

Development of Microfinance Institutions in the State of Bihar: An Overview

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Abstract

In Bihar, Self- Help Group was started in the year 1988 through Holy Cross Sister at Tilhara village of Ichhak block (West Champaran) which was inhabited by Birhor tribe which had mostly the poor people who did not have money for food also. Later on in the same year, SHG was formed by PRADAN in Hazaribagh unit. The early days of SHG model was not very successful but with the efforts of banking and other governmental sector towards providing funds to the SHGs, the model became all the way more dominant in the developing State like Bihar. With the progress and growth of SHG model, few Non- Governmental Organizations also entered the sector for providing benefits under the head of microfinance. In the year 1993, Reserve Bank of India had a meeting in Patna Secretariat on micro- credit and its related subsidy. After the meeting successfully held, banks started giving loans to SHGs without any guarantee for the first time in Bihar. Bank of Maharashtra and Canara bank were first two banks which came up with the guidelines for SHGs for providing them loans. After the year 1993, the pressure was built up on other banks as well and thereafter different nationalized banks started opening accounts and lending loans to the groups in Bihar.

Keywords: *SHG, Dominant, Growth, Benefits, Microfinance*

Introduction

Bihar has witnessed the intervention of formal microfinance institutions in the recent years in addition to the Self- Help Groups and linkage programs. The first microfinance institution which was introduced in the state of Bihar was NIDAN. It followed the SHG and cooperative models of microfinance in Bihar.

NIDAN was started as an informal group for providing funds to the young men and women for the purpose of making them financially independent by giving proper training and

development facilities as well for utilization of funds. NIDAN was registered under Societies Act since 1995 and started its operations in five districts of Bihar which are: Patna, Vaishali, Katihar, Samastipur and Muzaffarpur. It supported the grassroots problems in Khagaria, Nawada as well. Their support extended to the childhood care and development work for their education and overall development at large. NIDAN started giving loans to the groups by the year 1996 where concentration was mostly on the women population.

Other models introduced under the purview of microfinance institutions include Bandhan in Kishanganj and Jharkhand which started its operation on the norms of ASA model of Bangladesh back in 1990s. Cashpor started its operation in partnership with ICICI for providing better services to the concerned people. The route of microfinance institutions is very recent in Bihar but has brought lot of promise and learning for the other models as well.

By the end of 1990s, with the efforts of Reserve Bank of India and NABARD, the credit flow got enhanced for MFIs as well which was supported by cooperative societies and other NGOs working in the field of microfinance.

Microfinance Institutions in Bihar

Microfinance was supposed to empower women by giving them quick loans but the microfinance institutions reversed the social and economic progress, and these women ended up becoming slaves. India's booming micro lending industry is part of a global phenomenon that began as a charitable movement but now attracts private capital seeking growth as well. Non-governmental organizations pioneered cooperative lending, known today as self-help groups, with seed money from the National Bank for Agriculture and Rural Development. Encouraged by the projects, the state-backed bank worked to tie borrowing groups to local bank branches in 1992.

The situation becomes out of control when someone is lured towards the loan facility and the loan takers takes it without considering the payback period and other terms and conditions. There are inadequacies in the formal financial system when it comes to fulfill the needs of poor people and the participation of community based organizations is very important aspect. To understand the grassroots level problems, there is a need to work in collaboration with the community that considers all the problems prevailing at the lower level. Microfinance institutions join hands with NGOs that links Self-Help Groups to banks for providing funds.

There are 34 reporting microfinance institutions working in Bihar in its 38 districts and four MFIs have headquarters in Bihar as well.

Table 1: Microfinance Institutions in Bihar

Sl. No.	Name of MFI	Head Office	Year of Establishment	Legal Form
1	Center for Promoting Sustainable Livelihood	Patna, Bihar	2003	Society
2	Centre for Development Orientation and Training (CDOT)	Patna, Bihar	2007	Society
3	Mass Care International	Patna, Bihar	2005	Society
4	Saija Finance Pvt. Limited	Patna, Bihar	2008	NBFC- MFI
5	Prayas Juvenile Aid Centre	New Delhi	2007	Society
6	Satin Creditcare Network Limited.	New Delhi	1990	NBFC- MFI
7	S V Creditline Pvt. Limited.	Gurgaon, Haryana	2010	NBFC- MFI
8	Nav Bharat Jagriti Kendra	Hazaribagh, Jharkhand	1993	Society
9	Vedika Credit Capital Limited	Ranchi, Jharkhand	2007	NBFC- MFI
10	Janalakshmi Financial Services Pvt. Limited.	Bangalore, Karnataka	2006	NBFC- MFI
11	Jagaran Microfin Private Limited	Kolkata, West Bengal	2010	NBFC- MFI
12	Ujjivan Financial Services Pvt. Limited.	Bangalore, Karnataka	2006	NBFC- MFI
13	Intrepid Finance and Leasing	Mumbai,	1994	NBFC- MFI

