

Appraisal of Microfinance Institutions of Developing States in India- A Case Study of Bihar

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ABSTRACT

Grameen Bank founded by Mohammad Yunus in 1983 in Bangladesh came up with the concept of providing alternatives for earning livelihood by utilizing the potential towards productive works which has helped in the beginning of new era in the industry of microfinance. The aim is to bring in light the major issues related to microfinance institutions working in Bihar and how these issues can be solved. The study revolves around the performance of the microfinance institutions in Bihar and the current economic scenario has been taken into consideration and therefore proper analysis of the samples of the concerned area has been done.

There is scope for improvement in Microfinance Institutions in terms of the quality of financial services and products it provides to the people. There are various programs taken into consideration for empowering women population. Banks operates at a larger scale but poor people prefer Microfinance Institutions where terms, conditions and procedures are relatively easier in comparison to other sources of funding. It includes awareness about investments, group lending, easier terms and conditions, transparency and lesser paper works. The efficiency and dedication with which the sector is working for providing various financial services to the poor and rural people, it is highly commendable along with the support of central and state government. Some of the suggestions to microfinance institutions include educating customers regarding investments at a wider range, more training and development facilities to be provided in appropriate ways, regular check-ups on borrowers regarding the development of their investments made and interest rates should be properly charged in order to avoid the unfair practices of charging very high rates from the borrowers. Other formal institutions should also take into consideration training, development programs, and workshops and ensure wider reach to the poor and rural people. As the financial performance of Microfinance Institutions are quite satisfying, formal institutions including private and public sector banks and organizations like National Bank for Agriculture and Rural Development should provide more support. The scope of Microfinance Institutions is much wider than the other models of microfinance sector due to its properly framed norms and regulations.

The success and growth of microfinance institutions can work as a boost for the society and the government as well where in the long term Microfinance Institutions can help in building better society and can bring financial independence and stability at large. The future scope for research is also wide which includes detailed analysis of financial statements that can be made after the arrival of Micro Unit Development and Refinance Agency in the year 2015, more variables can be included like micro- insurance, micro- pension and hence broadening its scope in providing services to the rural and poor people. State body like Jeevika in Bihar is also taking care of rural livelihood development.

KEYWORDS: Financial literacy; Financial services; Inclusive growth; Training and development; Women empowerment.

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1. INTRODUCTION

According to Economic Survey 2016-17, there is economic growth of 10% where agricultural growth is around 6%. When the discussion is about the Gross State Domestic Product, in the last decade Bihar has recorded the growth of 10.52 per cent annually on the current prices between 2006-07 and 2016-17. With the slowing down of the economy of India, the growth in the economy got affected and thus annual growths in the last three years have declined to 9.89 per cent. The overall economy of India was not growing at a good pace but there are some sectors which had high growth rate in the recent past due to several sectors recording more than 15 per cent growth. Such sectors are: manufacturing sector with 19.31 per cent growth, construction sector with 16.58 per cent growth rate annually and banking and insurance at 17.7 per cent. But comparing such sectors with agricultural sector which is the main source of income, it has grown at 6.02 per cent only. According to the report, Bihar has recorded Rs 74,750 crore loans in 2014-15 in comparison to Rs 47,285 crore in 2010-11.

Bihar has very small industrial sector that accounts approximately only 5 per cent of total share in the growth of economy. The manufacturing sector has performed very poorly in the last decade due to lack of amenities that can facilitate the opportunities. In Bihar, the rise in Consumer Price Index (CPI) is much lower in comparison to whole India for agriculture and rural labourers but in case of industrial workers, the price rise was much higher for Bihar in comparison to national price rise.

In Bihar, the principle of equalization has been ignored largely in implementation of the development agenda but the growth performance has been good even with the slower economic growth of the country. The Government of Bihar has spent a large amount of funds on the development issues that affected the macroeconomic condition of the country as well. The next table shows the demographic profile and administrative structure of Bihar and India for the year 2001 and 2011.

