services sector growth in the eighties and nineties, especially in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. While almost all service sectors participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalisation in the regulatory framework that gave rise to innovation and higher exports from the services sector.

Services sector is the largest sector in the economy of Mizoram in terms of its contribution to GSDP. During the last decade service sector has the highest contribution to the Gross State Domestic Product. The contribution of services sector in Mizoram's economy is mostly determined by Real Estate, Ownership of dwellings and business services, Public administration and Other services (Table: 1). In fact, at present the services sector alone accounts for more than half i. e. 63. 52 percent of the State Gross Domestic Product with an increasing trend.

Though majority of its working force is affianced in the primary sector of the economy, its contribution to the GSDP is declining over the years due to the

fact that no sufficient plain areas are available in the state where cultivation can be practiced with scientific methods, modern tools and on permanent basis. The state is not in a position to break its status as 'no industry state' due to geographical isolation and other associated problems. As such the development of the service sector, which needs to focus on the idea of 'knowledge economy' can, precedes the overall development of the state economy. One good example of service sector is the banking industry which has gone through enormous changes in recent years. Within the banking industry Micro-Finance has come out as a major financial business capable of extracting more profit from a wider customer base.

Banking has always served as one of the most important instrument for economic development. In Mizoram public sector banks have widened the horizon of banking activities especially, during the last two decades in tune with the socio-economic needs of the state. By March 2009, there were 109 branches of financial institutions in Mizoram consisting 37 nationalized commercial banks, 61 branches of Mizoram Rural Bank and 11 branches of Mizoram Cooperative Apex Bank. Commercial banks and MRB together account for about 90 percent of the total bank coverage in the state while Cooperative banks accounts for only 10 percent (Table: 3). As far as the Banking and Financial sector is concerned, the state shows a satisfactory progress, out of the 109 branches of Banks functioning in the state, it too includes new generation bank like the Axis Bank, IDBI & HDFC Bank.

Financial institutions like NABARD, SIDBI and NEDFi also have their presence in the state. The total deposits with the Banks in 2007 was 1345. 12 crore

rupees and the total advance is 760. 24 crore rupees. The Credit Deposit ratio (CD) is 56. 52 percent.

The total number of population served by each bank branch in the state is around 8, 500 which is much lower as compared to the national average of 15, 000 is indeed a positive sign. The locational aspects of the bank branches are skewed towards cities and urban centres. The state capital Aizawl and the second largest city Lunglei together accounts for about 57 percent (62 out of 109) of the total bank branches in the state. There are many villages which are deprived of banking services even within the radius of 80-100 kilometers. This is mainly due to the poor number of households in these areas, slow economic activities etc. which make the branch banking unviable.

MICRO FINANCE IN MIZORAM

Micro finance is a new paradigm in the world of development discourse and financial intermediation. Broadly speaking, Micro-Finance is defined as provision of thrift, credit and other financial services and products of very small amount to the poor, long excluded by mainstream banking and finance market in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Micro finance as a major financial service emerged in the 1970s, notably after Muhammad Yunus, the Nobel Laureate from Bangladesh started the Grameen Bank. Delivery of credit at the doorstep of those who are not covered by the formal banking business, coupled with capacity building, is one of the ways for achieving financial inclusion. The most important economic rationale in such financial inclusion of the poor in the economy is the transaction costs. For formal

<https://assignbuster.com/services-sector-in-mizoram-analysis-economics-essay/>

banks, it will be costly to mobilize the small savings of the poor families lying widely scattered. Equally prohibitive is the cost to the conventional banks in financing a large number of these families who require credit frequently and in small volume and that too not backed by collateral securities. Commercial banks see in it a new profitable area of credit with a high repayment rate in a world of mounting non-performing assets and sub-prime hazards. Many governments welcome it as a less burdensome missile of fighting poverty.

The Indian state put stress on providing financial services to the poor and underprivileged since independence. The commercial banks were nationalized in 1969 and were directed to lend 40% of their loan able funds, at a concessional rate, to the priority sector. The priority sector included agriculture and other rural activities and the weaker strata of society in general. The aim was to provide resources to help the poor to attain self sufficiency.

To supplement these efforts, the credit scheme Integrated Rural Development Programme (IRDP) was launched in 1980. But these supply side programs (ignoring the demand side of the economy) aided by corruption and leakages, achieved little. Further, the share of the formal financial sector in total rural credit was 56. 6%, compared to informal finance at 39. 6% and unspecified sources at 3. 8%. Not only had formal credit flow been less but also uneven. The collateral and paperwork based system shied away from the poor. The vacuum continued to be filled by the village moneylender who charged interest rates of 2 to 30% per month.