	Pvt. Limited.	Maharashtra		
14	Annapurna Microfinance Pvt. Limited.	Bhubaneswar, Odisha	2010	NBFC- MFI
15	Asmitha Microfin Limited.	Hyderabad, Telangana	2002	NBFC- MFI
16	Bhartiya Samruddhi Finance Limited (Basix)	Hyderabad, Andhra Pradesh	1996	NBFC- MFI
17	Share Microfin Limited.	Hyderabad, Telangana	1999	NBFC- MFI
18	SKS Microfinance Limited.	Hyderabad, Telangana	1997	NBFC- MFI
19	CASHPOR Micro Credit	Varanasi, Uttar Pradesh	2002	Section 8
20	Margdarshak Financial Services Limited.	Lucknow, Uttar Pradesh	2013	NBFC- MFI
21	Network of Entrepreneurship & Economic Development (NEED)	Lucknow, Uttar Pradesh	2005	Society
22	Sonata Finance Pvt. Limited.	Allahabad, Uttar Pradesh	2006	NBFC- MFI
23	Utkarsh Micro Finance Pvt. Limited.	Varanasi, Uttar Pradesh	2009	NBFC- MFI
24	Arohan Financial Services Pvt. Limited.	Kolkata, West Bengal	2006	NBFC- MFI
25	ASA International India Microfinance Pvt. Limited.	Kolkata, West Bengal	2008	NBFC- MFI

26	Dhosa Chandaneswar Bratyajana Samity (DCBS)	Kolkata, West Bengal	2003	Society
27	Bhartiya Micro Credit	Lucknow, Uttar Pradesh	2007	Trust
28	Sarala Development & Microfinance Pvt. Limited.	Shibpur, West Bengal	2010	NBFC- MFI
29	Seba – Rahara	Kolkata, West Bengal	2006	Society
30	Society for Model Gram Bikash Kendra	Kolkata, West Bengal	2004	Society
31	Village Financial Services Pvt. Limited.	Kolkata, West Bengal	2006	NBFC- MFI
32	Kotalipara Development Society	Kolkata, West Bengal	1997	Society
33	ESAF	Thrissur, Kerala	2008	NBFC-MFI
34	Uttrayan	Kolkata, West Bengal	2001	NBFC-MFI

Source: www.sa-dhan.net

Note: Highlighted MFIs in above table shows such MFIs which are headquartered in Bihar. Out of all the institutions, Mass Care international, Saija, CDOT and CPSL have head offices in Bihar itself.

Microfinance Institutions in the Economy of Bihar – Its Contribution and Growth

The Central Government has initiated many programs for Bihar to bring social and economic development. One of the main focuses is on innovation that was earlier ignored but with the formation of more effective technological base, the Government of Bihar has accommodated many programs that came its way.

The departments of rural development, women and child welfare, economic affairs etc are playing a great role in promoting Self-Help Groups in building a base for poor population of the State. Out of all the departments, Department of Rural Development has been taking crucial

steps in building an environment for the rural population and working towards Self-Help Groups and is closely working with Reserve Bank of India and National Bank for Agriculture and Rural Development that plays the role of monitoring and regulating. Such programs develop policies that make lending to Self-Help Groups easier for utilizing the full potential of rural and marginalized people. Based on Self-Help Group model of Bihar, there are various projects of the Government that are working for the upliftment of rural poor like Rashtriya Mahila Kosh, Indira Mahila Yojna and Swarna Jayanti Gram Swarajgar Yojna.

Some of the projects that have been started by the Government to promote the role of marginalized people along with the support of Non-Government Organizations are Mahila Samakya, WDC, and BRLPS etc.