There is an **inclusive growth in Bihar** mainly due to following two reasons:

- **Agriculture sector:** High growth in the sector of agriculture has supported the cause of growth along with the development of financial aspect of people mainly of rural areas who were also denied basic livelihood.
- **Welfare programs:** There is huge number of welfare programs started by the Government of Bihar in order to ensure various services to people with special focus on the marginalized section of society.

Table 1. Demographic Profile and Administrative Structure of Bihar and India (2001 and 2011)

Demographic Indicator	Bihar		India	
	2001	2011	2001	2011
Population (million)	82.9	104.1	1028.7	1210.6
Sex Ratio (females per '000 males)	919	918	933	943
Child Sex Ratio	942	935	927	919
Density (persons per sq. km.)	880	1106	325	382
Urbanisation (Percentage)	10.5	11.3	27.8	31.2
Decadal Growth (Percentage)	28.6	25.1	21.5	17.6
No. of Districts	37	38	593	640
No. of CD blocks	533	534	5463	5924
No. of Towns (statutory/census)	130	199	5161	7935
No. of Villages	45098	39073	638596	597369

(Source: Census of India, 2001 and 2011)

The Government of Bihar has attained appreciable growth rates without hindering the principles of financial management like controlling the Gross Fiscal Deficit; generating revenue surplus and maintaining the outstanding level of debt to the lowest scale. The aim of government is to bring development in the economy by providing more expenditure in the field of research and development so that the economy can flourish and bring positive change.

2. BRIEF HISTORY OF MICROFINANCE SECTOR IN BIHAR

During the early years, the performance of Self- Help Groups in Bihar was unsatisfactory. There were crore of rupees given to the rural and urban poor people at high interest rates which was absolutely anti- social and did not yield much return. For the lenders, it became the source of income by charging extra high interest rates but due to the unavailability of formal institutions for the poor section of society, people relied on microfinance which led to high level of indebtedness. There were malpractices taking place in different districts of Bihar where poor and rural people had no option but the informal channels. Borrowers found the microfinance channel more trustworthy in comparison to the chit funds and other money lenders.

The various programs were working towards providing credit facilities to the poor and needy people but still they failed due to proper system of providing funds in the State.

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.

3. INTRODUCTION OF MICROFINANCE INSTITUTION IN BIHAR

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.

4. LITERATURE REVIEW

As far as studies relating to the funding by microfinance institutions are concerned around which the pioneer research work have been reviewed, there are various studies have been done at different point of time as the market is dynamic and changes keep on taking place in various

components of economy like business cycle, inflation rate, price rise, economic development etc. Some of the papers consisting of different aspects of the topic are mentioned below:

Rients Jan Galema (2011) discussed about the different perspective, instead of looking at debt enforcement from a contracting perspective; it looks at debt enforcement from an institutional perspective. Luther E.Tyson and Mohammad Yunus have given a platform for rural development and income generation by way of microfinance. This paper talks about the kind of investments which are socially responsible or in other words we can say that how investments must be made so that it can be utilized for the upliftment of societal issues and overall betterment of the society.

BalajiSandeep, Park Jiyeon and WidmerGian Marc (2007) have discussed the outreach of India and China towards the microfinance in order to form proper income and employment generation base. In case of China, there is no legal aspect in relation to the NGOs working towards the microfinance whereas in India the system is much more stringent and NGOs are working more efficiently but still it lacks the ability to reach the poorest section of society due to the people residing in very remote villages. Thus according to the paper, there is a need of professional management, proactive behavior of the government, setting up independent microfinance institutions in various parts of India and China and reaching out to the poorest of people.

Research on analyzing the effectiveness of microfinance in Vietnam: a conceptual framework by **Hong Son Nghiem (2007)** has presented the effectiveness of microfinance with the help of household economic portfolio and sustainable livelihood system. This research paper tried to provide clearer roles of microfinance in reducing poverty with the help of proper capital issue and random program placements. Though it still remains the matter of debate that how the microfinance can be made more efficient for the reduction of poverty and overall societal development, still it has gone far to bring the clarity.

