

Informal Financial Sector: The Case of State of Manipur

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The paper studies about the informal financial sector in the state of Manipur, India. Besides the microfinance and microcredit initiatives, the paper explains about the traditional informal finance practices in Manipur. The present day developed formal financial practices can not wipe off traditional systems known as MARUP which is the age old one in Manipur. The paper narrates about different types of MARUPs in Manipur and the way it contributes to the economic mainstream of the state and livelihood of the people of this state.

Field of research: Micro Finance

1. Introduction

With more than 1 billion population, India has emerged as one of the fastest growing economies of the world. There are huge disparities in the distribution of income and wealth in India. A large proportion of the under-privileged sections of the population do not have access to formal financial services. In response to the inadequacy of the formal financial services to meet the needs of the population, an alternative financial services delivery mechanism started emerging in the villages and small towns of India. The microfinance programme initiated by local NGOs started providing financial and nonfinancial support to the poor in an effort to lift them out of poverty.

The problem was not different in Manipur, one of the smallest states of Indian Union. Tucked in the extreme north eastern corner of India, Manipur has 352 kilometres long international border with Myanmar (Burma) to the south-east. There are 33 different ethnic groups in Manipur representing a hue of socio- economic phenomena. As only one tenth of the total geographical area is plain, the state remains inaccessible from the main land and is still far behind in terms of the economic and infrastructural development. It shows the importance of micro finance programmes and other informal sector finance for its growth and development.

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2. Objectives

The main objective of this paper is:

- To understand the informal sector finance in Manipur, and

The study is basically done on secondary data collected from different sources. The paper simply reintroduces the traditional practises of the informal financial network and its present day relevance in the Manipuri society.

3. Banking And Micro Credit Profile Of Manipur

The Banking sector in the state of Manipur comprises Commercial Banks (CB), Regional Rural Banks (RRB), and Cooperative Banks. The deposits from all the three agencies taken together stood at INR 15935.033 Millions as on March 31, 2007. The share of Commercial Banks was INR 13781.886 Millions, and RRB was INR 509.882 Millions, while that of Cooperative Banks was INR 1643.265 Million, which was 86.50 percent, 3.20 percent and 10.30 percent respectively. This was 17.24 percent increase in the deposits from the previous financial year as per the published reports of National Bank for Agriculture and Rural Development (NABARD). The advances of all agencies as on 31 March 2006 and 31 March 2007 stood at INR 7610.891 Millions and INR 9809.573 Millions respectively showing a growth of 28.89 percent. Despite the impressive growth achievement in the expansion of credit delivery system and the special programmes, a major chunk of the indebted rural households were, till a few years ago, outside the ambit of the institutional credit system. Their consumption and production needs in the absence of institutional supports are met by the money lenders in their vicinity. Their dependence on the informal sources of credit on explosive terms is one of the causes that perpetuate poverty. Their credit need is minuscule, emergent, alternatively micro, but very large in number. Because of the necessity of credit facilities to such a large chunk of urban and rural poor, wide spread micro credit and micro finance programmes are being taken up in this state.

The State has been targeting to fulfil the UN Millennium Declaration, which was convened in 2002, committed to the participating countries to work together to achieve the Millennium Development Goal (MDG). The MDG focuses on reducing the poverty in the world by one-half by the year 2015. With this the micro finance programme has become one of the most important vehicles used so far for meeting this goal. Micro finance has not only helped the poor in improving their economic condition and reducing their vulnerability but also has significant positive impact on women's economic and social empowerment in terms of their access to loans, own productive resources, engage in income generating activities, decision making and increased mobility. Two main objectives of microfinance are to enable the poor

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generate additional income and savings to eventually move out of poverty and also run the business of micro finance on commercially sustainable basis.

Since India has a large population, these two objectives of micro finance remained unmet even after investing huge amount of money and efforts. From this point of view, the micro finance market in India is huge. As per a study done by Intellectap (an organisation engaged in providing strategic services in the international development sector including micro finance) in 2007 the number of poor person in India is estimated to be in the range of 57.9mn to 77.3mn. These estimates pertain only to the credit requirements of the poor and marginal sections of the population. The poor also require services such as saving, micro insurance, remittances and money transfers and micro pensions. The Intellectap study estimates that the demand for micro insurance service ranges between INR 20.4 bn. to INR 88.3bn. The potential annual savings from these clients is estimated to be around INR 120 bn. The size of micro pension market is estimated at INR 21 bn. The Self Help Group (SHG)- bank linkage programme supported by National Bank for Agriculture and Rural Development(NABARD) and the MFI route have emerged as two important delivery channels for micro finance. While the SHG- Bank linkage has remained predominant in the past, the MFI channel has become increasingly significant in the last few years. Today, informal credit delivery strategy developed for the banking system by NABARD in collaboration with the informal development agencies have evolved to become largest micro finance programme in the world in terms of outreach. The following tables show the details of banking in Manipur.