Types of Loans provided by Larger and Smaller Microfinance Institutions

The larger microfinance institutions like Janalakshmi, Ujjivan have different loan portfolio working and providing loans to the needy people.

- Suchana is a Micro Loan given for maximum 12 months
- Srishti is a Micro Enterprise Loan for 24 months
- Samridhhi is a Micro small and Medium Enterprise Loan that is given for 12/ 18/ 24 months
- Suraksha is a Micro Health Loan which is given for 12 months
- Susikha is a Micro Education Loan for the period of 12 months

There are smaller microfinance institutions working in the localized areas that provide loans ranging from Rs 5,000 to Rs 15,000 per borrower which is generally given for the purpose of consumption.

Bihar Women Development Corporation (WDC)

Bihar Women Development Corporation is one of the societies started by the Central Government in 1991 which is closely related to the Department of Welfare, Government of Bihar and since then it is working actively towards the welfare of the women population in Bihar. The corporation through Self-Help Groups have partnered with Non-Government Organizations to work collectively towards the goal of empowering women population. The main focus of Women Development Corporation is on organizing SHGs in such a way that helps in promoting literacy among women, building capacities with training and development

programs, enlightening women for entrepreneurship programs, undertaking marketing and production activities and taking care of the other capital needs of the Self-Help Groups for livelihood activities.

Role of Banks in Promotion of SHGs and its Linkage

Bank linkage is mostly provided by the commercial and regional rural banks and they play the role of credit supplier to the needy people. National Bank for Rural Development (NABARD) has set some guidelines for the proper selection of Self-Help Groups' linkage. They are as follows:

- There should be an active existence of group for at least the period of six months
- There should be equal say for every member of the group
- The savings and credit operations should be taken care of by the group members from their own resources only
- The proper record and account maintenance should be done by the members of the group
- There should be unity amongst the group members and they must work towards the benefit of all
- Group members are responsible for active participation in the activities for the benefit of all

The interests of the members of the group should be similar in nature otherwise there are chances of conflict in the future regarding participation and distribution of benefits.

Contribution by Organizations towards Microfinance in Bihar

There are some major organizations that are working towards providing microfinance services in Bihar. These are NABARD, Rashtriya Grameen Vikas Nidhi, Rashtriya Mahila Kosh, NGOs and microfinance institutions. Bank linkage became a trend in the field of microfinance where public banks like State Bank of India and private banks like ICICI participated actively towards providing funds to the microfinance sector for lending to poor and rural people at large. In early 90's there were very few organizations working towards the microfinance sector and some of the institutions that came into force for the same include NIDAN, Nirdesh, Cashpor, etc.

The nationalized commercial banks, regional rural banks, cooperative banks have emerged as important channels for providing products and services under the head of microfinance. Some of the early initiatives by NGOs like NIDAN, CPSL, Cashpor, and ASA cannot be ignored as they worked towards the promotion of microfinance with the help of forming groups of people for the overall development and growth.

Bihar is a state which was in great need of intervention by microfinance sector as the rural and poor people percentage was really high and thus SHG model and MFI model came into force with more rules and regulations so that funding could be made more impactful. The area of micro-insurance also played very important role in making people of Bihar aware about the different schemes of such organizations.

Support of Bihar Government towards Microfinance Sector

One of the most successful programs supported by the Bihar government in the microfinance sector is bank- linkage program. In the year 2003, NABARD refinanced around 5 lakh groups of people but the linkage program was dominantly working in the Southern States in comparison to other parts of India. Till the year 2009, the linkage program covered around 40 per cent of the Southern States whereas only 08 to 12 per cent in Northern India including Bihar were under the purview of microfinance sector. The growth of Self- Help Groups in Bihar has not been much in comparison to States like Andhra Pradesh, West Bengal.

Microfinance Institutions in Bihar – Poverty Alleviation & Economic Development

In Bihar, the number of borrowers in microfinance industry has reached a very large number. Bihar is one of the states which have low literacy rate and the poor section of society finds it very difficult to get access of formal credit route to get funds and thus they are relying mainly on the informal routes only. With the arrival of informal routes, microfinance institutions are trying to bridge the gap between demand and supply of funds in Bihar. In some of the States including Bihar, government focuses on the development of some business models with the objective of providing IT means and solutions to the rural masses along with the revenue generation activities. According to a study, Indian states including Bihar, Uttar Pradesh and West Bengal have 421 million poor people looking for livelihood and survival.