Improving the well-being of the poor through microfinance: Evidence from the Small Enterprise Foundation in South Africa by **Maria Albertina Kirsten (December, 2011)** has indicated that microfinance can make a big difference in ability of people to smooth their consumption and therefore their livelihoods. The state of poor women can also be considered for improvement under the purview of microfinance. Thus two vital steps have been recommended in the paper that is Small Enterprise Foundation and Credit Program which can further make the situation better in terms of microfinance and its benefits for the society.

Microfinance: A Tool for Poverty Reduction by **Kirsten Leikem (May, 2011)** in Rhode Island, explained with the help of data and other reports that microfinance plays an important role in the development and growth by way of contributing towards poor but the question remains that only microfinance cannot uplift the condition and therefore it can work as a supplement but not the only

aspect to fight poverty. Thus, although microfinance is not a panacea for poverty but microfinance can prove to be an important aspect against it.

Common Sustainability of Rural Microfinance Institutions (MFIs) in Tanzania by **GankaDaniel Nyamsogoro (September, 2010)** concluded that in order to maintain the financial sustainability in Tanzania, MFIs should charge a little higher interest rates so that they can cover operating costs too and at the same time lower amount of loans to be sanctioned to each individual with longer maturity period so that that loans does not become bad. Similarly just giving higher loans to individuals does not lead to sustainability in the economy, instead of that MFIs should consider following up loans given to loan seekers and repayment system should be reviewed.

The State of Microcredit Summit Campaign Report (2005) elaborated the fact that in Asia the number of poor clients, some 60 million have been reached in comparison to Africa, Latin America, Carribean and Middle East. There is large number of microfinance institutions in World but out of all, Asian microfinance institutions mobilizes the highest volume of savings and tries to extend the credit to the poor households.

According to **Weiss and Montgomery (2004)**, Bangladesh and Indonesia alone account for more than 50% of the total number of borrowers in worldwide samples taken from microfinance institutions, Bangladesh, Indonesia, Thailand and Vietnam forms the largest number of loan takers and helped a lot in mobilization of savings in terms of GNP in the World.

Asad K. Ghalib (2013) discussed about the situation of microfinance institutions in rural Pakistan where reach of banks are a major problem. The MFIs have successfully reached the outskirts of rural Pakistan but at the same time loan takers have not been very successful in returning the loan amount and in return to which there is an increase in non-performing assets in MFIs in Pakistan as well. The major concern is to reduce the non-performing assets and what are the different routes in which loan takers can invest the amount in order to make substantial profits in the future.

Marzys (2006) explained that the microfinance is the provision to the poor people who are provided with the financial services at much cheaper rates and the poor section of society who are not able to reach formal financial institutions get the funds with the help of microfinance institutions.

5. RESEARCH PROBLEM

There are different microfinance models working in India and presently 34 microfinance institutions are working in Bihar under institutional model with large number of branches in different districts of Bihar. The real problem lies in understanding the prevailing trend and the performance of microfinance institutions in Bihar. There is a need to consider and discuss about the problems of borrowers which are directly linked to its performance in Bihar. The research problem is concentrated on knowing the fact that whether such institutions are working effectively in the state or

not. It is equally important to know the reasons from the borrowers' point of view that drives them to pay back or not to pay back the loan amount along with the interest to MFIs. Issues related to non-performing assets become important as uncertain loans repayment increases uncertainty for the future growth and development of MFIs.

Therefore the research problem lies in the following points where proper analysis has been made:

- Problem lies in the fact that along with studying about the **perspective of borrowers** must be understood in order to conclude the reasons associated with the performance of Microfinance Institutions.
- It is important to know the performance for the purpose of **generating an idea of the current scenario and its related advantages or disadvantages.**

6. RESEARCH QUESTIONS

In order to choose and understand the research subject properly, there is a need to ask few questions regarding the validity of the subject matter and how to proceed with the topic. Questions give a framework to the improvement in the situation and how to deal with the different constraints. Few of the research questions that made the work easier and thus on the lines of such questions, research work has been undertaken. They are as follows:

- What are the conditions of MFIs in India and specifically in Bihar?
- What are the needs to study specifically about MFIs in Bihar?
- What are the perspectives of borrowers on the funding of MFIs?
- What are the roles of MFIs in women empowerment?
- How far MFIs succeeded in reducing the poverty and financial dependency?
- What steps can be suggested in order to make the workings of MFIs more efficient?