It was in this cheerless background that the Microfinance Revolution occurred worldwide. In India it began in the 1980s with the formation of pockets of informal Self Help Groups (SHG) engaging in micro activities financed by Microfinance. The first official effort materialized under the direction of National Bank for Agriculture and Rural Development (NABARD) when the Mysore Resettlement and Development Agency (MYRADA) sponsored project on “ Savings and Credit Management of SHGs” was partially financed by NABARD during 1986-87.

In Mizoram, the Micro Finance programme started lately with the setting up of Mizoram Rural Bank in 1983 with its head office at Aizawl, the state capital of Mizoram. Since its inception the bank is serving hard to achieve its objectives. In view of the emphasis given by the central government on promotion of micro-enterprises in rural areas through the mechanism of self-help groups, the bank branches are advised to form self-help groups and was intended that SHG linkage as a part of banks mainstream credit operation. In its endeavor, till March 2008, MRB has formed 1165 SHGs out of which 1080 groups have been credit linked.

The Swarnajayanti Gram Swarojgar Yojana (SGSY) is a major on going programme which promotes Micro Finance programme by forming self help groups in the state. The programme was started in 1999 with the objective to bring the poor families above the poverty line by ensuring appreciable income over a period of time. The programme tries to organize the rural poor in to self help groups through a process of social mobilizing, training, capacity building and provision of income generating assets through a mix of bank credit and government subsidy.

<https://assignbuster.com/services-sector-in-mizoram-analysis-economics-essay/>

Self help groups (SHGs) are a group of rural poor who volunteer to organize themselves in a group which may consist of 10-20 members. The lowest numbers of members are 5 in case minor irrigation project, disabled persons and in difficult areas like desert and hilly areas with scattered and sparsely distributed population which is applicable in case of Mizoram. A total of 1805 SHGs was formed under SGSY from 2000-2007 in the state (Table: 4) out of which 1058 groups were given financial assistance with a total expenditure of Rs. 9. 89 crore.

TABLE: 4

PROGRESS UNDER SGSY IN MIZORAM (2000-2007)

Year

Number of SHG formed

No. of SHGs assisted

Total Expenditure (Rs. In lakh)

2000-01

225

97

141. 57

2001-02

379

230

101. 71

2002-03

294

156

84. 31

2003-04

216

128

138. 02

2004-05

290

153

183. 58

2005-06

255

192

200. 82

2006-07

146

102

139. 57

TOTAL

1805

1058

989. 58

Source: Statistical Abstract of Mizoram 2007, Directorate of Economics and Statistics, Aizawl.

During 2000-01, total 225 SHGs were formed but only 97 groups got financial help. The number of SHGs has increased considerably during the successive years; simultaneously the number of financially assisted groups has also increased considerably. Aizawl district has shown the highest number of SHGs formation during the year 2006-07, out of which 15 groups has been assisted under the SGSY scheme with an expenditure of Rs. 32. 40 lakh. Serchhip district shows the lowest amount of expenditure (Rs. 6. 00 lakh only), having 7 SHGs with an average financial assistance of Rs. 0. 85 lakh per group.

TABLE: 5**DISTRICT WISE PROGRESS OF SGSY IN MIZORAM
(2006-07)****District****Number of SHGs formed****Number of SHGs assisted**

Total expenditure (in Rs. Lakh)

Mamit

23

23

9. 85

Kolasib

5

7

11. 69

Aizawl

57

15

32. 40

Champhai

24

10

28. 29

Serchhip

7

7

6. 00

Lunglei

13

13

24. 59

Lawngtlai

10

9

16. 19

Saiha

7

18

10. 69

TOTAL**146****102****139. 57**

Source: Economic Survey of Mizoram, 2007-08, Planning and Programme Implementation Department, Government of Mizoram, Aizawl.

The average financial assistance given to each SHGs in the state during 2006-07 was Rs. 1. 37 lakh (Table: 5). The highest amount of financial assistance received by the groups in Champhai district, each SHGs in the district was given Rs. 2. 82 lakh during the year 2006-07.

National Bank for Agriculture and Rural Development (NABARD), which is pioneering the Micro Finance programme in the country, appears in the banking scenario of the state in 1995 as a sub-office of its Guwahati Regional Office. This sub office has been upgraded to Regional Office in 2000.

NABARD initiates Micro Finance programme in the state and is doing well in this field. To make the Micro Finance programme popular among the tribes of the state, NABARD prescribes the formation of SHGs with at least 20 members. Suitable modifications have been made in the policies to suit the region which leads to dramatic changes in the programme. The number of

SHGs linked to banks in the state was just 28 in March 2005. By March 2006
<https://assignbuster.com/services-sector-in-mizoram-analysis-economics-essay/>

their number had jumped to 974, which means 946 new SHGs had opened accounts with banks. In SHGs, the emphasis is on savings and credit is given later, after the banks have made their own assessment of risks involved. In Mizoram, the NABARD chief made it possible for SHGs to open accounts only when assured of a loan. That encouraged the formation of SHGs and their linkages with banks.