The magnitude or percentage of poverty is high in Bihar and the measurement of such poverty is really difficult, complex and inaccurate. It fails to measure the exact poverty level at grassroots level because of the availability of multiple variables and hence one method cannot be standardized. The problem is related to inclusion of variables in the measurement of poverty and variables that can be ignored or how one should prioritize the variables according to their importance.

Few variables that are considered for measurement of poor people in Bihar are as follows:

- **Caste categories** – The people belonging to SC/ST categories are identified in order to know the backwardness and poverty level by the Government.

- **Landlessness** – One of the major variables that are considered for measuring the poverty level is landlessness of people. People who do not have lands are under the purview of poor people according to the Government.
- **Lack of ownership** – The lack of ownership for certain assets in the village is also one of the criteria for poverty measurement. People who are working on others' fields and shops etc for their livelihood but still they are not able to meet the needs because of the big families.
- **Income** – The people in villages are mostly dependent on the income from agriculture but if crops fail, then there is no income for them affecting their condition badly. Another source is small shops but due to lack of funds, they do not get to work properly.

Migration of People in Bihar

The labour markets are not in proportion in various regions of the State and migration of people out of Bihar is very important concern for the Government because that affects approximately one-third of households in the rural areas. On the one hand it is a problem because labour force is moving to other States declining the number of people working in Bihar but at the same time, the women participation has been increased due to it because male members of the families are migrating leaving the women population independent to take care of the household chores as well as bringing financial independence. Thus the women participation has been increased and that way gender roles are considered properly making women self sufficient and more powerful.

Poverty Alleviation Programs in Bihar

The implementation of various programs had been substantively improved in the State during past few years. Some of the poverty alleviation programs are: National Rural Employment Guarantee Scheme (NREGS), the Public Distribution System (PDS), Mid Day Meal Scheme (MDM) and the Integrated Child Development Scheme (ICDS), etc. Out of all the schemes of Government, NREGS is one of the most successful and implemented scheme in Bihar. NREGS has provided large number of employment opportunities to the rural people but still there is a scope for improvement. Improvement in the schemes can be done in some of the following ways:

- **Better facilities:** Schemes like MNREGA should provide better childcare and other facilities to the rural women so that they can get maximum benefit out of such schemes to ensure sustainability.
- **Effective local institutions:** The local institutions that support schemes like MNREGA

must effectively work towards the betterment of their conditions.

- **Proper PDS:** The Public Distribution System should be implemented with the help of people of local areas who can contribute towards the proper delivery system

MFIs in Bihar – Poverty Alleviation & Economic Development

The State government has a vital role to play in the microfinance sector. Different programs and projects such as Swarnajayanti Gram Swarozgar Yojana (SGSY), Bihar Rural Livelihood Promotion Society (Jeevika), Mukhyamantri Nari Shakti Yojana (MMNSY) and National Rural Employment Generation Act (NREGA) are contributing to the development of the microfinance sector and financial inclusion in the state. The banks have been assigned the task of achieving 100% financial inclusion of the population of 24 identified districts (out of 38) by March 2016 and the target was of opening one account for each household in Bihar by 2012. The State Finance Minister instituted the framework for democratically handling issues of development through revival of Primary Agricultural Cooperative Society (PACS) at Panchayat level. The State Government is also supporting the non-governmental organizations (NGOs), microfinance institutions (MFIs) and capacity building institutions in their task of economic development and poverty alleviation.

The main aim of financial inclusion is at providing formal financial services to the marginalized section of society for bringing positive impact on their lives and livelihoods. Some of the services that must be provided under the formal setting are insurance, pension, safe savings, credit facility for multiple purposes, and providing financial literacy so that people can make decisions related to their finances. For economic well being of the country, it is important to reach out to the section of marginalized people as there is a need to bring excluded population into the mainstream financial structure for better development and growth of the society and economy at large. The Government of Bihar and the formal system of financial institutions has taken number of initiatives from time to time in order to promote financial inclusion.

In order to develop enterprises, poor people needs some support and that support is being provided by microfinance institutions at much lower rates and less stringent terms and conditions. People from poor background have ideas and skills but they do not have funds to utilize their potential, thus microfinance comes to the rescue of such poor and needy people. They are often denied funds from formal financial institutions due to one or the other reason and therefore microfinance provides funds without much paper works.