7. OBJECTIVES OF THE STUDY

There is need to discuss regarding the recent trends and changes as well as incidents and reasons of Non- Performing Assets (NPAs) in Microfinance Institutions (MFIs) in providing funds to various loan seekers as well as the point of view of borrowers as up to what extent they are satisfied with the working methods and the overall process of funding by such institutions. Objectives of the research consist of certain factors that can bring new light to the area of non-performing assets in MFIs that affects their growth.

Some of the points that are identified in order to understand the real problem and therefore the major objectives of the research that are discussed and evaluated are as follows:

1. To know the **demographic break up** of people seeking loans from MFIs.
2. To know the **perspective of borrowers** of MFIs that can be understood in the light of **satisfaction level of borrowers.**

3. To find out the **groups getting funds easily** from MFIs and **reasons for their failure (if any) to pay back the amount**
4. To find out the **remedial methods** for near future to uplift the situation (if required).
5. To provide few **suggestions in order to ensure growth in Microfinance institutions in Bihar.**

8. RESEARCH METHODOLOGY

The microfinance institutions are working towards providing funds to rural and marginalized people and the people who are not privileged enough to receive funds from other formal financial institutions. Microfinance Institutions form a very small part of lending in comparison to Self- Help Groups' outreach and funding from other financial institutions but still their progress and growth could not be ignored. It provides options to the rural and poor people for availing the funds at a microfinance level so that they can utilize it towards some productive and important purposes. The study revolves around the performance and assessment of quality of the microfinance institutions in Bihar and its related patterns. The current economic scenario and the business environment are taken into consideration for the situation analysis.

8.1 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.

8.2 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.

8.3 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.

8.4 Bihar and Poverty

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.

8.5 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.

8.6 Contribution of Microfinance in Alleviating Poverty

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.

8.7 Poverty Alleviation with Microfinance

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.

8.8 Role of Jeevika in Bihar

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.

8.9 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.

8.10 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.

8.11 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.

8.12 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.

8.13 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 taker 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 a 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 link 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. The brief history of the microfinance sector is given above in chapter IV itself whereas currently 34 MFIs are working which are given below along with their legal forms, year of establishment and head offices. The brief explanations about all the institutions which are working in Bihar are given after the table in order to understand their role and functional areas.

Table 2.MFIs 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	JagaranMicrofin Private Limited	Kolkata, West Bengal	2010	NBFC-MFI
12	Ujjivan Financial Services Pvt. Limited.	Bangalore, Karnataka	2006	NBFC-MFI
13	Intrepid Finance and Leasing Pvt. Limited.	Mumbai, Maharashtra	1994	NBFC-MFI
14	Annapurna Microfinance Pvt. Limited.	Bhubaneswar, Odisha	2010	NBFC-MFI
15	AsmithaMicrofin Limited.	Hyderabad, Telangana	2002	NBFC-MFI
16	BhartiyaSamruddhi 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	DhosaChandaneswarBratyajanaSamity (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)

Galley Proof

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. Following are the brief explanations about all MFIs working in Bihar:

8.14 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.

8.15 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 MahilaYojna and SwarnaJayanti Gram SwarojgarYojna.

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.

8.16 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.

8.17 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.

9. SUGGESTIONS

There are numbers of MFIs working in India but only few are registered and working for the benefit of ignored section of society. Though the trend of NPAs is decreasing for most of the MFIs working in Bihar, still there is scope for improvement in the financial health of MFIs and their activities. Some of the suggestions are given to the institutions based on the direct interaction with the borrowers and how do they actually feel about the prevailing scenario in microfinance industry and solutions that can increase their trust in MFIs.