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Table 1:
Banking Profile

Convenor Bank of the State: State Bank of India

Per Branch Population: 24934

(Amount in Million INR)

Sl. No.	Particulars	Number	No. Of Branches	Of which Rural Branches
1	Branch Network			
i	Commercial Banks	10	48	21
ii	RRBs	1	27	23
iii	SCB	4	17	6
2	Total Deposits	March 2005	March 2007	March 2007
i	Commercial Banks	9108.995	11564.156	13781.886
li	RRBs	368.105	464.648	509.882
lii	SCB	1000.377	1562.802	1643.265
3	Total Loan and Advances Outstanding	March 2005	March 2006	March 2007
I	Commercial Banks	4062.049	5793.461	7318.176
li	RRBs	240.152	345.258	381.737
iii	SCB	650.793	1166.742	1583.06
4	Total Credit Disbursed	March 2005	March 2006	March 2007
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Source: Adapted from State Focus Paper, NABARD, Manipur- 2008-09

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As on March 31, 2007, cumulatively 2.92 mn SHGs have been linked to approximately 500 banks. This is as per the progress report of NABARD.. Cumulative loan disbursements to SHGs totalled nearly INR 180.4 bn. as on that date. As against this, MFIs are estimated to have cumulatively disbursed INR 70 bn. As on that date March 31, 2007 with a combined outreach of 7.94 mn borrowers. Their cumulative loan portfolio outstanding as at March 31, 2007 stood at INR 33bn. Thus the supply of financial services through two most important delivery channels taken together, account for a small portion of the total micro credit market in India.

4. Informal Financial Sector In Manipur

The informal sector finance provides various valuable financial services to the people of Manipur who otherwise would not have recourse to any other source. The illiterate population of the state of Manipur is attached to this system of financial services rather than they do in the formal sector financial services. It is therefore very important to understand the operations of the sector. The main success factor of the informal sector finance in Manipur is due to its nexus to social and conventional relevance. One of the most successful informal sector financial networks in Manipur is the group finance or group lending system. The members of the group themselves avail the finance in this case which is generally known by the generic name 'Rotating Savings and Credit Associations (ROSCAs). In Manipur, it is basically known as "Marup". The real significance of highlighting the MARUP system is due to the involvement of highly literate groups of people who are already accessed to and enjoyed the hi-tech modern formal financial system. It proves the real significance of MARUP till date. In fact, Marup is the age old informal financial system that every individual in Manipur involves in some way or the other. This system provides a strong financial network to people who involve directly and indirectly to a business activity as well as in their day to day living. The literary meaning of 'MARUP' is equivalent to 'FRIENDSHIP'. It denotes friend circles or colleagues in the community. Therefore, Marup represents coming together of people in the community or society. The main aim is to fulfil different economic and financial needs of the members of the Marup. It is one of the easiest methods of mobilising finance from the individuals in a community or neighbourhood or friends or society in a larger context. A Marup can be managed/organised/stated by an individual or individuals. Such a person is called the leader or originator or starter.

The practice of Marup is very common in Manipur. More than 90 percent of the population is involved in some ways in this system. It has become a household name in the Manipuri society. People from different age groups and from different walks of life participate in the Marup system. Inaccessibility to the formal financial services, slow growth and development of the economy, non availability of the well organised industrial infrastructure, the land locked and inaccessible geographical location of the state might be the real cause of such a large scale practise of the Marup system in Manipur. Without this there may be huge bottlenecks of the people of Manipur to

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avail the facilities of formal financial services which came very late compared to other parts of India.

Some of the important Marups are explained below:

1) **The Tender Marup:** This is a very popular marup in Manipur that has evolved over time. In this system, the organiser will float a Tender inviting contribution of a fixed amount as share contribution for each participants and the rules and regulation thereof governing the system. There are some very interesting features of this type of Marup. Few of them are highlighted below:

- The share contribution is usually a small amount or generally the organiser specific.
- The size of the members is generally large say for example 50 and /or above.
- The members contribute their share contribution every week, bi monthly and monthly as the case may be.
- Thus the organiser pooled in the money on the maup day from all the members. Some members bid on that day. The money is paid to the lowest bidder in that case. Say for e.g. the total collection from 100 share contributors at the rate of INR 100 each is INR 10,000. One of the bidder bids for INR 7000, another for INR 7500, the third for INR 7600. In that case the lowest bidder will be given the Marup amount of INR 7000. The balance amount will be kept as fund after spending some small amount for tea and snacks. If two bidders bid for INR 5000 each, then both of them will be given the Marup on the same Marup day as the amount collected from them is INR 10000 and in that case they will bear the charges of tea and snacks as no money is left out from the pooled amount.
- The bidding is basically done by writing the name of the bidder and the amount of money in a piece of paper secretly by the bidder himself/herself and folds it and put it in the bin. All the bidders will put their secret piece of papers in the bin. Finally, the organiser or anybody from among them will open it and find out the lowest bidder(s).
- Any member who has got his/her Marup will remain contributing till all the members exhausted their turn.
- The balance savings from small biddings if any will be distributed to the members finally or otherwise may be used for paying off more than one bidder on a particular marup day subject to the availability of finance.