Microfinance lenders do not look for stable source of income that can help in paying

back the principal and interest amounts by the poor people but they look for potential and the plans that they have for starting something of their own providing a livelihood as well as have the social impact and overall development of the rural population. Alleviating poverty is not possible with just one aspect but at the same time microfinance is playing a great role in lessening the effect of poverty on people of rural areas so that they can become independent and financially sustainable.

Jeevika

The Government of Bihar started Bihar Rural Livelihood Project named as Jeevika in support with World Bank in the year 2007 for uplifting the conditions of rural population. This project works under the Government of Bihar with the name of Bihar Rural Livelihoods Project Society (BRLPS) which has been registered as Society. The main focus is on the social and economic empowerment of rural poor and women population and thus aims to improve the livelihoods of people so that they can lead independent and sustainable lives.

At the same time it is continuously working towards the social and economic empowerment of women as well. Jeevika is promoting number of SHGs at village, cluster and area level over a period of 10 years and it is taking support from Indira Kranthi Patham of Andhra Pradesh which is also working towards the poor and rural people of Andhra Pradesh. The programs through which community services are provided by Jeevika are related to following:

- Institution and capacity building
- Social development
- Microfinance
- Livelihood

There is a very high number of the semi-skilled and skilled women population in rural areas of Bihar and BRLP provides proper self-employment opportunities by organizing them into community groups in order to reduce their poverty level. The primary objective of Jeevika project is to let go high-cost debt and improve the food security, acquiring productive assets and increasing the household income. The project also aims at empowering women for collective actions. Empowering women includes credit and agricultural training to rural women with the help of Self-Help Groups. Jeevika was first started in 2012-13 in blocks of 6 districts, 3 blocks each from new 12 districts and 1 block each from another 17 districts.

Impact of Jeevika

Jeevika has made a positive impact on both poverty and empowerment of women in Bihar and it has a vision of reaching 1.25 crore women across Bihar by 2021. It becomes eligible to initiate lending activities along with additional services of providing training in intensive farming and animal husbandry for targeted population.

Implementation of the Jeevika program is done in such a way that it enhances the habit of rural households and helps in generating livelihood opportunities for them. One of the major advantages to Jeevika project is that there are associations with private sector organizations and Non-Government Organizations that also helps in creating opportunities especially in traditional arts and crafts, incense sticks, honey, etc.

Path to Economic Growth

In spite of the fact that Bihar has witnessed a high growth rate of the economy in the last five years but still the foundations of such growth is not very strong. There is a need for industrialization in Bihar so that development can be sustainable enough to provide a balanced livelihood to rural people as well as urban people. The Government has been trying to reduce poverty and unemployment in Bihar with different schemes but without proper production system it is not possible as for generation of employment and reduction of poverty, industrialization becomes a crucial step. The control over assets is very important in order to achieve economic and social mobility. Thus inclusive growth is the major objective of the Government in order to attain equality in the society as well as increasing the production capacity of Bihar.

Hindrances in the Growth of Microfinance in Bihar

There are large numbers of challenges that are faced by the economy of Bihar and the Government is trying to overcome such challenges or hindrances in order to provide successful microfinance services in Bihar. Some of the major problems faced by the State are as follows:

- The infrastructure is not very strong and that affects the total outreach, support to groups and reduces efficiency and increases costs.
- The availability of funds to the startups was not up to the mark but with new Central Government Policies, the startups are finding it a little easier to get funds.
- The attitude of financial institutions towards the Self-Help groups is not very friendly leading to conservative funding.
- The distribution of Self-Help Groups is not proportionally done and that's why there is a regional imbalance which hinders the funding activities.

- There are issues of domestic violence; conflict related to castes, etc that affects the growth of microfinance in Bihar.
- The inadequate experience to handle the rural population is one of the major drawbacks of Non-Government Organizations and MFIs.
- The loans granted under subsidized Swarozgar Yojana to the unemployed rural population of Bihar has also affected the growth of microfinance sector.

Thus after analyzing the different problems faced by the microfinance industry in Bihar and comparing it to the conditions of other States which are doing much better in this field, the Government, banks and microfinance institutions are taking care of the issues more seriously and trying to tackle with more cohesive efforts and overcoming such constraints and difficulties.

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