Some of the suggestions can be summarized as follows:

Suggestions to Microfinance Institutions: The performance of microfinance institutions has been good in Bihar while focusing on the negative growths of non-performing assets but there is a scope for improvement to strike a balance between borrowers and the market conditions. Following are few points that MFIs must take into consideration in order to ensure growth and development in Bihar:

- **Investment education, training and development must be provided** properly to the loan seekers so that they can utilize the funds profitably. Information regarding the current economic scenario of the Indian economy along with the changes occurring globally which can help them to understand the market situation should be provided.
- MFIs should **prefer more group loans** over individual loans because **the risk of nonpayment reduces in group loans.**
- **More number of branches of MFIs in Bihar should be encouraged.** There are more than 700 blocks in 38 districts and so many blocks are still uncovered by MFIs, so the state government should properly look into the matter and promote more MFIs and their branches in order to ensure the availability of microfinance services in every block.

Suggestions to Other Formal Institutions: Microfinance institutions are working at smaller scale in comparison to other models in microfinance industry and in the recent years more and more

institutions are getting registered under different legal forms. Some of the suggestions to other institutions for development of the economy as a whole are as follows:

- The Government of India has started various programs for the benefits of poor and rural people including MUDRA, Jan DhanYojana, etc but at the same time to continue such programs without any hindrances, the borrowers should be provided with workshops, training and development facilities to make them understand the importance of programs started by the Government.
- The Central and State Governments and National Bank for Agriculture and Rural Development should contribute more towards MFI model of the microfinance as they are progressing and their expansion is the need of time for social welfare and empowerment.

9. CONCLUSIONS

Some of the variables that must be considered by MFIs for improvement include level of borrowing which must be raised in general for individual lending and availability of proper information on diversification of funds. There are various programs taken into consideration by MFIs for empowering women population. The decrease in interest rate by few points and increasing the loan portfolio has helped in increasing the boundaries of Microfinance Institutions in Bihar. The current interest rate of Microfinance Institutions include basic rate at which they get funding from different public sector banks, government agencies plus a margin of 10 to 12 per cent. It is not possible to reduce interest rates by higher points because of the costs associated with such institutions which include: cost of funds, operation costs, reserves and activities for building the client base as well as their satisfaction level.

Banks operates at a larger scale in comparison to MFIs but poor people prefer MFIs where terms and conditions and procedures are relatively easier in comparison to other sources of funding. The different chapters of the research paper deals with different aspects of microfinance institutions and the way they are working in the developing state like Bihar where most of the population resides in rural areas and unemployed and looking for generating some source of income. The efficiency and dedication with which the sector is working for providing various financial services to the poor and rural people, it is highly commendable along with the support of Central and State Governments.

Most of the MFIs came into existence after the SHG- bank linkage programs but due to aggressive exposure and *innovative* ways of working in the field of providing funds to the fund-seekers, MFIs are continuously progressing in the industry leading to increased customer base and

the portfolio size. MFIs have much more ability to reach out to the rural and poor people with proper distribution channels.

10. SCOPE FOR THE FUTURE STUDY

The growth in the number of microfinance institutions in Bihar is fairly good in recent years but still there is scope for more to be done. According to a report, there are large numbers of unregistered MFIs working in different states including Bihar as well. With increasing transparency requirements by the Government, more unregistered MFIs are getting registered now. Therefore, in the upcoming years, more MFIs would be coming under the purview of Government and that way it would become easier to locate them. Detailed analysis of financial statements can be made after the arrival of Mudra in the year 2015. More variables can be included in the research papers like micro-insurance, micro-pension and their scope in providing services to the rural and poor people.

Body like MUDRA has contributed a lot towards the development of microfinance at national and state levels. State bodies like Jeevika in Bihar is also taking care of the fact that rural livelihood development is one of the major fields to be worked upon. Therefore, such government agencies can work more rigorously with microfinance institutions as well in the near future.

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