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2) **The Lottery/money Marup:** This is also one of the popular systems practised in Manipur since time immemorial. In this case the organiser will float about this Marup to the community or friends in the locality or among the colleagues at a work place. This Marup is also usually done on monthly basis. The social and economic background of the members is important here. The organiser tries to identify it very carefully. There are three variants in this type-one, which is opened through lottery on day one about their turn of getting the money, two, where the lottery is done on every Marup day excluding the names of the one that has already availed the benefit. The third one is on the basis of preferences of the members and the consensus among themselves. Sometimes the organisers maintain a proper rules and regulation about the Marup including the punishment criteria of the defaulters. Some of the unique features of this marup are as follows:

- Member size may be from small to high. Larger the group size the higher is the risk of default. So the organiser has to play major roles.
- The person who has got the share thereon keeps paying the share contribution plus an interest amount till everyone in the marup receives the share. The usual interest rate varies from case to case. It means the concept of time value of money was fully implemented in the marup system.
- Usually the members of the group are homogeneous in terms of income level, occupation, etc and are well known to each other.

3) **The Shentil Marup or Money Accumulation Marup:** This marup is also one of the oldest systems in Manipur which are popular in a locality and/or cluster of a community. Few highlights of this type of marup are as follows:

- It is usually of very small amount and generally continues for many years and sometimes for generations in special cases. So huge amount of money accumulates in due course of time.
- The members remain contributing the amount on weekly, bi-monthly, and/or monthly basis and none of the member is getting this money for a specified period of time or till the end of the Marup.
- There may be more than one person in the managing team, one acting as cashier, one as secretary or as per the requirement and size of the Marup.
- The members of the marup are allowed to borrow money from the marup's account at a small rate of monthly interest. If any member cannot repay the amount for more than one period, he/she has to subscribe the monthly/weekly contribution along with the interest of the borrowed amount.

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- When there is significant amount of accumulation of the money, it may be distributed to the members fully or a part on the basis of consensus of the members.
 - The continuation or closure of the marup is again decided as per the willingness of the members.
- 4) **The Pot-Chei Marup or Hire Purchase Marup:** This type of Marup is organised usually by a single person or in partnership of friends or colleagues in a locality. It is similar to the formal hire purchase system in terms of payment through EMI (equal monthly instalment) except that in that system, there is no guarantor or paper works involved. The system is streamlined as it works in a closely knit friends, relatives, colleagues, and members of the locality. In this system the organiser(s) invested his/her or their own money to procure the highly demanded goods. The goods are supplied to the people collecting an EMI with a minimal amount of interest by the Marup after receiving a minimal amount of money as down payment.
 - 5) **The Luhongba or Marriage Marup:** The idea of this Marup is floated in a locality or among the friends or colleagues by the organiser. In this type of marup, the members are generally parents in a family having children of marriageable age group. The members contribute money and it is paid at the time of the marriage of their son/daughter. On the basis of the number of children, parents can opt for more than one share. Unlike the other categories of marup, there is no monthly or weekly system of contributing the money. It is purely subject to the happening of the marriage ceremony in the family of the members.
 - 6) **The Tengtang marup or the Barter Marup:** This is also one kind of Marup. In this system the financing is done for the mutual help at the time of needs but not for profit motives. In such system a group of friends especially women invest their money for helping their friends at the time of functions, ceremonies, festivals etc by gifting the valuables or essential items related to the nature of event as gift or presentation. The receiving friend will in turn gift similar item in the same quality later on when such an event happens to other members after bearing the price differentials.
 - 7) **Other variants of Marup:** Besides, there are few other Marups practised in Manipur. Mentioned may be about the Kol or Utensil Marup, the Jewellery or Sana Marup, Phi or Clothes Marup etc. These marups help the members in many ways to their walks of life.

All the above methods of circulation of money involve huge amount of money and network. With the help of such system people in the society can meet their bigger financial burden at the time of needs and also can save and invest the balance amount to a formal financial system. The small amount of money that has been mobilised through such informal finally connects with the formal financial system in the form of saving to the banks, financial institutions, investment to the organisations

and business units. Informal sector finance helps the people and society in many ways through creation of employment, labour absorption of those who cannot find jobs in the formal sector, income generation, provision of getting goods and services at lower prices, increase the standard of living, creates breeding grounds for micro and small entrepreneurs etc.

5. Conclusion

Despite the large scale growth and development of informal sector finance in India and particularly in the state of Manipur few issues and challenges are in front of us. Some of them are lack of finance, lack of knowledge and skill to conduct informal activities, no transparency of the government rules and regulation in the informal sector, lack of infrastructure, no proper way of connecting it in the formal financial system, etc. Due to drawbacks in many areas the amount of money, though small, in the hands of the people are not circulating in a judicious manner. There is need to recognise the informal sector in order to design products and delivery mechanism. The facilities for training of the people involved in the informal system, awareness programmes of financial linkage system, easy and transparent government regulation, etc. are required for streamlining the contribution of informal sector finance in the economic and development mainstream. This needs a committed approach from the state.

6. References

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