TABLE: 6

ANNUAL PROGRESS OF NABARD UNDER MICRO FINANCE (2007-08)

(Rs. in lakhs)

Name of the Bank

No. of SHGs

Amount of loan disbursed

Commercial Banks

64

222. 31

Regional Rural Banks

626

852. 47

Cooperative Banks

13

5. 68

TOTAL**703****1080. 46**

Source: NABARD, Regional Office, Aizawl.

During the year 2007-08 NABARD has disbursed Rs. 1080. 46 lakh to 703 SHGs (Table: 6) under its Micro Finance programme. The highest amount has been disbursed through Rural Banks i. e. Rs. 852. 47 lakh to 626 SHGs. Up to March' 2008, there were 4681 SHGs who had opened account with various banks with a total savings of Rs. 790. 38 lakh. Commercial banks have the largest number of SHGs account holders (2754) while rural banks have the highest amount of savings (Rs. 752. 03 lakh) (Table: 7). Aizawl district shows the highest numbers of SHGs who succeeded in getting financial assistance under Micro Finance programme of NABARD during the year 2007-08. Aizawl district alone accounts for about 40 percent of the total SHGs in the state who received financial assistance in 2007-08.

TABLE: 7**SHG SAVINGS WITH BANKS (as on 31st March'2008)**

Name of the Bank

No. of SHGs

Amount (Rs. in lakh)

Commercial Banks

2754

33. 46

Regional Rural Banks

1506

752. 03

Cooperative Banks

421

4. 89

TOTAL**4681****790. 38**

Source: NABARD, Regional Office, Aizawl.

The average bank loan disbursed to the SHGs in Aizawl district was Rs. 2. 96 lakhs which is the highest in the state, while the SHGs in Serchhip district has been disbursed, in an average only Rs. 36 thousand of bank loan (Table: 8). The main reason behind the uneven growth of SHGs and the progress of Micro Finance among the districts in the state may be due to the sparsely distribution of population, poor awareness among the people, lack of banking and other financial services etc. However, Aizawl district shows a

comparatively satisfactory progress which may be due to the better provisions of infrastructural facilities which are available as compared to other parts of the state such as power, transport, banking, and marketing etc. Moreover, there exist the economies of scale, both internal and external in the state capital.

TABLE: 8

DISTRICTWISE PROGRESS UNDER MICRO FINANCE PROGRAMME

(2007-08)

District

No. of SHGS

Amount of loan disbursed (in Rs. lakh)

Aizawl

267

790. 41

Kolasib

75

36. 32

Champhai

97

48. 80

Mamit

66

34. 25

Serchhip

43

15. 53

Lunglei

79

111. 47

Lawngtlai

42

23. 26

Saiha

34

20. 42

TOTAL

703

1080. 46

Source: NABARD, Regional Office, Aizawl.

CONCLUSION

The analysis of the trend and progress of the services sector of Mizoram in general and Micro Finance in particular shows that despite its various bottlenecks, this sector of the state economy has vast potential in terms of employment, income and poverty alleviation. Though the state has vast natural and physical resources, yet the primary and secondary sector is not in a position to keep pace with the latest developments. Due to its geographical, locational and other disadvantages, these sectors have limited scope for development while that for the service sector is enormous. Over the years, the tertiary sector appeared as the major contributor to the SGDP. There is a need for sectoral shift in the occupational structure of the working force toward the tertiary sector in order to minimize the budding dilemma of poverty, unemployment, underemployment and disguised unemployment.

Tourism, IT, banking and financial services has better scope for greater income and employment generation in the state. In the field of Micro finance in Mizoram, though it has joined the programme lately, has shown a noticeable progress in terms of SHGs financed and loan disbursed. However, the growth of SHGs and progress of Micro Finance in the state is uneven and skewed towards urban areas, there is a need to review the performance of Self Help Groups Bank Linkage programmes, identify factors that retard its

progress and take corrective measures to improve its performance across the state. Success of Micro Finance in the region required is a multi-prolonged strategy to overcome the assorted challenges it poses. Banks, policymakers and NGOs – the major actors in the field of Micro Finance – must come together to think through suitable modifications in policy. Banks may have to change their system of assessing risks. There is an urgent need for capacity building and expansion of infrastructure. People of the region must be made aware of the programme. In some areas, the SHG model may have to be replaced by other models to suit the local needs and culture. The service sector growth must be supported by proportionate growth in the other sectors of the state; otherwise the growth alone will not be sustainable. In the current economic scenario it looks that the boom in the services sector is here to stay as Mizoram is fast emerging as North-East's ' Knowledge Hub'.